NEWS RELEASE

PRUDENTIAL

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PRUDENTIAL PLC FULL YEAR 2009 UNAUDITED RESULTS

PRUDENTIAL'S STRATEGY DELIVERS RECORD PERFORMANCE

Embedded Value:
- New business profit of £1,607 million up 34%*
- Operating profit based on longer-term investment returns of £3,090 million up 8%*
- Shareholders' funds of £15.3 billion, equivalent to 603 pence per share

IFRS:
- Operating profit based on longer-term investment returns of £1,405 million up 10%*
- Operating profit after tax covers full year dividend 2.2 times
- Shareholders' funds of £6.3 billion (2008: £5.1 billion)

New Business:
- Total APE sales of £2,896 million up 1%*
- Retail APE sales of £2,890 million up 11%*
- EEV new business profit margin (% APE) of 56% (2008: 42%)*
- Free surplus – investment in new business - of £675 million down 16 per cent*

Capital & Dividend:
- Management action strengthened Insurance Groups Directive ("IGD") capital surplus, estimated at £3.4 billion, £1.9 billion higher than at the end of 2008 (£1.5 billion)
- 2009 full year dividend increased by 5% to 19.85 pence per share

Prudential separately announced today that it has reached an agreement with American International Group Inc. ("AIG"), on terms for the combination of Prudential and AIA Group Limited ("AIA"), a wholly-owned subsidiary of AIG.

Commenting on the full year results, Tidjane Thiam, Group Chief Executive said:

"These results represent an outstanding performance against a backdrop of unprecedented economic uncertainty, demonstrating the success of our strategy to focus on value over volume and capitalise on the most profitable growth opportunities in our chosen markets around the world. In 2009, we achieved record total sales for the Group, with total APE sales of £2,896 million, up 1 per cent (2008: £2,879 million) and importantly, retail sales up 11 per cent to £2,890 million (2008: £2,615 million). The fourth quarter 2009 saw a significant increase in our sales, up 25 per cent on the third quarter 2009 driven by the performance of our business in Asia.

Compared with the same period in 2008, our Group EEV new business profit was up 34 per cent to £1,607 million and total EEV operating profit based on longer-term investment returns was up 8 per cent to £3,090 million. Our IFRS operating profit based on longer-term investment returns was up 10 per cent to £1,405 million. Average Group new business profit margin, as a percentage of APE, increased to 56 per cent (2008: 42 per cent). Free surplus investment in new business was 16 per cent lower at £675 million (2008: £806 million). Therefore, we achieved higher profits while consuming less capital, highlighting our ability to allocate capital to markets and products which produce the highest returns.

Our performance has been delivered while taking a disciplined approach to risk management and targeted Group-wide actions to grow and protect our capital, consolidating our position as one of the best capitalised insurers in the world. Our estimated IGD surplus was £3.4 billion at 31 December 2009, an increase of £1.9 billion versus 31 December 2008. This capital strength underpins our ability to exploit growth opportunities.

Asia is the engine of the Group's future growth, particularly the fast growing economies in South East Asia. The fourth quarter 2009 saw record sales in Asia, up 42 per cent from the third quarter 2009, as the recovery took hold. In 2009, total APE sales were £1,261 million (2008: £1,216 million). New business profit in Asia was up 12 per cent to £713 million (2008: £634 million) meaning that despite the most challenging of environments, we have exceeded our target to double 2005 new business profits by the end of 2009. IFRS operating profit was up by 62 per cent to £416 million (2008: £257 million) reflecting the increasing maturity of this business and a one off credit of £63 million for our Malaysian operations.

In the US, Jackson APE sales were £912 million, up 27 per cent (2008: £716 million) as the business continued to benefit from a flight to quality in the US annuity market. Jackson has continued to implement the strategy of targeting increasing volumes of relatively less capital-intensive variable annuity sales, higher fixed index annuity sales and contained fixed annuity sales. As a result, Jackson was ranked 4th in total annuity sales in the first nine months of 2009, up from 11th at the end of 2008. Our focused approach to this market has seen our new business margins increase from 41 per cent to 73 per cent in 2009.

At Prudential UK, our strategy remained to rigorously focus on balancing new business, with cash and capital preservation while maintaining margins. APE sales were £723 million, down 24 per cent (2008: £947 million) but Retail APE sales were £717 million, down 11 per cent (2008: £803 million). New business margins increased 3 percentage points to 32 per cent in 2009 versus 2008. This reflects our decision to focus on value over volume, leading to significantly lower wholesale annuity business, individual annuities and corporate pensions, partially offset by higher sales of with-profit bonds. Our strategy allows us to generate surplus capital for investment in more profitable opportunities for the Group. The UK business remains key to the future delivery of the Group's overall aim of generating sustainable, increased shareholder value.

Our asset management businesses saw strong inflows over the year as our record of generating superior investment performance attracted funds in a turbulent market environment. At M&G, net investment flows reached a record £13.5 billion, a 296 per cent increase versus 2008. The total funds under management at 31 December 2009 were £174 billion. M&G IFRS operating profit was £238 million, 17 per cent lower than 2008, primarily due to a lower FTSE All Share index in 2009. In Asia, asset management total funds under management were £42 billion, up 22 per cent and IFRS profit was 6 per cent higher at £55 million (2008: £52 million).

At the start of 2009 we were positioned defensively, but in 2010 we will accelerate and amplify our proven strategy to capitalise on the most profitable growth opportunities in our chosen markets supported by our strong capital position. Our remarkable results in Asia and the exceptional performances of Jackson and M&G, have allowed us to differentiate ourselves during 2009. The UK remains the bedrock of our expansion in our other business units. That strategy has served us well and will continue to serve us well in 2010 as Asia continues to grow faster than the rest of the world and as other economies progressively recover."

Commenting specifically on the agreement with AIG, Tidjane Thiam said:

"With this agreement we have a unique opportunity to create the leading pan-Asian life insurer. The combination of Prudential and AIA will create a sector powerhouse in the fastest growing markets in the world. This agreement provides Prudential with a one-off opportunity to transform the growth profile of the Group and offers long-term material benefits to our shareholders. Both parties are committed to a smooth transition process including the commitment to the strong AIA brand and the unique strengths of the sales forces. The combined business will be the largest life insurer in seven major Asian countries, allowing us to continue to create shareholder value through our presence in the world's most dynamic and attractive markets."

ENDS

* 2008 comparatives are at actual exchange rates (AER). In order to facilitate comparisons for the Group's current business amounts shown for 2009 and 2008, new business and profit related KPIs exclude those of the Taiwan agency business for which the sale process was completed in June 2009.

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Notes to Editors:

1. The results in this announcement are prepared on two bases: International Financial Reporting Standards ('IFRS') and European Embedded Value ('EEV'). The IFRS basis results form the basis of the Group's statutory financial statements. The supplementary EEV basis results have been prepared in accordance with the principles issued by the CFO Forum of European Insurance Companies in May 2004 and expanded by the Additional Guidance on EEV disclosures published in October 2005. Where appropriate the EEV basis results include the effects of IFRS.
Period on period percentage increases are stated on an actual exchange rate basis.

2. Annual premium equivalent (APE) sales comprise regular premium sales plus one-tenth of single premium insurance sales.

3. Present value of new business premiums (PVNBP) are calculated as equalling single premiums plus the present value of expected new business premiums of regular premium business, allowing for lapses and other assumptions made in determining the EEV new business contribution.

4. Operating profits are determined on the basis of including longer-term investment returns. EEV and IFRS operating profit is stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, and the effect of disposal and results of the Taiwan agency business, for which the sale process was completed in June 2009. In addition for EEV basis results, operating profit excludes the effect of changes in economic assumptions and the time value of cost of options and guarantees, and the market value movement on core borrowings.

5. There will be a conference call today for wire services at 10.00am (GMT) hosted by Tidjane Thiam, Group Chief Executive. Dial in telephone number: +44 (0)20 8817 9301 Passcode: 2519535.

6. A presentation to analysts will take place at 12.00pm (GMT) at Governor's House, Laurence Pountney Hill, London, EC4R 0HH. Dial in telephone number: +44 (0)208 817 9301 Passcode: 2486527. An audio cast of the presentation and the presentation slides will be available on the Group's website, www.prudential.co.uk/prudential-plc/

7. High resolution photographs are available to the media free of charge at www.newscast.co.uk on +44 (0)207 8886 5895 or by calling Sunita Patel on +44 (0)20 7548 2466.

8. Total number of Prudential plc shares in issue as at 31 December 2009 was 2,532,227,471.

9. **Financial Calendar 2010**:

First Quarter Interim Management Statement	14 May 2010
AGM	19 May 2010
2010 Half Year Results and Second Quarter 2010 New Business Figures	12 August 2010
Third Quarter 2010 Interim Management Statement	10 November 2010

2009 Full Year Dividend	
Ex-dividend date	7 April 2010
Record date	9 April 2010
Payment of dividend	27 May 2010

10. **About Prudential plc**

Prudential plc is a company incorporated and with its principal place of business in England, and its affiliated companies constitute one of the world's leading financial services groups. It provides insurance and financial services through its subsidiaries and affiliates throughout the world. It has been in existence for over 160 years and has £290 billion in assets under management (as at 31 December 2009). Prudential plc is not affiliated in any manner with Prudential Financial, Inc, a company whose principal place of business is in the United States of America.

Forward-Looking Statements

This statement may contain certain "forward-looking statements" with respect to certain of Prudential's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements containing the words "believes", "intends", "expects", "plans", "seeks" and "anticipates", and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Prudential's control including among other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, the impact of competition, inflation, and deflation; experience in particular with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; and the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate. This may for example result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. As a result, Prudential's actual future financial condition, performance and results may differ materially from the plans, goals, and expectations set forth in Prudential's forward-looking statements. Prudential undertakes no obligation to update the forward-looking statements contained in this statement or any other forward-looking statements it may make.

Group Chief Executive's Report

Introduction

I am pleased to report that Prudential delivered an outstanding performance in 2009, generating significantly higher profits while consuming less capital. Our discipline in allocating capital to the most profitable products and channels, combined with our proactive management of the Group's balance sheet, has allowed us to completely transform our capital position, which is now one of the strongest in the industry.

We have delivered excellent results against a backdrop of unprecedented market turbulence. After the severe difficulties encountered by the world economy and financial markets in the second half of 2008, we entered 2009 with a deliberately defensive position. We recognised early on the implications of the new economic climate and focused our strategy on capital conservation and cash generation. We prioritised value over volume and allocated capital strictly to the products and channels with the highest rates of return and shortest payback periods. This led us to significantly reduce our volumes of wholesale business, allowing us to grow our relatively more profitable retail sales by 11 per cent in a year when many companies saw a contraction or stagnation of sales. This highly disciplined approach meant that, as conditions started to improve, our capital strength allowed us to capture a more than proportionate share of our target markets.

We have consistently said our strategy is a formula for outperformance, and these results demonstrate that we have been able to execute it with discipline and effectiveness.

As Group Chief Executive, my overriding objective is to deliver sustainable increases in shareholder value. I am pleased to report that we achieved this once again in 2009, outperforming the sector in our chosen markets and in total returns for shareholders. Going forward, I believe we have the right strategy, products, geographic presence, brands, management and capital strength to sustain this outperformance into the future.

We have separately announced today our agreement with AIG for the combination of Prudential and AIA Group Limited, a wholly owned subsidiary of AIG. The strength of AIA's business, its market-leading positions in South-East Asia and the potential for accelerated growth of the combined business in the future present a compelling and unique opportunity for Prudential.

Group Performance

Turning to our performance in 2009, our total Group operating profit before tax from continuing operations, on the European Embedded Value (EEV) basis, rose to £3,090 million, an increase of 8 per cent. Our EEV new business profit increased by £407 million, or 34 per cent to £1,607 million. Margins improved across the Group rising from 42 per cent to 56 per cent, an exceptional level of performance given the market conditions prevailing in 2009. We achieved our objective of increased profitability while consuming less capital, through investing our free surplus in those markets and products which deliver the highest returns within our new business strain targets. In 2009 our investment in new business was 16 per cent lower at £675 million (2008: £806 million).

On the statutory International Financial Reporting Standards (IFRS) basis, operating profit based on longer-term investment returns increased by 10 per cent to £1,405 million. IFRS operating profit increased across all three life operations: in Asia it increased 62 per cent to £416 million; in the US it increased 13 per cent to £459 million; and in the UK it increased 11 per cent to £606 million, a very strong performance. Operating profit at M&G decreased 17 per cent to £238 million, reflecting the impact of the volatility in equity and property markets during the year, while our asset management business in Asia increased operating profits by 6 per cent to £55 million. We saw a change in other income and expenditure to negative £395 million (2008: negative £260 million), as a result of lower returns on central funds and an increase in interest payable on core structural borrowings.

Net inflows increased strongly in our asset management businesses, as our sustained investment outperformance attracted investors. M&G recorded £13,478 million of net inflows, 296 per cent higher than in 2008, and our asset management business in Asia recorded £1,999 million of net inflows, 134 per cent higher than in 2008.

Importantly, we also succeeded in significantly strengthening our Group capital position, making us one of the best-capitalised insurers and underpinning our ability to exploit growth opportunities. Using the regulatory measure of the Insurance Groups Directive (IGD), the Group's capital surplus was estimated at £3.4 billion at the 2009 year-end, more than double its level of £1.5 billion at the end of 2008, with a solvency ratio of 270 per cent, or 2.7 times our regulatory requirement.

Our cash flow position remained strong during the year. In 2008 we achieved our target of being operating cash flow positive at the holding company level, and we maintained this position in 2009, with a cash surplus after dividend of £38 million.

Given the Group's outstanding financial performance in 2009 and increasingly robust financial position, the Board intends to recommend a final dividend of 13.56 pence per share, bringing the full-year dividend to 19.85 pence per share, an increase of 5 per cent. The dividend is covered 2.2 times by post-tax IFRS operating profit based on longer-term investment returns.

Our Strategy

Our strategy is to profitably meet our customers' changing needs for savings, income and protection in our chosen markets. By maintaining our focus and discipline in the implementation of this strategy, and by allocating capital to the most attractive opportunities, we believe we are able to generate sustainable and differentiated value for our shareholders. Over the last year our strategy has proven its worth under the most testing conditions, delivering a significant outperformance in Total Shareholder Return (TSR) in 2009.

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

Our financial strength is fundamental to our strategy and as a result of our disciplined risk management approach and targeted Group-wide actions to grow and protect our capital, we are emerging stronger from the global economic downturn. This capital strength has been instrumental in our ability to invest in profitable growth opportunities in 2009, especially in our chosen markets in Asia and the US.

The main engine of our growth strategy is our unique presence in Asia, which includes 28 businesses, spread over 13 countries. Asia offers us the highly attractive combination of strong growth and high margins. In 2006 we made an external commitment to double our 2005 new business profit in Asia by 2009 and I am very pleased to announce that we have met this target. This achievement was important to me, and is particularly remarkable given the economic conditions prevailing in the second half of that four-year period.

Asia is complex, dynamic and exciting, and its economies differ significantly, with varying levels of economic development, from the OECD members, Japan and Korea, to the fast growing markets of South-East Asia, such as Indonesia and Malaysia. Our approach to the region is highly sophisticated and discriminating in terms of product offering, distribution and branding. Given our strong presence in this fast-growing and exciting region, and the agreement we announced today concerning AIA, we believe we are uniquely placed to continue to deliver sustained profitable growth for many years to come.

In the US, which remains the world's largest retirement market, we continued to focus on building our share of the expanding and cash-generative annuities market. We have emerged from the crisis with a significantly stronger position in the variable annuities market, a key product for baby boomers as they reach retirement. We have continued to grow our share of the fixed index annuities market, while limiting our appetite for fixed annuities in order to conserve capital and maximise profits.

In the UK our strategy remained to rigorously focus on balancing new business with cash and capital preservation, while maintaining margins. This approach delivered the sales performance we wanted, combined with improved margins. This strategy allows us to generate surplus capital for investment Group-wide at significantly higher returns than in the UK. Our business in the UK provides a foundation and fuel for the Group's strategy.

Our asset management businesses in the UK and Asia continue to capitalise on our strong investment track record and trusted brands. Asset management is a core competence of Prudential and is a key component of our strategy, providing a reliable source of cash and high quality profits. Asset management remains a unique, differentiating feature of the Group in our sector.

As a Group we have a portfolio of highly trusted brands including Prudential, M&G and Jackson and we remain committed to this successful multi-brand strategy. This approach gives us the flexibility to tailor our brands to our different businesses and the customers these businesses serve. We believe the strength of our brands was a significant differentiator in 2009, as many customers looked for companies with a heritage and history that they knew and trusted, as safe havens for their assets amid the widespread financial uncertainty.

We believe that our strategy, and the consistency and discipline with which we execute it, is what differentiates us. In 2010 we intend to continue our disciplined execution of this strategy, amplifying and accelerating it to deliver more profitable growth and increased shareholder value.

Product and Distribution Strategy

Our operating model enables each of our business units to stay close to its customers, allowing them to be flexible in identifying and developing the specific product and distribution mix that is right for each market.

Looking at our products, our consistent aim in all our markets is to have a suite of savings, income and protection products that delivers good value, and meets customers' needs in a profitable and capital efficient manner. We use every opportunity, from product design to channel management, to reduce the exposure of the Group and our capital position to downturns in the economic cycle. The experience of the past two years has demonstrated that this strategy is the right one, generating highly resilient revenue streams. This is supported by our ability to respond flexibly to customers' changing product and investment needs.

In Asia, a challenging economic climate in the first half of 2009 gave way to more positive conditions in the second half of the year. While we saw our single premium volumes decline as a result of economic uncertainty, our regular premium and higher-margin protection business remained resilient, ensuring we outperformed the competition, while remaining protected, especially in the second half.

Our distribution in Asia is unique. We have developed both the largest regional network of tied agents, over 410,000, as well as strong partnerships with banks across the region. A significant development in our Asian distribution capabilities is our new long-term strategic bancassurance distribution partnership with United Overseas Bank Limited (UOB). This partnership, announced on 6 January 2010, will mean our life insurance products will be distributed through UOB's 414 bank branches across Singapore, Indonesia and Thailand. This alliance, which complements our long-standing successful partnerships with Standard Chartered and other banks across the region, offers us significant new profitable growth opportunities.

In the US, the volatility in US equity markets in 2009 saw customers seek safer, but lower, returns by buying fixed annuities, fixed index annuities or variable annuities with guaranteed living benefits. Jackson responded quickly and was able to capitalise on this shift in demand across all its annuity product lines. Supported by our core skills in product manufacturing and distribution, our purposeful focus on variable annuities enabled us to gain significant market share while achieving a strong rise in margins and profitability.

Going forward, we aim to build on our progress in the US in 2009 by maintaining our focus on value over volume and continuing to target the most profitable business. Our highly successful distribution model focuses on our industry-leading wholesaler teams, who offer genuine added-value to the independent financial advisor channel while also distributing products through regional broker-dealers and banks. We will also look to diversify our earnings growth and capitalise on our scaleable platform by making bolt-on acquisitions of closed books when suitable opportunities emerge.

In the UK we continued to focus on the retail market, with an emphasis on our market-leading with-profits and annuities products. We restricted our appetite for the capital intensive bulk annuity market and ceased to offer lifetime mortgages. These decisions reflect our focus on higher margin products, with shorter payback periods. In the UK, we have a diverse multi-channel approach including direct sales, financial advisers and partnerships. We continue to use our strong foundation, brand heritage and customer franchise to support our business.

In asset management we had another excellent year in a challenging market environment. Both M&G and our Asia asset management businesses continued to capitalise on their strong track records in investment performance to deliver strong rises in inflows. M&G benefited from its high levels of trust and brand loyalty among investors, achieving record net fund inflows, at a time when many other asset managers suffered net redemptions.

In Asia, where savers are increasingly becoming investors, our asset management business put in a resilient performance, while focusing on maintaining profitability across our internal life and third-party clients. In terms of distribution, our asset management businesses achieved flexibility through a multi-channel, multi-geography distribution approach in both the retail and institutional marketplaces.

Risk and Capital Management

Our strong and sustained financial performance is the result of disciplined and rigorous management. In no aspect of our business is this discipline more evident than in our approach to risk and capital. As a result of our unwavering focus on increasing our financial resilience, our capital position has been dramatically enhanced despite significant market shocks. Our free surplus generation and proactive and innovative capital management underpin an extremely strong solvency ratio. Furthermore, we lead the sector in disclosure, reporting a combination of IFRS, cash and EEV. Having clearly demonstrated our defensive capabilities and transparency in the downturn, we believe we are now well positioned to outperform as markets recover.

In late 2008 and early 2009, the balance sheets and capital positions of all insurance companies were under close scrutiny. With this in mind, we began 2009 by taking a disciplined and defensive stance, focusing on building our capital base and strengthening our IGD surplus. Despite our defensive position, we remained alert to growth opportunities, and as these emerged in the second half of the year, our greater capital strength enabled us to seize them aggressively.

During the course of the year we enhanced the strength and flexibility of our capital base, increasing our IGD capital surplus from £1.5 billion at year-end 2008 to £3.4 billion at 31 December 2009, equivalent to approximately 270 per cent cover of the required capital. This increase resulted from a series of measures that clearly demonstrated our disciplined approach to capital management.

In addition to internal capital generation of £1.1 billion, we transferred the assets and liabilities of our agency distribution business in Taiwan to China Life of Taiwan, which boosted our IGD capital surplus by approximately £0.8 billion. A further £0.9 billion was contributed by issues of subordinated and hybrid debt, and £0.9 billion by financial restructuring and internal reorganisation of Group capital. These gains of some £3.7 billion, were partially offset by about £0.4 billion of credit impacts in Jackson, £0.6 billion of debt interest and other central costs, £0.3 billion of dividends net of scrip, £0.2 billion from regulatory changes and £0.3 billion of foreign exchange movements.

Our prudent but dynamic management of our capital will remain a key differentiator of our business going forward.

Outlook

As we go into 2010 we will continue to capitalise on our competitive differentiators to amplify and accelerate the execution of our strategy. The agreement we announced today with AIG represents a compelling and unique opportunity to transform our position in Asia, giving us market-leading positions in all of the critical growth markets in the region. In the US we continue to write high-margin, capital efficient variable annuities and to benefit from the organic consolidation under way. In the UK we will focus on our strong positioning, brand and products to continue to generate cash and capital for the Group. And in asset management we will optimise both M&G and our asset management business in Asia as a core capability of the Group.

Going forward, we are increasingly positive on the outlook for Asia and this is reflected in our announcement concerning AIA. We remain cautious on the major Western economies, because of a number of imbalances threatening their return to higher growth, including high levels of consumer and government debt, budget deficits and unemployment. In Asia we enjoy a unique combination of market-leading positions in the fastest growing, most profitable markets; strong brands; unrivalled multi-channel distribution and well-designed products. Asia, with its GDP growth rates, saving habits and low penetration, remains the primary focus of our growth and investment. This is the most attractive opportunity in our industry today and the agreement we have announced today demonstrates that I have every intention of ensuring that the Group makes the most of it, while also capitalising on our strong presence in the US, the UK and our market leading asset management platform.

I end my first annual review as Group Chief Executive proud of what our teams have accomplished in delivering our highest ever margins, profits and capital surplus, a fantastic achievement in a hugely challenging environment.

I am committed to managing the Group with discipline and a relentless focus on execution and operational delivery. I am confident that the quality of our teams, coupled with our culture of discipline and focus, will position us well to continue to outperform our industry, not only through the current economic cycle but also through those yet to come.

PRUDENTIAL PLC 2009 UNAUDITED PRELIMINARY ANNOUNCEMENT

RESULTS SUMMARY

European Embedded Value (EEV) Basis Results*	2009 £m	2008 £m
Asian operations	**1,154**	1,239
US operations	**1,237**	593
UK operations:		
UK insurance operations	**921**	1,081
M&G	**238**	286
Other income and expenditure	**(433)**	(302)
Restructuring costs	**(27)**	(32)
Operating profit based on longer-term investment returns*	**3,090**	2,865
Short-term fluctuations in investment returns	**351**	(4,967)
Mark to market value movements on core borrowings	**(795)**	656
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(84)**	(14)
Effect of changes in economic assumptions and time value of cost of options and guarantees	**(910)**	(398)
Profit on sale and results of Taiwan agency business	**91**	(248)
Profit/ (loss) from continuing operations before tax (including actual investment returns)	**1,743**	(2,106)
Operating earnings per share* (reflecting operating profit based on longer-term investment returns after related tax and minority interests)	**88.8p**	85.1p
Shareholders' equity, excluding minority interests	**£15.3bn**	£15.0bn

International Financial Reporting Standards (IFRS) Basis Results*

Statutory IFRS basis results	2009	2008
Profit/(Loss) after tax attributable to equity holders of the Company	**£676m**	£(396)m
Basic earnings per share	**27.0p**	(16.0)p
Shareholders' equity, excluding minority interests	**£6.3bn**	£5.1bn

Supplementary IFRS basis information	2009 £m	2008* £m
Operating profit based on longer-term investment returns*	**1,405**	1,283
Short-term fluctuations in investment returns on shareholder-backed business	**36**	(1,721)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(74)**	(13)
Profit/(loss) before loss on sale and results of Taiwan agency business	**1,367**	(451)
Loss on sale and results of Taiwan agency business	**(621)**	1
Profit/(loss) from continuing operations before tax attributable to shareholders	**746**	(450)
Operating earnings per share* (reflecting operating profit based on longer-term investment returns after related tax and minority interests)	**43.4p**	39.9p

	2009	2008
Dividends per share declared and paid in reporting period	**19.20p**	18.29p
Dividends per share relating to reporting period	**19.85p**	18.90p
Funds under management	**£290bn**	£249bn
Insurance Groups Directive capital surplus (as adjusted)*	**£3.4bn**	£1.5bn

* **<u>Basis of preparation</u>**

Results bases
The EEV basis results have been prepared in accordance with the European Embedded Value Principles issued by the CFO Forum of European Insurance Companies in May 2004 and expanded by the Additional Guidance on European Embedded Value Disclosures issued in October 2005. With the exception of the presentation of the results for the Taiwan agency business, for which (as described below) the sale process was completed in June 2009, the basis of preparation of the statutory IFRS basis results and supplementary IFRS basis information is consistent with that applied for the 2008 results and financial statements.

Life insurance products are, by their nature, long-term and the profit on this business is generated over a significant number of years. Accounting under IFRS alone does not, in Prudential's opinion, fully reflect the value of future profit streams. Prudential considers that embedded value reporting provides investors with a measure of the future profit streams of the Group's long-term businesses and is a valuable supplement to statutory accounts.

Exchange translation
The comparative results have been prepared using previously reported exchange rates, except where otherwise stated.

Operating profit based on longer-term investment returns
Consistent with previous reporting practice, the Group analyses its EEV basis results and provides supplementary analysis of IFRS profit before tax attributable to shareholders, so as to distinguish operating profit based on longer-term investment returns from other elements of total profit. On both the EEV and IFRS bases, operating earnings per share are calculated using operating profits based on longer-term investment returns, after related tax and minority interests.

These profits exclude short-term fluctuations in investment returns and the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes. Under the EEV basis, where additional profit and loss effects arise, operating profit based on longer-term investment returns also excludes the mark to market value movements on core borrowings and the effect of changes in economic assumptions and changes in the time value of cost of options and guarantees arising from changes in economic factors.

In 2009, as a result of the exceptional dislocated market conditions, the Group incurred non-recurrent costs of £235 million for hedging its Insurance Group's Directive (IGD) capital surplus. These costs have been shown separately from operating profit based on longer-term investment returns as part of short-term fluctuations in investment returns.

Also, in June 2009 the Group completed the previously announced sale of its Taiwan agency business. In order to facilitate comparisons of the Group's businesses, the effect of disposal and the results of the Taiwan agency business are shown separately from operating profit based on longer-term investment returns. The presentation of the comparative results for 2008 has been adjusted accordingly

After adjusting for related tax and minority interests, the amounts excluded from operating profit based on longer-term investment returns are included in the calculation of basic earnings per share.

Insurance Groups Directive capital surplus (as adjusted)
The surpluses shown for 2009 and 2008 are before allowing for the final dividends for 2009 and 2008 respectively. The surplus at 31 December 2009 of £3.4 billion is estimated.

Status of 2009 results

All the 2009 results contained in this announcement are unaudited.

BUSINESS REVIEW

CFO OVERVIEW

In 2009 Prudential has continued to balance profitable growth, capital conservation and cash generation to both protect the Group's financial strength and preserve its long-term growth potential. We have focused on generating significant levels of sales of highly profitable and capital efficient products. Our results, as summarised below, show that we have achieved our dual objectives of higher profitability and lower levels of investment in new business at a time when market conditions remained challenging for the insurance industry. This highlights our focus on value over volume as we manage investment in new business to meet our capital management targets. In addition we have been able to strengthen our capital position and have continued to generate a positive Group operating holding company cash flow.

The global economic environment has gradually improved through 2009, led by emerging economies, especially Asia. The Asian region appears to be more resilient than the rest of the world and we expect it is likely to return sooner to strong growth while the western world appears to be set for a prolonged period of weaker growth. Against this backdrop, and in particular in those countries in Asia where we have leading positions, our long-term growth and potential remains intact, and we believe we are well positioned to take advantage of opportunities in the pre and post retirement markets in our chosen geographical markets.

Performance and key metrics

		AER[8]		CER[8]	
	2009 £m	2008 £m	Change %	2008 £m	Change %
New business[1]					
Annual premium equivalent (APE) sales:					
- Retail					
- Asia	**1,261**	1,216	4	1,350	(7)
- US	**912**	596	53	705	29
- UK	**717**	803	(11)	803	(11)
- Total retail	**2,890**	2,615	11	2,858	1
- Wholesale	**6**	264	(98)	285	(98)
- Total APE sales	**2,896**	2,879	1	3,143	(8)
EEV new business profit (NBP)	**1,607**	1,200	34	1,331	21
NBP margin (% APE)	**56%**	42%		42%	
Net investment flows	**15,417**	4,266	261	4,456	246
External funds under management	**89,780**	62,279	44	60,924	47
EEV basis operating profit[1]					
On long-term business[2][3]	**3,202**	2,810	14	3,080	4
Total	**3,090**	2,865	8	3,138	(2)
IFRS operating profit based on longer-term investment returns[1][3]	**1,405**	1,283	10	1,390	1
Balance sheet and capital					
EEV basis shareholders' funds	**15.3bn**	15.0bn	2	14.1bn	9
EEV basis shareholders' funds per share	**603p**	599p	1	563p	7
Return on Embedded Value [4]	**14.9%**	14.4%			
IFRS shareholders' funds	**6.3bn**	5.1bn	24	4.8bn	31
IGD capital surplus (as adjusted)[5]	**3.4bn**	1.5bn	127	n/a	n/a
Free surplus - investment in new business [6]	**675m**	806m	(16)	885m	(24)
Operating holding company cash flow	**38m**	54m	(30)	54m	(30)
Dividend per share relating to the reporting year	**19.85p**	18.9p	5	n/a	n/a
Dividend cover[7]	**2.2**	2.1	n/a	n/a	n/a

(1) New business and operating profits exclude the results of the Taiwan agency business for which the sale process was completed in June 2009.
(2) Long-term business profits after deducting Asia development expenses and before restructuring costs.
(3) Operating profits are determined on the basis of including longer-term investment returns. EEV and IFRS operating profits are stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, and the effect of disposal and results of the Taiwan agency business, for which the sale process was completed in June 2009. In addition for EEV basis results, operating profit excludes the effect of changes in economic assumptions and the time value of cost of options and guarantees, and the market value movement on core borrowings.
(4) Return on Embedded Value is based on EEV operating profit after tax and minority interest as a percentage of opening EEV basis shareholders' funds.
(5) Insurance Groups Directive capital surplus (as adjusted). The surpluses shown for 2009, which is estimated, and 2008 are before allowing for the final dividends for 2009 and 2008 respectively.
(6) Free surplus - investment in new business- represents EEV net worth strain together with EEV required capital to support the new business acquired.
(7) Dividend cover is defined as IFRS operating profit after tax and minority interests divided by the dividend declared relating to the reporting period.
(8) Actual Exchange Rate (AER) and Constant Exchange Rate (CER)

In this review, comparisons of financial performance are on an actual exchange rate (AER) basis, unless otherwise stated.

In 2009, in a difficult economic and market environment, Prudential produced a strong performance across all of its key performance indicators. We believe this performance demonstrates the success of our strategy and the resilience and strength of Prudential's business model.

Group retail APE new business sales were £2,890 million, 11 per cent higher than for 2008. In Asia, sales were £1,261 million, up four per cent, boosted by a record fourth quarter. In the US, Jackson continued to be a beneficiary of the significant changes in the competitive landscape, with a 53 per cent increase in retail sales at £912 million. In the UK, the Group's disciplined approach to capital consumption led to retail sales of £717 million, down 11 per cent. Wholesale sales were held to a minimum as the Group continued to focus on products with higher IRRs and shorter payback periods.

Net investment flows increased by £11.2 billion to £15.4 billion, driven by strong performances in M&G's retail and institutional business, and the Asian asset management operations. With these contributions and recovering investment markets, external funds under management have increased by £27.5 billion to £89.8 billion during the year.

In 2009, total EEV basis operating profits based on longer term investment returns of £3,090 million were up eight per cent from 2008, primarily from an increase in the profitability from the Group's long-term business operations which was up 14 per cent to £3,202 million comprising new business profit of £1,607 million, in-force profits of £1,601 million and development expenses of £6 million. New business profit increased by £407 million to £1,607 million, driven principally by the US and Asia. Overall, there was a two per cent decrease in the contribution from in-force business (before development expenses), down by £35 million to £1,601 million. The movement reflects a growing level of unwind of discount, up by £210 million, reflecting the increased in-force business offset by a reduction in the level of contribution from changes to operating assumptions, experience variances and other items of, in aggregate, £245 million. The growth in the Group's EEV operating profit was held back by a lower contribution from the asset management businesses (down £48 million to £297 million) reflecting reduced market values in 2009. There was also a negative impact on Group EEV operating profit from other income and expenditure of £131 million due to lower returns on central funds and higher interest payable on core structural borrowings.

The total EEV profit before tax for 2009 of £1,743 million compares to a loss of £2,106 million for 2008. The increase of £3,849 million reflects the growth in operating profit of £225 million and an increase in the aggregate effect of non-operating items of £3,624 million which mostly arise from the net effects of improved financial markets. Within the non-operating items of negative £1,347 million there were positive contributions of £351 million for short-term fluctuations in investment returns and the £91 million from the profit on sale and results of the Taiwan agency business that was sold in June 2009. However, these amounts were offset by reductions of £795 million for the change in the mark to market value of the Group's borrowings as credit spreads normalised, a charge of £910 million for the effect of changes in economic assumptions and time value of cost of options and guarantees arising from increasing interest rates and the application of higher risk discount rates across our businesses and an £84 million charge for actuarial and other losses for the Group's defined benefit pension schemes.

Our IFRS operating profit has increased by 10 per cent to £1,405 million. This result was driven by higher profits from all of our life businesses which were up 25 per cent to £1,475 million, with a strong contribution from Asia. Overall profits also include a lower asset management contribution due to difficult market conditions, higher interest costs following the issue of the hybrids during the year and lower interest income on group assets. In the UK, operating profits for our long-term business increased by £61 million to £606 million reflecting growth from the shareholder backed annuity business. Operating profits for Asia long term business, before development expenses, increased by £159 million to £416 million of which £96 million was due to a combination of growth in our in-force book, lower new business strain and foreign exchange and the remaining £63 million was due to a one-off benefit arising from a regulatory change in Malaysia.

The total IFRS profit before disposal of Taiwan agency business was £1,367 million in 2009, significantly higher than for 2008 (loss of £451 million) reflecting increased operating profits and more favourable short-term fluctuations partially offset by a charge for the costs of hedging the Group IGD capital surplus. Total profit before tax from continuing operations on the IFRS basis was £746 million in 2009 after allowing for the loss on disposal of the Taiwan agency business of £621 million which was completed in June 2009.

Since the beginning of the year, management actions have led to a very material increase in the Group's IGD surplus position to £3.4 billion including the issuance of £400 million subordinated debt in May to part replace maturing senior debt, the net proceeds of the Tier 1 hybrid debt of US$750 million (circa £455 million) issued in July, the beneficial impact of the sale of Taiwan agency business of £800 million, with other capital initiatives and capital generation through operating earnings net of impairments, financing costs, effects of currency and rule changes accounting for the balance. We believe this level of IGD acts as a prudent regulatory buffer whilst there remains a degree of uncertainty in the future economic environment in which we operate.

At 31 December 2009 holding company cash and short-term investments was £1.5 billion, an increase of £0.3 billion over 2008. This increase comprises proceeds of £0.6 billion from higher borrowings, (before allowing for exchange translation gains of £0.2 billion on foreign currency denominated borrowings), and positive operating holding company cashflow of £38 million, net of exceptional payments of £360 million.

In the volatile economic environment experienced during 2009, we maintained our strong focus on risk, capital and cash management. Our commitment to focusing on value over volume has been demonstrated by the strong growth in both EEV and IFRS operating profit. We have also been able to continue to be cash flow positive at the holding company level, with a positive contribution of £38 million before exceptional items.

The Board intends to recommend a final dividend for 2009 of 13.56 pence per share, bringing the total dividend for the reporting period, to 19.85 pence per share, 5 per cent higher then the 2008 total dividend. The 2009 IFRS operating earnings after tax and minority interest cover the full year dividend 2.2 times (2008 full year: 2.1 times).

EEV RESULTS

EEV basis operating profit based on longer-term investment returns

	AER			CER	
	2009 £m	2008 £m	Change %	2008 £m	Change %
Insurance business					
Asia	**1,105**	1,213	(9)	1,379	(20)
US	**1,233**	586	110	693	78
UK	**870**	1,037	(16)	1,037	(16)
Development expenses	**(6)**	(26)	77	(29)	79
Long-term business profit	**3,202**	2,810	14	3,080	4
UK general insurance commission	**51**	44	16	44	16
Asset management business:					
M&G	**238**	286	(17)	286	(17)
Asia asset management	**55**	52	6	61	(10)
Curian	**(6)**	(3)	(100)	(4)	(50)
US broker dealer and asset management	**10**	10	-	12	(17)
	3,550	3,199	11	3,479	2
Other income and expenditure	**(433)**	(302)	(43)	(309)	(40)
Restructuring costs	**(27)**	(32)	(16)	(32)	(16)
Total EEV basis operating profit	**3,090**	2,865	8	3,138	(2)

In 2009, Prudential Group's total EEV basis operating profit based on longer-term investment returns was £3,090 million, up eight per cent from 2008.

Long-term profits generated by the Group in 2009 increased by 14 per cent to £3,202 million. These profits comprise new business profits of £1,607 million (2008: £1,200 million), in-force profits of £1,601 million (2008: £1,636 million) and development expenses of £6 million (2008: £26 million).

New business profits, at £1,607 million, were 34 per cent higher than in 2008, with higher margins in all businesses, particularly the US, and a one per cent increase in sales volumes year on year. The average Group new business profit margin was 56 per cent (2008: 42 per cent) on an APE basis and eight per cent (2008: six per cent) on a PVNBP basis. This rise reflects increased average margins across the businesses as we concentrated on maximising sales of our most profitable products.

The contribution from in-force operating profit decreased by £35 million to £1,601 million, including unwind of discount and other expected returns that increased by £210 million to £1,421 million, primarily reflecting the growth in Asia's in-force book and the increase in risk discount rates in the US. In-force profit in 2009 also includes the effects of operating assumption changes and experience variances and other items which had an aggregate impact of £180 million. This primarily reflects the positive impact of altered assumptions for Guaranteed Minimum Withdrawal Benefits in the US of £156 million where the utilisation of the withdrawal feature available to policyholders on Variable Annuity contracts has been modified to take account of the more recent experience of policyholder behaviour when benefits are "in the money". Also included are the broadly offsetting effects of favourable experience and other items in the US and UK against the impact of adverse persistency in Asia.

Operating profit from the asset management business decreased to £297 million, down 14 per cent from £345 million in 2008, reflecting reduced market values in 2009 compared to 2008.

Other income and expenditure totalled a net expense of £433 million compared with £302 million in 2008, a difference of negative £131 million of which £47 million was due to the impact of the non-recurrence in 2009 of a positive one-off 2008 item of profit on the sale of a seed capital investment in an Indian mutual fund. The remaining difference principally related to lower interest received on central shareholders' funds as a result of falling interest rates and an increase in interest payable on core structural borrowings.

EEV basis profit after tax and minority interests

	2009 £m	AER 2008 £m
EEV basis operating profit based on longer-term investment returns	**3,090**	2,865
Short-term fluctuations in investment returns		
- Insurance operations	**481**	(4,654)
- IGD hedge costs	**(235)**	-
- Other operations	**105**	(313)
	351	(4,967)
Mark to market value movements on core borrowings	**(795)**	656
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(84)**	(14)
Effect of changes in economic assumptions and time value of cost of options and guarantees	**(910)**	(398)
Profit on sale and results of Taiwan agency business	**91**	(248)
Profit (loss) before tax from continuing operations	**1,743**	(2,106)
Tax attributable to shareholders' profit (loss)	**(481)**	771
Discontinued operations (net of tax)	**(14)**	-
Minority interests	**(3)**	(3)
Profit (Loss) after minority interests	**1,245**	(1,338)

Short-term fluctuations in investment returns

In our calculation of EEV operating profit, we use longer-term investment return assumptions rather than actual investment returns achieved. Short-term fluctuations represent the difference between the actual investment return and the unwind of discount on the value of in-force business and expected returns on net worth.

Short-term fluctuations in investment returns for insurance operations of positive £481 million comprise a positive £437 million for Asia, negative £401 million for our US operations and positive £445 million in the UK.

For our Asian business, short-term fluctuations of positive £437 million (versus negative £903 million in 2008) primarily reflected the effect of strong equity market performance in particular for participating business and unit linked business where the in-force value benefits from increases in shareholder transfers and from the capitalisation of increased projected fees due to the higher asset base at the end of the year.

For our US business, short-term fluctuations in investment returns were negative £401 million versus negative £1,344 million in 2008, and primarily reflected the excess of impairment losses for fixed income securities incurred in the year over the long term charge included within operating profit.

For our UK business, the short-term fluctuations in investment returns were positive £445 million (versus negative £2,407 million in 2008), including positive £430 million relating to with-profits business, primarily reflecting the difference between the 15.5 per cent investment return arising in the year on the investments of the with-profits life fund (covering policyholder liabilities and unallocated surplus) and the long-term assumed return of 6.9 per cent.

For other operations, the principal component of short term fluctuations in investment returns is a one-off £235 million cost arising from the hedge temporarily put in place during the first quarter, to protect the Group IGD capital surplus in the light of exceptional market conditions. During the severe equity market conditions experienced in the first quarter of 2009, coupled with historically high equity volatility, the Group entered into exceptional short-dated hedging contracts to protect against potential tail-events on the IGD capital position, in addition to our regular operational hedging programmes. The residual short-term fluctuations in investment returns for other operations of positive £105 million includes £66 million for unrealised appreciation on Prudential Capital's debt securities portfolio and £28 million on swaps held centrally to manage Group assets and liabilities.

Mark-to-market movement on core borrowings

The mark-to-market movement on core borrowings was a negative £795 million, as credit spreads incorporated in the market value of the debt narrowed to more normal levels.

Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes

The shareholders' share of actuarial and other gains and losses on defined benefit pension schemes of a negative £84 million reflects the impact of a reduced discount rate and other assumption changes on the measurement of the liabilities of the Scottish Amicable and M&G schemes and an increase in the deficit funding provision for the Prudential Staff Pension Scheme.

Effect of changes in economic assumptions and time value of cost of options and guarantees

The effect of changes in economic assumptions and time value of cost of options and guarantees of negative £910 million comprises negative £963 million for the effect of changes in economic assumptions partially offset by positive £53 million for the change in the time value of cost of options and guarantees arising from changes in economic factors. In our Asian business, economic assumption changes were negative £165 million primarily driven by increases in risk discount and fund earned rates across a number of territories. In our US business, economic assumption changes were negative £528 million, primarily reflecting an increase in the risk discount rates following an increase in the US 10-year Treasury rate and an increase in the allowance for credit risk for fixed annuity and variable annuity business of 1.5 per cent and 0.3 per cent respectively, partially offset by the effect of an increase in the separate account return assumption from 5.8 per cent to 7.4 per cent arising from the increase in risk free rates. In our UK business, economic assumption changes were negative £270 million, primarily relating to with-profits business, reflecting the fact that the risk discount rate has increased by significantly more than the earned rate as a result of revised correlation assumptions, a lower equity backing ratio and very low cash return.

Profit on sale and results of Taiwan agency business

In June 2009, the Group completed the sale of our Taiwan agency business. The 2009 result of £91 million reflects the profit on sale. The 2008 loss of £248 million is the total result for this business, including short-term fluctuations in investment returns.

Effective tax rates

The effective tax rate at an operating level was 28 per cent (2008: 26 per cent), the increase reflecting the inability to recognise a deferred tax asset on various tax losses of non-insurance operations being partially offset by a reduction in the effective tax rate for Asian operations from the 2008 level that was affected by certain one-off items. The effective tax rate at a total EEV level was 28 per cent (2008: 37 per cent) on a profit of £1,743 million. The reduction reflects the incidence of tax attributable to Jackson's short-term fluctuations in investment returns and other non-operating profits and losses.

IFRS RESULTS

IFRS basis operating profit based on longer-term investment returns

		AER		CER	
	2009	2008	Change	2008	Change
	£m	£m	%	£m	%
Insurance business:					
Long-term business					
Asia	**416**	257	62	290	43
US	**459**	406	13	480	(4)
UK	**606**	545	11	545	11
Development expenses	**(6)**	(26)	77	(29)	79
Long-term business profit	**1,475**	1,182	25	1,286	15
UK general insurance commission	**51**	44	16	44	16
Asset management business:					
M&G	**238**	286	(17)	286	(17)
Asia asset management	**55**	52	6	61	(10)
Curian	**(6)**	(3)	(100)	(4)	(50)
US broker-dealer and asset management	**10**	10	-	12	(17)
	1,823	1,571	16	1,685	8
Other income and expenditure	**(395)**	(260)	52	(267)	48
Restructuring costs	**(23)**	(28)	18	(28)	(18)
Total IFRS basis operating profit based on longer-term investment returns	**1,405**	1,283	10	1,390	1

Group operating profit before tax based on longer-term investment returns on the IFRS basis after restructuring costs was £1,405 million, an increase of 10 per cent on 2008.

In Asia, IFRS operating profit for long-term business increased by 62 per cent from £257 million in 2008 to £416 million in 2009. As reported in our half-year results announcement this includes a £63 million one-off release of reserves in the Malaysian life operations determined after assessing the measurement basis for policyholders' liabilities, following the implementation of a Risk Based Capital (RBC) regime by the Malaysian regulatory authorities. Excluding this item, Asia delivered a strong underlying operating performance resulting in an increase of £96 million to £353 million from £257 million for 2008. This increase reflects both underlying growth as we build our in-force book and a reduction in new business strain from a charge of £97 million in 2008 to a charge of £78 million in 2009.

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

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

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

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

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

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

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

		AER		CER	
	2009 £m	2008 £m	Change %	2008 £m	Change %
Investment spread	**1,001**	747	34	852	17
Asset management fees	**458**	403	14	466	(2)
Net expense margin	**(388)**	(385)	(1)	(434)	11
DAC amortisation (Jackson only)	**(223)**	(450)	50	(532)	58
Net insurance margin	**472**	308	53	357	32
With-profits business	**310**	425	(27)	430	(28)
Non-recurrent release of reserves for Malaysian life operation	**63**	-	-		-
Other	**(218)**	134	(263)	147	(248)
Total	**1,475**	1,182	25	1,286	15

Investment spread has increased by 34 per cent to £1 billion in 2009. The main driver has been the increase in profits from our UK shareholders' annuity business.

Asset management fees have increased by 14 per cent to £458 million in 2009, with growth in our Asian and US businesses and favourable exchange rate movements more than offsetting the impact of falling asset values on fees earned.

The *net expense margin* has decreased marginally from negative £385 million in 2008 to negative £ 388 million in 2009. Adverse exchange rate movements have been largely offset by improvements to new business strain in Asia (total IFRS new business strain in Asia, which is predominantly included in net expense margin, has fallen from £97 million in 2008 to £ 78 million in 2009).

The significant decrease in Jackson's *DAC amortisation* principally reflects the improvements in equity markets in the period and the non-recurrence of the DAC acceleration of circa £140 million that occurred in 2008.

Net insurance margin has grown by 53 per cent to £472 million in 2009 principally reflecting the strong growth in our Asian in-force book (up £55 million to £253 million in 2009), improved mortality experience in the US and UK and a one-off benefit of £34 million in the UK relating to a longevity swap on certain aspects of the UK's annuity back-book liabilities.

Profits from *with-profits* business were £310 million in 2009 compared with £425 million in 2008, reflecting lower bonus rates, and hence lower transfers to shareholders, which are calculated as one-ninth of the cost of policyholders' bonus, due to market falls.

Other of negative £218 million is primarily as a result of increased hedging costs in the US. This negative impact is before allowing for VA guarantee fees of £137 million included within *net insurance margin* and reflects the economic nature of Jackson's hedging programme, with derivative losses arising from increasing equity markets and interest rates not being fully offset by the release of policyholder reserves (which are not economically valued under US GAAP, the grandfathered accounting basis under IFRS 4). After allowing for VA guarantee fees earned in the period the cumulative impact of VA hedging activities for 2008 and 2009 is a small net operating loss of £ 7 million.

IFRS basis profit after tax

	AER	
	2009	**2008**
	£m	**£m**
Operating profit based on longer-term investment returns	**1,405**	1,283
Short-term fluctuations in investment returns		
- Insurance operations	**166**	(1,408)
- IGD hedge costs	**(235)**	-
- Other operations	**105**	(313)
	36	(1,721)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(74)**	(13)
Profit/(loss) before loss on sale and results of Taiwan agency business	**1,367**	(451)
Loss on sale and results of Taiwan agency business	**(621)**	1
Profit (loss) before tax from continuing operations attributable to shareholders	**746**	(450)
Tax (charge) credit attributable to shareholders' profit	**(55)**	59
Discontinued operations (net of tax)	**(14)**	-
Minority interests	**(1)**	(5)
Profit (loss) for the year attributable to equity holders of the Company	**676**	(396)

The total profit before disposal of Taiwan agency business was £1,367 million in 2009, significantly higher than for 2008 (loss of £451 million). The improvement reflects the increase in operating profit based on longer-term investment returns and the significantly more favourable short-term fluctuations in investment returns partially offset by a charge for the costs of hedging the Group's IGD capital surplus. The total profit before tax from continuing operations on the IFRS basis was £746 million in 2009, compared with a loss of £450 million for 2008.

In calculating the IFRS operating profit, we use longer-term investment return assumptions rather than actual investment returns arising in the year. The difference between actual investment returns recorded in the income statement and longer-term returns is shown in the analysis of profits as short-term fluctuations in investment returns.

IFRS Short-term fluctuations in investment returns

Short-term fluctuations in investment returns for our insurance operations of positive £166 million comprises £31 million for Asia, £27 million for US operations and £108 million in the UK.

The positive short-term fluctuations of £31 million for our Asian operations primarily reflect strong market performance in Taiwan and Japan partially offset by the impact of unrealised losses on the debt securities portfolio in Vietnam.

The positive short-term fluctuations of £27 million for our US operations comprise positive £385 million for market value movements on the free standing derivatives used to manage the fixed annuity and other general account business, negative £414 million in respect of debt securities, and positive £56 million of other items. The negative £414 million for debt securities reflects the levels of realised gains and losses (including write-downs) in excess of the allowance for longer-term defaults and amortisation of interest-related gains included in the operating result adjusted for associated deferred acquisition costs.

The positive short-term fluctuations of £108 million for our UK operations reflect principally value movements on the assets backing the capital of the shareholder-backed annuity business.

Short-term fluctuations for other operations, in addition to the previously discussed IGD hedge costs of £235 million, were £105 million positive, which includes £66 million for unrealised appreciation on Prudential Capital's debt securities portfolio and £28 million on swaps held centrally to manage Group assets and liabilities.

Sale of Taiwan agency business

On 20 February 2009 we announced our agreement to transfer the assets and liabilities of the agency distribution business in Taiwan, including the capital consuming in-force book, to China Life Insurance Limited (Taiwan). We completed the transaction on 19 June 2009 following regulatory approval being given on that day. The transfer has resulted in a one-off negative pre-tax impact of £621 million. After allowing for tax, and other adjustments, the effect on shareholders' equity was negative £607 million. The overall size of loss reflects the carrying value of the IFRS equity of the business as applied in the calculation of the loss on sale and the application of 'grandfathered' US GAAP under IFRS 4 for insurance assets and liabilities. US GAAP does not and is not designed to include the costs of holding economic capital to support the legacy interest rate guaranteed products, as recognised under the Company's supplementary reporting basis under European Embedded Value principles. The loss on sale reflects this element of the economic value. Separately, it is to be noted that under IFRS there is no recognition of the enhanced IGD capital surplus position arising on completion.

Effective tax rates

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

EARNINGS AND DIVIDEND PER SHARE

Earnings per share

	2009 pence	2008 pence
Basic EPS based on operating profit after tax and minority interest		
EEV	88.8	85.1
IFRS	43.4	39.9
Basic EPS based on total profit/(loss) after minority interests		
EEV	49.8	(54.1)
IFRS	27.0	(16.0)

Dividend per share

The Board intends to recommend a final dividend for 2009 of 13.56 pence per share payable on 27 May 2010 to shareholders on the register at the close of business on 9 April 2010. The interim dividend for 2009 was 6.29 pence per share. As a result, the total dividend for this year, including the interim dividend and the recommended final dividend, amounts to 19.85 pence per share compared with 18.90 pence per share for 2008, an increase of 5 per cent.

The Board will maintain its focus on delivering a growing dividend, which will continue to be determined after taking into account our Group's financial flexibility and our assessment of opportunities to generate attractive returns by investing in specific areas of the business. The Board believes that in the medium term a dividend cover of around two times is appropriate. The 2009 IFRS operating earnings after tax and minorities cover the full year dividend 2.2 times (2008: 2.1 times).

MOVEMENT ON SHAREHOLDERS' FUNDS

	EEV		IFRS	
	2009	2008 AER	2009	2008 AER
	£m	£m	£m	£m
Operating profit based on longer-term investment returns	**3,090**	2,865	**1,405**	1,283
Items excluded from operating profit	**(1,347)**	(4,971)	**(659)**	(1,733)
Total profit (loss) before tax	**1,743**	(2,106)	**746**	(450)
Tax, discontinued operations and minority interest	**(498)**	768	**(70)**	54
Profit (loss) for the period	**1,245**	(1,338)	**676**	(396)
Exchange movements, net of related tax	**(750)**	2,129	**(195)**	510
Unrealised gains and losses on Jackson securities classified as available for sale(1)	**-**	-	**1,043**	(831)
Dividends	**(481)**	(453)	**(481)**	(453)
New share capital subscribed	**141**	170	**141**	170
Other	**162**	(152)	**29**	(4)
Net increase (decrease) in shareholders' funds	**317**	356	**1,213**	(1,004)
Shareholders' funds at beginning of year	**14,956**	14,600	**5,058**	6,062
Shareholders' funds at end of year	**15,273**	14,956	**6,271**	5,058
Comprising				
Long-term business				
Free surplus (2)	**2,065**	447		
Required capital (3)	**2,994**	4,117		
Net worth (4)	**5,059**	4,564		
Value of in-force	**10,283**	9,958		
Total	**15,342**	14,522		
Other business (5)	**(69)**	434		
Total	**15,273**	14,956		

(1) Net of related change to deferred acquisition costs and tax
(2) The increase in free surplus of £1.6 billion arises primarily from £0.9 billion being generated by the long-term businesses, and an increased of £1 billion from the disposal of Taiwan off-set by cash paid to the holding company and other items.
(3) The reduction in required capital from £4,117 million at 31 December 2008 to £2,994 million at 31 December 2009, principally reflects the sale of the Taiwan agency business.
(4) Net worth principally reflects the free surplus generated in the period, offset by cash paid to the holding company and other items.
(5) Shareholders' funds for other than long-term business of negative £69 million comprises £1,659 million for asset management operations, including goodwill of £1,230 million, holding company net borrowings of £1,780 million and net other shareholders' funds of £52 million. The reduction in shareholders' funds for Other business from £434 million in 2008 to negative £69 million in 2009 primarily reflects the change in the mark to market value movement on core borrowings between the two balance sheet dates.

EEV

On an EEV basis, which recognises the shareholders' interest in long-term business, shareholder funds at 31 December 2009 were £15.3 billion, an increase of £0.3 billion from the 2008 year-end level. This increased level of shareholders' funds reflects the profit after tax of £1.2 billion, the adverse effects of exchange movements of £0.7 billion and dividend payments of £0.5 billion, which are partially offset by new share capital subscribed of £0.1 billion and other movements of £0.2 billion.

The shareholders' funds at the end of 2009 relating to long-term business of £15.3 billion comprise £5.8 billion for our Asian long-term business operations, £4.1 billion for our US long-term business operations and £5.4 billion for our UK long-term business operations.

At 31 December 2009, the embedded value for our Asian long-term business operations was £5.8 billion. The embedded value for the established markets of Hong Kong, Singapore and Malaysia was £3.8 billion. There is also substantial embedded value in Indonesia (£584 million), Korea (£408 million), and Vietnam (£199 million).

For Prudential's other Asian markets, following the sale of the Taiwan agency business, the embedded value was £848 million in aggregate.

IFRS

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

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

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

FREE SURPLUS AND HOLDING COMPANY CASH FLOW

Free Surplus Generation

Sources and uses of free surplus generation from the Group's life and asset management operations

Group free surplus at the end of the period comprises free surplus for the insurance businesses, representing the excess of the net worth over the required capital included in the EEV results, and IFRS net assets for the asset management businesses excluding goodwill. The free surplus generated during the period comprises the movement in this balance excluding foreign exchange, capital movements, and other reserve movements. Specifically, it includes amounts maturing from the in-force operations during the period less the investment in new business, the effect of market movements and other one-off items.

For asset management operations we have defined free surplus generation to be total post tax IFRS profit for the period. Group free surplus generated also includes the general insurance commission earned during the period and excludes restructuring and shareholders' centrally arising other income and expenditure.

The total movement in free surplus net of tax in the period can be analysed as follows:

	2009 £m	AER 2008 £m
Free surplus generation		
Expected in-force cash flows (including expected return on net assets)	**1,914**	1,623
Changes in operating assumptions and variances	**175**	(65)
Underlying free surplus generated in the period	**2,089**	1,558
Provisions for additional allowance for credit risk	**-**	(770)
Market related items	**(198)**	(689)
Investment in new business	**(675)**	(806)
Free surplus generated in the period from retained businesses	**1,216**	(707)
Effect of disposal and trading results of Taiwan agency business	**987**	(276)
Net cash remitted by the business units	**(688)**	(515)
Other movements and timing differences	**157**	442
Total movement during the period	**1,672**	(1,056)
Free surplus at 1 January	**859**	1,915
Free surplus at 31 December	**2,531**	859
Comprised of:		
Free surplus relating to long-term insurance business	**2,065**	447
Free surplus of other insurance business	**37**	--
IFRS net assets of asset management businesses excluding goodwill	**429**	412
Total free surplus	**2,531**	859

During 2009 we generated total free surplus from the retained businesses of £1,216 million (2008: negative £707 million). Underlying free surplus generated from the in-force book increased 34 per cent from £1,558 million in 2008 to £2,089 million in 2009, reflecting favourable exchange rates, the underlying growth of the portfolio, and positive changes in operating assumptions and variances of £175 million for our life businesses (2008: negative £65 million). These positive changes include £158 million arising in the UK (2008: £118 million) and £115 million arising in the US (2008: negative £1 million), consistent with management's on-going focus on capital preservation, and were offset by the negative changes in Asia of £98 million (2008: negative £182 million) principally arising from adopting higher required capital level assumptions in a number of businesses.

Underlying free surplus generated has been used by our life businesses to invest in new business. Investment in new business has fallen by £131 million to £675 million in 2009. This reduction reflects the Group's deliberate focus on conserving capital and is in part due to the substantially reduced levels of wholesale business sales in the UK and the US.

Market related movements have improved from negative £689 million in 2008 to negative £198 million in 2009. These improvements have been driven by higher equity returns in Asia, and improved market performance in the US, offset by the one off profit in 2008 arising from the rebalancing of the credit portfolio in the UK not being repeated in 2009.

In June 2009 we completed the sale of the Taiwan agency business. As anticipated, this gave rise to an increase in free surplus of £987 million, representing the release of negative free surplus that previously applied. This compares to an increase in IGD capital of £800 million. The difference arises predominantly because the calibrations underpinning the capital requirements on a regulatory (IGD) basis are different from those applied on an economic capital (EEV) basis.

Value created through investment in new business by life operations

					AER			
	2009				2008			
	Asia	US	UK	Group	Asia*	US	UK	Group
	£m	£m	£m	£m	£m	£m	£m	£m
Free surplus invested in new business	(246)	(326)	(103)	**(675)**	(224)	(289)	(293)	**(806)**
Increase in required capital	69	300	82	**451**	42	265	165	**472**
Net worth invested in new business	(177)	(26)	(21)	**(224)**	(182)	(24)	(128)	**(334)**
Value of in-force created by new business	710	458	187	**1,355**	650	214	325	**1,189**
Post tax new business profit for the year	533	432	166	**1,131**	468	190	197	**855**
Tax	180	232	64	**476**	166	103	76	**345**
Pre-tax new business profit for the year	713	664	230	**1,607**	634	293	273	**1,200**
New business sales (APE)	1,261	912	723		1,216	716	947	
New business margins (% APE)	57%	73%	32%		52%	41%	29%	
Internal rate of return**	>20%	>20%	>15%		>20%	18%	14%	

	CER			
	2008			
	Asia*	US	UK	Group
	£m	£m	£m	£m
Free surplus invested in new business	(250)	(342)	(293)	**(885)**
Increase in required capital	47	313	165	**525**
Net worth invested in new business	(203)	(29)	(128)	**(360)**
Value of in-force created by new business	729	253	325	**1,307**
Post tax new business profit for the year	526	224	197	**947**
Tax	185	123	76	**384**
Pre-tax new business profit for the year	711	347	273	**1,331**
New business sales (APE)	1,350	846	947	
New business margins (% APE)	53%	41%	29%	
Internal rate of return**	>20%	18%	14%	

* 2008 comparatives for Asia exclude amounts in respect of the sold Taiwan agency business.

** The internal rate of returns is equivalent to the discount rate at which the present value of the post-tax cash flows expected to be earned over the lifetime of the business written in shareholder-backed life funds is equal to the total invested capital to support the writing of the business. The capital included in the calculation of the IRR is equal to the amount required to pay acquisition costs and set up statutory reserves less premiums received, plus encumbered capital. The impact of the time value of options and guarantees is included in the calculation.

Overall, the Group wrote £2,896 million of sales on an APE basis in 2009 (2008: £2,879 million) generating a post-tax new business contribution to embedded value of £1,131 million (2008: £855 million). To support these sales, we invested £675 million of capital (2008: £806 million). We estimate the Group's internal rate of return for 2009 to be greater than 20 per cent. The amount of capital invested covers both new business strain, including commissions, of £224 million (2008: £334 million) and the required capital of £451 million (2008: £472 million). Management's focus in 2009 was on capital preservation and so capital investment was focused on those areas which added most value to the Group. Overall investment in new business has fallen as a result of this strategy but the amount of post-tax new business profit contribution to embedded value per £1 million of free surplus invested increased by 55 per cent to £1.7 million (2008: £1.1 million).

In Asia, investment in new business was £246 million, which was flat compared to 2008 on a CER basis (£250 million). For each £1 million of free surplus invested we generated £2.2 million of post-tax new business contribution to embedded value (2008: £2.1 million). This increase arises predominantly from the benefit derived from a change in sales mix from the lower margin markets of Korea and India to higher margin territories in the region. The average free surplus undiscounted payback period for business written in the 12 months to 31 December 2009 was 3 years (12 months to 31 December 2008: 4 years).

In the US, investment in new business was £326 million, five per cent lower than 2008 on a CER basis (£342 million). For each £1 million of free surplus invested we generated £1.3 million of post-tax new business contribution to embedded value (2008: £0.7 million). This higher return reflects the Group's prioritisation of capital preservation which resulted in a change in business mix away from capital intensive wholesale products to sales of more profitable variable annuities, as well as an increase in spread margins due to Jackson's reduced crediting rates. The average free surplus undiscounted payback period for business written in the 12 months to 31 December 2009 was 2 years (12 months to 31 December 2008: 5 years).

In the UK, investment in new business decreased by 65 per cent from £293 million in 2008 to £103 million in 2009, and for each £1 million of free surplus invested we generated £1.6 million of post-tax new business contribution to embedded value (2008: £0.7 million). This reflects the UK's focus on capital preservation with an increase in with-profits bonds sales and minimal bulk annuity transactions in 2009 and its disciplined approach to individual annuity pricing. The average free surplus undiscounted payback period for business written in the 12 months to 31 December 2009 was 5 years (12 months to 31 December 2008: 6 years).

Holding company cash flow

We continue to manage cash flows across the Group with a view to achieving a balance between ensuring sufficient net remittances from the businesses to cover the progressive dividend (after corporate costs) and maximising value for shareholders through the reinvestment of the free surplus generated at business unit level in the particularly profitable opportunities available to the Group given its established position in key life insurance markets. On this basis, the holding company cash flow statement at an operating level should generally balance to close to zero before exceptional cash flows.

	2009 £m	2008 £m
Net cash remitted by business units:		
UK Life fund paid to Group	284	279
Shareholder-backed business:		
Other UK paid to Group	189	46
Group invested in UK	(39)	(126)
Total shareholder-backed business	150	(80)
UK net	**434**	**199**
US paid to Group	39	144
Group invested in US	-	-
US net	**39**	**144**
Asia paid to Group		
Long-term business	181	163
Other operations	46	234
	227	397
Group invested in Asia		
Long-term business	(101)	(310)
Other operations	(86)	(82)
	(187)	(392)
Asia net	**40**	**5**
M&G paid to Group	**93**	**106**
PruCap paid to Group	**82**	**61**
Net remittances to Group from Business Units	**688**	**515**
Net interest paid	(214)	(128)
Tax received	71	130
Corporate activities	(163)	(177)
Total central outflows	(306)	(175)
Operating holding company * cash flow before dividend	**382**	**340**
Dividend paid net of scrip and share options	(344)	(286)
Operating holding company * cash flow after dividend	**38**	**54**
Exceptional Items:		
Cash flow arising from sale of Taiwan agency business	(125)	-
IGD hedge costs**	(235)	-
Other cash movements		
Issue of hybrid debt, net of costs	822	-
Repayment of maturing debt	(249)	-
Receipts (payments) arising from foreign exchange movements on US $ hedging instruments	60	(352)
Total holding company cash flow	311	(298)
Cash and short term investments at 1 January 2009	1,165	1,456
Foreign exchange movements	10	7
Cash and short term investments at 31 December 2009	**1,486**	**1,165**

* Including central finance subsidiaries.

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

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

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

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

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

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

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

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

As a consequence, overall, we reported a positive underlying cash inflow before exceptional items of £38 million in 2009. There were also two exceptional payments. We paid £125 million in connection with the sale of the Taiwan agency business to China Life Insurance Company Ltd of Taiwan, which comprised of £45 million to purchase a 9.99 per cent stake in that company and £80 million for transaction related expenditure including restructuring costs

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

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

BALANCE SHEET

Summary

	2009 £m	AER 2008 £m
Investments	**208,722**	193,434
Holding company cash and short-term investments	**1,486**	1,165
Other	**17,546**	20,943
Total assets	**227,754**	215,542
Less: Liabilities		
Policyholder liabilities	**186,398**	173,977
Unallocated surplus of with-profits funds	**10,019**	8,414
	196,417	182,391
Less: shareholders' accrued interest in the long-term business	**(9,002)**	(9,898)
	187,415	172,493
Core structural borrowings of shareholders' financed operations (IFRS book value basis)	**3,394**	2,958
Other liabilities including minority interest	**21,672**	25,135
Total liabilities and minority interest	**212,481**	200,586
EEV basis net assets	**15,273**	14,956
Share capital and premium	**1,970**	1,965
IFRS basis shareholders' reserves	**4,301**	3,093
IFRS basis shareholders' equity	**6,271**	5,058
Additional EEV basis retained profit	**9,002**	9,898
EEV basis shareholders' equity (excluding minority interest)	**15,273**	14,956

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

Investments

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

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

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

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

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

Policyholder liabilities and unallocated surplus of with-profits funds

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

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

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

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

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

Shareholders' net borrowings and ratings

Shareholders' net borrowings at 31 December 2009:

	2009			2008		
	IFRS basis £m	**Mark to market value £m**	**EEV basis £m**	IFRS basis £m	Mark to market value £m	EEV basis £m
Perpetual subordinated						
Capital securities (Innovative Tier 1)	**1,422**	**(71)**	**1,351**	1,059	(546)	513
Subordinated notes (Lower Tier 2)	**1,269**	**103**	**1,372**	928	(191)	737
	2,691	**32**	**2,723**	1,987	(737)	1,250
Senior debt						
2009	**-**	**-**	**-**	249	-	249
2023	**300**	**8**	**308**	300	(12)	288
2029	**249**	**(14)**	**235**	249	(53)	196
Holding company total	**3,240**	**26**	**3,266**	2,785	(802)	1,983
Jackson surplus notes (Lower Tier 2)	**154**	**4**	**158**	173	(19)	154
Total	**3,394**	**30**	**3,424**	2,958	(821)	2,137
Less: Holding company cash and short-term investments	**(1,486)**	**-**	**(1,486)**	(1,165)	-	(1,165)
Net core structural borrowings of shareholder-financed operations	**1,908**	**30**	**1,938**	1,793	(821)	972

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

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

The Group operates a central treasury function, which has overall responsibility for managing our capital funding programme as well as our central cash and liquidity positions.

In addition to our core structural borrowings set out above, we also have in place an unlimited global commercial paper programme. As at 31 December 2009, we had issued commercial paper under this programme totalling £409 million, US$1,976 million, and EUR 449 million. The central treasury function also manages our £5,000 million medium-term note (MTN) programme covering both core and non-core borrowings, under which the outstanding subordinated debt at 31 December 2009 was £835 million, USD750 million and EUR520 million, while the senior debt outstanding was £200 million and US$12 million. In addition, our holding company has access to £1,600 million of committed revolving credit facilities, provided by 15 major international banks, and renewable between September 2011 and March 2012; and an annually renewable £500 million committed securities lending liquidity facility. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 31 December 2009. The commercial paper programme, the MTN programme, the committed revolving credit facilities and the committed securities lending liquidity facility are all available for general corporate purposes and to support the liquidity needs of our holding company and are intended to maintain a strong and flexible funding capacity.

We manage the Group's core debt within a target level consistent with our current debt ratings. At 31 December 2009, the gearing ratio (debt, net of cash and short-term investments, as a proportion of EEV shareholders' funds plus debt) was 11.1 per cent, compared with 10.7 per cent at 31 December 2008.

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

The financial strength of PAC is rated AA (negative outlook) by Standard & Poor's, Aa2 (negative outlook) by Moody's and AA+ (negative outlook) by Fitch.

Jackson National Life's financial strength is rated AA (negative outlook) by Standard & Poor's, A1 (negative outlook) by Moody's and AA (negative outlook) by Fitch.

Financial position on defined benefit pension schemes

The Group currently operates three defined benefit schemes in the UK, of which by far the largest is the Prudential Staff Pension Scheme (PSPS) and two smaller schemes, Scottish Amicable (SAPS) and M&G.

Defined benefit schemes in the UK are generally required to be subject to a full actuarial valuation every three years, in order to assess the appropriate level of funding for schemes in relation to their commitments. The valuations of PSPS as at 5 April 2008 and SAPS as at 31 March 2008 were finalised in the second quarter of 2009. The valuation of the M&G pension scheme as at 31 December 2008 was finalised in January 2010. The valuation of PSPS demonstrated the scheme to be 106 per cent funded by reference to the Scheme Solvency Target that forms the basis of the scheme's funding objective. Accordingly, the total contributions to be made by the Group into the scheme, representing the annual accrual cost and deficit funding, has been reduced from the previous arrangement of £75 million per annum to £50 million per annum effective from July 2009.

The actuarial valuation of SAPS as at 31 March 2008 demonstrated the scheme to be 91 per cent funded, representing a deficit of £38 million. Based on this valuation, deficit funding amounts of £7.3 million per annum designed to eliminate the actuarial deficit over a seven year period are being made from July 2009.

The actuarial valuation of the M&G pension scheme as at 31 December 2008 demonstrated the scheme to be 76 per cent funded, representing a deficit of £51million. Based on this valuation, deficit funding amounts designed to eliminate the actuarial deficit over a five year period are being 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 valuation basis under IAS 19 for the Group financial statements differs markedly from the full triennial actuarial valuation basis. For PSPS, the terms of the trust deed restrict shareholders' access to any underlying surplus in the scheme. Accordingly, under IAS 19, any underlying surplus is not recognised. The financial position for PSPS recorded reflects the higher of any underlying IAS 19 deficit and any obligation for deficit funding. At 31 December 2009, the Group has not recognised its interest in the underlying PSPS IAS 19 surplus of £433 million net of related tax relief and has instead recognised a deficit funding obligation of £63 million net of related tax relief. All amounts are based on the new funding arrangement described above. Deficit funding for PSPS is apportioned in the ratio of 70/30 between the PAC with-profits fund and shareholder-backed operations.

As at 31 December 2009, on the Group IFRS statement of financial position, the shareholders' share of the liabilities for these UK schemes amounted to a £92 million liability net of related tax relief. The total share attributable to the PAC with-profits fund amounted to a liability of £110 million net of related tax relief.

Financial instruments

The Group is exposed to financial risk through our financial assets, financial liabilities, and policyholder liabilities. The key financial risk factors that affect us include market risk, credit risk and liquidity risk. Information on our Group's exposure to financial risk factors, and our financial risk management objectives and policies, is provided both in our Risk and Capital Management section of the Business Review and the financial statements.

Further information on the sensitivity of our Group's financial instruments to market risk and our use of derivatives is also provided in the financial statements.

RISK AND CAPITAL MANAGEMENT

Introduction

As a provider of financial services, including insurance, we recognise that the managed acceptance of risk lies at the heart of our business. As a result, effective risk management capabilities represent a key source of competitive advantage for our Group.

The Group's risk appetite framework sets out our tolerance to risk exposures as well as our approach to risk management and return optimisation. Under this approach, we monitor our risk profile continuously against agreed limits. Our main strategies for managing and mitigating risk include asset liability management, using derivatives to hedge relevant market risks, and implementing reinsurance and corporate insurance programmes.

RISK OVERSIGHT

Group risk appetite

We define and monitor aggregate risk limits for our earnings volatility and our capital requirements based on financial and non-financial stresses:

(a) Earnings volatility: the objectives of the limits are to ensure that (a) the volatility of our earnings is consistent with our stakeholders' expectations, (b) the Group has adequate earnings (and cash flows) to service debt, expected dividends and to withstand unexpected shocks, and (c) earnings (and cash flows) are managed properly across geographies and are consistent with our funding strategies. The two measures we apply to monitor the volatility of our earnings are European Embedded Value (EEV) operating profit and International Financial Reporting Standards (IFRS) operating profit, although EEV and IFRS total profits are also considered.

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

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

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

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

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

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

Risk exposures

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

Category	Risk type	Definition
1. Financial risks	(a) Market risk	The risk that arises from adverse changes in the value of, or income from, assets and changes in interest rates or exchange rates.
	(b) Credit risk	The risk of loss if another party fails to meet its obligations, or fails to do so in a timely fashion.
	(c) Insurance risk	The inherent uncertainty as to the occurrence, amount and timing of insurance cash flows. This includes the impact of adverse mortality, morbidity and persistency experience.
	(d) Liquidity risk	The risk that a business, though solvent on a balance sheet basis, either does not have the financial resources to meet its obligations as they fall due or can secure them only at excessive cost.
2. Non-financial risks	Operational risk	The risk of direct or indirect loss resulting from inadequate or failed internal processes, people or systems, or from external events. This includes legal and regulatory compliance risk.
	Business environment risk	Exposure to forces in the external environment that could significantly change the fundamentals that drive the business's overall objectives and strategy.
	Strategic risk	Ineffective, inefficient or inadequate senior management processes for the development and implementation of business strategy in relation to the business environment and the Group's capabilities.

1. Financial Risks

(a) Market Risk

i) Equity risk

In the UK business, most of our equity exposure is incurred in the with-profits fund which includes a large inherited estate estimated at £6.4 billion as at 31 December 2009 (2008: £5.4 billion), which can absorb market fluctuations and protect the fund's solvency. The inherited estate itself is partially protected against falls in equity markets through an active hedging policy. In the course of 2009 we have reduced the with-profit fund's exposure to UK equities whilst increasing the proportion of fixed income assets.

In Asia, a high proportion of our in-force book is made up of unit-linked products with limited shareholder exposure to equities. We have minimal direct shareholder exposure to Asian equity markets outside our unit-linked holdings.

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

In our variable annuity sales activities, we focus on meeting the needs of conservative and risk averse customers who are seeking reliable income in retirement, and who display little tendency to arbitrage their guarantees. These customers select conservative investment options and, importantly, buy fewer guarantee products compared to the industry as a whole. We are able to meet the needs of these customers because our unique and market leading operational platform allows us to tailor more than 1,400 product combinations.

It is our philosophy not to compete on price. Our individual guarantees tend to be more expensive than the market average, because we seek to sell at a price capable of funding the cost we incur to hedge or reinsure our risks.

We use a macro approach to hedging that covers the entire equity risk in the US business, including all exposure to GMDB and GMWB guarantees. Within this macro approach we make use of the natural offsets that exist between the variable annuity guarantees and the fixed index annuity book, and then use a combination of OTC options and futures to hedge the residual risk, allowing for significant market shocks and limiting the amount of capital we are putting at risk. The hedging programme also covers the fees on variable annuity guarantees.

Jackson hedges the economics of its products rather than the accounting result. Accordingly, while its hedges are effective on an economics basis, due to different accounting treatment for the hedges and some of the underlying hedged items, the reported income effect is more volatile. For Jackson's variable annuities guaranteed benefits and related hedges, while there has been some volatility of results in 2008 and 2009, there has been a small cumulative net operating loss of £7 million over the 24 month period, reflecting the overall effectiveness of the hedging program.

ii) Interest rate risk

Interest rate risk arises primarily from Prudential's investments in long-term debt and fixed income securities. Interest rate risk also exists in policies that carry investment guarantees on early surrender or at maturity, where claim values can become higher than the value of backing assets as a result of rises or falls in interest rates.

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

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

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

iii) Foreign exchange risk

Prudential principally operates in the UK, the US, and in 13 countries in Asia. The geographical diversity of our businesses means that we are inevitably subject to the risk of exchange rate fluctuations. Prudential's international operations in the US and Asia, which represent a significant proportion of our operating profit and shareholders' funds, generally write policies and invest in assets denominated in local currency. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in our consolidated financial statements when results are expressed in pounds sterling.

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

(b) Credit risk

Debt Portfolio

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

Asia

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

UK

The UK's debt portfolio on an IFRS basis is £67.8 billion as at 31 December 2009, including £42.3 billion within the UK with-profits fund. Shareholders' risk exposure to the with-profits fund is limited as the solvency is protected by the large inherited estate. Outside the with-profits fund there is £6.4 billion in unit linked funds where the shareholders' risk is limited, with the remaining £19.0 billion backing the shareholders' annuity business and other non-linked business (of which 78 per cent is rated AAA to A, 19 per cent BBB and 3 per cent non-investment grade.)

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

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

US

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

The US Corporate Debt portfolio of £16.5 billion is 94 per cent investment grade. Concentration risk is low, with the top ten holdings accounting for less than 7 per cent of the portfolio. The non-investment grade portfolio is also well diversified with an average holding of £8 million. Our largest sector exposures in the investment grade portfolio are Utilities and Energy both at 15 per cent. We actively manage the portfolio and will sell exposures as events dictate.

Within the RMBS portfolio of £3.3 billion, the agency guaranteed portion is 60 per cent. Another 21 per cent of the portfolio is non-agency prime and Alt-A investments with pre-2006/2007 vintages, where experience has been much more positive than later vintages. Our exposure to the 2006/2007 vintages totals £466 million of which £373 million is invested in the senior part of the capital structure, thereby significantly reducing the risk of defaults and the magnitude of loss if a shortfall does occur. The actual exposure to non-senior 2006/2007 Prime and Alt-A RMBS is only £93 million. The total RMBS portfolio has an average fair value price of 78 cents in the dollar.

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

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

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

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

The impairment process reflects a rigorous review of every single bond and security in our portfolio. The accounting requires us to book full mark-to market losses on impaired securities through our income statement. However we would expect only a proportion of these losses eventually to turn into defaults, and some of the impaired securities to recover in price over time.

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

Asset Management

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

Loans

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

Of this total held by shareholder-backed operations, the Asian insurance operations held £0.4 billion of other loans, the majority of which are commercial loans held by the Malaysian operation that are investment graded by two local rating agencies. The US insurance operations held £4.3 billion of loans, comprising £3.8 billion of commercial mortgage loans, all of which are collateralised by properties, and £0.5 billion of policy loans. The US commercial mortgage loan portfolio does not include any single-family residential mortgage loans and therefore is not exposed to the risk of defaults associated with residential sub-prime mortgage loans. The UK insurance operations held £0.8 billion of loans, the majority of which are mortgage loans collateralised by properties.

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

Unrealised Credit Losses in the US

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

(c) Insurance risk

The processes of determining the price of our products and reporting the results of our long-term business operations require us to make a number of assumptions. In common with other industry players, the profitability of our businesses depends on a mix of factors including mortality and morbidity trends, persistency, investment performance, unit cost of administration and new business acquisition expenses. We continue to conduct rigorous research into longevity risk using data from our substantial annuitant portfolio. Prudential's persistency assumptions reflect recent experience for each relevant line of business, and any expectations of future persistency. Where appropriate, allowance is also made for the relationship – either assumed or historically observed – between persistency and investment returns, and for the resulting additional risk.

(d) Liquidity risk

The holding company has significant internal sources of liquidity which are sufficient to meet all of our expected requirements for the foreseeable future without having to make use of external funding. In aggregate the Group has £2.1 billion of undrawn committed facilities, of which, in February 2009, we renewed £1.4 billion of the undrawn syndicated committed banking facility for a further three years. We also have two £100 million undrawn bilateral committed banking facilities expiring in 2011 and 2012, with the balance being an annually renewable £500 million committed securities lending facility. In addition the Group has access to liquidity via the debt capital markets, which was demonstrated most recently through the two hybrid instruments, £400 million of Lower Tier 2 debt issued in May, US dollar 750 million (approximately £455 million) of Innovative Tier 1 debt issued in July and a £ 250 million senior 3-year MTN issued in January 2010. Liquidity is also assessed at business unit level under base case and stressed assumptions. The liquidity resources available have been assessed to be sufficient under both sets of assumptions.

2. Non-financial risk

Prudential is exposed to operational, business environment and strategic risk in the course of running its businesses. We process a large number of complex transactions across numerous and diverse products, and are subject to a number of different legal and regulatory, including tax, regimes. We also have a significant number of third-party relationships that are important to the distribution and processing of our products, both as market counterparties and as business partners.

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

CAPITAL MANAGEMENT

Regulatory capital (IGD)

Prudential is subject to the capital adequacy requirements of the European Union (EU) Insurance Groups Directive (IGD) as implemented by the Financial Services Authority (FSA) in the UK. The IGD capital adequacy requirements involves aggregating surplus capital held in our regulated subsidiaries, from which Group borrowings, except those subordinated debt issues that qualify as capital, are deducted. No credit for the benefit of diversification is permitted under this approach.

Our capital position has been further strengthened during 2009, driven by our prudent but proactive risk management. Our IGD capital surplus is estimated at £3.4 billion at 31 December 2009 (before allowing for the 2009 final dividend) giving an estimated solvency ratio of 270 per cent. This compares to a surplus at 31 December 2008 (before allowing for the 2008 final dividend) of £1.5 billion and a solvency ratio of 152 per cent. The positive movement of £1.9 billion during 2009 mainly comprises:

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

Offset by:

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

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

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

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

Stress testing

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

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

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

We believe that the results of these stress tests, together with our Group's strong underlying earnings capacity, our established hedging programmes and our additional areas of financial flexibility, demonstrate that we are in a position to withstand possible significant further deterioration in market conditions.

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

Solvency II

The European Union (EU) is developing a new solvency framework for insurance companies, referred to as 'Solvency II'. The Solvency II Directive, which sets out the new solvency framework for insurers in the European Union, was formally approved by the Economic and Financial Affairs Council in November 2009. The new approach is based on the concept of three pillars – minimum capital requirements, supervisory review of firms' assessments of risk, and enhanced disclosure requirements.

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

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

The European Commission has already initiated the process of developing the detailed rules that complement the high-level principles in the Directive, referred to as 'implementing measures'. These are subject to a consultation process that is not expected to be finalised until late 2011.

In particular, the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) published a number of consultation papers in 2009 covering advice to the European Commission on the implementing measures but there remains significant uncertainty regarding the outcome from this process. Prudential is actively participating in shaping the outcome through our involvement in industry bodies and trade associations, including the Chief Risk Officer and Chief Financial Officer Fora, together with the Association of British Insurers (ABI) and the Comité Européen des Assurances (CEA).

Many of the issues being actively debated have received considerable focus both within the industry and from national bodies. However, the application of Solvency II to international groups is still unclear and there remains a risk of inconsistent application, which may place Prudential at a competitive disadvantage to other European and non-European financial services groups. There is also a risk that the effect of the measures finally adopted could be adverse for the Group including potentially a significant increase in the capital required to support the UK annuity business.

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

Over the coming months we will be progressing our implementation plans further and remaining in regular contact with the FSA as we prepare for the initial stage of the approval process for the internal model.

Capital allocation

Prudential's approach to capital allocation takes into account a range of factors, especially risk adjusted returns on capital, the impact of alternative capital measurement bases (accounting, regulatory, economic and ratings agency assessments), tax efficiency, and wider strategic objectives.

We optimise capital allocation across the Group by using a consistent set of capital performance metrics across all business units to ensure meaningful comparison. Capital utilisation, return on capital and new business value creation are measured at a product level. The use of these capital performance metrics is embedded into our decision-making processes for product design and product pricing.

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

Risk mitigation and hedging

We manage our actual risk profile against our tolerance of risk. To do this, we maintain risk registers that include details of the risks we have identified and of the controls and mitigating actions we employ in managing them. Any mitigation strategies involving large transactions – such as a material derivative transaction – are subject to review at Group level before implementation.

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

BUSINESS UNIT REVIEW –

Insurance Operations

Asia

	AER			CER	
	2009	2008	Change	2008	Change
	£m	£m	%	£m	%
APE sales	**1,261**	1,216	4%	1,350	(7%)
NBP	**713**	634	12%	711	0%
NBP margin (% APE)	**57%**	52%		53%	
NBP margin (% PVNBP)	**11.4%**	9.7%		9.7%	
Total EEV basis operating profit*	**1,105**	1,213	(9%)	1,379	(20%)
Total IFRS operating profit*	**416**	257	62%	290	43%

* *Operating profit from long-term operations excluding asset management operations, development costs, Asia regional head office expenses and the sold Taiwan agency business*

Introduction

Asia is home to 60 percent of the world's population and, given its impressive economic transformation over the last few years, the region now has an increasingly significant role in the global economy. This is translating into the rapid emergence of an increasingly urbanised and wealthy mass affluent sector that generates outstanding growth potential in retail financial services as people look to protect their financial well being and manage their savings in more sophisticated and efficient ways.

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

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

Market Overview

Asia's life insurance industry saw a sharp decline in new business premiums during the first half of 2009 with investment linked and single premium products particularly impacted. However, balance sheets have generally remained robust and there have been no significant failures of insurance companies in the region.

Overall the competitive landscape for the life sector in Asia has remained fairly static, except for Taiwan where issues regarding the valuation of back books with high guaranteed interest rates have caused some European players to re-evaluate their strategies. Prudential ceased the distribution of life insurance through tied agents in Taiwan in 2009 with the transfer of its agents and sale of their associated back book to China Life (Taiwan). A number of smaller regional players with subscale operations are also reported to be considering exits. Prudential acquired UOB Life in

Singapore in the early part of 2010. On 15 February 2010 Prudential suspended writing new business in Japan but will continue to manage its existing in-force book.

The region's life insurance regulators are generally inherently conservative and have watched the collapse of purportedly sophisticated Western models of risk and capital management in the banking sector with interest. They are under pressure to ensure these 'mis-steps' are not replicated in their markets and so although regulators have been raising standards for quality of sales advice, product transparency and service for several years, this emphasis has generally increased post-crisis. Prudential views any measures taken to improve standards and enhance the reputation of the industry positively as we believe we already manage our businesses to a market-leading standard.

Initiatives in 2009

The over-arching objective for Prudential in Asia is to continue building profitable scale. The strategic priorities articulated in December 2006 were expanding distribution and improving productivity together with continuing product innovation with a focus on retirement, health and protection segments. These remain relevant in the current environment and are being actively pursued. While a key measure of success is market out performance in terms of new business growth, we have continued our disciplined approach to growth and do not pursue volume for its own sake. Profitability and return on capital are fundamental to this discipline.

The key components of our strategy include agency distribution scale and productivity. During 2009 total agent numbers at 410,000 remained roughly in line with 2008's 413,000. Underlying this small decrease is a reduction of 41,000 non-productive agents in India as that agency force undergoes a period of consolidation and focus on productivity following the rapid branch expansion of prior years. Elsewhere in the region we added a total of 38,000 agents representing growth of 30 per cent over 2008. Throughout 2009 agent activity remained around 2008 levels, a testament to the resilience of this distribution channel in a difficult environment. However, average premiums per policy declined as the proportion of sales derived from health and protection products increased (while these products have high new business margins, they tend to have lower average premiums). More recently the trend for average premiums per case reflects a return to 2008's pre-crisis levels.

Prudential is one of the pioneers in partnership distribution in Asia. Our unique model includes locating Prudential employed and managed sales people, known as Financial Service Consultants (FSC), in key branches of our bank distribution partners. Despite challenging market conditions, FSC sales for 2009 totalled £181 million, representing an increase of 26 per cent over 2008. Prudential has distribution relationships with over 75 institutions across Asia including Standard Chartered Bank, E.Sun Bank and our joint venture partners ICICI in India and CITIC in China. On 6 January 2010 we announced an important distribution agreement with UOB Group covering Singapore, Indonesia and Thailand.

Our focus on health and protection products has been particularly successful in a number of respects. Health and protection products are important for the customers who buy them and the distributors who sell them. The proportion of health and protection products in our total APE mix increased to 29 per cent in 2009, up from 24 per cent in 2008. Higher average new business margins for health business translated into solid returns for shareholders, and health products accounted for over 50 per cent of the total new business profit generated in 2009. Prudential was honoured as Asia Pacific's Health Insurer of Year in 2009 by Frost and Sullivan.

Prudential currently insures over 10 million life insurance customers in Asia. While we continue to focus aggressively on the acquisition of new customers given the generally low penetration rates, we are equally focused on strengthening and deepening our relationships with our existing customers. We are developing advanced data mining and profiling capabilities which provide us with a better understanding of which customers need which products and when. Around 40 per cent of new business came from existing customers in 2009 (excluding India), up from 25 per cent in 2008. Our customer retention rate was 90 per cent in 2009, a one per cent improvement over 2008.

Financial Performance

Although some challenges remain in the Asian economies, there are encouraging signs that the recovery is well underway. Importantly, consumer confidence is returning to the retail financial services sector. Prudential had its highest ever quarter in terms of new business volumes during the fourth quarter of 2009 at £415 million up 42 per cent and 45 per cent from the third quarter of 2009 and the equivalent quarter in 2008 respectively, driven by a continued improvement in sentiment. Full year new business results of £1,261 million represent a growth rate of 4 per cent over 2008.

Agency remains our largest distribution channel, accounting for 63 per cent of new business, in line with 2008. Distribution through bank partnerships account for 24 per cent of new business, up from 22 per cent in 2008. The proportion of higher margin regular premium business in the mix grew to 93 per cent compared to 89 per cent in 2008. It is important to note that while market conditions did drive down single premium volumes in 2009 the single premiums sales total for 2008 included exceptional volumes of Central Provident Fund (CPF) related business in Singapore. Volumes of unit-linked business in 2009 were suppressed due to consumer concerns over capital markets, but nevertheless these products remain the single largest element of our product mix at 41 per cent of total APE for full year 2009 compared to 55 per cent in 2008. As noted earlier, the proportion of higher margin health and protection products has increased to 29 per cent for 2009, up from 24 per cent in 2008.

As in the past, we have maintained our strict pricing and value disciplines and have not succumbed to the temptation to drive sales results with low margin products. New business market share statistics for full year 2009 are not yet available but based on our estimates and market intelligence we expect to have retained our top three positions in seven out of our 11 life markets.

Average new business profit margins have increased from 52 per cent for 2008 to 57 per cent for 2009. The major drivers of this increase are a shift in average country mix where we have seen lower proportions of new business from the lower margin markets of Korea and India and the positive impact of the shift in product mix towards higher margin health and protection products. Total new business profits of £713 million are up 12 per cent over 2008. Despite the unforeseen and very challenging environment, we have exceeded the target we set in December 2006 of doubling 2005 new business profits by 2009 by £39 million.

As reported at the interims, during the first half of 2009 we did see a deterioration of persistency, principally in Korea, and we reported adverse assumption changes and experience variances to reflect this. During the second half of 2009, the situation has improved as a result of management actions and an improvement in market conditions. During the second half only an additional £47 million of assumption changes and experience variances relating to persistency were incurred, resulting in a full year charge of £154 million. Overall assumption changes and experience variances for 2009 netted out at a charge of £97 million, representing an improvement from the charge of £124 million reported at the half year. Given the scale of the EV shareholder funds of the long-term business at £5.8 billion, these experience variances and assumption changes remain small. The contribution to in-force earnings arising from the unwind of the discount rate and other operating investment returns amounted to £489 million, up 20 per cent on prior year, reflecting the growing scale of the business.

Prudential Asia Life reported record IFRS profits of £416 million for 2009, an increase of 62 per cent over 2008. This includes the impact of reserve releases in Malaysia following the introduction of RBC of £63 million. Excluding this one-off, the growth rate for IFRS profit was 37 per cent. Aside from Japan and Taiwan where we are working through fundamental changes in our business models and except for Thailand that made a small loss, all our life operations are generating IFRS profits. Our life insurance joint venture with ICICI in India generated its first IFRS profit since the inception of the business in 2001.

New business strain on the IFRS basis is 6.2 per cent of APE compared to 8.0 per cent reported in 2008. The main driver is change in country mix with lower proportions of new business from India and Korea. IFRS profits from the inforce book of £494 million are 22 per cent ahead of 2008 excluding the impact of the reserve release in Malaysia.

We continue to manage our investment in new business, focusing on value creation. New business written in the period has an average internal rate of return (IRR) in excess of 20 per cent and an average pay back period of 3 years.

The Asian Life Businesses remain net remitters of cash to the Group at £80 million.

Looking at individual countries:

In **China**, new business volumes for 2009 of £45 million are up 18 per cent on 2008 principally driven by bancassurance. CITIC-Prudential remains one of the leading foreign joint ventures and we continue to pursue our strategy of quality sales and sustainable value creation rather than chasing short term volumes. China is a critically important strategic market for Prudential.

Hong Kong delivered an exceptionally strong fourth quarter of £91 million of new business volumes, up 65 per cent on the third quarter of 2009 and up 98 per cent on the equivalent quarter of last year. This was driven by continuing improvements in agency productivity along with strong recovery of the bank channel. Full year new business for Hong Kong was £241 million, up 18 per cent over 2008. Prudential remains amongst the top three positions in Hong Kong based on new business premium market share and is the only top player with distribution channel diversity.

Following a slow start to 2009, given the impacts of the market turbulence on customer confidence in **India**, ICICI-Prudential has seen an encouraging resurgence in new business volumes during the fourth quarter. Prudential's fourth quarter new business volumes of £52 million (reflecting our 26 per cent ownership) is up 30 per cent on the third quarter. Agency recruitment has slowed as our branch expansion programme has now been successfully completed. The proportion of business derived from bank distribution continues to increase and now stands at 30 per cent for 2009 compared to 25 per cent for 2008. The operation remains India's leading private sector life insurer.

Growth in **Indonesia** remains on track with the fourth quarter of £64 million of new business volumes up 49 per cent on the third quarter of 2009 and up 36 per cent on the equivalent quarter of last year. Full year new business in Indonesia of £190 million represented an increase of 8 per cent on 2008. Agency manpower continues to be the main driver of growth with over 20,000 new agents added during the year. Takaful linked products remain a significant contributor at 25 per cent of the new business mix. Prudential is the market leader in Indonesia in the life insurance industry.

As seen earlier during 2009, the market in **Korea** remains very challenging and although the crisis has impacted results, a key contributor to the 44 per cent decline in new business volumes in the year to £122 million is our unwillingness to compete in the low margin, high capital guaranteed products sector.

Our traditional and takaful businesses in **Malaysia** had a record 2009 with fourth quarter volumes of £62 million, nearly double the third quarter and 72 per cent higher than the equivalent quarter of 2008. Agency momentum in terms of recruitment and productivity are key drivers of the results, but there was also a significant uptake due to a recovery in the local capital markets during the fourth quarter. Full year new business volumes for 2009 of £146 million is an impressive 43 per cent increase over 2008. Although comprehensive market statistics are unavailable we believe we are one of the leading life insurers in Malaysia

Singapore also had a very strong finish to 2009 closing the year with new business volumes up 14 per cent at £128 million. Fourth quarter new business sales of £48 million were up 66 per cent on the third quarter and 85 per cent higher than the equivalent quarter of last year. Improved sentiment, plus increases in agency productivity and new non par products drove this very strong result. We anticipate holding our market leading position in Singapore.

Following our exit from the agency channel in 2009, **Taiwan** is now successfully focussed on bank distribution principally with partners E.Sun and Standard Chartered Bank. New business volumes of £107 million for the year are up a significant 84 per cent on prior year from this channel and Taiwan remains a material contributor to Asia's results.

Vietnam delivered a very strong result in 2009, up 36 per cent on prior year, driven by improvements in agency productivity. Although small, both **Philippines** and **Thailand** delivered reasonable results given the challenging market conditions. As announced on 15 January, PCA Life **Japan** has suspended writing new business.

US operations

	AER			CER	
	2009	2008	Change	2008	Change
	£m	£m	%	£m	%
APE sales	**912**	716	27	846	8
NBP	**664**	293	127	347	91
NBP margin (% APE)	**73%**	41%		41%	
NBP margin (% PVNBP)	**7.3%**	4.1%		4.1%	
Total EEV basis operating profit*	**1,233**	586	110	693	78
Total IFRS operating profit*	**459**	406	13	480	(4)

* Based on longer term investment returns and excludes broker-dealer, fund management and Curian

Introduction

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

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

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

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

Initiatives in 2009

Distribution

The success in the marketplace of Prudential's US business, Jackson, continues to be driven by our industry-leading distribution organisation and product innovation, coupled with our sound evaluation of product economics. Our long-term goals for Jackson include the continued and profitable expansion of our share of the US annuities and retail asset management markets, which we plan to achieve by building on our advantaged position in the advice-based distribution channels. Ongoing profitable growth in Jackson's share of the US annuities market largely depends on the continued enhancement and expansion of our existing product offering, increased penetration of existing distribution channels and entry into new distribution channels, as well as opportunistic inorganic growth.

The annuity industry is consolidating to the strongest players, and this consolidation has contributed to a substantial increase in Jackson's distribution relationships. We have experienced a large influx of new advisers this year, increasing our licensed agent and registered representative count by more than 30,000 to 117,453, which has driven

[1] Source: US Census Bureau
[2] Source: Tiburon Strategic Advisors, LLC

significant increases in market share for Jackson, particularly in variable annuities. Jackson signed a distribution agreement with Merrill Lynch, which began selling Jackson products in late 2009.

Many baby boomers are increasingly seeking advice to help them recover the losses suffered during the crisis. With strong growth in our distribution relationships in advice-based channels, Jackson is well positioned to benefit from this trend.

Innovation

Innovation in product design and speed to market continue to be key drivers of Jackson's competitiveness in the variable annuity market. High-quality and cost-effective technology has allowed Jackson to offer a comprehensive product portfolio that can be customised to meet the needs of individual customers. We offer products on an unbundled basis, enabling customers to select those benefits that meet their unique financial requirements and to pay only for those benefits they truly desire. In our view, leveraging this advantage is a more sustainable long-term strategy than competing on price – Jackson will not sacrifice product economics for a short-term increase in market share.

During 2009, Jackson maintained its track record of continued product innovation by enhancing our variable annuity product line by offering a bonus variable annuity and six new portfolio investment options. We also continued to modify our Guaranteed Minimum Withdrawal Benefits (GMWBs).

Customer service

The significant increase in new business in 2009, following the difficult market conditions in 2008, resulted in higher call volume to our service centres. Despite this increased workload, we continued to demonstrate the ability to service investors' and advisers' needs accurately and efficiently, by once again earning recognition as a World Class service provider in the Service Quality Measurement Group's (SQM) latest benchmarking study of North American service centres. Historically, only 5 per cent of service centres receive World Class designation, but 2009 marked the fifth year that Jackson has achieved World Class status. We also earned SQM's 'Highest Customer Satisfaction by Industry' award for having the highest rate of customer satisfaction in the financial services industry. During 2009, Jackson created a series of educational presentations and materials designed to address the concerns that advisers were facing in such a challenging economic environment. In Financial Research Corporation's 2009 Advisor Insight study, Jackson ranked number one in overall adviser satisfaction with marketing effectiveness.

Financial performance

Jackson delivered record APE sales in 2009 of £912 million, representing a 27 per cent increase over 2008 at actual exchange rates. It was also the highest level of total sales in the company's history even though we sold no institutional products. The strong momentum seen in the first half of the year continued, as second half sales of £5.1 billion were 34 per cent higher than the first half of 2009 and 64 per cent higher than the second half of 2008. We have maintained our pricing discipline and continued to write business at very attractive Internal Rates on Return in excess of 20 per cent and with payback periods of 2 years.

Jackson ranked 4th in **total annuity sales** with a market share of 5.3 per cent in the first nine months of 2009, up from 11th and a market share of 4.0 per cent for 2008[1].

Variable annuity APE sales of £639 million in 2009 were 83 per cent higher than 2008 at actual exchange rates and the highest level of variable annuity sales in the company's history. Jackson's strong variable annuity sales performance was due primarily to the equity market rally that began in the second quarter of 2009, the relative consistency of Jackson's product offering and continued disruptions among some of our major competitors. Jackson ranked 4th nationally in new variable annuity sales during the first three quarters of 2009, with a market share of 7.3 per cent, up from 12th with a market share of 4.3 per cent at the end of 2008[2]. During the first nine months of 2009,

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[1] Source: LIMRA
[2] Morningstar

the latest period for which statistics are available, Jackson ranked second in variable annuity net flows and experienced the lowest level of outflows, as a percentage of variable annuity inflows, in the industry[1].

Fixed index annuity (FIA) APE sales of £143 million in 2009 were up 186 per cent over 2008. Sales in the fourth quarter of £378 million were 111 per cent higher than the same quarter in 2008. Industry FIA sales have increased due to higher customer demand for products which offer guaranteed rates of return with additional upside potential linked to stock market index performance. Additionally, Jackson's FIA sales have benefited from the company's consistent financial strength ratings and further disruptions among some of the top FIA sellers. Jackson ranked fifth in sales of FIAs during the first three quarters of 2009, with a market share of 7.1 per cent, up from 9th with a market share of 3.5 per cent at the end of 2008[2].

Jackson's strategy of containing **fixed annuity** volumes to achieve capital preservation resulted in APE sales of £105 million, 39 per cent lower than 2008. Sales in the fourth quarter of £212 million were 51 per cent higher than the third quarter of 2009 and 64 per cent lower than the fourth quarter of 2008.

Total **retail annuity net flows** of £5.0 billion for 2009 represent a 115 per cent increase on the same period in 2008 at actual exchange rates, reflecting the impacts of record sales and continued low levels of surrender activity.

EEV basis new business profits of £664 million were 127 per cent higher than in 2008, reflecting a 27 per cent increase in APE sales and a significant shift in the mix of business toward variable annuities. Total new business margin was 73 per cent, significantly higher than the 41 per cent achieved in 2008.

New business spread assumptions have increased for some products as a result of decreases in crediting rates on new business, which were lowered in an effort to reduce sales and conserve capital. Such high spreads are unusual and tied to the unique economic environment.

The variable annuity new business margin increased from 43 per cent in 2008 to 81 per cent in 2009, arising from updated assumptions, revised benefits and higher take-up rates on the higher margin guaranteed withdrawal benefits.

The FIA new business margin decreased slightly from 53 per cent in 2008 to 51 per cent in 2009, as a result of the increased risk discount rate more than offsetting increased assumptions.

The fixed annuity new business margin increased from 37 per cent to 57 per cent, as a result of wider spread assumptions offset to some extent by an increase in the risk discount rate.

There was no new institutional business as Jackson restricted sales in this business line in order to conserve and direct capital to higher margin variable annuity business.

Total EEV basis operating profit for the long-term business in 2009 was £1,233 million, compared to £586 million in 2008. In-force EEV profits of £569 million were 94 per cent higher than the 2008 profit of £293 million, reflecting both the greater contribution to earnings from the unwind of the discount rate and the beneficial impact of updating the assumption relating to GMWB utilisation rates to reflect recent experience studies.

IFRS operating profit for the long-term business was £459 million in 2009, up 13 per cent over the £406 million in 2008. The expected charge from the negative accounting effect of rising equity markets and interest rates on derivative instruments supporting Jackson's variable annuity business has been more than offset by the absence of the accelerated DAC amortisation experienced in 2008 and the effect of movements in exchange rates. Since Jackson hedges the economics of the product rather than the accounting result, there will naturally be some volatility in the reported results due to equity market and interest rate movements. As evidence of the effectiveness of Jackson's hedging programme, over the cumulative 24 month period of 2008 and 2009, which included a historic decline and partial recovery of equity markets as well as significant interest rate movements, Jackson's VA guaranteed benefits and related hedges resulted in a net operating loss of £7 million.

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[1] Source: Morningstar
[2] Advantage Group Associates, Inc

At 31 December 2009, Jackson had more than £55 billion in total assets, including £21 billion in separate account assets.

Jackson recorded impairment write-downs and credit related losses on debt securities net of recoveries of £631 million in 2009, of which £499 million arises on residential mortgage-backed securities.

Gross unrealised losses moved from £3,178 million at 31 December 2008 to £966 million at 31 December 2009 as the markets rebounded from the historically wide spreads at the end of 2008. The net unrealised position moved from an unrealized loss of £2,897 million at 31 December 2008 to a net unrealised gain of £4 million at 31 December 2009.

Jackson's statutory basis total adjusted capital of £2.5 billion is more than eight times the regulatory required risk-based capital at the authorised control level. The Michigan Insurance Commissioner granted Jackson a permitted practice that allowed Jackson to carry interest rate swaps at book value, as if statutory hedge accounting were in place, instead of at fair value as would have been otherwise required. The effect of this permitted practice was to increase statutory total adjusted capital by £117 million at 31 December 2009. This equates to a RBC percentage in excess of 400 per cent.

UK operations

	AER			CER	
	2009	**2008**	**Change**	**2008**	**Change**
	£m	£m	%	£m	%
APE sales	**723**	947	(24)	947	(24)
NBP	**230**	273	(16)	273	(16)
NBP margin (% APE)	**32%**	29%		29%	
NBP margin (% PVNBP)	**3.9%**	3.4%		3.4%	
Total EEV basis operating profit	**921**	1,081	(15)	1,081	(15)
Total IFRS operating profit	**657**	589	12	589	12

Introduction

Prudential UK continues to focus on realising value from the opportunities created by the increasing need for retirement solutions. Prudential UK competes in selected areas of the UK's retirement savings and income markets where it believes that it can generate attractive returns from capital employed. In line with the Group's strategy, the business continues to place great emphasis on the disciplined deployment of capital to seize opportunities that play to the core strengths of the business and this focus enabled us to deliver a strong relative performance in 2009.

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

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

Initiatives in 2009

Maintaining leadership position in individual annuities

Prudential UK has a significant pipeline of internal vestings into its annuity business from maturing individual and corporate pension policies, which is expected to remain strong at least over the next ten years. This is supplemented by strategic partnerships with third parties where Prudential UK is the recommended annuity provider for customers vesting their pensions at retirement. Prudential UK is one of the largest annuity providers in the UK market, with approximately 1.5 million annuities in payment. Looking ahead, the UK annuities market is expected to grow in the near-term, and Prudential UK believes it is well-positioned to maintain a significant share of this market.

Sales of individual annuities of APE £219 million were 22 per cent lower than 2008. Sales of external annuities of £83 million were down 31 per cent year-on-year as Prudential UK continued to actively manage the flow of external business to reduce capital consumption. For internal vestings, although rates remained robust, sales were impacted by a reduction of 8 per cent in average case sizes as a result of depressed asset values and by customers choosing to delay their retirement to allow asset values to recover. As a result, internal vestings sales fell by 15 per cent. However, the year on year decline is also explained by the fact that vestings were stronger than usual in the last quarter of 2008.

In the first quarter of 2009, Prudential UK launched a new Income Choice Annuity which allows customers to choose an income between a defined maximum and minimum level, with the option of re-setting this every two years. It also provides an opportunity for pension income to grow because the product is backed by Prudential's strong with-profits fund.

Building on our multi-asset capabilities and expertise

Prudential UK's with-profits business performed particularly strongly during 2009, showing once again that with-profits, when invested in an actively managed, and financially strong fund like Prudential's, continues to be an attractive medium to long-term investment, offering strong annualised returns compared with other investment options. Prudential UK with-profits fund has delivered investment returns of 66.3 per cent over ten years compared with the FTSE All-Share Index (total return) of 17.7 per cent over the same period.

Sales of with-profits bonds of APE £132 million were up 35 per cent on 2008. This strong sales growth reflects the attractiveness of Prudential's with-profits offering, including in particular PruFund, in which over £1.3 billion has been invested across Prudential UK retail savings' product range in the last 12 months. In 2009, Prudential UK extended further the PruFund range of investments with the launch of the PruFund Cautious series to sit alongside the PruFund Growth series within the on-shore bond wrapper. Approximately £300 million has been invested in PruFund Cautious since it was launched in the second half of the year.

Individual pensions sales (including income drawdown) of APE £55 million were 20 per cent higher than 2008. Sales of the Flexible Retirement Plan, Prudential UK's individual pension product with customer agreed remuneration, continued to grow with sales in 2009 of APE £21 million up 90 per cent. Sales of the income drawdown product of APE £9 million were 13 per cent higher than 2008. Sales were boosted by the launch of PruFund and PruSelect as fund options in the second half of 2008.

Growing other income streams

Prudential UK has a joint venture with Discovery which uses the Prudential brand and Discovery's expertise to build branded distribution and innovative product offerings in the private healthcare and protection markets. Since its launch, PruHealth has established itself in the marketplace, and it now has more than 200,000 customers insured. PruProtect continues to grow sales strongly following the re-launch of its product range and improved distribution model in November 2008. APE Sales of £14 million were achieved in 2009, an increase of 311 per cent over 2008.

Strengthening our distribution capabilities

The business increased its field sales-force with an additional 13 regional sales units and the focus is to continue developing deeper and better relationships with key accounts and through partnership arrangements. Prudential UK was successful in gaining over 50 new panel positions across our 24 key accounts in 2009, meaning that its products are now even more widely available to intermediaries than before.

A strong focus on delivering improvements in customer service

Prudential UK's focus on delivering improved levels of customer service was recognised in 2009 through the award of two Five-Star awards at the Financial Adviser Service Awards in the Life & Pensions and Investments categories. These awards were achieved shortly before Prudential was named "Best Annuity Provider" at the 2010 Professional Adviser Awards.

Maintaining our disciplined approach to pricing and capital usage

In the Wholesale markets, Prudential UK's aim is to participate selectively in bulk and back-book buyouts using the group's financial strength, superior investment track record and annuitant mortality risk assessment capabilities. There continues to be a pipeline of potential wholesale deals, but maintaining a strict focus on value means that Prudential UK will only participate in transactions that meet its strict return on capital requirements. As a result, 2009 APE sales of £4 million were significantly lower than 2008.

Within corporate pensions, Prudential UK intends to continue to focus principally on the opportunities from the substantial existing Defined Contribution book of business as well as providing Additional Voluntary Contribution arrangements to the public sector. During an extremely challenging 2009 for Prudential UK's corporate clients and the whole industry, Prudential UK revenues from existing schemes and underlying sales were broadly in line with

2008 after excluding one-off items in both 2008 and 2009. With the inclusion of one-off items sales of £210 million were 16 per cent lower than in 2008.

In November, Prudential UK announced the decision to close its equity release operation to new business. For this product, a significant cash expense is incurred up front in acquiring new business and the payback period on capital employed is long. Prudential UK management concluded that this is not sustainable and that cash and capital can be deployed more effectively across other parts of the business. Prudential UK's existing lifetime mortgage customers are unaffected by this decision.

Financial performance

Market conditions remained challenging in 2009, with ABI statistics data showing a 23 per cent fall in the retail sales market in the twelve months to September. As explained above, Prudential UK continued to maintain a strict focus on the disciplined use of capital and pricing to achieve its return on capital targets. Against this background, Retail APE sales of £717 million were down 11 per cent on 2008. Total UK APE sales of £723 million were down 24 per cent on last year, although the 2008 figure included a large bulk annuity transaction which has not been repeated in 2009, due to the unavailability of transactions which met Prudential's return criteria.

This disciplined pricing approach led to lower sales of individual annuities and corporate pensions. In addition, sales of other product lines, such as offshore bonds, were impacted by the continued market volatility. These reductions in sales were partially offset by the continued strength of Prudential UK's with-profits offering, in particular PruFund.

Lower sales resulted in total EEV new business profits falling by 16 per cent to £230 million, but the underlying new business margin improved from 29 per cent to 32 per cent. This improvement was mainly due to the strong margins achieved on shareholder-backed annuity business. The £43 million reduction in the total EEV new business profit compared with 2008 was mainly due to the large bulk deals written in 2008 which were not repeated in 2009. Retail EEV new business profits at £223 million were in line with 2008 (£226 million).

EEV total operating profit based on longer-term investment returns of £921 million was down 15 per cent on 2008. This was mainly due to the £118 million benefit arising in 2008 from rebalancing the credit portfolio that supports the shareholder-backed annuity business compared with £22 million in 2009. The 2009 in-force operating result includes £588 million from the unwind of the discount rate on the value in-force business which is 3 per cent higher than 2008.

Prudential UK continues to manage actively the retention of the in-force book. During 2009, the experience at an aggregate level has been in line with long-term assumptions.

IFRS total operating profits were up 12 per cent at £657 million. The increase was mainly due to the superior returns achieved on shareholder annuity business, which were £194 million higher than 2008, partly offset by a £114 million reduction in IFRS profits attributable to the with-profits business. This decrease was primarily due to bonus rate reductions in the February 2009 bonus declaration. Commission received on Prudential-branded General Insurance products contributed £51 million to IFRS operating profits in 2009, 16 per cent higher than 2008. This increase was due to the substantial advance commissions received on the transfer of the business to Churchill in 2002 being fully amortised in March 2008, so that commissions earned are now received in full.

Prudential UK writes with-profits annuity, with-profits bond and with-profits corporate pensions business in its life fund, with other products backed by shareholder capital. The weighted average post-tax IRR on the shareholder capital allocated to new business growth in the UK was in excess of 15 per cent. The average free surplus undiscounted payback period for shareholder backed business written in 2009 was five years.

The business has also continued to make good progress against its cost reduction plans. As previously announced, the first phase of the Prudential UK cost reduction programme delivered savings of £115 million per annum, with a further £60 million per annum of savings expected to be delivered by the end of 2010 through the agreement with Capita, which commenced in April 2008. The remaining £20 million per annum is expected to be generated from across the rest of the UK business by the end of 2010. By the end of 2009, a total of £156 million per annum of savings had been delivered and Prudential UK expects that it will have achieved its total cost savings target of £195 million per annum by the end of 2010.

Over time, the Capita contract is expected to result in the migration of approximately seven million in-force policies from a number of Prudential legacy IT systems to two Capita proprietary platforms, significantly enhancing operational performance and efficiencies. The first migration from a legacy system to a Capita platform was completed during 2009.

Asset Management

Global

The Group's asset management businesses provide value to the insurance businesses within the Group by delivering sustained superior performance. They are also important profit generators in their own right, having low capital requirements and generating significant cash flow for the Group.

We believe that our asset management businesses are well placed to capitalise on their leading market positions and strong track records in investment performance to deliver net flows and profit growth as well as strategically diversifying the Group's investment propositions in retail financial services markets that are increasingly favouring greater product transparency, greater cross-border opportunities and more open-architecture investment platforms. Wholesale profit streams are also growing.

The Group's asset management businesses operate different models and under different brands tailored to their markets and strengths. However they continue to work together by managing money for each other with clear regional specialism, distributing each others' products and sharing knowledge and expertise, such as credit research.

Each business and its performance in 2009 is summarised below.

M&G

M&G comprises the M&G asset management business and Prudential Capital.

	AER			CER	
	2009	**2008**	**Change**	**2008**	**Change**
	£m	£m	%	£m	%
Net investment flows	**13,478**	3,407	296	3,407	296
Revenue	**457**	455	0	455	0
Other income	**13**	25	(48)	25	(48)
Staff costs	**(205)**	(184)	(11)	(184)	(11)
Other costs	**(100)**	(111)	10	(111)	10
Underlying profit before Performance-related Fees	**165**	185	(11)	185	(11)
Performance-related fees	**12**	43	(72)	43	(72)
Operating profit from asset management operations	**177**	228	(22)	228	(22)
Operating profit from Prudential Capital	**61**	58	5	58	5
Total IFRS operating profit	**238**	286	(17)	286	(17)
Funds Under Management (FUM) (£ billion)	**174**	141	23	141	23

M&G's asset management business

M&G is an investment-led business which aims to deliver superior long term performance for third party clients and the internal funds of the Prudential Group.

Our strategy is to recruit and nurture leading investment talent. We seek to create an environment in which this talent will thrive and so deliver the level of returns that our clients expect of us.

As at 31 December 2009, M&G's total funds under management were £174 billion, including £70 billion of assets managed on behalf of third party retail and institutional clients.

In the retail market, we aim to offer high-performing funds which are managed from our London headquarters and distributed in the UK and across Europe, mainly through intermediaries. The diversity of our retail product range proved its worth in the recent market turmoil, as investors bought both our equity and fixed income funds.

In the institutional market, we provide third-party clients such as pension funds with a range of traditional and specialist investment strategies, some of which have originally been developed for the Prudential internal funds.

For all clients, our goal is superior performance over the longer term. In the three years to December 2009, 38 per cent of M&G's retail funds delivered top-quartile investment performance[1]. Over the same period, 89 per cent of M&G's active institutional funds delivered returns ahead of their benchmarks.

Sales performance

M&G had an exceptional year in 2009, delivering record net fund inflows of £13.5 billion. This 296 per cent year-on-year increase in net new business can be attributed largely to the excellent long-term performance of both our retail and institutional investment management teams.

Gross fund inflows rose 54 per cent to £24.9 billion. These record inflows and the recovery of equity markets in the latter half of 2009 led to a 23 per cent increase in M&G's funds under management to a total of £174 billion. As at 31 December 2009, 40 per cent of M&G's funds under management were for third party clients.

M&G's Retail Business has had a particularly strong year, seeing net inflows jump by 259 per cent over the year to £7.5 billion. Gross fund sales were up 50 per cent at £13.6 billion. Sales of our top-performing fixed income funds accounted for the lion's share of inflows for most of the year before investor appetite switched to our equity and property funds during the second half as sentiment turned more bullish.

The UK Retail Business had an especially good year, with net inflows rising by 216 per cent to £6.0 billion from £1.9 billion in 2008. This compared with total UK retail net sales of £25.8 billion for the year (source, IMA, 12 months to end of 2009).

Similarly, the Institutional Business attracted an exceptionally high level of net new business. Net inflows were £6.0 billion, a rise of 354 per cent on 2008. They included the award of a single fixed income mandate valued at £4 billion and £0.8 billion of net new money into our leveraged loan funds. Gross fund sales were up 59 per cent at £11.3 billion.

Net sales remained robust in the fourth quarter. The Retail Business attracted net new money of £1.8 billion, more than double the £0.7 billion taken in the same quarter in 2008. Gross Retail sales were £3.8 billion. The Institutional Business took £0.6 billion of net new business over the three months, compared with an outflow of £1.4 billion for the same period a year ago. Gross sales were 93 per cent higher year-on-year at £2.7 billion.

Financial performance

The collapse in investor confidence in the autumn of 2008 and the subsequent economic turmoil had a limited impact on that year's results, coming as it did late in the year. Market levels are the single most important determinant of our profits. The average level of the FT All Share Index during 2008 was 2,743. Despite the recovery in markets from March 2009 onwards, the average level of the FT All Share Index in 2009 was materially lower at 2,327.

It is in this context that M&G's IFRS operating profits fell to £177 million, 22 per cent lower than the record profits achieved in 2008. However, if performance related fees, investment income, carried interest on private equity investments and costs associated with the long-term incentive plan are excluded, M&G's operating profit would display an underlying growth of 14 per cent in 2009 (£182 million) over 2008 (£159.5 million).

M&G continues to provide capital efficient profits and cash generation for the Prudential Group, as well as strong investment returns on the long-term business funds. Return on capital of 76 per cent and cash remittances of £93 million in 2009 provided strong support for the Group's corporate objectives.

Our cost/income ratio was 65 per cent in 2009, increasing from 60 per cent in 2008. The increase can largely be attributed to the reinstatement of costs associated with the long-term incentive plan (LTIP), as the medium-term

1.Source: Morningstar

outlook for the business improved in light of strong fund inflows and recovering market levels. M&G remains focused on cost control.

Outlook

The collapse in bank deposit rates to near-zero provided an exceptional backdrop to M&G's sales performance in 2009 which will not be repeated in 2010. Net sales are expected to return to more normal levels this year. Nevertheless, continuing excellent investment performance in a number of M&G's flagship equity and bond funds gives grounds for confidence that M&G will continue to win a healthy share of new business.

Prudential Capital

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

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

Prudential Capital has a diversified earnings base derived from its portfolio of secured loans, debt investments and the provision of wholesale markets services. The business delivered a good financial result in 2009, considering prevailing market conditions. As a result of sustained revenue and maintaining a low cost/income ratio, IFRS operating profits increased by 5 per cent to £61 million, resulting in a cash remittance to the Group holding company of £82 million.

Asia Asset Management

	AER			**CER**	
	2009	**2008**	**Change**	**2008**	**Change**
	£m	£m	%	£m	%
Net investment flows	**1,999**	855	134	1,044	91
Total IFRS operating profit	**55**	52	6	61	(10)
Funds Under Management (FUM) (£ billion)[1]	**19.5**	15.2	28	13.9	40

Introduction

Prudential's asset management business in Asia manages investments for Prudential UK and the Asian life companies and has also successfully leveraged these investment capabilities to build a market leading third party funds management business.

Initiatives in 2009

Investment performance is one of the key drivers of success for Asia Asset Management. In 2009, 64 per cent of its funds outperformed their peer benchmarks or were ranked within the top-two performance quartiles among peers[2].

Fund launches were curtailed during 2009 given the market conditions; however Asia Asset Management did successfully raise new funds in 2009 including £300 million (US$469 million) from a Qatar Fixed Maturity Plan Series

[1] Third-party customers
[2] Based on a blend of 1-year and 3-year performance

in Dubai, £220 million (US$345 million) from an equity fund in China and £109 million (US$170 million) from a target return fund in India. A new innovation was the Brazil Fund, launched in Taiwan that raised £94 million (US$147 million).

Asia Asset Management has continued to build its retail distribution network across Asia. For example, in Japan, the business has successfully established distribution relationships with mega distributors.

In China, CITIC-Prudential was awarded the prized Qualified Domestic Institutional Investors (QDII) licence in 2009 and in Malaysia, Asia Asset Management launched Prudential Al-Wara as its new Islamic fund management subsidiary.

Financial performance

Asia Asset Management total funds under management as at 31 December 2009 is £42.4 billion and includes £4.2 billion of assets from the Group, £18.7 billion from Prudential Corporation Asia's life funds and £19.5 billion from third-party customers. Compared to 2008, the overall FUM increased by 22 per cent (excluding the FUM related to the sold Taiwan agency business).

Third party net inflows were £2 billion driven principally by money market funds in India with strong net equity inflows in Japan and the UAE being offset by net outflows of equity funds in Korea and fixed income funds in India.

IFRS profit from fund management is £55 million, up 6 per cent on the prior year. Lower management fees were more than offset by stringent cost control. The asset management business requires very little capital to support its growth and in 2009 it remitted a net £33 million to the Group holding company.

US Asset Management

PPM America	**AER**			**CER**	
	2009	**2008**	**Change**	**2008**	**Change**
	£m	£m	%	£m	%
Total IFRS operating profit	**6**	2	200	2	200

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

Financial performance

IFRS operating profit in 2009 was £6 million, up from £2 million in 2008, primarily due to performance driven income.

Year-end 2009 funds under management of £47 billion were as follows:

PPMA funds under management £ bn	**Asia**	**US**	UK	**Total**
Insurance	-	29	12	**41**
Unitised	4	-	1	**5**
CDOs	-	1	-	**1**
Total	4	30	13	**47**

US broker-dealer

	AER 2009 £m	2008 £m	Change %	CER 2008 £m	Change %
Revenue	**390**	328	19	388	1
Costs	**(386)**	(320)	(21)	(378)	(2)
Total IFRS operating profit	**4**	8	(50)	10	(60)

National Planning Holdings (NPH) is Jackson's affiliated independent broker-dealer network. The business comprises four broker-dealer firms, including National Planning Corporation, SII Investments, INVEST Financial Corporation and Investment Centers of America.

The US broker-dealer business continued to grow through strong recruiting efforts. By utilising our high-quality, state-of-the-art technology, NPH's advisers receive the tools they need to operate their practices more efficiently. At the same time, through its relationship with NPH, Jackson continues to benefit from an important retail distribution outlet, as well as receive valuable insights into the needs of financial advisers and their clients.

Financial performance

NPH generated record revenues of £390 million during the year, up from £328 million in 2008, on gross 2009 product sales of £9 billion. NPH's 2009 IFRS operating profit of £4 million declined from £8 million in 2008. NPH increased the number of registered advisers in the network by nearly 10 per cent to approximately 3,478 at the end of 2009.

Curian

	AER 2009 £m	2008 £m	Change %	CER 2008 £m	Change %
Gross investment flows	**796**	591	35	699	14
Revenue	**25**	24	4	28	(11)
Costs	**(31)**	(27)	(15)	(32)	3
Total IFRS operating profit/(loss)	**(6)**	(3)	(100)	(4)	(50)

Curian Capital, Jackson's registered investment adviser, provides innovative fee-based separately-managed accounts and investment products to advisers through a sophisticated technology platform. Curian expands Jackson's access to advisers while also providing a complement to Jackson's core annuity product lines.

Financial performance

Curian's IFRS operating loss increased in 2009 due to the significant market disruption and lower average assets under management throughout the year. However, Curian's growth in deposits and assets under managmeent rebounded in the second half of 2009. At the end of 2009, Curian had total assets under management of £2.3 billion, compared to £1.8 billion at the end of 2008. Curian generated deposits of £796 million in 2009, up 35 per cent on 2008. The increase in both deposits and assets under management were mainly due to the rally in the equity markets, with the S&P 500 index increasing 23.5 per cent during 2009, and several growth initiatives implemented by Curian throughout the year.

Products and drivers of insurance operations' profits

Overview of the Group's principal activities

Prudential plc is the holding company of the Prudential Group. The principal activity of our subsidiary operations is the provision of financial services to individuals and businesses in Asia, the US and UK. We offer a wide range of retail financial products and services and asset management services throughout these territories. The retail financial products and services principally include life insurance, pensions and annuities as well as collective investment schemes.

Asia

The life insurance products offered by Prudential Corporation Asia include with-profits (participating) and non-participating term, whole life and endowment and unit-linked policies. To supplement our core life products we also offer health, disablement, critical illness and accident cover.

The primary focus in Asia is regular premium products that provide both savings and protection benefits.

In 2009, the new business profit mix in our Asian insurance business was derived 56 per cent (2008: 49 per cent) from health and protection products, 31 per cent (2008: 41 per cent) from unit-linked products and 13 per cent (2008: 10 per cent) from non-linked products.

Unit-linked products combine savings with protection, with the cash value of the policy depending on the value of the underlying unitised funds. Participating products provide savings with protection where the basic sum assured can be enhanced by a profit share (or bonus) from the underlying fund as determined at the discretion of the insurer. Non-participating products offer savings with protection where the benefits are guaranteed or determined by a set of defined market-related parameters. Accident and health products provide mortality or morbidity benefits and include health, disablement, critical illness and accident cover. These products are commonly offered as supplements to main life policies, but can also be sold separately.

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

Unit-linked products tend to have higher profits on the EEV basis of reporting than traditional non-linked products, as expenses and charges are better matched and solvency capital requirements are lower. At the end of 2009, we were offering unit-linked products in 11 of the 12 countries in Asia in which we operate, with the only exception being Thailand.

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

In addition to the life products described above, we offer mutual fund investment products in India, Taiwan, Japan, Singapore, Malaysia, Hong Kong, Korea, Vietnam and China, thus enabling customers to participate in debt, equity and money market investments. We are also licensed in the United Arab Emirates. Prudential Corporation Asia earns a fee based on assets under management.

United States

Jackson's product offerings include variable, fixed and fixed index annuities, as well as life insurance, and institutional products.

Annuities

Annuity products are long-term individual retirement products, which offer tax-deferred accumulation on the funds invested until proceeds are withdrawn from the policy.

Interest-sensitive fixed annuities are used for asset accumulation in retirement planning and for providing income in retirement and offer flexible payout options. The contract holder pays us a premium, which is credited to the contract holder's account. Periodically, interest is credited to the contract holder's account and administrative charges are deducted. The interest rate may be reset on each contract anniversary, subject to a guaranteed minimum, in line with state regulations. When the annuity matures, the contract holder is paid either the amount in the contract holder account, or staggered payments in the form of an immediate annuity product – similar to a UK annuity in payment.

Fixed annuity policies are subject to early surrender charges for the first six to nine years of the contract. In addition, the contract may be subject to a market value adjustment at the time of surrender. During the surrender charge period, the contract holder may cancel the contract for the surrender value. Our profits on fixed annuities come primarily from the spread between the return earned on investments and the interest credited to the contract holder's account (net of any surrender charges or market value adjustment) less expenses. Fixed annuities continue to be a profitable book of business, benefiting from favourable spread income in recent years. However, the continued low interest rate environment could have an impact on the fixed annuity portfolio as lower crediting rates could result in increased surrenders and lower sales as customers seek alternative investment opportunities. Alternatively, it is also the case that recent equity market volatility may have the effect of making customers more risk averse, and so they may view fixed annuities as an attractive alternative to variable annuities.

Fixed index annuities (formerly referred to as equity-indexed annuities) are similar to fixed annuities, in that the contract holder pays a premium that is credited to the contract holder's account, and also in that interest is periodically credited to the contract holder's account and administrative charges deducted, as appropriate. An annual minimum interest rate is guaranteed, although actual interest credited may be higher and is linked to an equity index over its indexed option period. Profit comes from the investment income earned and the fees charged on the contract, less the expenses incurred, which include the costs of the guarantees, and the interest credited to the contract. Fixed index annuities are subject to early surrender charges for the first five to twelve years of the contract. During the surrender charge period, the contract holder may cancel the contract for the surrender value. Fixed index annuities continue to be a profitable product, benefiting from favourable spread and the effective management of equity risk. The fixed index book provides natural offsetting equity exposure to the guarantees issued in connection with our variable annuity products, which allows for efficient hedging of the net equity exposure.

Variable annuities are tax-advantaged, deferred annuities where the rate of return depends upon the performance of the underlying portfolio, similar in principle to UK unit-linked products. They are also used for asset accumulation in retirement planning and to provide income in retirement. The contract holder can allocate the premiums between a variety of variable sub-accounts with a choice of fund managers and/or guaranteed fixed-rate options. As with a unit-linked fund, the contract holder's premiums allocated to the variable accounts are held separately from Jackson's general account assets. The value of the portion of the separate account allocated to variable sub-accounts fluctuates with the underlying investments. Variable annuity policies are subject to early surrender charges for the first four to seven years of the contract. During the surrender charge period, the contract holder may cancel the contract for the surrender value. Jackson offers one variable annuity that has no surrender charges and also offers a choice of guaranteed benefit options within their variable annuity product portfolio, which customers can elect and pay for. These options include the guaranteed minimum death benefit (GMDB), which guarantees that, upon death of the annuitant, the contract holder or beneficiary receives a minimum value regardless of past market performance. These guaranteed death benefits might be expressed as the return of original premium, the highest past anniversary value of the contract, or as the original premium accumulated at a fixed rate of interest. In addition, there are three other types of guarantee: guaranteed minimum withdrawal benefits (GMWB), guaranteed minimum accumulation benefits (GMAB) and guaranteed minimum income benefits (GMIB). Due to the lack of availability to economically reinsure or hedge new issues of GMIB, Jackson discontinued offering it in 2009.

GMWBs provide a guaranteed return of the principal invested by allowing for periodic withdrawals that are limited to a maximum percentage of the initial premium. One version of the GMWBs provides for a minimum annual withdrawal amount that is guaranteed for the contract holder's life without annuitisation. GMABs generally provide a guarantee for a return of a certain amount of principal after a specified period. GMIBs provide for a minimum level of benefits upon annuitisation regardless of the value of the investments underlying the contract at the time of annuitisation. The GMIB is reinsured.

As the investment return on the separate account assets is attributed directly to the contract holders, Jackson's profit arises from the fees charged on the contracts, less the expenses incurred, which include the costs of guarantees. In addition to being a profitable book of business in its own right, the variable annuity book also provides an opportunity to utilise the offsetting equity risk among various lines of business cost effectively to manage our equity exposure. It is believed that the internal management of equity risk, coupled with the use of external derivative instruments where necessary, continues to provide a cost-effective method of managing equity exposure. Profits in the variable annuity book of business will continue to be subject to the impact of market movements both on sales and allocations to the variable accounts and the effects of the economic hedging program. While risk is hedged on an economic basis, the nature and duration of the hedging instruments, which are recorded at fair value through the income statement, will fluctuate and produce some accounting volatility. Management continue to believe that, on a long-term economic basis, the equity exposure remains well managed.

Life insurance

Jackson also sells several types of life insurance including term life, universal life and variable universal life. Term life provides protection for a defined period of time and a benefit that is payable to a designated beneficiary upon the insured's death. Universal life provides permanent individual life insurance for the life of the insured and includes a savings element. Variable universal life is a life insurance policy that combines death benefit protection and the important tax advantages of life insurance with the long-term growth potential of professionally managed investments. The Jackson life insurance book has also delivered consistent profitability, driven primarily by positive mortality and persistency experience.

Institutional products

Jackson's institutional products division markets institutional products such as traditional Guaranteed Investment Contracts (GICs), Funding Agreements and Medium Term Note (MTN) funding agreements. The institutional product offerings also include Jackson's funding agreements issued to the Federal Home Loan Bank. Institutional products are distributed directly to investors, through investment banks, or through funding agreement brokers.

Mutual funds

During 2007, Jackson launched a line of retail mutual funds as a complement to the broad product offering. Due to the significant disruption in the mutual fund market in the fourth quarter of 2008 and first quarter of 2009, Jackson determined that its line of retail mutual funds were subscale and, accordingly, exited this market and allocated the capital to the more profitable variable annuity market.

United Kingdom

In common with other UK long-term insurance companies, Prudential UK's products are structured as either with-profits (or participating) products, or non-participating products including annuities in payment and unit-linked products. Depending on the structure, the level of shareholders' interest in the value of policies and the related profit or loss varies.

With-profits policies are supported by a with-profits sub-fund and can be single premium (for example, Prudence Bond) or regular premium (for example, certain corporate pension products).

The primary with-profits sub-fund is part of The Prudential Assurance Company Limited (PAC)'s long-term fund. The return to shareholders on virtually all with-profits products is in the form of a statutory transfer to PAC shareholders' funds. This is analogous to a dividend from PAC's long-term fund, and is dependent upon the bonuses credited or declared on policies in that year. In this context, there are two types of bonuses — 'regular' and 'final'. Regular bonuses are declared regularly, usually once a year, and are determined as a prudent proportion of the long-term expected future investment return on the underlying assets. Once credited, regular bonuses are guaranteed in accordance with the terms of the particular product. In contrast, 'final' bonuses are only guaranteed until the next bonus declaration, and are primarily determined on the actual smoothed investment return achieved over the life of the policy. Prudential's with-profits policyholders currently receive 90 per cent of the distribution from the main with-profits sub-fund as bonus additions to their policies, while shareholders receive 10 per cent as a statutory transfer.

The Defined Charge Participating Sub-Fund (DCPSF) forms part of the PAC long-term fund. It is comprised of the accumulated investment content of premiums paid in respect of the defined charge participating with-profits business issued in France, the defined charge participating with-profits business reassured into PAC from Prudential

International Assurance plc and Canada Life (Europe) Assurance Ltd and includes the portfolio of with-profit annuity policies acquired from Equitable Life in 2007. All profits in this fund accrue to policyholders in the DCPSF.

The profits from almost all of the new non-participating business accrue solely to shareholders. Such business is written in the non-profit sub-fund within PAC's long-term fund, or in various shareholder-owned direct or indirect subsidiaries. The most significant of these is Prudential Retirement Income Limited (PRIL), which also writes all new immediate annuities arising from vesting deferred annuity policies in the with-profits sub-fund of PAC.

There is a substantial volume of in-force non-participating business in PAC's with-profits sub-fund and that fund's wholly owned subsidiary Prudential Annuities Limited (PAL), which is closed to new business. Profits from this business accrue to the with-profits sub-fund.

Description of EEV basis reporting

Prudential's results are prepared on two accounting bases — the supplementary EEV basis, and the IFRS basis for the financial statements. Over the life of any given product, the total profit recognised will be the same under either the IFRS or the EEV basis. However, the two methods recognise the emergence of that profit in different ways, with profits emerging earlier under the EEV basis than under IFRS. This section explains how EEV differs from IFRS and why it is used.

In broad terms, IFRS profits for long-term business reflect the aggregate of statutory transfers from UK-style with-profits funds and profit on a traditional accounting basis for other long-term business. By their nature, the products sold by the life insurance industry are long-term, as insurance companies commit to service these products for many years into the future. The profit on these insurance sales is generated over this long-term period. In our view, the result under IFRS does not properly reflect the inherent value of these future profits, as it focuses instead on the amounts accruing to shareholders in the current year.

In May 2004 the CFO Forum, representing the Chief Financial Officers of 19 European insurers, published the European Embedded Value Principles (expanded by the Additional Guidance of EEV Disclosures published in October 2005), that provide consistent definitions, a framework for setting actuarial assumptions, and a more explicit approach to the underlying methodology and disclosures. So for example:

- The allowance for risk is explicit for EEV through: (i) an allowance for the cost of capital (at the higher of economic capital and the local statutory minimum) (ii) stochastic or other appropriate modelling of financial options and guarantees to ensure that an allowance for their cost is irrespective of their value at the balance sheet date, and (iii) an explicit allowance in the risk discount rate for financial and non-financial risks;
- EEV specifically allows for the look-through into profits arising in shareholder service companies, most notably the profit arising in investment management companies from managing the insurance companies funds for covered business;
- There are extensive disclosures required for EEV on all aspects of the calculations, including the methodology adopted and the analysis of return.

It is thought that the EEV basis not only provides a good indication of the value being added by management in a given accounting period, but also helps demonstrate whether shareholder capital is being deployed to best effect. Indeed insurance companies in many countries use comparable bases of accounting for management purposes.

The EEV basis is a value-based method of reporting in that it reflects the change in value of the business over the accounting period. This value is called the shareholders' funds on the EEV basis which, at a given point in time, is the value of future profits expected to arise from the current book of long-term insurance business plus the net worth of the company. In determining these expected profits, full allowance is made for the risks attached to their emergence and the associated cost of capital, and takes into account recent experience in assessing likely future persistency, mortality and expenses.

The change in value is typically analysed into the following components:

- the value added from new business sold during the year;
- the change in value from existing business already in place at the start of the year;

- short-term fluctuations in investment returns;
- change in economic assumptions;
- change in the time value of cost of options and guarantees and economic assumption changes;
- other items (for example, profit from other Group operations, tax, foreign exchange, exceptional items); and
- dividends.

The value added from new business — defined as the present value of the future profits arising from new business written in the year — is a key metric used in the management of our business. The change in value of business in force at the start of the year demonstrates how the existing book is being managed. Together, these metrics provide management and shareholders with valuable information about the underlying development of the Group's business and the success or otherwise of management actions.

EEV basis results are prepared by first of all setting 'best estimate' assumptions, by product, for all relevant factors including expenses, surrender levels and mortality. Economic assumptions as to future investment returns and inflation are generally based on a combination of market data and long-term assumptions. These assumptions are used to project future cash flows. The present value of the future cash flows is then calculated using a discount rate which reflects both the time value of money and the risks associated with the cash flows. The risk discount rate is determined by adding a risk margin to the appropriate risk free rate of return. The actual outcome may differ from that projected, in which case the effect will be reflected in the experience variances for that year.

The assumptions used for the EEV basis of accounting are set out in the notes that accompany the supplementary EEV basis information. An indication of the sensitivity of the results to changes in key assumptions is also provided within that information.

The publication of the EEV Principles represented a significant step towards the harmonisation of embedded value reporting in Europe. However, even with these principles and the accompanying guidance, a divergence of approaches between companies has emerged in practice. In June 2008, in an effort to improve still further the consistency and transparency of embedded value reporting, the CFO Forum published the Market Consistent Embedded Value (MCEV) Principles. However, the MCEV Principles were designed during a period of relatively stable market conditions and their application could, in the current turbulent markets, lead to misleading results. In December 2008, the CFO Forum announced that it intended to conduct a review of the impact of turbulent market conditions on the MCEV Principles, the result of which may lead to changes in the published Principles or the issue of additional guidance. In May 2009, the CFO Forum announced that it had decided to perform further work to seek to improve the consistency in the adjustments made for liquidity premium and volatilities. In light of these developments, mandatory MCEV reporting was deferred for member firms until 2011. In October 2009, the CFO Forum announced changes to the MCEV Principles to allow the inclusion of a liquidity premium. The changes to the Principles were high level, with little detail included on how the liquidity premium should be determined or which products it should be applied to. The CFO Forum is currently conducting further work in these areas.

PRUDENTIAL PLC 2009 UNAUDITED PRELIMINARY ANNOUNCEMENT

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS[i]

Results analysis by business area

	Note	2009 £m	2008 £m[v,vi]
Asian operations			
New business	2	**713**	634
Business in force	3	**392**	579
Long-term business		**1,105**	1,213
Asset management		**55**	52
Development expenses		**(6)**	(26)
Total		**1,154**	1,239
US operations			
New business	2	**664**	293
Business in force	3	**569**	293
Long-term business		**1,233**	586
Broker-dealer and asset management [ii]		**4**	7
Total		**1,237**	593
UK operations			
New business	2	**230**	273
Business in force	3	**640**	764
Long-term business		**870**	1,037
General insurance commission		**51**	44
Total UK insurance operations		**921**	1,081
M&G		**238**	286
Total		**1,159**	1,367
Other income and expenditure			
Investment return and other income		**22**	89
Interest payable on core structural borrowings		**(209)**	(172)
Corporate expenditure:			
Group Head Office		**(146)**	(130)
Asia Regional Head Office		**(57)**	(41)
Charge for share-based payments for Prudential schemes		**(5)**	(6)
Charge for expected asset management margin[iii]		**(38)**	(42)
Total		**(433)**	(302)
Restructuring costs[iv]		**(27)**	(32)
Operating profit based on longer-term investment returns[v]		**3,090**	2,865
Analysed as profits (losses) from:			
New business	2	**1,607**	1,200
Business in force	3	**1,601**	1,636
Long-term business		**3,208**	2,836
Asset management		**297**	345
Other results		**(415)**	(316)
Total		**3,090**	2,865

i EEV basis operating profit based on longer-term investment returns excludes short-term fluctuations in investment returns, the mark to market value movements on core borrowings, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, and the effect of changes in economic assumptions and changes in the time value of cost of options and guarantees arising from changes in economic factors. In addition, 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 Group IGD capital position. These contracts were in addition to the Group's regular operational hedging programmes. It also disposed of its Taiwan agency business. The effect of these items has been shown separately from operating profit based on longer-term investment returns. The treatment of the Taiwan agency business within the comparatives is discussed below. The amounts for these items are included in total EEV profit attributable to shareholders. The Company believes that operating profit, as adjusted for these items, better reflects underlying performance. Profit before tax and basic earnings per share include these items together with actual investment returns. This basis of presentation has been adopted consistently throughout this preliminary announcement.

ii The US broker-dealer and asset management result includes losses for Curian of £6 million (2008: £3 million).

iii The value of future profits or losses from asset management and service companies that support the Group's covered businesses are included in the profits for new business and the in-force value of the Group's long-term business. The results of the Group's asset management operations include the profits from management of internal and external funds. For EEV basis reporting, Group shareholders' other income is adjusted to deduct the expected margin for the year on management of covered business. The deduction is on a basis consistent with that used for projecting the results for covered business. Group operating profit accordingly includes the variance between actual and expected profit in respect of covered business.

iv Restructuring costs comprise the charge of £23 million recognised on an IFRS basis and an additional £4 million recognised on the EEV basis for the shareholders' share of restructuring costs incurred by the PAC with-profits fund.

v In June 2009, the Group completed the previously announced sale of its Taiwan agency business. In order to facilitate comparisons of the results of the Group's retained businesses the effect of disposal and the results of the Taiwan agency business are shown separately. The presentation of the comparative results for full year 2008 has been adjusted accordingly as explained in note 18.

vi Exchange translation
The comparative results have been prepared using previously reported exchange rates.

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

SUMMARISED CONSOLIDATED INCOME STATEMENT

	Note	2009 £m	2008 £m
Operating profit based on longer-term investment returns			
Asian operations		**1,154**	1,239
US operations		**1,237**	593
UK operations:			
UK insurance operations		**921**	1,081
M&G		**238**	286
		1,159	1,367
Other income and expenditure		**(433)**	(302)
Restructuring costs		**(27)**	(32)
Operating profit based on longer-term investment returns		**3,090**	2,865
Short-term fluctuations in investment returns	5	**351**	(4,967)
Mark to market value movements on core borrowings	9	**(795)**	656
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes		**(84)**	(14)
Effect of changes in economic assumptions and time value of cost of options and guarantees	6	**(910)**	(398)
Profit on sale and results for Taiwan agency business	18	**91**	(248)
Profit (loss) from continuing operations before tax (including actual investment returns)		**1,743**	(2,106)
Tax attributable to shareholders' profit (loss)	11	**(481)**	771
Profit (loss) from continuing operations after tax before minority interests		**1,262**	(1,335)
Discontinued operations (net of tax)	4	**(14)**	-
Profit (loss) for the year		**1,248**	(1,335)
Attributable to:			
Equity holders of the Company		**1,245**	(1,338)
Minority interests		**3**	3
Profit (loss) for the year		**1,248**	(1,335)

Earnings per share (in pence)

	Note	2009	2008
From operating profit based on longer-term investment returns, after related tax and minority interests of £2,221m (2008: £2,103m)	12	**88.8p**	85.1p
Based on profit (loss) after tax and minority interests of £1,245m (2008: £(1,338)m)	12	**49.8p**	(54.1)p

Dividends per share (in pence)

	2009	2008
Dividends relating to reporting year:		
Interim dividend (2009 and 2008)	**6.29p**	5.99p
Final dividend (2009 and 2008)	**13.56p**	12.91p
Total	**19.85p**	18.90p
Dividends declared and paid in reporting year:		
Current year interim dividend	**6.29p**	5.99p
Final dividend for prior year	**12.91p**	12.30p
Total	**19.20p**	18.29p

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

MOVEMENT IN SHAREHOLDERS' EQUITY (EXCLUDING MINORITY INTERESTS)

	Note	2009 £m	2008 £m
Profit (loss) for the year attributable to equity shareholders		**1,245**	(1,338)
Items taken directly to equity:			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the year		**(761)**	2,010
Related tax		**11**	119
Dividends		**(481)**	(453)
New share capital subscribed		**141**	170
Reserve movements in respect of share-based payments		**29**	18
Treasury shares:			
Movement in own shares held in respect of share-based payment plans		**3**	3
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		**(3)**	(25)
Mark to market value movements on Jackson assets backing surplus and required capital (gross movement)		**205**	(228)
Related tax		**(72)**	80
Net increase in shareholders' equity	10	**317**	356
Shareholders' equity at beginning of year (excluding minority interests)	10	**14,956**	14,600
Shareholders' equity at end of year (excluding minority interests)	7,10	**15,273**	14,956

Comprising:	**31 Dec 2009 £m**			31 Dec 2008 £m		
	Long-term business operations	**Asset management and other operations**	**Total**	Long-term business operations	Asset management and other operations	Total
Asian operations						
Net assets of operation	**5,781**	**161**	**5,942**	5,264	167	5,431
Acquired goodwill	**80**	**61**	**141**	111	61	172
	5,861	**222**	**6,083**	5,375	228	5,603
US operations						
Net assets of operation	**4,122**	**95**	**4,217**	4,339	98	4,437
Acquired goodwill	**-**	**16**	**16**	-	16	16
	4,122	**111**	**4,233**	4,339	114	4,453
UK insurance operations						
Net assets of operation	**5,439**	**37**	**5,476**	4,919	-	4,919
M&G						
Net assets of operation	**-**	**173**	**173**	-	147	147
Acquired goodwill	**-**	**1,153**	**1,153**	-	1,153	1,153
	-	**1,326**	**1,326**	-	1,300	1,300
	5,439	**1,363**	**6,802**	4,919	1,300	6,219
Other operations						
Holding company net borrowings at market value	**-**	**(1,780)**	**(1,780)**	-	(818)	(818)
Other net liabilities	**-**	**(65)**	**(65)**	-	(501)	(501)
	-	**(1,845)**	**(1,845)**	-	(1,319)	(1,319)
Shareholders' equity at end of year (excluding minority interests)	**15,422**	**(149)**	**15,273**	14,633	323	14,956
Representing:						
Net assets	**15,342**	**(1,379)**	**13,963**	14,522	(907)	13,615
Acquired goodwill	**80**	**1,230**	**1,310**	111	1,230	1,341
	15,422	**(149)**	**15,273**	14,633	323	14,956

Net asset value per share (in pence)	**2009**	2008
Based on EEV basis shareholders' equity of £15,273m (2008: £14,956m)	**603p**	599p
Number of issued shares at year end (millions)	**2,532**	2,497
Return on embedded value*	**14.9%**	14.4%

* Return on embedded value is based on EEV operating profit after tax and minority interests as a percentage of opening EEV basis shareholders' equity.

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

SUMMARY STATEMENT OF FINANCIAL POSITION

	Note	**2009 £m**	2008 £m
Total assets less liabilities, excluding insurance funds		**201,501**	186,209
Less insurance funds:*			
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with- profits funds		**(195,230)**	(181,151)
Less shareholders' accrued interest in the long-term business		**9,002**	9,898
		(186,228)	(171,253)
Total net assets	10	**15,273**	14,956
Share capital		**127**	125
Share premium		**1,843**	1,840
IFRS basis shareholders' reserves		**4,301**	3,093
Total IFRS basis shareholders' equity	7	**6,271**	5,058
Additional EEV basis retained profit	7	**9,002**	9,898
Shareholders' equity (excluding minority interests)	7,10	**15,273**	14,956

* Including liabilities in respect of insurance products classified as investment contracts under IFRS 4.

NOTES ON THE EEV BASIS SUPPLEMENTARY INFORMATION

1 Basis of preparation, methodology and accounting presentation

The EEV basis results have been prepared in accordance with the EEV Principles issued by the CFO Forum of European Insurance Companies in May 2004 and expanded by the Additional Guidance on EEV Disclosures published in October 2005. Where appropriate, the EEV basis results include the effects of adoption of International Financial Reporting Standards (IFRS).

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles.

The EEV basis results for 2009 are unaudited. The 2008 results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2008. The supplement included an unqualified audit report from the auditors.

a Covered business

The EEV results for the Group are prepared for 'covered business', as defined by the EEV Principles. Covered business represents the Group's long-term insurance business for which the value of new and in-force contracts is attributable to shareholders. The EEV basis results for the Group's covered business are then combined with the IFRS basis results of the Group's other operations.

The definition of long-term business operations is consistent with previous practice and comprises those contracts falling under the definition of long-term insurance business for regulatory purposes together with, for US operations, contracts that are in substance the same as guaranteed investment contracts (GICs) but do not fall within the technical definition. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management.

With two principal exceptions, covered business comprises the Group's long-term business operations. The principal exceptions are for the closed Scottish Amicable Insurance Fund (SAIF) and for the presentational treatment of the financial position of the Group's principal defined benefit pension scheme, the Prudential Staff Pension Scheme (PSPS). A small amount of UK group pensions business is also not modelled for EEV reporting purposes.

SAIF is a ring-fenced sub-fund of the Prudential Assurance Company (PAC) long-term fund, established by a Court approved Scheme of Arrangement in October 1997. SAIF is closed to new business and the assets and liabilities of the fund are wholly attributable to the policyholders of the fund.

As regards PSPS, the deficit funding liability attaching to the shareholder-backed business is included in the total for Other operations, reflecting the fact that the deficit funding is being paid for by the parent company, Prudential plc.

b Methodology

i Embedded value

Overview

The embedded value is the present value of the shareholders' interest in the earnings distributable from assets allocated to covered business after sufficient allowance has been made for the aggregate risks in that business. The shareholders' interest in the Group's long-term business comprises:

- present value of future shareholder cash flows from in-force covered business (value of in-force business), less a deduction for the cost of locked-in (encumbered) capital;
- locked-in (encumbered) capital; and
- shareholders' net worth in excess of encumbered capital (free surplus).

The value of future new business is excluded from the embedded value.

Notwithstanding the basis of presentation of results (as explained in note 1c(iv)) no smoothing of market or account balance values, unrealised gains or investment return is applied in determining the embedded value or profit before tax. Separately, the analysis of profit is delineated between operating profit based on longer-term investment returns and other constituent items, as explained in note 1c(i).

Valuation of new business

The contribution from new business represents profits determined by applying non-economic assumptions as at the end of the year.

In determining the new business contribution for UK immediate annuity and lifetime mortgage business, which is interest rate sensitive, it is appropriate to use assumptions reflecting point of sale market conditions, consistent with how the business is priced. For other business within the Group, end of period economic assumptions are used.

Valuation movements on investments

With the exception of debt securities held by Jackson, investment gains and losses during the period (to the extent that changes in capital values do not directly match changes in liabilities) are included directly in the profit for the period and shareholders' equity as they arise.

The results for any covered business conceptually reflects the aggregate of the IFRS results and the movements on the additional shareholders' interest recognised on the EEV basis. Thus the start point for the calculation of the EEV results for Jackson, as for other businesses, reflects the market value movements recognised on the IFRS basis.

However, in determining the movements on the additional shareholders' interest, the basis for calculating the Jackson EEV result acknowledges that for debt securities backing liabilities the aggregate EEV results reflect the fact that the value of in-force business instead incorporates the discounted value of future spread earnings. This value is not affected generally by short-term market movements on securities that are broadly speaking held for the longer term.

Fixed income securities backing the free surplus and required capital for Jackson are accounted for at fair value. However, consistent with the treatment applied under IFRS for Jackson securities classified as available-for-sale, movements in unrealised appreciation on these securities are accounted for in equity rather than in the income statement, as shown in the movement in shareholders' equity.

Value of in-force business

The embedded value results are prepared incorporating best estimate assumptions about all relevant factors including levels of future investment returns, expenses, persistency and mortality. These assumptions are used to project future cash flows. The present value of the future cash flows is then calculated using a discount rate which reflects both the time value of money and the non-diversifiable risks associated with the cash flows that are not otherwise allowed for.

The total profit that emerges over the lifetime of an individual contract as calculated using the embedded value basis is the same as that calculated under the IFRS basis. Since the embedded value basis reflects discounted future cash flows, under this methodology the profit emergence is advanced thus more closely aligning the timing of the recognition of profits with the efforts and risks of current management actions, particularly with regard to business sold during the year.

Cost of capital

A charge is deducted from the embedded value for the cost of capital supporting the Group's long-term business. This capital is referred to as encumbered capital. The cost is the difference between the nominal value of the capital and the discounted value of the projected releases of this capital allowing for investment earnings (net of tax) on the capital.

The annual result is affected by the movement in this cost from year to year which comprises a charge against new business profit and generally a release in respect of the reduction in capital requirements for business in force as this runs off.

Where encumbered capital is held within a with-profits long-term fund, the value placed on surplus assets in the fund is already discounted to reflect its release over time and no further adjustment is necessary in respect of encumbered capital.

Financial options and guarantees

Nature of options and guarantees in Prudential's long-term business

Asian operations

Subject to local market circumstances and regulatory requirements, the guarantee features described below in respect of UK business broadly apply to similar types of participating contracts principally written in the PAC Hong Kong branch, Singapore and Malaysia. Participating products have both guaranteed and non-guaranteed elements.

Non-participating long-term products are the only ones where the insurer is contractually obliged to provide guarantees on all benefits. Whole of life contracts with floor levels of policyholder benefits that accrue at rates set at inception and do not vary subsequent with market conditions are written in the Korean life operations. This is to a much lesser extent than the policies written by the Taiwan Life business which was sold in the first half of 2009, as detailed in note 18.

US operations (Jackson)

The principal options and guarantees in Jackson are associated with the fixed annuity and Variable Annuity (VA) lines of business.

Fixed annuities provide that, at Jackson's discretion, it may reset the interest rate credited to policyholders' accounts, subject to a guaranteed minimum. The guaranteed minimum return varies from 1.5 per cent to 5.5 per cent (2008: 1.5 per cent to 5.5 per cent), depending on the particular product, jurisdiction where issued, and date of issue. At 31 December 2009, 82 per cent (2008: 83 per cent) of the account values on fixed annuities relates to policies with guarantees of three per cent or less. The average guarantee rate is 3.0 per cent (2008: 3.0 per cent).

Fixed annuities also present a risk that policyholders will exercise their option to surrender their contracts in periods of rapidly rising interest rates, possibly requiring Jackson to liquidate assets at an inopportune time.

Jackson issues VA contracts where it contractually guarantees to the contract holder either a) return of no less than total deposits made to the contract adjusted for any partial withdrawals, b) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return, or c) the highest contract value on a specified anniversary date adjusted for any withdrawals following the specified contract anniversary. These guarantees include benefits that are payable at specified dates during the accumulation period (Guaranteed Minimum Withdrawal Benefit (GMWB)) and minimum accumulation, death and income benefits. Jackson hedges these risks using equity options and futures contracts.

These guarantees generally protect the policyholder's value in the event of poor equity market performance.

Jackson also issues fixed index annuities that enable policyholders to obtain a portion of an equity-linked return while providing a guaranteed minimum return. The guaranteed minimum returns would be of a similar nature to those described above for fixed annuities.

UK insurance operations

The only significant financial options and guarantees in the UK insurance operations arise in the with-profits fund and SAIF. With-profits products provide returns to policyholders through bonuses that are smoothed. There are two types of bonuses: annual and final. Annual bonuses are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular product. Unlike annual bonuses, final bonuses are guaranteed only until the next bonus declaration. The with-profits fund held a provision on the Pillar I Peak 2 basis of £31 million (2008: £42 million) at 31 December 2009 to honour guarantees on a small amount of guaranteed annuity option products.

Beyond the generic features and the provisions held in respect of guaranteed annuities described above, there are very few explicit options or guarantees of the with-profits fund such as minimum investment returns, surrender values, or annuity values at retirement and any granted have generally been at very low levels.

The Group's main exposure to guaranteed annuity options in the UK is through SAIF and a provision on the Pillar I Peak 2 basis of £284 million (2008: £391 million) was held in SAIF at 31 December 2009 to honour the guarantees.

Time value

The value of financial options and guarantees comprises two parts. One is given by a deterministic valuation on best estimate assumptions (the intrinsic value). The other part arises from the variability of economic outcomes in the future (the time value).

Where appropriate, a full stochastic valuation has been undertaken to determine the value of the in-force business including the cost of capital. A deterministic valuation of the in-force business is also derived using consistent assumptions and the time value of the financial options and guarantees is derived as the difference between the two.

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations. Assumptions specific to the stochastic calculations reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of long-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes but with an allowance for correlation between the various asset classes. Details of the key characteristics of each model are given in note 16.

ii Level of encumbered capital

In adopting the EEV Principles, Prudential has based encumbered capital on its internal targets for economic capital subject to it being at least the local statutory minimum requirements. Economic capital is assessed using internal models but, when applying the EEV Principles, Prudential does not take credit for the significant diversification benefits that exist within the Group. For with-profits business written in a segregated life fund, as is the case in Asia and the UK, the capital available in the fund is sufficient to meet the encumbered capital requirements. For shareholder-backed business the following capital requirements apply:

- Asian operations: the level of encumbered capital has been set at the higher of local statutory requirements and the economic capital requirement;
- US operations: the level of encumbered capital has been set to an amount at least equal to 235 per cent of the risk-based capital required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level (CAL), and
- UK insurance operations: the capital requirements are set at the higher of Pillar I and Pillar II requirements for shareholder-backed business of UK insurance operations as a whole, which for 2009 and 2008 was Pillar I.

iii Allowance for risk and risk discount rates

Overview

Under the EEV Principles, discount rates used to determine the present value of future cash flows are set equal to risk-free rates plus a risk margin. The risk margin should reflect any non-diversifiable risk associated with the emergence of distributable earnings that is not allowed for elsewhere in the valuation. Prudential has selected a granular approach to better reflect differences in market risk inherent in each product group. The risk discount rate so derived does not reflect an overall Group market beta but instead reflects the expected volatility associated with the cash flows for each product category in the embedded value model.

Since financial options and guarantees are explicitly valued under the EEV methodology, discount rates under EEV are set excluding the effect of these product features.

The risk margin represents the aggregate of the allowance for market risk, additional allowance for credit risk where appropriate, and allowance for non-diversifiable non-market risk. No allowance is required for non-market risks where these are assumed to be fully diversifiable. The majority of non-market and non-credit risks are considered to be diversifiable.

Market risk allowance

The allowance for market risk represents the multiple of beta x equity risk premium. Except for UK shareholder-backed annuity business (as explained below) such an approach has been used for all of the Group's businesses

The beta of a portfolio or product measures its relative market risk. The risk discount rates reflect the market risk inherent in each product group and hence the volatility of product cash flows. These are determined by considering how the profits from each product are affected by changes in expected returns on various asset classes. By converting this into a relative rate of return it is possible to derive a product specific beta.

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

Additional credit risk allowance

The Group's methodology is to allow appropriately for credit risk. The allowance for credit risk is to cover:

- expected long-term defaults;
- credit risk premium (to reflect the volatility in default levels); and
- short-term downgrades and defaults.

These allowances are initially reflected in determining best-estimate returns and through the market risk allowance described above. However, for those businesses which are largely backed by holdings of debt securities these allowances in the projected returns and market risk allowances may not be sufficient and an additional allowance may be appropriate.

The practical application of the allowance for credit risk varies depending upon the type of business as described below.

Asian operations
For Asian operations, the allowance for credit risk incorporated in the projected rates of return and the market risk allowance are sufficient. Accordingly no additional allowance for credit risk is required.

US business
For Jackson business, the allowance for long-term defaults is reflected in the risk margin reserve charge which is deducted in determining the projected spread margin between the earned rate on the investments and the policyholder crediting rate.

For 2009 the risk discount rate incorporates an additional allowance for credit risk premium and short-term defaults. The allowance for 2009 is 150 basis points for spread-based business and 30 basis points for variable annuity business to reflect the fact that a proportion of the variable annuity business is allocated to the general account.

The level of allowance differs from that for UK annuity business for investment portfolio differences and to take account of the management actions available in adverse economic scenarios to reduce crediting rates to policyholders, subject to guarantee features of the products. For 2008 and previously, allowance for these elements of credit risk was recognised only in the risk margin reserve charge and to the extent implicit within the market risk allowance.

UK business
a) Shareholder-backed annuity business

For Prudential's UK shareholder-backed annuity business, Prudential has used a market consistent embedded value (MCEV) approach to derive an implied risk discount rate which is then applied to the projected best estimate cash flows.

In the annuity MCEV calculations, the future cash flows are discounted using the swap yield curve plus an allowance for liquidity premium based on Prudential's assessment of the expected return on the assets backing the annuity liabilities after allowing for expected long-term defaults, credit risk premium and short-term downgrades and defaults. For the purposes of presentation in the EEV results the results on this are reconfigured. Under this approach the projected earned rate of return on the debt securities held is determined after allowing for expected long-term defaults and, where necessary, an additional allowance for an element of short-term downgrades and defaults to bring the allowance in the earned rate up to best estimate levels. The allowances for credit risk premium and additional short-term default allowance are incorporated into the risk margin included in the discount rate.

b) With-profit fund PAL annuity business
For UK annuity business written by PAL for 2008 the allowance for credit risk was for best estimate defaults. For 2009, the basis for determining the appropriate aggregate allowance for credit risk has been aligned with that of UK shareholder-backed annuity business so as also to include provision for short-term defaults. The allowance for credit risk in PAL is taken into account in determining the projected cash flows to the with-profits fund, which are in turn discounted at the risk discount rate applicable to all of the projected cash flows of the fund.

c) With-profit fund holdings of debt securities
The UK with-profits fund holds debt securities as part of its investment portfolio backing policyholder liabilities and unallocated surplus. For 2008, given the expectation that the widening of credit spreads observed in 2008 would not be maintained, the Company considered it appropriate to assume an unchanged level of credit spreads, an unchanged level of default allowance and an unchanged risk discount rate methodology relative to those used at 31 December 2007. For 2009, the approach for with-profit holdings has been refined. For equities and properties the projected earned rate is defined as the risk-free rate plus a long-term risk premium. Under the revised methodology a similar approach is adopted for corporate bonds i.e. the assumed earned rate is defined as the risk-free rate plus an assessment of the long-term spread over gilts, net of expected long-term defaults.

Allowance for non-diversifiable non-market risks
Finance theory cannot be used to determine the appropriate component of beta for non-diversifiable non-market risks since there is no observable risk premium associated with it that is akin to the equity risk premium. Recognising this, a pragmatic approach has been applied.

For UK shareholder-backed annuity business, a margin of 100 basis points is used to cover the non-diversifiable non-market risks associated with the business. For the Group's other business a margin of 50 basis points is applied with, where necessary, an additional allowance for emerging market risk. The additional 50 basis points for UK annuities business reflects the longevity risk which is of particular relevance.

iv Management actions
In deriving the time value of financial options and guarantees, management actions in response to emerging investment and fund solvency conditions have been modelled. Management actions encompass, but are not confined to, the following areas:

- investment allocation decisions;
- levels of reversionary bonuses and credited rates; and
- total claim values.

Bonus rates are projected from current levels and varied in accordance with assumed management actions applying in the emerging investment and fund solvency conditions.

In all instances, the modelled actions are in accordance with approved local practice and therefore reflect the options actually available to management. For the PAC with-profits fund, the actions assumed are consistent with those set out in the Principles and Practices of Financial Management.

v With-profits business and the treatment of the estate
The proportion of surplus allocated to shareholders from the PAC with-profits fund has been based on the present level of 10 per cent. The value attributed to the shareholders' interest in the estate is derived by increasing final bonus rates (and related shareholder transfers) so as to exhaust the estate over the lifetime of the in-force with-profits business. In those few extreme scenarios where the total assets of the life fund are insufficient to meet policyholder claims in full, the excess cost is fully attributed to shareholders. Similar principles apply, where appropriate, for other with-profit funds of the Group's Asian operations.

vi Pension costs
The Group operates three defined benefit schemes in the UK. The principal scheme is the Prudential Staff Pension Scheme (PSPS). The other two, much smaller, schemes are the Scottish Amicable and M&G schemes. There is also a small 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 were transferred out.

Under IFRS the surpluses or deficits attaching to these schemes are accounted for in accordance with the provisions of IAS 19 that apply the principles of IFRIC 14, which was adopted in 2008 providing guidance on assessing the limit in IAS 19 on the amount of surplus in a defined benefit pension scheme that can be recognised as an asset.

Under the EEV basis the IAS 19 basis surpluses (to the extent not restricted under IFRIC 14) or deficits are initially allocated in the same manner. The shareholders' 10 per cent interest in the PAC with-profits fund estate is determined after inclusion of the portion of the IAS 19 basis surpluses or deficits attributable to the fund. Adjustments under EEV in respect of accounting for surpluses or deficits on the Scottish Amicable Pension Scheme are reflected as part of UK operations and for other defined benefit schemes the adjustments are reflected as part of 'Other operations', as shown in note 7.

Separately, the projected cash flows of in-force covered business include the cost of contributions to the defined benefit schemes for future service based on the contribution basis applying to the schemes at the time of the preparation of the results.

vii Debt capital
Core structural debt liabilities are carried at market value. As the liabilities are generally held to maturity or for the long-term, no deferred tax asset or liability has been established on the difference, compared to the IFRS carrying value. Accordingly, no deferred tax credit or charge is recorded in the results for the reporting period in respect of the mark to market value adjustment.

viii Foreign currency translation
Foreign currency profits and losses have been translated at average exchange rates for the year. Foreign currency assets and liabilities have been translated at year end rates of exchange. The purpose of translating the profits and losses at average exchange rates, notwithstanding the fact that EEV profit represents the incremental value added on a discounted cash flow basis, is to maintain consistency with the methodology applied for IFRS basis reporting.

c Accounting presentation

i Analysis of profit before tax
To the extent applicable, presentation of the EEV profit for the year is consistent with the basis that the Group applies for analysis of IFRS basis profits before shareholder taxes between operating and non-operating results. Operating results reflect the underlying results including longer-term investment returns and, except as explained in note (iv) below, the unwind of discount on the value of in-force business. Operating results include the impact of routine changes of estimates and non-economic assumptions. Non operating results comprise short-term fluctuations in investment returns, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, the mark to market value movements on core borrowings and the effect of changes in economic assumptions and changes in the time value of cost of options and guarantees arising from changes in economic factors. In 2009, during the severe equity market conditions experienced in the first quarter of 2009, coupled with historically high equity volatility, the Group incurred non-recurrent costs from an exceptional short dated hedge to protect against tail events on the Group IGD capital position in addition to regular operational hedging programs. These costs have been shown separately within short-term fluctuations in investment returns. Also, in June 2009, the Group completed the disposal of the Taiwan agency business. The effect of this disposal and the results of the Taiwan agency business have been presented separately outside of the operating result.

ii Operating profit
For the investment element of the assets covering the net worth of long-term insurance business, investment returns are recognised in operating results at the expected long-term rate of return. These expected returns are calculated by reference to the asset mix of the portfolio. For the purposes of calculating the longer-term investment return to be included in the operating result of the PAC with-profits fund of UK operations, where assets backing the liabilities and unallocated surplus are subject to market volatility, values of assets at the beginning of the reporting period are adjusted to remove the effects of short-term market movements.

For the purposes of determining the long-term returns for debt securities of US operations for fixed annuity and other general account business, a risk margin charge is included which reflects the expected long-term rate of default based on the credit quality of the portfolio. For Jackson, interest-related realised gains and losses are amortised to the operating results over the maturity period of the sold bonds and for equity-related investments, a long-term rate of return is assumed, which reflects the aggregation of year-end risk-free rates and equity risk premium. For US variable annuity separate account business, operating profit includes the unwind of discount on the opening value of in-force adjusted to reflect year-end projected rates of return with the excess or deficit of the actual return recognised within non-operating profit, together with the related hedging activity.

For UK annuity business, rebalancing of the asset portfolio backing the liabilities to policyholders may from time to time take place to align it more closely with the internal benchmark of credit quality that management applies. Such rebalancing will result in a change in the projected yield on the asset portfolio and the allowance for default risk. The net effect of these changes is reflected in the result for the year. In general, the effect is booked in operating results. However, in 2008 the element due to the exceptional spread widening in the market since 31 December 2006 was booked in the effect of change in economic assumptions.

iii Effect of changes in operating assumptions

Operating profits include the effect of changes to operating assumptions on the value of in-force at the end of the period. For presentational purposes, the effect of change is delineated to show the effect on the opening value of in-force with the experience variance being determined by reference to the end of period assumptions.

iv Unwind of discount and other expected returns

The unwind of discount and other expected returns is determined by reference to the value of in-force business, required capital and surplus assets at the start of the period as adjusted for the effect of changes in economic and operating assumptions reflected in the current period. For UK insurance operations the amount included within operating results based on longer-term returns represents the unwind of discount on the value of in-force business at the beginning of the period (adjusted for the effect of current period assumption changes), the unwind of discount on additional value representing the shareholders' share of smoothed surplus assets retained within the PAC with-profits fund (as explained in note 1b(v) above), and the expected return on shareholders' assets held in other UK long-term business operations. Surplus assets retained within the PAC with-profits fund are smoothed for this purpose to remove the effects of short-term investment volatility from operating results. In the summary statement of financial position and for total profit reporting, asset values and investment returns are not smoothed.

v Pension costs

Profit before tax

Movements on the shareholders' share of surpluses (to the extent not restricted by IFRIC 14) and deficits of the Group's defined benefit pension schemes adjusted for contributions paid in the year are recorded within the income statement. Consistent with the basis of distribution of bonuses and the treatment of the estate described in note 1b(iv) and (v), the shareholders' share incorporates 10 per cent of the proportion of the financial position attributable to the PAC with-profits fund. The financial position is determined by applying the requirements of IAS 19.

Actuarial and other gains and losses

For pension schemes in which the IAS 19 position reflects the difference between the assets and liabilities of the scheme, actuarial and other gains and losses comprise:

- the difference between actual and expected return on the scheme assets;
- experience gains and losses on scheme liabilities;
- the impact of altered economic and other assumptions on the discounted value of scheme liabilities; and
- for pension schemes where the IAS 19 position reflects a deficit funding obligation, actuarial and other gains and losses reflect the movement in estimates of deficit funding requirements.

These items are recorded in the income statement but, consistent with the IFRS basis of presentation, are excluded from operating results.

vi Effect of changes in economic assumptions and time value of cost of options and guarantees

Movements in the value of in-force business at the beginning of the period caused by changes in economic assumptions and the time value of cost of options and guarantees resulting from changes in economic factors are recorded in non-operating results.

vii Taxation

The EEV profit for the year for covered business is in most cases calculated initially at the post-tax level. The post-tax profit is then grossed up for presentation purposes at the effective rate of tax. In general, the effective rate corresponds to the corporation tax rate on shareholder profits of the business concerned.

viii Inter-company arrangements

The EEV results for covered business incorporate the effect of the reinsurance arrangement of non-profit immediate pension annuity liabilities of SAIF (which is not covered business) to PRIL. In addition, the analysis of free surplus and value of in-force business takes account of the impact of contingent loan arrangements between Group companies.

ix Foreign exchange rates

Foreign currency results have been translated as discussed in note 1b(viii), for which the principal exchange rates are as follows:

Local currency: £	Closing rate at 31 Dec 2009	Average for 2009	Closing rate at 31 Dec 2008	Average for 2008	Opening rate at 1 Jan 2008
Hong Kong	**12.52**	**12.14**	11.14	14.42	15.52
Indonesia	**15,171.52**	**16,173.28**	15,799.22	17,749.22	18,696.71
Japan	**150.33**	**146.46**	130.33	192.09	222.38
Malaysia	**5.53**	**5.51**	5.02	6.15	6.58
Singapore	**2.27**	**2.27**	2.07	2.61	2.87
Taiwan	**51.65**	**51.65**	47.28	58.24	64.56
US	**1.61**	**1.57**	1.44	1.85	1.99

2 Analysis of new business contribution

	2009 £m					2009 %	
	New business premiums note 17		Annual premium and contribution equivalents (APE) notes i,17	Present value of new business premiums (PVNBP) notes i,17	Pre-tax new business contribution notes ii,iii	New business margin note i	
	Single	**Regular**				**(APE)**	**(PVNBP)**
Asian operations note iv	**842**	**1,177**	**1,261**	**6,245**	**713**	**57**	**11.4**
US operations note v	**8,885**	**24**	**912**	**9,048**	**664**	**73**	**7.3**
UK insurance operations	**4,768**	**246**	**723**	**5,902**	**230**	**32**	**3.9**
Total	**14,495**	**1,447**	**2,896**	**21,195**	**1,607**	**56**	**7.6**

	2008 £m					2008 %	
	New business premiums note 17		Annual premium and contribution equivalents (APE) notes i,17	Present value of new business premiums (PVNBP) notes i,17	Pre-tax new business contribution notes ii,iii	New business margin note i	
	Single	Regular				(APE)	(PVNBP)
Asian operations note iv	1,340	1,082	1,216	6,508	634	52	9.7
US operations note v	6,917	24	716	7,140	293	41	4.1
UK insurance operations	6,929	254	947	8,081	273	29	3.4
Total	15,186	1,360	2,879	21,729	1,200	42	5.5

	New business margin (APE) 2009 %	New business margin (APE) 2008 %
Asian operations:		
China	**50**	52
Hong Kong	**70**	79
India	**19**	19
Indonesia	**73**	58
Korea	**44**	34
Taiwan note iv	**18**	22
Other	**72**	72
Weighted average for all Asian operations	**57**	52

Notes

i New business margins are shown on two bases, namely the margins by reference to Annual Premium Equivalents (APE) and the Present Value of New Business Premiums (PVNBP) and are calculated as the ratio of the value of new business profit to APE and PVNBP. APEs are calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts. PVNBPs are calculated as equalling single premiums plus the present value of expected premiums of new regular premium business, allowing for lapses and other assumptions made in determining the EEV new business contribution.

ii In determining the EEV basis value of new business written in the period the policies incept, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for statutory basis reporting.

iii New business contributions represent profits determined by applying non-economic assumptions as at the end of the year. In general, the use of point of sale or end of period economic assumptions is not significant in determining the new business contribution for different types of business and across financial reporting periods. However, to obtain proper measurement of the new business contribution for business which is interest rate sensitive, it is appropriate to use assumptions reflecting point of sale market conditions, consistent with how the business was priced. In practice, the only area within the Group where this has a material effect is for UK shareholder-backed annuity and lifetime mortgage business. For other business within the Group end of period economic assumptions are used.

iv The tables above include new business for the Taiwan bank distribution operation. New business of the Taiwan agency business, which was sold in June 2009 is excluded from the tables but included in the result for the sold Taiwan agency business, shown separately in the analysis of profit, as shown in note 18. Comparative figures have been adjusted accordingly.

v The increase in new business margin for US operations for 2009 reflects the significant changes to target spread for Fixed Annuity and Fixed Index Annuity business primarily as a result of the exceptional combined benefit of high investment yields on new assets and lower crediting rates, as described in note 16b, and the increasing proportion of variable annuity business, for which margins have benefited from the increased projected separate account return, revised benefits and higher take-up rates on the higher margin guaranteed withdrawal benefits.

3 Operating profit from business in force

Group Summary

2009	**Asian operations** note iv	**US operations** note v	**UK operations** note vi	**Total**
	£m	**£m**	**£m**	**£m**
Unwind of discount and other expected returns[note i]	**489**	**344**	**588**	**1,421**
Effect of change in operating assumptions[note ii]	**(12)**	**101**	**-**	**89**
Experience variances and other items[note iii]	**(85)**	**124**	**52**	**91**
Total	**392**	**569**	**640**	**1,601**

2008	Asian operations note iv	US operations note v	UK operations note vi	Total
	£m	£m	£m	£m
Unwind of discount and other expected returns	409	233	569	1,211
Effect of change in operating assumptions	165	(17)	-	148
Experience variances and other items	5	77	195	277
Total	579	293	764	1,636

Notes

i **Unwind of discount and other expected returns**
The increase in unwind of discount and other expected returns from £1,211 million for 2008 to £1,421 million for 2009 mainly arises in the US, primarily reflecting an increase in the discount rate applied to the value of in-force business (as adjusted for the effects of changes in operating and non-operating assumptions) and in Asian operations as a result of higher start of year value of in-force business, reflecting the increasing growth of this business.

ii **Effect of change in operating assumption changes**
The charge of £(12) million for Asian operations in 2009 primarily represents a charge of £(78) million for the effect of strengthening persistency assumptions, offset by a credit of £69 million relating to altered projected net of tax cash flows arising from a regulatory reclassification of health and protection products in Hong Kong. The change in persistency assumptions are mainly as a direct consequence of the impact on policyholders' savings behaviour from adverse economic and market conditions, arising primarily for investment related products, principally in Korea (£(25) million) and Hong Kong (£(12) million), mostly due to premium holidays, and in Indonesia (£(24) million), reflecting recent experience.

The credit of £101 million for US operations in 2009 primarily reflects the positive impact of altered assumptions arising from beneficial policyholder behaviour for Guaranteed Minimum Withdrawal Benefits on Variable Annuity business, as explained in note v(1) below.

iii **Experience variance and other items**
The £(85) million charge for Asian operations in 2009 primarily represents the effects of adverse persistency of £(76) million, as customers have withdrawn from investment related products (for which assumptions have been strengthened, as explained in note ii above). The residual £(9) million charge reflects a combination of adverse expense experience of £(43) million, offset by the favourable mortality and morbidity experience of £52 million, (as explained in notes iv(5) and iv(6) below) and a charge of £(18) million for other items.

The £124 million credit in US operations in 2009 primarily represents £59 million for the amortisation of interest-related realised gains and losses, £40 million for lower than expected levels of expenses and £32 million for favourable mortality experience as detailed in note v(7) below.

The credit of £52 million for UK insurance operations is detailed in note vi below.

Analysis by business unit

iv **Asian operations**

	2009	2008
	£m	£m
Unwind of discount and other expected returns	**489**	409
Effect of change in operating assumptions:		
Mortality and morbidity[1]	**26**	41
Expense[2]	**(32)**	30
Persistency[3]	**(78)**	79
Other[4]	**72**	15
	(12)	165
Experience variance and other items:		
Mortality and morbidity[5]	**52**	34
Expense[6]	**(43)**	(37)
Persistency[7]	**(76)**	16
Other	**(18)**	(8)
	(85)	5
	392	579

Notes

1 The favourable effect of £26 million in 2009 for mortality and morbidity assumption changes primarily arises in Indonesia of £24 million reflecting recent experience. The benefit of £41 million for 2008 mainly relates to Singapore of £34 million and Hong Kong of £15 million, which reflect actual experience across most products, offset by a charge in Malaysia of £(19) million which reflects negative morbidity experience on health and protection products.

2 The charge of £(32) million for strengthened expense assumptions arises principally in Hong Kong of £(23) million with the balance across the regions.

3 The negative effect of the change in persistency assumptions of £(78) million in 2009 arises mostly with investment related products, principally in Korea (£(25) million), Indonesia (£(24) million) and Hong Kong (£(12) million).

The favourable effect of the change in persistency assumptions of £79 million in 2008 predominately arose in Singapore (£90 million), Hong Kong (£28 million) (principally for health and protection products) and in Malaysia (£21 million) which reflected improved lapse rates, based on recent experience, offset by a charge in Korea (£(44) million) mainly relating to premium holidays.

4 The effect of other assumption changes for 2009 of £72 million comprises the one-off positive impact of £69 million for altered projected net of tax cash flows arising from a regulatory reclassification of health and protection products in Hong Kong, a credit of £13 million for the effect of altered application of the Group's EEV methodology and a net charge of £(10) million for other items. The £13 million effect comprises adjustments for asset management margins in Indonesia and Korea of £37 million and a charge of £(24) million to better align the assumed capital requirement with internal management and pricing bases, primarily in China, Indonesia, Philippines and Vietnam, and other minor adjustments with a neutral net effect.

5 The favourable effects of £52 million in 2009 and £34 million in 2008 relating to mortality and morbidity experience variances reflect better than expected experience across the territories.

6 The charge of £(43) million for expense experience variance arises across the territories, principally in Korea (£(10) million) reflecting the lower level of sales in the current year, £(8) million in Taiwan, following the sale of the Agency business during the year and £(16) million for expense overruns for operations which are at a relatively early stage of development, for which actual expenses are in excess of those factored into the product pricing.

The 2008 negative expense experience variance of £(37) million includes a charge of £(11) million arising in Korea, also reflecting lower sales.

7 The charge of £(76) million in 2009 relating to negative persistency experience arises across the region with the largest impacts in Korea (£(29) million), India (£(11) million) and Japan (£(9) million).

v **US operations**

	2009 £m	2008 £m
Unwind of discount and other expected returns	**344**	233
Effect of changes in operating assumptions:		
Guaranteed Minimum Withdrawal Benefit (GMWB) policyholder behaviour[1]	**156**	-
Mortality[2]	**33**	31
Variable Annuity (VA) fees[3]	**(13)**	29
Effect of adjustments for application of EEV methodology for certain reserves and required capital[4]	**-**	(61)
Other[5]	**(75)**	(16)
	101	(17)
Experience variances and other items:		
Spread experience variance[6]	**(3)**	54
Amortisation of interest-related realised gains and losses[6]	**59**	28
Other[7]	**68**	(5)
	124	77
	569	293

Notes

1 The positive impact of the change in GMWB policyholder behaviour assumptions of £156 million reflects the altered assumptions relating to the utilisation of withdrawal features available to policyholders on VA contracts which have been modified to take account of the more recent experience of policyholder behaviour when benefits are "in the money". Previously, policyholder behaviour for the utilisation of GMWB was assumed to be largely driven by the extent to which benefits were in the money. For 2009, the assumption has been altered to take account of recent experience which shows that the attained age of the policyholder is the key factor in determining utilisation levels.

2 The £33 million credit for mortality for 2009 primarily reflects lower mortality rates for the Life of Georgia business, based upon actual experience since the acquisition of the business in 2005.

3 The effect of the change of assumption for VA fees represents the capitalised value of the change in the projected level of policyholder advisory fees, which vary according to the size and mix of VA funds. The charge of £(13) million for 2009 reflects a reduction in the projected level of fees paid by policyholders, according to the current fund mix. The positive effect of the change in 2008 of £29 million represents an overall reassessment of the assumed fees, reflecting recent experience at that date.

4 The effect of the adjustments in 2008 for the application of EEV methodology for certain reserves and required capital of £(61) million are as follows:

	2008 £m
Effect of adjustments for application of EEV methodology for certain reserves and required capital:	
Interest Maintenance Reserve (IMR)[a]	(10)
Variable Annuity Statutory Reserves[b]	(68)
Required Capital[c]	17
	(61)

a The IMR is a statutory liability in respect of realised gains on the sale of bonds which, on a regulatory basis, are amortised to income over time in line with the duration of the bonds sold.

b The statutory reserves are primarily in respect of guarantees on variable annuity products in excess of the surrender value.

c The adjustment in respect of required capital represents a current year refinement to reduce the required capital to align the amount with the required level which has been set as an amount at least equal to 235 per cent of the risk-based capital required by National Association of Insurance Commissioners at the Company Action Level.

5 The effect of other changes in assumptions in 2009 of £(75) million primarily represents the negative impact of changes in persistency assumptions of £(53) million, reflecting an increase in the assumed utilisation of the partial withdrawal option on Variable and Fixed Annuity business of £(29) million and £(24) million for the effect of other altered lapse rates, in line with experience.

6 The spread assumption for Jackson is determined on a longer-term basis, net of provision for defaults. The charge of £(3) million for spread experience variance in 2009 is better assessed in the context of both spread and amortisation of interest-related realised gains and losses. Amortisation of interest-related gains and losses reflects the same treatment applied to the supplementary analysis of IFRS profit. When bonds that are neither impaired nor deteriorating are sold and reinvested there will be a consequent change in the investment yield. To reflect better the longer-term returns on operating profits the realised gain or loss is amortised into the result over the period when the bonds would have otherwise matured. The net effect on the EEV results of these two items is a credit of £56 million for 2009 and £82 million for 2008.

7 The credit of £68 million for other items for 2009 primarily represents favourable expense experience variance of £40 million relating to marketing expenses and positive mortality experience of £32 million primarily relating to life products.

vi **UK insurance operations**

	2009 £m	2008 £m
Unwind of discount and other expected returns	**588**	569
Other items:		
Effect of asset rebalancing[note]	**22**	118
Release of certain annuity business reserves	**-**	56
Other	**30**	21
	52	195
	640	764

Note

For UK annuity business, the effects of rebalancing the asset portfolio backing the liabilities to policyholders are normally reflected in full in the operating result for the year. These effects arise from the altered value arising from the revised projected yield and allowances for default risk.

During 2007 and 2008, exceptional credit spread widening took place. Accordingly in 2008, to better reflect performance reporting, the effect of asset rebalancing reflected in the operating result was determined by reference to investment conditions at 31 December 2006. The excess effect of asset rebalancing was included in non-operating results, as described in note 6.

4 Discontinued operations

The charge of £(14) million, which is net of nil tax, reflects completion adjustments for a previously disposed business.

5 Short-term fluctuations in investment returns

	2009 £m	2008 £m
Insurance operations:		
Asia[note i]	**437**	(903)
US[note ii]	**(401)**	(1,344)
UK[note iii]	**445**	(2,407)
Other operations:		
IGD hedge costs[note iv]	**(235)**	-
Other[note v]	**105**	(313)
Total	**351**	(4,967)

Notes

i **Asian operations**

	2009 £m	2008 £m
Singapore	**159**	(310)
Hong Kong	**113**	(284)
Vietnam	**(47)**	(82)
Other operations	**212**	(227)
	437	(903)

The short-term fluctuations in investment returns in Asia for 2009 of £437 million reflect the effect of strong equity market performance in particular for participating business and unit-linked business where the in-force value benefits from increases in shareholder transfers and from the capitalisation of increased projected fees due to the higher asset base at the end of the year.

For 2008, the short-term fluctuations in investment returns for Asian operations of £(903) million arose primarily in Singapore and Hong Kong, reflecting the effect of substantial equity market falls on unit-linked and with-profits business. For unit-linked business, the short-term fluctuation in investment returns reflects the reduction in the value of the asset base and the consequent effect on the projection of future management fees. For with-profits business, the short-term fluctuation in investment returns reflects the difference between the shareholders' 10 per cent interest in the value movements on the assets and the unwind of discount on the opening shareholders' interest in the surplus.

ii **US operations**

The fluctuations for US operations comprise the following items:

	2009 £m	2008 £m
Actual realised losses less default assumption and amortisation of interest-related gains and losses for fixed income securities and related swap transactions[1]	**(367)**	(463)
Actual less long-term return on equity based investments and other items[2]	**(144)**	(148)
Investment return related gain (loss) due primarily to changed expectation of profits on in-force variable annuity business in future periods based on current period equity returns, net of related hedging activity for equity related products[3]	**110**	(733)
Total Jackson	**(401)**	(1,344)

Notes

1 The charge of £(367) million in 2009 relating to fixed income securities primarily represents the excess of the impairment losses in the year on the US statutory basis over the amortisation of interest-related gains and longer-term default assumption included within operating profit.

2 The charge in 2009 of £(144) million for actual less long-term return on equity based investments and other items primarily relates to the shortfall of actual return against the expected return on investments in limited partnerships.

3 This gain (loss) arises due to the market returns being higher (lower) than the assumed longer-term rate of return. This gives rise to higher (lower) than expected year end values of variable annuity assets under management with a resulting effect on the projected value of future account values and hence future profitability from altered fees. For 2009, the US equity market returns were approximately positive 24 per cent compared to the assumed longer-term rate of return of 7.4 per cent. For 2008, the US equity market returns were approximately negative 38.5 per cent compared to the assumed longer-term rate of return of 5.8 per cent.

iii **UK insurance operations**

The short-term fluctuations in investment returns for UK insurance operations for 2009 represents:

	2009 £m	2008 £m
With-profits[1]	**430**	(2,083)
Shareholder-backed annuity[2]	**(40)**	(213)
Unit-linked and other[3]	**55**	(111)
	445	(2,407)

Notes

1 For with-profits business the credit for 2009 of £430 million (2008: charge of £(2,083) million) reflects the positive variance of 8.6 per cent (2008: negative 25.3 per cent) against the assumed long-term return for the investments covering policyholder liabilities and unallocated surplus.

2 Short-term fluctuations in investment returns on shareholder-backed annuity business for 2009 of £(40) million primarily represents mismatching losses arising from a fall in yields on assets of £(105) million, partially offset by better than expected default experience of £22 million. The remaining balance of £43 million consists of positive movements in other asset values partially offset by losses on surplus assets relative to the expected return. The charge for 2008 of £(213) million primarily represented an unrealised loss on surplus assets and default experience.

3 The credit of £55 million relates primarily to unit-linked business representing the increase in capitalised value of future fees arising from the positive movements in market values experienced during the year.

iv **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 our regular operational hedging programmes. The hedge contracts have expired and have not been renewed.

v **Other operations**

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

	2009 £m	2008 £m
Sale of investment in India mutual fund in May 2008 giving rise to a transfer to operating profit of £47m for the crystallised gain, and value reduction in the year, prior to sale, of £24m	**-**	(71)
Unrealised value movements on swaps held centrally to manage Group assets and liabilities	**28**	(38)
Unrealised value movements on Prudential Capital bond portfolio	**66**	(190)
Unrealised value movements on investments held by Other operations	**11**	(14)
	105	(313)

6 Effect of changes in economic assumptions and time value of cost of options and guarantees

The effects of changes in economic assumptions and time value of cost of options and guarantees resulting from changes in economic factors for in-force business included within the profit (loss) from continuing operations before tax (including actual investment returns) arise as follows:

	2009 £m			2008 £m		
	Change in economic assumptions	**Change in time value of cost of options and guarantees**	**Total**	Change in economic assumptions	Change in time value of cost of options and guarantees	Total
Asian operations[note i]	**(165)**	**(9)**	**(174)**	157	-	157
US operations[note ii]	**(528)**	**10**	**(518)**	267	11	278
UK insurance operations[notes iii,iv]	**(270)**	**52**	**(218)**	(783)	(50)	(833)
Total	**(963)**	**53**	**(910)**	(359)	(39)	(398)

Notes

i The effect of changes in economic assumptions in Asia for 2009 of a charge of £(165) million primarily reflects increases in risk discount rates and fund earned rates (as shown in note 16b), with the largest impact arising for Hong Kong US dollar denominated business arising from the increase in US dollar government bond yields. The £(165) million charge is net of a credit of £96 million for the effect of altered economic assumptions for Indonesia and Korea arising from a change in the application of the Group's methodology for these operations (as discussed in note 16b).

The effect of changes in economic assumptions in Asia for 2008 of a credit of £157 million reflects the impact of the reduction in risk discount rates across most territories.

ii The charge of £(528) million for the effect of changes in economic assumptions for US operations for 2009 reflects the following:

	2009 £m	2008 £m
Effect of changes in 10-year treasury rates, beta and equity risk premium[note]		
Fixed annuity and other general account business	**(410)**	385
Variable Annuity (VA) business	**183**	(118)
Increase in risk margin allowance for credit risk [note]	**(301)**	-
	(528)	267

Note

For Jackson, the charge for the effect of changes in economic assumptions represents the aggregate of the effects of changes to projected returns and the risk discount rate. The risk discount rate, as discussed in note 1b(iii), represents the aggregate of the risk-free rate and margin for market risk, credit risk and non-diversifiable non-market risk.

For fixed annuity and other general account business the effect of changes to the risk-free rate, which is defined as the 10-year treasury rate, is reflected in the risk discount rate. This discount rate is in turn applied to projected cash flows which principally reflect projected spread, which is largely insensitive to changes in the risk-free rate. For 2009, the effect of these changes resulted in an overall charge for fixed annuity and other general account business of £(410) million, reflecting the increase in the risk-free rate of 1.6 per cent (as shown in note 16b). For 2008, the effect of the change in economic assumptions on this business was a credit of £385 million, which reflects the decrease in the risk-free rate of 1.8 per cent.

For VA business, changes to the risk-free rate are also reflected in determining the risk discount rate. However, the projected cash flows are also reassessed for altered investment returns on the underlying separate account assets from which fees are charged. For 2009, the effect of both of these changes resulted in an overall credit on VA business of £183 million, reflecting the increase in the risk-free rate of 1.6 per cent (as shown in note 16b). For 2008, the effect of the change in economic assumptions on VA business of a charge of £(118) million reflects the decrease in the risk-free rate of 1.8 per cent.

In 2009, the Group has included an additional allowance for credit risk. In determining this allowance a number of factors were considered. These factors, in particular, include:

a How much of the credit spread on debt securities represents an increased credit risk not reflected in the RMR long-term default assumptions, and how much is liquidity premium. In assessing this effect consideration has been given to a number of approaches to estimating the liquidity premium by considering statistical data over the four years from 2006 to 2009, and

b Policyholder benefits for Jackson fixed annuity business are not fixed. It is possible in adverse economic scenarios to pass on a component of credit loss to policyholders (subject to guarantee features) through lower crediting rates. Consequently, it is only necessary to allow for the balance of the credit risk in the risk discount rate.

After taking these and other more detailed factors into account and, based on market conditions in late 2009, the risk discount rate for spread business has been increased by 150 basis points as an additional allowance for credit risk. For VA business, the additional allowance increase has been set at 20 per cent of the non-VA business increase to reflect the fact that a proportion of the VA business is allocated to general account holdings of debt securities.

The additional allowance to be applied in future reporting periods will be altered, as necessary, for future credit conditions and as the business in-force alters over time. Accordingly, a simple formulaic approach for the future allowance is not possible and does not apply. However, as a guide the current allowance can be summarised as broadly reflecting that 50 per cent of the increase in credit spread since 31 December 2006 can be attributed to credit risk and 50 per cent to liquidity premium, and that management actions can be used to absorb some 50 basis points of credit losses without adversely impacting value.

iii The effect of changes in economic assumptions of a charge of £(270) million for UK insurance operations comprises the effect of:

	2009 £m			2008 £m		
	Shareholder-backed annuity business note 1	**With-profits and other business** note 2	**Total**	Shareholder-backed annuity business note 1	With-profits and other business note 2	Total
(Decrease) increase in expected long-term rates of return	**(284)**	**191**	**(93)**	83	(1,082)	(999)
Decrease (increase) in risk discount rates	**240**	**(311)**	**(71)**	(394)	668	274
Other changes	**25**	**(131)**	**(106)**	(6)	(52)	(58)
	(19)	**(251)**	**(270)**	(317)	(466)	(783)

Notes

1 In 2008, the £(317) million charge comprises £(400) million for the effect of strengthening credit risk assumptions, offset by a credit of £231 million for the effect of rebalancing the asset portfolio calculated by reference to the exceptional changes in credit spreads from 31 December 2006 to 31 December 2008, and an underlying charge of £(148) million for regular changes in yields and discount rates. In 2009, the charge of £(19) million reflects the effects of regular economic assumption changes. However, the amounts for the component line items shown above reflect a change in the composition of the default allowance between best estimate levels (which are reflected in the long-term rates of return) and allowance for credit risk premium and additional short-term defaults reflected in the risk discount rate.

2 In 2009, the charge of £(251) million for with-profits and other business reflects the fact that the risk discount rate has increased significantly more than the earned rate as a result of the revised correlation assumptions, lower equity backing ratio and very low cash return.In 2008, the charge of £(466) million for the effects of the decrease in expected long-term rates of return and risk discount rates primarily reflect the reduction in gilt rates of (0.85) per cent.

iv The effect of changes in time value of cost of options and guarantees of a credit of £52 million for UK insurance operations primarily relates to with-profits business reflecting the effect of the improved investment return achieved in 2009, combined with an overall beneficial impact arising from changes in economic assumptions. In 2008, the charge of £(50) million primarily related to with-profits business reflecting the effect of the reduction in the expected long-term rates of return as described in note (2) above.

7 Shareholders' funds – segmental analysis

	2009 £m	2008 £m
Asian operations		
Long-term business:		
Net assets of operations – EEV basis shareholders' funds	**5,781**	5,264
Acquired goodwill	**80**	111
	5,861	5,375
Asset management:[note i]		
Net assets of operations	**161**	167
Acquired goodwill	**61**	61
	222	228
	6,083	5,603
US operations		
Jackson – EEV basis shareholders' funds (net of surplus note borrowings of £158m (2008: £154m)	**4,122**	4,339
Broker-dealer and asset management operations:[note i]		
Net assets of operations	**95**	98
Acquired goodwill	**16**	16
	111	114
	4,233	4,453
UK operations		
Insurance operations:		
Long-term business operations:		
Smoothed shareholders' funds	**5,547**	5,437
Actual shareholders' funds less smoothed shareholders' funds	**(108)**	(518)
EEV basis shareholders' funds	**5,439**	4,919
Other	**37**	-
	5,476	4,919
M&G:[note i]		
Net assets of operations	**173**	147
Acquired goodwill	**1,153**	1,153
	1,326	1,300
	6,802	6,219
Other operations		
Holding company net borrowings at market value[9]	**(1,780)**	(818)
Other net liabilities[note i]	**(65)**	(501)
	(1,845)	(1,319)
Total	**15,273**	14,956

Representing:

	2009 £m			2008 £m		
	Statutory IFRS basis shareholders' equity	**Additional retained profit on an EEV basis**	**EEV basis shareholders' equity**	Statutory IFRS basis shareholders' equity	Additional retained profit on an EEV basis	EEV basis shareholders' equity
Asian operations	**1,462**	**4,399**	**5,861**	2,167	3,208	5,375
US operations	**3,011**	**1,111**	**4,122**	1,698	2,641	4,339
UK insurance operations	**1,902**	**3,537**	**5,439**	1,655	3,264	4,919
Total long-term business operations	**6,375**	**9,047**	**15,422**	5,520	9,113	14,633
Other operations[note ii]	**(104)**	**(45)**	**(149)**	(462)	785	323
Group total	**6,271**	**9,002**	**15,273**	5,058	9,898	14,956

Notes

i With the exception of the share of the Prudential Staff Pension Scheme (PSPS) deficit attributable to the PAC with-profits fund, which is included in 'Other operations' net liabilities, these amounts have been determined on the statutory IFRS basis. The overall pension scheme deficit, net of tax, attributable to shareholders relating to PSPS is determined as shown below:

	2009 £m	2008 £m
IFRS basis deficit (relating to shareholder-backed operations)	**(16)**	(31)
Additional EEV deficit (relating to shareholders' 10 per cent share of the IFRS basis deficit attributable to the PAC with-profits fund)	**(5)**	(6)
EEV basis*	**(21)**	(37)

* For 2008, the EEV basis deficit of £(37) million for other operations includes the shareholders' share of the deficit on the Scottish Amicable Pension Scheme, which for 2009 is included within the shareholders' funds of UK long-term business operations.

ii The additional retained profit on an EEV basis for Other operations represents the mark to market value difference on holding company net borrowings of a charge of £(26) million (2008: credit of £802 million) and the effect of accounting for pension costs for the Prudential Staff Pension Scheme.

8 Analysis of movement in free surplus

Free surplus is the market value of the net worth in excess of the capital required to support the covered business. Where appropriate, adjustments are made to the regulatory basis net worth from the local regulatory basis so as to include backing assets movements at fair value rather than cost so as to comply with the EEV principles. Prudential has based required capital on its internal targets for economic capital subject to it being at least the local statutory minimum requirements, as described in note 1b(ii).

	2009 £m		
Long-term business and asset management operations[note i]	**Long-term business** note 13	**Asset management and UK general insurance commission** note ii	**Free surplus of long-term business, asset management and UK general insurance commission**
Underlying movement:			
New business	**(675)**	**-**	**(675)**
Business in force:			
Expected in-force cash flows (including expected return on net assets)	**1,657**	**257**	**1,914**
Effects of changes in operating assumptions, operating experience variances and other operating items	**175**	**-**	**175**
	1,157	**257**	**1,414**
Changes in non-operating items[note iii]	**(239)**	**41**	**(198)**
Profit on sale and results for Taiwan agency business	**987**	**-**	**987**
	1,905	**298**	**2,203**
Net cash flows to parent company[note iv]	**(506)**	**(182)**	**(688)**
Exchange movements, timing differences and other items[note v]	**219**	**(62)**	**157**
Net movement in free surplus	**1,618**	**54**	**1,672**
Balance at 1 January 2009	**447**	**412**	**859**
Balance at 31 December 2009	**2,065**	**466**	**2,531**
Representing:			
Asian operations[13]	**801**	**161**	**962**
US operations[13]	**749**	**95**	**844**
UK insurance operations[13]	**515**	**210**	**725**
	2,065	**466**	**2,531**
1 January 2009			
Representing:			
Asian operations[13]	(240)	167	(73)
US operations[13]	501	98	599
UK insurance operations[13]	186	147	333
	447	412	859

Notes

i All figures are shown net of tax.

ii For the purposes of this analysis, free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis shareholders' funds as shown in note 7.

iii Changes in non-operating items.
This represents short-term fluctuations in investment returns, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes and the effect of changes in economic assumptions for long-term business operations.
Short-term fluctuations in investment returns primarily reflect temporary market movements on the portfolio of investments held by the Group's shareholder-backed operations together with the shareholders' 10 per cent interest in the value movements on the assets in the with-profits funds.
The effect of changes in economic assumptions on free surplus includes the impact of an increase in required capital for Jackson of £168 million driven by impairments and credit downgrades. Separately, short-term fluctuations in investment returns include the effect of impairments and credit downgrades in excess of the expected longer-term level reflected within operating profit.

iv Net cash flows to parent company reflect the flows for long-term business operations as included in the holding company cash flow at transaction rates.

v Exchange movements, timing differences and other items represent:

	Long-term business £m	Asset management and UK general insurance commission £m	Total £m
Exchange movements	(75)	(30)	(105)
Mark to market value movements on Jackson assets backing surplus and required capital[13]	133	-	133
Other	161	(32)	129
	219	(62)	157

9 Holding Company net borrowings

a Balance sheet

	2009 £m			2008 £m		
	IFRS basis	**Mark to market value adjustment** note b	**EEV basis at market value**	IFRS basis	Mark to market value adjustment note b	EEV basis at market value
Holding company* cash and short-term investments	**(1,486)**	**-**	**(1,486)**	(1,165)	–	(1,165)
Core structural borrowings – central funds(note)	**3,240**	**26**	**3,266**	2,785	(802)	1,983
Holding company net borrowings	**1,754**	**26**	**1,780**	1,620	(802)	818
Core structural borrowings – Jackson	**154**	**4**	**158**	173	(19)	154
	1,908	**30**	**1,938**	1,793	(821)	972

* Including central finance subsidiaries.

Note

EEV basis holding company borrowings comprise:

	2009 £m	2008 £m
Perpetual subordinated capital securities (Innovative Tier 1)	**1,351**	513
Subordinated debt (Lower Tier 2)	**1,372**	737
Senior debt	**543**	733
	3,266	1,983

In May 2009, the Company repaid maturing £249 million senior debt and in the same month the Company issued £400 million subordinated notes in part to replace the maturing debt.

In July 2009, the Company issued US$750 million perpetual subordinated capital securities.

In accordance with the EEV Principles, core borrowings are carried at market value. As the liabilities are generally held to maturity or for the long-term, no deferred tax asset or liability has been established on the market value adjustment above.

b Results and movements in equity

	2009 £m	2008 £m
Loss (profit) included in consolidated income statement	**795**	(656)
Foreign exchange effects	**56**	(181)
1 January 2009	**(821)**	16
31 December 2009	**30**	(821)

The loss (profit) recorded in the consolidated income statement represents a charge of £774 million (2008: credit of £(619) million) in respect of central funds and a charge of £21 million (2008: credit of £(37) million) in respect of Jackson.

10 Reconciliation of movement in shareholders' funds

	2009 £m					
	Long-term business operations					
	Asian operations	US operations	UK insurance operations	Total long-term business operations	Other operations	Group Total
Operating profit (based on longer-term investment returns)						
Long-term business:						
New business[2]	713	664	230	1,607	-	1,607
Business in force[3]	392	569	640	1,601	-	1,601
	1,105	1,233	870	3,208	-	3,208
Asia development expenses	(6)	-	-	(6)	-	(6)
UK general insurance commission	-	-	-	-	51	51
M&G					238	238
Asian asset management operations					55	55
US broker-dealer and asset management					4	4
Other income and expenditure					(433)	(433)
Restructuring costs	-	-	(20)	(20)	(7)	(27)
Operating profit based on longer-term investment returns	1,099	1,233	850	3,182	(92)	3,090
Short-term fluctuations in investment returns[5]	437	(401)	445	481	(130)	351
Mark to market value movements on core borrowings[9]	-	(21)	-	(21)	(774)	(795)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	(52)	(52)	(32)	(84)
Effect of changes in economic assumptions and time value of cost of options and guarantees[6]	(174)	(518)	(218)	(910)	-	(910)
Profit on sale and results for Taiwan agency business[18]	148	-	-	148	(57)	91
Profit (loss) from continuing operations before tax (including actual investment returns)	1,510	293	1,025	2,828	(1,085)	1,743
Tax (charge) credit attributable to shareholders' profit (loss):[11]						
Tax on operating profit	(239)	(416)	(245)	(900)	34	(866)
Tax on short-term fluctuations in investment returns	(76)	165	(124)	(35)	61	26
Tax on shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	14	14	9	23
Tax on effect of changes in economic assumptions and time value of cost of options and guarantees	94	181	61	336	-	336
Total tax (charge) credit	(221)	(70)	(294)	(585)	104	(481)
Discontinued operations (net of tax)[4]	-	-	-	-	(14)	(14)
Minority interests	-	-	-	-	(3)	(3)
Profit (loss) for the year	1,289	223	731	2,243	(998)	1,245
Exchange movements on foreign operations and net investment hedges[note i]	(435)	(483)	-	(918)	157	(761)
Related tax	-	-	-	-	11	11
Intra group dividends (including statutory transfer)	(553)	(39)	(206)	(798)	798	-
External dividends	-	-	-	-	(481)	(481)
Reserve movements in respect of share-based payments	-	-	-	-	29	29
Investment in operations[note ii]	219	-	27	246	(246)	-
Other transfers[note iv]	(3)	(51)	(32)	(86)	86	-
Movement in own shares held in respect of share-based payment plans	-	-	-	-	3	3
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	-	-	-	-	(3)	(3)
New share capital subscribed	-	-	-	-	141	141
Mark to market value movements on Jackson assets backing surplus and required capital (net of related tax of £72m)[13]	-	133	-	133	-	133
Net increase (decrease) in shareholders' equity	517	(217)	520	820	(503)	317
Shareholders' equity at 1 January 2009[note iii, 7]	5,264	4,339	4,919	14,522	434	14,956
Shareholders' equity at 31 December 2009[note iii, 7]	5,781	4,122	5,439	15,342	(69)	15,273

Notes

i Profits are translated at average exchange rates, consistent with the method applied for statutory IFRS basis results. The amounts recorded above for exchange rate movements reflect the difference between 2009 and 2008 exchange rates as applied to shareholders' funds at 1 January 2009 and the difference between 31 December 2009 and average 2009 rates for profits.

ii Investment in operations reflects increases in share capital. This includes certain non-cash items.

iii For the purposes of the table above, goodwill related to Asia long-term operations (as shown in note 7) is included in Other operations.

iv Other transfers (from) to long-term business operations to Other operations in 2009 represent:

	Asian operations £m	US operations £m	UK insurance operations £m	Total long-term business operations £m
Adjustment for net of tax asset management projected profits of covered business	(7)	(3)	(17)	(27)
Other adjustments	4	(48)	(15)	(59)
	(3)	(51)	(32)	(86)

11 Tax attributable to shareholders' profit (loss)

The tax charge (credit) comprises:

	2009 £m	2008 £m
Tax charge on operating profit based on longer-term investment returns:		
Long-term business:note i		
Asian operationsnote ii	**239**	322
US operations	**416**	205
UK insurance operationsnote ii	**245**	269
	900	796
Other operations	**(34)**	(38)
Total tax charge on operating profit based on longer-term investment returns	**866**	758
Tax credit on items not included in operating profit:		
Tax credit on short-term fluctuations in investment returns	**(26)**	(1,432)
Tax credit on shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(23)**	(2)
Tax credit on effect of changes in economic assumptions and time value of cost of options and guarantees	**(336)**	(79)
Tax credit on profit on sale and results of sold Taiwan agency business	**-**	(16)
Total tax credit on items not included in operating profit	**(385)**	(1,529)
Tax charge (credit) on profit (loss) on ordinary activities from continuing operations (including tax on actual investment returns)	**481**	(771)

Notes

i The profit for the year for covered business is in most cases calculated initially at the post-tax level. The post-tax profit for covered business is then grossed up for presentation purposes at the effective rates of tax applicable to the countries and periods concerned. In the UK, the effective rate is the UK corporation tax rate of 28 per cent which took effect from 1 April 2008. For Jackson, the US federal tax rate of 35 per cent is applied to gross up movements on the value of in-force business. Effects on statutory tax for the period affect the overall tax rate. For Asia, similar principles apply subject to the availability of taxable profits.

ii Including tax relief on Asia development expenses and restructuring costs borne by UK insurance operations.

12 Earnings per share (EPS)

	2009 £m	2008 £m
Operating EPS:		
Operating profit before tax	**3,090**	2,865
Tax	**(866)**	(758)
Minority interests	**(3)**	(4)
Operating profit after tax and minority interests	**2,221**	2,103
Operating EPS (pence)	**88.8p**	85.1p
Total EPS:		
Profit (loss) from continuing operations before tax	**1,743**	(2,106)
Tax	**(481)**	771
Discontinued operations (net of tax)	**(14)**	-
Minority interests	**(3)**	(3)
Total profit (loss) after tax and minority interests	**1,245**	(1,338)
Total EPS (pence)	**49.8p**	(54.1)p
Average number of shares (millions)	**2,501**	2,472

The average number of shares reflects the average number in issue adjusted for shares held by employee trusts and consolidated unit trusts and OEICs which are treated as cancelled.

13 Reconciliation of net worth and value of in-force business[note i]

	2009 £m				
	Free surplus note 8	Required capital	Total net worth	Value of in-force business note iv	Total long-term business
Group					
Shareholders' equity at 1 January 2009	**447**	**4,117**	**4,564**	**9,958**	**14,522**
New business contribution[notes ii, iii]	**(675)**	**451**	**(224)**	**1,355**	**1,131**
Existing business – transfer to net worth	**1,551**	**(434)**	**1,117**	**(1,117)**	**-**
Expected return on existing business	**106**	**100**	**206**	**856**	**1,062**
Changes in operating assumptions and experience variances	**175**	**50**	**225**	**(136)**	**89**
Profit on sale and results for Taiwan agency business	**987**	**(1,232)**	**(245)**	**393**	**148**
Increase in capital requirements for US operations arising from impairments and credit downgrades	**(168)**	**168**	**-**	**-**	**-**
Changes in non-operating assumptions and experience variances and minority interests	**(71)**	**42**	**(29)**	**(158)**	**(187)**
Profit after tax and minority interests from long-term business	**1,905**	**(855)**	**1,050**	**1,193**	**2,243**
Exchange movements on foreign operations and net investment hedges	**(75)**	**(268)**	**(343)**	**(575)**	**(918)**
Intra-group dividends (including statutory transfer) and investment in operations[note v]	**(259)**	**-**	**(259)**	**(293)**	**(552)**
Mark to market value movements on Jackson assets backing surplus and required capital	**133**	**-**	**133**	**-**	**133**
Other transfers from net worth	**(86)**	**-**	**(86)**	**-**	**(86)**
Shareholders' equity at 31 December 2009	**2,065**	**2,994**	**5,059**	**10,283**	**15,342**
Representing:					
Asian operations					
Shareholders' equity at 1 January 2009	(240)	1,789	1,549	3,715	5,264
New business contribution[notes ii,iii]	(246)	69	(177)	710	533
Existing business – transfer to net worth	377	5	382	(382)	-
Expected return on existing business	86	5	91	322	413
Changes in operating assumptions and experience variances[note vi]	(98)	85	(13)	(73)	(86)
Profit on sale and results for Taiwan agency business	987	(1,232)	(245)	393	148
Changes in non-operating assumptions and experience variances and minority interests	101	(26)	75	206	281
Profit after tax and minority interests from long-term business	1,207	(1,094)	113	1,176	1,289
Exchange movements on foreign operations and net investment hedges	(12)	(110)	(122)	(313)	(435)
Intra-group dividends (including statutory transfer) and investment in operations[note v]	(151)	-	(151)	(183)	(334)
Other transfers from net worth	(3)	-	(3)	-	(3)
Shareholders' equity at 31 December 2009	801	585	1,386	4,395	5,781
US operations					
Shareholders' equity at 1 January 2009	501	1,400	1,901	2,438	4,339
New business contribution[notes ii,iii]	(326)	300	(26)	458	432
Existing business – transfer to net worth	706	(359)	347	(347)	-
Expected return on existing business	18	55	73	151	224
Changes in operating assumptions and experience variances	115	(12)	103	58	161
Increase in capital requirements for US operations arising from impairments and credit downgrades	(168)	168	-	-	-
Changes in non-operating assumptions and experience variances and minority interests	(77)	11	(66)	(528)	(594)
Profit after tax and minority interests from long-term business	268	163	431	(208)	223
Exchange movements on foreign operations and net investment hedges	(63)	(158)	(221)	(262)	(483)
Intra-group dividends (including statutory transfer) and investment in operations	(39)	-	(39)	-	(39)
Mark to market value movements on Jackson assets backing surplus and required capital	133	-	133	-	133
Other transfers from net worth	(51)	-	(51)	-	(51)
Shareholders' equity at 31 December 2009	749	1,405	2,154	1,968	4,122

	2009 £m				
	Free surplus note 8	Required capital	Total net worth	Value of in-force business note iv	Total long-term business
UK insurance operations					
Shareholders' equity at 1 January 2009	186	928	1,114	3,805	4,919
New business contribution[notes ii,iii]	(103)	82	(21)	187	166
Existing business – transfer to net worth	468	(80)	388	(388)	-
Expected return on existing business	2	40	42	383	425
Changes in operating assumptions and experience variances	158	(23)	135	(121)	14
Changes in non-operating assumptions and experience variances and minority interests	(95)	57	(38)	164	126
Profit after tax and minority interests from long-term business	430	76	506	225	731
Intra-group dividends (including statutory transfer) and investment in operations[note v]	(69)	-	(69)	(110)	(179)
Other transfers from net worth	(32)	-	(32)	-	(32)
Shareholders' equity at 31 December 2009	515	1,004	1,519	3,920	5,439

Notes

i All figures are shown net of tax.

ii The movements arising from new business contribution are as follows:

	2009 £m			2008 £m		
	Pre-tax new business contribution note 2	**Tax**	**Post-tax new business contribution**	Pre-tax new business contribution note 2	Tax	Post-tax new business contribution
Asian operations	713	(180)	533	634	(166)	468
US operations	664	(232)	432	293	(103)	190
UK insurance operations	230	(64)	166	273	(76)	197
	1,607	(476)	1,131	1,200	(345)	855

	2009 £m	2008 £m
Free surplus	**(675)**	(806)
Required capital	**451**	472
Total net worth	**(224)**	(334)
Value of in-force business	**1,355**	1,189
Total long-term business	**1,131**	855

iii New business capital usage

	2009 £m			2008 £m		
	Free surplus invested in new business	**Post-tax new business contribution** note ii	**Post-tax new business contribution per £1m free surplus invested**	Free surplus invested in new business	Post-tax new business contribution note ii	Post-tax new business contribution per £1m free surplus invested
Asian operations	**(246)**	**533**	**2.2**	(224)	468	2.1
US operations	**(326)**	**432**	**1.3**	(289)	190	0.7
UK insurance operations	**(103)**	**166**	**1.6**	(293)	197	0.7
	(675)	**1,131**	**1.7**	(806)	855	1.1

iv The value of in-force business includes the value of future margins from current in-force business less the cost of holding encumbered capital and represents:

	2009 £m				2008 £m			
	Value of in-force business before deduction of cost of capital and of guarantees	**Cost of capital**	**Cost of time value of guarantees**	**Net value of in-force business**	Value of in-force business before deduction of cost of capital and of guarantees	Cost of capital	Cost of time value of guarantees	Net value of in-force business
Asian operations[note vii]	**4,605**	**(198)**	**(12)**	**4,395**	4,590	(869)	(6)	3,715
US operations	**2,351**	**(175)**	**(208)**	**1,968**	2,838	(18)	(382)	2,438
UK insurance operations	**4,181**	**(221)**	**(40)**	**3,920**	4,263	(372)	(86)	3,805
	11,137	**(594)**	**(260)**	**10,283**	11,691	(1,259)	(474)	9,958

v The amounts shown in respect of free surplus and the value of in-force business for UK and Asian operations for intragroup dividends and investment in operations include the impact of contingent loan funding.

vi For Asian operations, the effect of changes in operating assumptions and experience variances in 2009 includes the impact of changes in the assumed capital requirement to better align with internal management and pricing bases. This primarily arises in China, Indonesia, Philippines and Vietnam, with a consequent reduction in free surplus and increase in required capital of £73 million.

vii The change in the cost of capital for Asian operations from £(869) million in 2008 to £(198) million in 2009 primarily reflects the effect of the disposal of the Taiwan agency business.

14 Expected transfer of value of in-force business to free surplus

The discounted value of in-force business and required capital can be reconciled to the analysis of free surplus crystallisation as follows:

	2009 £m	2008 £m
Required capital[13]	**2,994**	4,117
Value of in-force (VIF)[13]	**10,283**	9,958
Add back: deduction for cost of time value of guarantees[13]	**260**	474
Other items[note]	**(865)**	(181)
	12,672	14,368

Note
Other items includes the deduction of the value of the shareholders' interest in the estate, the value of which is derived by increasing final bonus rates so as to exhaust the estate over the lifetime of the in-force with-profits business. This is an assumption to give an appropriate valuation. To be conservative this item is excluded from the expected free surplus generation profile below. Also included in "other items" are amounts which are deducted in full against VIF, as they represent the Group's best estimate of amounts that will be paid in the future, but for which there is no definitive timeframe for when the payments will actually be made.

Cash flows are projected on a deterministic basis and are discounted at the appropriate risk discount rate. The modelled cash flows use the same methodology underpinning the Group's embedded value reporting and so is subject to the same assumptions and sensitivities.

The table below shows how the VIF generated by the in-force business and the associated required capital is modelled as emerging into free surplus over future years.

		2009 £m				
		Expected period of conversion of future post tax distributable earnings and required capital flows to free surplus				
	2009 Total as shown above	**1-5 years**	**6-10 years**	**11-15 years**	**16-20 years**	**20+ years**
Asian operations	**4,911**	**1,716**	**1,121**	**687**	**455**	**932**
US operations	**3,739**	**2,129**	**980**	**364**	**153**	**113**
UK insurance operations	**4,022**	**1,591**	**1,035**	**653**	**401**	**342**
Total	**12,672**	**5,436**	**3,136**	**1,704**	**1,009**	**1,387**
	100%	**43%**	**25%**	**13%**	**8%**	**11%**

		2008 £m				
		Expected period of conversion of future post tax distributable earnings and required capital flows to free surplus				
	2008 Total as shown above	1-5 years	6-10 years	11-15 years	16-20 years	20+ years
Asian operations	5,373	1,746	1,150	859	564	1,054
US operations	4,374	2,415	1,167	460	180	152
UK insurance operations	4,621	2,297	975	600	389	360
Total	14,368	6,458	3,292	1,919	1,133	1,566
	100%	45%	23%	13%	8%	11%

15 Sensitivity of results to alternative assumptions

a Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2009 (31 December 2008) and the new business contribution after the effect of encumbered capital for 2009 and 2008 to:

- one per cent increase in the discount rates;
- one per cent increase and decrease in interest rates, including all consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- one per cent rise in equity and property yields;
- 10 per cent fall in market value of equity and property assets (not applicable for new business contribution);
- holding company statutory minimum capital (by contrast to economic capital);
- five basis point increase in long-term expected defaults; and
- 10 basis point increase in the liquidity premium for UK shareholder-backed annuities (2009 only).

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised economic conditions.

	2009 £m			
	Asian operations (excluding sold Taiwan agency business)	**US operations**	**UK insurance operations**	**Total long-term business operations**
New business profit for 2009				
As reported[2]	**713**	**664**	**230**	**1,607**
Discount rates – 1% increase	**(91)**	**(48)**	**(43)**	**(182)**
Interest rates – 1% increase	**(3)**	**8**	**(7)**	**(2)**
Interest rates – 1% decrease	**3**	**(12)**	**8**	**(1)**
Equity/property yields – 1% rise	**31**	**39**	**11**	**81**
Long-term expected defaults – 5 bps increase	**-**	**-**	**(9)**	**(9)**
Liquidity premium – 10 bps increase	**-**	**-**	**18**	**18**
Embedded value of long-term operations at 31 December 2009				
As reported[10]	**5,781**	**4,122**	**5,439**	**15,342**
Discount rates – 1% increase	**(522)**	**(146)**	**(401)**	**(1,069)**
Interest rates – 1% increase	**(183)**	**(137)**	**(231)**	**(551)**
Interest rates – 1% decrease	**231**	**55**	**298**	**584**
Equity/property yields – 1% rise	**255**	**82**	**213**	**550**
Equity/property market values – 10% fall	**(147)**	**(10)**	**(298)**	**(455)**
Statutory minimum capital	**28**	**123**	**6**	**157**
Long-term expected defaults – 5 bps increase	**-**	**-**	**(76)**	**(76)**
Liquidity premium – 10 bps increase	**-**	**-**	**152**	**152**

	2008 £m					
	Asian operations (excluding Taiwan agency business)	US operations	UK insurance operations	Total long-term business operations	Taiwan agency business	Total long-term business operations (as previously published)
New business profit for 2008						
As reported[2]	634	293	273	1,200	107	1,307
Discount rates – 1% increase	(74)	(25)	(52)	(151)	(14)	(165)
Interest rates – 1% increase	(19)	21	(5)	(3)	(1)	(4)
Interest rates – 1% decrease	23	(47)	6	(18)	-	(18)
Equity/property yields – 1% rise	26	28	15	69	4	73
Embedded value of long-term operations at 31 December 2008						
As reported[10]	5,487	4,339	4,919	14,745	(223)	14,522
Discount rates – 1% increase	(454)	(170)	(361)	(985)	(110)	(1,095)
Interest rates – 1% increase	(126)	(123)	(98)	(347)	126	(221)
Interest rates – 1% decrease	146	19	121	286	(182)	104
Equity/property yields – 1% rise	240	114	276	630	54	684
Equity/property market values – 10% fall	(94)	(117)	(381)	(592)	(35)	(627)
Statutory minimum capital	1	11	5	17	512	529

b Sensitivity analysis – non-economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2009 (31 December 2008) and the new business contribution after the effect of encumbered capital for 2009 and 2008 to:

- 10 per cent proportionate decrease in maintenance expenses (a 10 per cent sensitivity on a base assumption of £10 per annum would represent an expense assumption of £9 per annum);
- 10 per cent proportionate decrease in lapse rates (a 10 per cent sensitivity on a base assumption of five per cent would represent a lapse rate of 4.5 per cent per annum); and
- five per cent proportionate decrease in base mortality and morbidity rates (i.e. increased longevity).

	2009 £m			
	Asian operations (excluding sold Taiwan agency business)	**US operations**	**UK insurance operations**	**Total long-term business operations**
New business profit for 2009				
As reported[2]	**713**	**664**	**230**	**1,607**
Maintenance expenses – 10% decrease	**19**	**9**	**8**	**36**
Lapse rates – 10% decrease	**56**	**34**	**11**	**101**
Mortality and morbidity – 5% decrease	**37**	**7**	**(11)**	**33**
Change representing effect on:				
Life business	**37**	**7**	**1**	**45**
UK annuities	**-**	**-**	**(12)**	**(12)**
Embedded value of long-term operations at 31 December 2009				
As reported[10]	**5,781**	**4,122**	**5,439**	**15,342**
Maintenance expenses – 10% decrease	**77**	**33**	**43**	**153**
Lapse rates – 10% decrease	**232**	**141**	**70**	**443**
Mortality and morbidity – 5% decrease	**169**	**78**	**(157)**	**90**
Change representing effect on:				
Life business	**169**	**78**	**11**	**258**
UK annuities	**-**	**-**	**(168)**	**(168)**

	2008 £m					
	Asian operations (excluding Taiwan agency business)	US operations	UK insurance operations	Total long-term business operations	Taiwan agency business	Total long-term business operations (as previously published)
New business profit for 2008						
As reported[2]	634	293	273	1,200	107	1,307
Maintenance expenses – 10% decrease	19	6	7	32	3	35
Lapse rates – 10% decrease	53	23	11	87	9	96
Mortality and morbidity – 5% decrease	23	6	(20)	9	4	13
Change representing effect on:						
Life business	23	6	–	29	4	33
UK annuities	–	–	(20)	(20)	-	(20)
Embedded value of long-term operations at 31 December 2008						
As reported[10]	5,487	4,339	4,919	14,745	(223)	14,522
Maintenance expenses – 10% decrease	74	45	36	155	18	173
Lapse rates – 10% decrease	192	177	80	449	2	451
Mortality and morbidity – 5% decrease	139	121	(71)	189	33	222
Change representing effect on:						
Life business	139	121	5	265	33	298
UK annuities	–	–	(76)	(76)	-	(76)

16 Assumptions

a Best estimate assumptions

Best estimate assumptions are used for the cash flow projections, where best estimate is defined as the mean of the distribution of future possible outcomes. The assumptions are reviewed actively and changes are made when evidence exists that material changes in future experience are reasonably certain.

Assumptions required in the calculation of the value of options and guarantees, for example relating to volatilities and correlations, or dynamic algorithms linking liabilities to assets, have been set equal to the best estimates and, wherever material and practical, reflect any dynamic relationships between the assumptions and the stochastic variables.

b Principal economic assumptions

Deterministic assumptions

In most countries, the long-term expected rates of return on investments and risk discount rates are set by reference to period end rates of return on cash or fixed interest securities. For the Group's Asian operations, the active basis is appropriate for business written in Japan, Korea and US dollar denominated business written in Hong Kong. Except in respect of the projected returns of holdings of Asian debt and equity securities for those countries where long-term fixed interest markets are less established, the 'active' basis of assumption setting has been applied in preparing the results of all the Group's US and UK long-term business operations.

For countries where long-term fixed interest markets are less established, investment return assumptions and risk discount rates are based on an assessment of longer-term economic conditions. Except for the countries listed above, this basis is appropriate for the Group's Asian operations. Similarly, the projected returns on holdings of Asian securities in these territories by other Group businesses are set on the same basis.

Expected returns on equity and property asset classes in respect of each territory are derived by adding a risk premium, based on the long-term view of Prudential's economists, to the risk-free rate. In Asia, equity risk premiums range from 3.0 per cent to 8.35 per cent (2008: 3.0 per cent to 7.0 per cent). In the US and the UK, the equity risk premium is 4.0 per cent (2008: 4.0 per cent).

Assumed investment returns reflect the expected future returns on the assets held and allocated to the covered business at the valuation date.

The tables below summarise the principal financial assumptions:

	31 Dec 2009 %						31 Dec 2008 %					
Asian operations	**China** note iv	**Hong Kong** notes ii,iii	**India**	**Indonesia** note iv	**Japan**	**Korea** note iv	China	Hong Kong notes ii,iii	India	Indonesia	Japan	Korea
Risk discount rate:												
New business	**11.75**	**5.5**	**14.25**	**13.8**	**5.1**	**8.2**	11.75	3.8	14.25	15.25	4.8	8.2
In force	**11.75**	**5.7**	**14.25**	**13.8**	**5.1**	**8.4**	11.75	3.9	14.25	15.25	4.8	8.2
Expected long-term rate of inflation	**4.0**	**2.25**	**5.0**	**6.0**	**0.0**	**2.75**	4.0	2.25	5.0	6.0	0.7	2.75
Government bond yield	**8.25**	**3.9**	**9.25**	**10.25**	**1.9**	**5.5**	8.25	2.3	9.25	10.25	1.6	4.3

	31 Dec 2009 %						31 Dec 2008 %					
Asian operations	**Malaysia** note iii	**Philippines** note iv	**Singapore** note iii	**Taiwan**	**Thailand**	**Vietnam** note iv	Malaysia note iii	Philippines	Singapore note iii	Taiwan	Thailand	Vietnam
Risk discount rate:												
New business	**9.4**	**15.75**	**5.7**	**7.5**	**13.0**	**16.75**	9.1	15.75	6.15	9.1	13.0	16.75
In force	**9.5**	**15.75**	**6.8**	**7.5**	**13.0**	**16.75**	9.0	15.75	6.85	9.7	13.0	16.75
Expected long-term rate of inflation	**2.75**	**5.0**	**1.75**	**2.25**	**3.0**	**6.0**	2.75	5.0	1.75	2.25	3.0	6.0
Government bond yield	**6.5**	**9.25**	**4.25**	**5.5**	**6.75**	**10.25**	6.5	9.25	4.25	5.5	6.75	10.25

	31 Dec 2009 Asia total %	31 Dec 2008 Asia total %
Weighted risk discount rate: note i		
New business (excluding Taiwan agency business)	**9.1**	8.7
In force (excluding Taiwan agency business)	**8.8**	8.0
In force (including Taiwan agency business)	**N/A**	7.8

Notes

i The weighted risk discount rates for Asian operations shown above have been determined by weighting each country's risk discount rates by reference to the EEV basis new business result and the closing value of in-force business.

ii The assumptions shown are for US dollar denominated business which comprises the largest proportion of the in-force Hong Kong business.

iii The mean equity return assumptions for the most significant equity holdings in the Asian operations were:

	31 Dec 2009 %	31 Dec 2008 %
Hong Kong	**7.9**	6.2
Malaysia	**12.4**	12.5
Singapore	**10.2**	10.2

To obtain the mean, an average over all simulations of the accumulated return at the end of the projection period is calculated. The annual average return is then calculated by taking the root of the average accumulated return minus 1.

iv In 2009, the Group reconsidered the application of the Group's methodology for certain less established operations, with a consequent change in the risk discount rates used for Indonesia and Korea and a change in the assumed capital requirement to better align with internal management and pricing bases, primarily in China, Indonesia, Philippines and Vietnam. The change in the risk discount rate for Indonesia from 2008 to 2009 reflects a more granular assessment of the risks when determining the beta.

US operations (Jackson)	**31 Dec 2009 %**	31 Dec 2008 %
Assumed spread margins[note iii]		
New business[note i]		
Assumed long-term spread between earned rate and rate credited to policyholders for new tranches of Fixed Annuity business[note i]	**see note i below**	1.75
In force	**1.75**	1.75
Risk discount rate:[note ii]		
New business	**7.8**	4.6
In force	**7.2**	3.9
US 10-year treasury bond rate at end of period	**3.9**	2.3
Pre-tax expected long-term nominal rate of return for US equities	**7.9**	6.3
Expected long-term rate of inflation	**2.4**	1.5

Notes

i The expected spread for new tranches in 2009 of fixed annuity business (including the proportion of variable annuity new business invested in the general account) and fixed index annuity business are as follows:

	Fixed Annuity business*		
	First 5 years	**Long-term assumption****	**Fixed Index Annuity business**
Assumed spread on new business	%	%	%
First six months of 2009	2.75	2.0	3.5
Second six months of 2009	2.25	2.0	2.5
2008	n/a	1.75	2.2

* Including the proportion of variable annuity business invested in the general account.

** For new tranches of business in 2009, the expected spread is assumed to grade back to the long-term assumption over the next 10 years.

The increases in the spread assumptions are due primarily to the exceptional combined benefit of high investment yields with a net annualised yield on new assets of 6.4 per cent during 2009 and lower crediting rates. These revised assumptions include a provision that crediting rates and spreads will normalise in the future. Thus, the assumption for new business spreads shown above for fixed annuities and the proportion of variable annuity business invested in the general account is set at the higher new level for the first five years before reducing over the following 10 years. As before, the valuation of new business takes into account an assumed associated risk of increased lapse under certain interest rate scenarios.

ii The risk discount rates at 31 December 2009 for new business and business in force for US operations reflect weighted rates based on underlying rates of 8.2 per cent (2008: 6.2 per cent) for Variable Annuity (VA) business and 6.2 per cent (2008: 3.0 per cent) for other business. The increase in the weighted discount rates reflects the increase in the US 10-year treasury bond rate of 160 bps, the additional credit risk allowance of 30 bps for VA business and 150 bps for other business, as explained in notes 1b(iii) and 6, and a change in the product mix reflecting the increased proportion of VA business.

iii Credit risk treatment

The projected cash flows incorporate the expected long-term spread between the earned rate and the rate credited to policyholders. The projected earned rates reflect book value yields which are adjusted over time to reflect projected reinvestment rates. Positive net cash flows are assumed to be reinvested in a mix of corporate bonds, commercial mortgages and limited partnerships. The yield on those assets is assumed to grade from the current level to a yield that allows for a long-term assumed credit spread of 1.25 per cent over 10 years. The expected spread for 2009 has been determined after allowing for a Risk Margin Reserve (RMR) allowance of 28 basis points for longer-term defaults as described in note 1b(iii). The RMR of 28 bps represents the allowance, as at 31 December 2009, applied in the cash flow projections of the value of the in-force business.

In the event that longer-term default levels are higher then, unlike for UK annuity business where policyholder benefits are not changeable, Jackson has some discretion to adjust crediting rates, subject to contract guarantee levels and general market competition considerations.

The results for Jackson reflect the application of the discount rates shown above, which for 2009 reflect the inclusion of an additional allowance for a combination of credit risk premium and short-term default allowance as described in note 1b(iii) and note 6. In the event that US 10-year treasury rates increase, the altered embedded value results would reflect a lower contribution from fixed annuity business and a partially offsetting increase for variable annuity business as the projected earned rate, as well as the discount rate, would increase for this type of business.

At 31 December 2008, the book value yields, net of RMR allowance, were in excess of the risk discount rate. To correct for the anomalous effect that would otherwise occur no credit was taken in the financial statements for full year 2008 for the cost of capital benefit that this feature would have given rise to for fixed annuity business. As interest rates have subsequently risen such that the risk discount rate exceeds book value yield at 31 December 2009 no such adjustment is needed for the year.

UK insurance operations[note iv]	31 Dec 2009 %	31 Dec 2008 %
Shareholder-backed annuity business:		
Risk discount rate:[notes i, iv]		
New business	**8.7**	9.6
In force	**10.2**	12.0
Pre-tax expected long-term nominal rate of return for shareholder-backed annuity business:[note iii]		
Fixed annuities	**5.6**	6.7
Inflation-linked annuities	**5.8**	5.8
Other business:		
Risk discount rate:[notes ii, iv]		
New business	**7.7**	6.7
In force	**7.4**	6.75
Pre-tax expected long-term nominal rates of investment return:		
UK equities	**8.4**	7.7
Overseas equities	**7.9 to 10.3**	6.3 to 10.25
Property	**6.7**	6.0
Gilts	**4.4**	3.7
Corporate bonds [note iv]	**6.1**	5.2
Expected long-term rate of inflation	**3.7**	3.0
Post-tax expected long-term nominal rate of return for the PAC with-profits fund:		
Pension business (where no tax applies)	**6.9**	6.6
Life business	**6.0**	5.8

Notes

i The risk discount rate applied to new shareholder-backed annuity business for 2009 has been determined after allowing for credit risk on the backing assets.

ii The risk discount rates for new business and business in force for UK insurance operations other than shareholder-backed annuities reflect weighted rates based on the type of business.

iii The pre-tax rates of return for shareholder-backed annuity business are based on the gross redemption yield on the backing assets net of a best estimate allowance for future defaults.

iv Credit spread treatment

For with-profits business, the embedded value reflects the discounted value of future shareholder transfers. These transfers are directly affected by the level of projected rates of return on investments, including debt securities. For 2008, the Company considered that in light of the current market conditions, it would be appropriate to assume an unchanged level of default allowance and an unchanged discount rate methodology relative to those at 31 December 2007.

For 2009, the approach for with-profit holdings has been refined. For equities and properties the projected earned rate is defined as the risk-free rate plus a long-term risk premium. Under the revised methodology a similar approach is adopted for corporate bonds i.e. the assumed earned rate is defined as the risk-free rate plus an assessment of the long-term spread over gilts, net of best estimate defaults.

For UK shareholder-backed annuity business, different dynamics apply both in terms of the nature of the business and the EEV methodology applied. For this type of business the assets are generally held to maturity to match long duration liabilities. It is therefore appropriate under EEV methodology to include a liquidity premium in the economic basis used. The appropriate EEV risk discount rate is set in order to equate the EEV with a 'market consistent embedded value' including liquidity premium. The liquidity premium in the 'market consistent embedded value' is derived from the yield on the assets held after deducting an appropriate allowance for credit risk. The risk discount rate in EEV reflects the excess of the total allowance for credit risk over the best estimate default assumptions. For Prudential Retirement Income Limited (PRIL), which has approximately 90 per cent of UK shareholder-backed annuity business, the allowance for credit risk at 31 December 2009 is made up of:

a 20 bps for fixed annuities and 15 bps for inflation-linked annuities in respect of long-term expected defaults. This is derived by applying Moody's data from 1970 to 2004 uplifted by between 100 per cent (B) and 200 per cent (AAA) according to credit rating, to the asset portfolios.

b 13 bps for fixed annuities and 10 bps for inflation-linked annuities in respect of long-term credit risk premium for the potential volatility in default levels. This is derived by applying the 95th worst percentile from Moody's data from 1970 to 2004, to the asset portfolios.

c 41 bps for fixed annuities and 34 bps for inflation-linked annuities in respect of additional short-term credit risk, reflecting short-term credit rating downgrades and defaults in excess of the long-term assumptions. At 31 December 2008, this was derived as 25 per of the increase in credit spreads over swaps that has occurred since 31 December 2006 based on a set of externally published indices weighted to reflect the asset mix. During 2009, this element of the overall credit assumption has not been derived by reference to credit spreads; rather it has been reduced in order to offset the impact of actual downgrades during the period on the long-term assumptions in (a) and (b) above and increased to eliminate the positive experience variance that would otherwise have arisen from the small number of actual defaults that were experienced in the period. In addition, the assumptions have been updated to reflect changes in the asset mix, arising particularly from the sale of subordinated financial debt and the addition of higher credit quality new business assets to the portfolio.

The credit assumptions used and the residual liquidity premium element of the bond spread over swap rates is as follows:

	2009 (bps)	2008 (bps)
Bond spread over swap rates	**175**	323
Credit risk allowance		
Long-term expected defaults	**19**	15
Long-term credit risk premium	**13**	11
Short-term allowance for credit risk	**39**	54
Total credit risk allowance	**71**	80
Liquidity premium	**104**	243

The overall allowance for credit risk is prudent by comparison with historic rates of default and would be sufficient to withstand a wide range of extreme credit events over the expected lifetime of the annuity business.

Stochastic assumptions

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations described above. Assumptions specific to the stochastic calculations, such as the volatilities of asset returns, reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of longer-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes but with allowance for correlation between the various asset classes.

Details are given below of the key characteristics and calibrations of each model.

Asian operations

- The same asset return models as used in the UK, appropriately calibrated, have been used for the Asian operations as described for UK insurance operations below. The principal asset classes are government and corporate bonds. Equity holdings are much lower than in the UK whilst property holdings do not represent a significant investment asset.
- The stochastic cost of guarantees is primarily only of significance for the Hong Kong, Korea, Malaysia and Singapore operations.
- The mean stochastic returns are consistent with the mean deterministic returns for each country. The expected volatility of equity returns for 2009 ranges from 18 per cent to 35 per cent (2008: 18 per cent to 30 per cent), and the volatility of government bond yields ranges from 1.3 per cent to 2.4 per cent (2008: 1.4 per cent to 2.4 per cent).

US operations (Jackson)

- Interest rates are projected using a log-normal generator calibrated to the market yield curve at the valuation date;
- Corporate bond returns are based on Treasury securities plus a spread that has been calibrated to current market conditions and varies by credit quality; and
- Variable annuity equity and bond returns have been stochastically generated using a log-normal model with parameters determined by reference to historical data. The volatility of equity fund returns for both 2009 and 2008 ranges from 18.6 per cent to 28.1 per cent, depending on risk class, and the standard deviation of bond returns ranges from 1.4 per cent to 1.6 per cent (2008: 1.5 per cent to 1.6 per cent).

UK insurance operations

- Interest rates are projected using a two-factor model calibrated to the initial market yield curve;
- The risk premium on equity assets is assumed to follow a log-normal distribution;
- The corporate bond return is calculated as the return on a zero-coupon bond plus a spread. The spread process is a mean reverting stochastic process; and
- Property returns are modelled in a similar fashion to corporate bonds, namely as the return on a riskless bond, plus a risk premium, plus a process representative of the change in residual values and the change in value of the call option on rents.

Mean returns have been derived as the annualised arithmetic average return across all simulations and durations.

For each projection year, standard deviations have been calculated by taking the square root of the annualised variance of the returns over all the simulations. These have been averaged over all durations in the projection. For equity and property, the standard deviations relate to the total return on these assets. The standard deviations applied to 2009 and 2008 are as follows:

	2009 %	2008 %
Equities:		
UK	**18.0**	18.0
Overseas	**18.0**	16.0
Property	**15.0**	15.0

c Demographic assumptions

Persistency, mortality and morbidity assumptions are based on an analysis of recent experience but also reflect expected future experience. Where relevant, when calculating the time value of financial options and guarantees, policyholder withdrawal rates vary in line with the emerging investment conditions according to management's expectations.

d Expense assumptions

Expense levels, including those of service companies that support the Group's long-term business operations, are based on internal expense analysis investigations and are appropriately allocated to acquisition of new business and renewal of in-force business. Exceptional expenses are identified and reported separately. It is Prudential's policy not to take credit for future cost reduction programmes until the savings have been delivered.

For Asian life operations, the expenses comprise costs borne directly and recharged costs from the Asia Regional Head Office, that are attributable to covered business. The assumed future expenses for these operations also include projections of these future recharges.

Expenditure of the Regional Head Office that is not allocated to the covered business or asset management operations is charged as incurred. These costs are primarily for corporate related activities. Development expenses are also charged as incurred.

Corporate expenditure for Group Head Office, to the extent not allocated to the PAC with-profits fund, is charged to EEV basis results as incurred.

e Taxation and other legislation

Current taxation and other legislation have been assumed to continue unaltered except where changes have been announced and the relevant legislation passed.

17 New business premiums and contributions[notes i,iii]

	Single		Regular		Annual premium and contribution equivalents (APE)		Present value of new business premiums (PVNBP)	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Asian operations[note ii]								
China (Group's 50% interest)	**72**	63	**38**	32	**45**	38	**253**	230
Hong Kong	**94**	507	**232**	154	**241**	205	**1,414**	1,612
India (Group's 26% interest)	**47**	60	**163**	202	**168**	208	**581**	747
Indonesia	**41**	94	**186**	167	**190**	176	**671**	649
Japan	**57**	115	**46**	30	**52**	42	**263**	217
Korea	**38**	78	**118**	211	**122**	219	**568**	1,097
Malaysia	**63**	28	**140**	99	**146**	102	**814**	570
Singapore	**297**	341	**98**	78	**128**	112	**1,033**	961
Taiwan[note ii]	**104**	36	**97**	55	**107**	58	**427**	237
Other	**29**	18	**59**	54	**62**	56	**221**	188
Total Asian operations (all retail)	**842**	1,340	**1,177**	1,082	**1,261**	1,216	**6,245**	6,508
US operations								
Fixed annuities	**1,053**	1,724	**-**	–	**105**	172	**1,053**	1,724
Fixed index annuities	**1,433**	501	**-**	–	**143**	50	**1,433**	501
Variable annuities	**6,389**	3,491	**-**	–	**639**	349	**6,389**	3,491
Life	**10**	7	**24**	24	**25**	25	**173**	230
Total US operations - retail	**8,885**	5,723	**24**	24	**912**	596	**9,048**	5,946
Guaranteed Investment Contracts	**-**	857	**-**	–	**-**	86	**-**	857
GIC – Medium Term Notes	**-**	337	**-**	–	**-**	34	**-**	337
Total US operations	**8,885**	6,917	**24**	24	**912**	716	**9,048**	7,140
UK insurance operations								
Product summary								
Internal vesting annuities	**1,357**	1,600	**-**	–	**136**	160	**1,357**	1,600
Direct and partnership annuities	**590**	703	**-**	–	**59**	70	**590**	703
Intermediated annuities	**242**	497	**-**	–	**24**	50	**242**	497
Total individual annuities	**2,189**	2,800	**-**	–	**219**	280	**2,189**	2,800
Income drawdown	**91**	75	**-**	–	**9**	8	**91**	75
Equity release	**127**	242	**-**	–	**13**	24	**127**	242
Individual pensions	**198**	115	**7**	3	**27**	14	**218**	124
Corporate pensions	**81**	221	**86**	88	**94**	110	**547**	645
Unit-linked bonds	**122**	109	**-**	–	**12**	11	**122**	109
With-profit bonds	**1,264**	869	**-**	–	**126**	87	**1,264**	869
Protection	**-**	–	**17**	6	**17**	6	**110**	38
Offshore products	**317**	551	**3**	4	**35**	59	**336**	573
PruHealth	**-**	–	**11**	16	**11**	16	**111**	146
Total retail retirement	**4,389**	4,982	**124**	117	**563**	615	**5,115**	5,621
Corporate pensions	**111**	227	**105**	116	**116**	139	**460**	653
Other products	**79**	132	**17**	21	**25**	34	**138**	219
DWP rebates	**127**	153	**-**	–	**13**	15	**127**	153
Total mature life and pensions	**317**	512	**122**	137	**154**	188	**725**	1,025
Total UK retail	**4,706**	5,494	**246**	254	**717**	803	**5,840**	6,646
Wholesale annuities	**39**	1,417	**-**	–	**4**	142	**39**	1,417
Credit life	**23**	18	**-**	–	**2**	2	**23**	18
Total UK insurance operations	**4,768**	6,929	**246**	254	**723**	947	**5,902**	8,081
Channel summary								
Direct and partnership	**1,814**	2,352	**201**	215	**382**	450	**2,667**	3,268
Intermediated	**2,765**	2,990	**45**	39	**322**	338	**3,046**	3,226
Wholesale	**62**	1,434	**-**	–	**6**	144	**62**	1,434
Sub-total	**4,641**	6,776	**246**	254	**710**	932	**5,775**	7,928
DWP rebates	**127**	153	**-**	–	**13**	15	**127**	153
Total UK operations	**4,768**	6,929	**246**	254	**723**	947	**5,902**	8,081
Group total	**14,495**	15,186	**1,447**	1,360	**2,896**	2,879	**21,195**	21,729

Notes

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

Annual premiums and contribution equivalents are calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts. PVNBPs are calculated as equalling single premiums plus the present value of expected premiums of new regular premium business, allowing for lapses and other assumptions made in determining the EEV new business contribution. New business premiums reflect those premiums attaching to covered business, including premiums for contracts classified as investment products for IFRS basis reporting. New business premiums for regular premium products are shown on an annualised basis. Department of Work and Pensions (DWP) rebate business is classified as single recurrent business. Internal vesting business is classified as new business where the contracts include an open market option.

ii The table above includes new business for the Taiwan bank distribution operation. New business of the Taiwan agency business, which was sold in June 2009 (as explained in note 18) is excluded from the table. Comparative figures have been adjusted accordingly.

iii The 2008 comparatives shown in the table are translated at average exchange rates for the year.

18 Sale of legacy agency book and agency force in Taiwan to China Life Insurance of Taiwan

	2009 £m	2008 £m
Profit on sale and results for Taiwan agency business	**91**	(248)

a 2009

On 20 February 2009, the Group announced that it had entered into an agreement to sell the assets and liabilities of its agency business and its agency force in Taiwan to China Life Insurance Company Ltd of Taiwan for the nominal sum of NT$1. The economic transfer date for the purpose of determining the net assets transferred was 28 February 2009. The sale was completed, following regulatory approval, on 19 June 2009.

The profit on sale and results for the period of ownership comprise:

	£m
Proceeds	-
Net asset value attributable to equity holders of Company at 1 January 2009 and provision for restructuring costs	**134**
Goodwill written off	**(44)**
Estimate as announced on 20 February 2009	**90**
Plus: effect of completion and other adjustments	**1**
	91
Representing:	
Profit arising on sale and result for long-term business operations[10]	**148**
Goodwill written off	**(44)**
Adjustments in respect of restructuring costs borne by non-covered business	**(13)**
	91

b 2008 comparative results

The results for 2008 of £(248) million comprise the total result for the sold business i.e. including operating profit, short-term fluctuations in investment returns and the effect of changes in economic assumptions and the time value of cost of options and guarantees.

In order to facilitate comparisons of the Group's retained businesses, the presentation of the EEV basis results has been adjusted to show separately the result of the sold Taiwan agency business, as explained below:

	2008		
	As previously published £m	Adjustment £m	Adjusted £m
APE new business	3,025	(146)	2,879
New business profit	1,307	(107)	1,200
In-force profit	1,625	11	1,636
Asset management	345	-	345
Other results	(316)	-	(316)
Operating profit based on longer-term investment returns	2,961	(96)	2,865
Short-term fluctuations in investment returns	(5,127)	160	(4,967)
Mark to market value movements on core borrowings	656	-	656
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(15)	1	(14)
Effect of changes in economic assumptions and the time value of cost of options and guarantees	(581)	183	(398)
Result of sold Taiwan agency business	Included above	(248)	(248)
Loss before tax	(2,106)	-	(2,106)

19 Post balance sheet events

a Acquisition of UOB Life Assurance Limited

On 6 January 2010 the Group announced the acquisition from United Overseas Bank Limited (UOB) of its 100 per cent interest in Life Assurance in Singapore for total cash consideration of SGD428 million (£192 million) subject to a post-completion adjustment to reflect the net asset value as at the completion date. This acquisition accompanied the announcement of a long-term strategic partnership with UOB. Through this partnership Prudential's life insurance products will be distributed through UOB Group's 414 bank branches across Singapore, Indonesia and Thailand.

The Group continues to complete its compilation of the acquisition balance sheet and further details will be provided in the Group's 2010 half year results announcement.

b Japanese insurance subsidiary's suspension of writing new business

On 15 January 2010 the Group's Japanese insurance subsidiary announced its intention to suspend writing new policyholder contracts in Japan after 15 February 2010. The company re-enforced its commitment to servicing its existing policyholder base, which comprised over 170,000 contracts as at 30 September 2009. This decision will be reviewed on an on-going basis in light of changes to the business environment.

This decision does not affect the Group's asset management in Japan, which ranks among the largest foreign asset managers.

c Agreement to acquire AIA Group Limited

On 1 March 2010 the Group announced that it had reached agreement with American International Group (AIG) on terms for Prudential to acquire AIA Group Limited, a wholly owned subsidiary of AIG.

UNAUDITED STATUTORY BASIS RESULTS

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED INCOME STATEMENT

	2009 £m	2008 £m
Gross premiums earned	**20,299**	18,993
Outward reinsurance premiums	**(323)**	(204)
Earned premiums, net of reinsurance	**19,976**	18,789
Investment return	**26,889**	(30,202)
Other income	**1,234**	1,146
Total revenue, net of reinsurance	**48,099**	(10,267)
Benefits and claims	**(39,901)**	4,620
Outward reinsurers' share of benefit and claims	**265**	389
Movement in unallocated surplus of with-profits funds	**(1,559)**	5,815
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(41,195)**	10,824
Acquisition costs and other operating expenditure	**(4,572)**	(2,459)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(209)**	(172)
Loss on sale of Taiwan agency business (note G)	**(559)**	–
Total charges, net of reinsurance	**(46,535)**	8,193
Profit (loss) before tax *(being tax attributable to shareholders' and policyholders' returns)**	**1,564**	(2,074)
Tax (charge) credit attributable to policyholders' returns	**(818)**	1,624
Profit (loss) before tax attributable to shareholders (note C)	**746**	(450)
Tax (charge) credit (note H)	**(873)**	1,683
Less: tax attributable to policyholders' returns	**818**	(1,624)
Tax (charge) credit attributable to shareholders' returns (note H)	**(55)**	59
Profit (loss) from continuing operations after tax	**691**	(391)
Discontinued operations (net of tax)**	**(14)**	–
Profit (loss) for the year	**677**	(391)
Attributable to:		
Equity holders of the Company	**676**	(396)
Minority interests	**1**	5
Profit (loss) for the year	**677**	(391)

Earnings per share (in pence)	**2009**	2008
Basic:		
Based on profit (loss) from continuing operations attributable to the equity holders of the Company (note I)	**27.6p**	(16.0)p
Based on loss from discontinued operations attributable to the equity holders of the Company	**(0.6)p**	–
	27.0p	(16.0)p
Diluted:		
Based on profit (loss) from continuing operations attributable to the equity holders of the Company(note I)	**27.6p**	(16.0)p
Based on loss from discontinued operations attributable to the equity holders of the Company	**(0.6)p**	–
	27.0p	(16.0)p

Dividends per share (in pence)	**2009**	2008
Dividends relating to reporting year:		
Interim dividend (2009 and 2008)	**6.29p**	5.99p
Final dividend (2009 and 2008) (note J)	**13.56p**	12.91p
Total	**19.85p**	18.90p
Dividends declared and paid in reporting year:		
Current year interim dividend	**6.29p**	5.99p
Final dividend for prior year	**12.91p**	12.30p
Total	**19.20p**	18.29p

*This measure is the formal profit (loss) before tax measure under IFRS but it is not the result attributable to shareholders.
**This charge which is net of nil tax, reflects completion adjustments for a previously disposed business.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*

	2009 £m	2008 £m
Profit (loss) for the year	**677**	(391)
Other comprehensive income (loss):		
Exchange movements on foreign operations and net investment hedges:		
Exchange movements arising during the year	**(206)**	391
Related tax	**11**	119
	(195)	510
Available-for-sale securities:		
Unrealised valuation movements on securities of US insurance operations classified as available-for-sale:		
Unrealised holding gains (losses) arising during the year	**2,249**	(2,482)
Add back net losses included in the income statement on disposal and impairment	**420**	378
Total (note O)	**2,669**	(2,104)
Related change in amortisation of deferred income and acquisition costs	**(1,069)**	831
Related tax	**(557)**	442
	1,043	(831)
Other comprehensive income (loss) for the year, net of related tax	**848**	(321)
Total comprehensive income (loss) for the year	**1,525**	(712)
Attributable to:		
Equity holders of the Company	**1,524**	(717)
Minority interests	**1**	5
Total comprehensive income (loss) for the year	**1,525**	(712)

*This consolidated statement of comprehensive income has been introduced as a result of the adoption of amendments to IAS 1 'Presentation of Financial Statements: A Revised Presentation'. See note B.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

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	Minority interests £m	Total equity £m
Reserves								
Profit for the year	–	–	**676**	–	–	**676**	**1**	**677**
Other comprehensive income (loss)								
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**
Total other comprehensive income (loss)	–	–	–	**(195)**	**1,043**	**848**	–	**848**
Total comprehensive income (loss) for the year	–	–	**676**	**(195)**	**1,043**	**1,524**	**1**	**1,525**
Dividends			**(481)**	–	–	**(481)**	–	**(481)**
Reserve movements in respect of share-based payments	–	–	**29**	–	–	**29**	–	**29**
Change in minority interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds	–	–	–	–	–	–	**(24)**	**(24)**
Share capital and share premium								
New share capital subscribed	**2**	**139**		–	–	**141**		**141**
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	–	**(136)**	**136**	–	–	–	–	–
Treasury shares								
Movement in own shares in respect of share-based payment plans	–	–	**3**	–	–	**3**	–	**3**
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	–	–	**(3)**	–	–	**(3)**	–	**(3)**
Net increase (decrease) in equity	**2**	**3**	**360**	**(195)**	**1,043**	**1,213**	**(23)**	**1,190**
At beginning of year	**125**	**1,840**	**3,604**	**398**	**(909)**	**5,058**	**55**	**5,113**
At end of year	**127**	**1,843**	**3,964**	**203**	**134**	**6,271**	**32**	**6,303**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2008							
	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Available -for-sale securities reserve £m	Shareholders' equity £m	Minority interests £m	Total equity £m
Reserves								
Loss for the year	–	–	(396)	–	–	(396)	5	(391)
Other comprehensive income (loss)								
Exchange movements on foreign operations and net investment hedges, net of related tax	–	–	–	510	–	510	–	510
Unrealised valuation movements, net of related change in amortisation of deferred income and acquisition costs and related tax	–	–	–	–	(831)	(831)	–	(873)
Total other comprehensive income (loss)	–	–	(396)	510	(831)	(321)	–	(321)
Total comprehensive income (loss) for the year	–	–	(396)	510	(831)	(717)	5	(712)
Dividends	–	–	(453)	–	–	(453)	(2)	(455)
Reserve movements in respect of share-based payments	–	–	18	–	–	18	–	18
Change in minority interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds	–	–	–	–	–	–	(50)	(50)
Share capital and share premium								
New share capital subscribed	2	168	–	–	–	170	–	170
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	–	(156)	156	–	–	–	–	–
Treasury shares								
Movement in own shares held in respect of share-based payment plans	–	–	3	–	–	3	–	3
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	–	–	(25)	–	–	(25)	–	(25)
Net increase (decrease) in equity	2	12	(697)	510	(831)	(1,004)	(47)	(1,051)
At the beginning of the year	123	1,828	4,301	(112)	(78)	6,062	102	6,164
At end of year	125	1,840	3,604	398	(909)	5,058	55	5,113

As a result of the introduction of the consolidated statement of comprehensive income there has been a reclassification of £240 million of exchange losses from the Available-for-sale securities reserve to the Translation reserve in the 2008 comparatives as explained in note B.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2009 £m	2008 £m
Assets		
Intangible assets attributable to shareholders:		
Goodwill	**1,310**	1,341
Deferred acquisition costs and other intangible assets (note R)	**4,049**	5,349
Total	**5,359**	6,690
Intangible assets attributable to with-profits funds:		
In respect of acquired subsidiaries for venture fund and other investment purposes	**124**	174
Deferred acquisition costs and other intangible assets	**106**	126
Total	**230**	300
Total	**5,589**	6,990
Other non-investment and non-cash assets:		
Property, plant and equipment	**367**	635
Reinsurers' share of insurance contract liabilities	**1,187**	1,240
Deferred tax asset (note H)	**2,708**	2,886
Current tax recoverable	**636**	657
Accrued investment income	**2,473**	2,513
Other debtors	**762**	1,232
Total	**8,133**	9,163
Investments of long-term business and other operations:		
Investment properties	**10,905**	11,992
Investments accounted for using the equity method	**6**	10
Financial investments:		
Loans (note M)	**8,754**	10,491
Equity securities and portfolio holdings in unit trusts	**69,354**	62,122
Debt securities (note N)	**101,751**	95,224
Other investments	**5,132**	6,301
Deposits	**12,820**	7,294
Total	**208,722**	193,434
Properties held for sale	**3**	–
Cash and cash equivalents	**5,307**	5,955
Total assets (note K)	**227,754**	215,542

	2009 £m	2008 £m
Equity and liabilities		
Equity		
Shareholders' equity	**6,271**	5,058
Minority interests	**32**	55
Total equity	**6,303**	5,113
Liabilities		
Policyholder liabilities and unallocated surplus of with-profits funds:		
Insurance contract liabilities	**145,713**	136,030
Investment contract liabilities with discretionary participation features	**24,880**	23,446
Investment contract liabilities without discretionary participation features	**15,805**	14,501
Unallocated surplus of with-profits funds	**10,019**	8,414
Total	**196,417**	182,391
Core structural borrowings of shareholder-financed operations:		
Subordinated debt	**2,691**	1,987
Other	**703**	971
Total (note P)	**3,394**	2,958
Other borrowings:		
Operational borrowings attributable to shareholder-financed operations (note Q)	**2,751**	1,977
Borrowings attributable to with-profits operations (note Q)	**1,284**	1,308
Other non-insurance liabilities:		
Obligations under funding, securities lending and sale and repurchase agreements	**3,482**	5,572
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**3,809**	3,843
Deferred tax liabilities (note H)	**3,872**	3,229
Current tax liabilities	**1,215**	842
Accruals and deferred income	**594**	630
Other creditors	**1,612**	1,496
Provisions	**643**	461
Derivative liabilities	**1,501**	4,832
Other liabilities	**877**	890
Total	**17,605**	21,795
Total liabilities	**221,451**	210,429
Total equity and liabilities (note K)	**227,754**	215,542

CONSOLIDATED STATEMENT OF CASH FLOWS

	2009 £m	2008 £m
Cash flows from operating activities		
Profit (loss) before tax *(being tax attributable to shareholders' and policyholders' returns)* (note (i))	**1,564**	(2,074)
Loss before tax from discontinued operations	**(14)**	–
Total profit (loss) before tax	**1,550**	(2,074)
Changes in operating assets and liabilities:		
Investments (note (iii))	**(26,388)**	32,424
Other non-investment and non-cash assets (note (iii))	**(384)**	(828)
Policyholder liabilities (including unallocated surplus)	**24,932**	(26,987)
Other liabilities (including operational borrowings)	**(299)**	(631)
Interest income and expense and dividend income included in result before tax(note (iii))	**(7,267)**	(7,927)
Other non-cash items (note (ii))	**650**	(74)
Operating cash items:		
Interest receipts (note (iii))	**5,734**	5,875
Dividend receipts	**1,780**	2,019
Tax paid	**(200)**	(653)
Net cash flows from operating activities	**108**	1,144
Cash flows from investing activities		
Purchases of property, plant and equipment	**(91)**	(240)
Proceeds from disposal of property, plant and equipment	**54**	11
Completion adjustment for previously disposed business	**(20)**	–
Disposal of Taiwan agency business (notes (iv) and G)	**(497)**	–
Net cash flows from investing activities	**(554)**	(229)
Cash flows from financing activities		
Structural borrowings of the Group:		
Shareholder-financed operations (notes (v) and P):		
Issue of subordinated debt, net of costs	**822**	–
Redemption of senior debt	**(249)**	–
Interest paid	**(207)**	(167)
With-profits operations (notes (vi) and Q):		
Interest paid	**(9)**	(9)
Equity capital (note (vii)):		
Issues of ordinary share capital	**3**	12
Dividends paid	**(344)**	(297)
Net cash flows from financing activities	**16**	(461)
Net (decrease) increase in cash and cash equivalents	**(430)**	454
Cash and cash equivalents at beginning of year	**5,955**	4,951
Effect of exchange rate changes on cash and cash equivalents	**(218)**	550
Cash and cash equivalents at end of year	**5,307**	5,955

Notes

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

(ii) The figure of £650 million for other items in 2009 includes £559 million for the loss on disposal of the Taiwan agency business.

(iii) Within the analysis of the items for 2008 that reconcile from the total loss of £2,074 million to the net cash flow from operating activities of £1,144 million reclassification adjustments in respect of two items have been made. These adjustments are for:

(a) to increase the "change in operating assets and liabilities" attributable to "investments", and decrease the amount attributable to "other non-investment and non-cash assets", by £831 million, for shadow DAC movements accounted for in Other Comprehensive Income, and

(b) increase the deduction for the "interest income and expense and dividend income included in the result before tax" and "interest receipts" by £2,938 million for foreign exchange losses, arising principally with the PAC with-profits fund, that were previously netted within the amounts for these lines.

(iv) The amount of £497 million 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 paid in cash in the year of £64million. In addition, the cashflow for the disposal includes a £45 million outflow to purchase a 9.99 per cent stake in China Life.

(v) Structural borrowings of shareholder-financed operations comprise core debt of the parent company and Jackson surplus notes. Core debt excludes borrowings to support short-term fixed income securities 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. In May 2009, the Company repaid maturing £249 million senior debt. In the same month, the Company issued £400 million subordinated debt in part to replace the maturing debt. A further $750 million was raised in July 2009.

(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 are unaudited. The financial information set out in the statutory basis results section of the IFRS disclosure does not constitute the Company's statutory accounts for the years ended 31 December 2009 or 2008. The financial information for 2008 is derived from the statutory accounts for 2008, which have been delivered to the Registrar of Companies, as adjusted for the adoption of new and altered accounting standards, as explained in note B, change in cash flow presentation as explained in the footnotes to the statement and the change of presentation in the Company's supplementary analysis of profit for the Taiwan agency business which was sold in June 2009, as explained in note C.

The auditors have reported on the 2008 statutory 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 237(2) or (3) of the Companies Act 1985. The statutory accounts for 2009 will be finalised on the basis of the financial information presented by the directors in the unaudited statutory basis results section of the IFRS disclosure included in the preliminary announcement and will be delivered to the Registrar of Companies following the Company's 2009 Annual General Meeting.

The additional information shown in notes Y to AE is also 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 2008, except for the following adoption of new accounting pronouncements in 2009:

IFRS 8, 'Operating Segments'
IFRS 8 superseded IAS 14 'Segment Reporting' for the accounting periods beginning on or after 1 January 2009 and requires the Group to adopt the 'management approach' to reporting the financial performance of its operating segments. The adoption of IFRS 8 has resulted in presentational and disclosure changes in the Group's financial statements. This standard has no impact on the results or financial position of the Group.

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

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the GEC to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

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

Insurance operations
- Asia
- US (Jackson)
- UK

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

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

The performance measure of operating segments utilised by the 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 2009 this measure excludes the non-recurrent cost of hedging the Group IGD capital surplus included within short-term fluctuations in investment returns. In 2009 the Company sold its Taiwan agency business. In order to facilitate comparisons on a like for like basis, the loss on sale and the results of the Taiwan agency business during the period of ownership (including those for the 2008 comparatives) are shown separately within the segmental analysis of profit. Segment results that are reported to the GEC include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are mainly in relation to the Group Head Office and Asia Regional Head Office. This segmental analysis of profit which also reflects the Group's IFRS 8 segmental income statement is disclosed in note C. The Group's segmental statement of financial position is disclosed in note K.

Amendments to IAS 1, 'Presentation of Financial Statements: A Revised Presentation'
The revised version of IAS 1, which includes non-mandatory changes to the titles of some of the financial statements, has resulted in a number of changes in presentation and disclosure.

As a result of the adoption of this revised IAS 1, the Group has changed the titles of its "consolidated balance sheet" to "consolidated statement of financial position" and its "consolidated cash flow statement" to "consolidated statement of cash flows".

The Group has also introduced a consolidated statement of comprehensive income in accordance with the revised IAS 1. Components of comprehensive income recognised outside of the income statement, for example exchange movements and the unrealised valuation movement of Jackson's available-for-sale debt securities, are now presented separately from changes in equity and are disclosed in the statement of comprehensive income. Consequent to this presentational change, the Group has altered the exchange translation method of the unrealised valuation movement of Jackson's available-for-sale debt securities from the previous application of closing exchange rate to the average exchange rate consistent with the translation method of foreign subsidiaries' income statement items. Accordingly, the Group's 2008 comparatives in the consolidated statement of comprehensive income and the consolidated statement of changes in equity have been altered with a reclassification of £240 million of exchange losses from the unrealised valuation movement of Jackson's available-for-sale debt securities, net of related change in amortisation of deferred income and acquisition costs and tax to the exchange translation reserve. There is no impact on shareholders' equity or the income statement from this change.

Improvements to IFRSs (2008)
The improvements issued by the IASB in May 2008 include amendments to a number of standards. The only amendment that has impacted the Group's financial statements is the amendment to IAS 40, 'Investment property' (and consequential amendments to IAS 16, 'Property, Plant and Equipment') which now states that property that is under construction or development for future use as investment property is within the scope of IAS 40 and so should be measured at fair value where this is reliably measurable. Previously, these properties were within the scope of IAS 16 and were measured at cost.

As a result of this amendment, the Group has reclassified its properties under development for future use as investment properties from Property, plant and equipment to Investment properties. This amendment is effective on a prospective application basis from 1 January 2009 and accordingly, no adjustment to the 2008 comparatives has been made. At 1 January 2009, properties under development with a cost of £131 million were reclassified to Investment properties and revalued to a fair value of £152 million. The fair value adjustment of a gain of £21 million was recorded in the income statement but as the relevant properties were held by the PAC with-profits fund, the gain was absorbed by the liability for unallocated surplus and has no direct effect on the profit or loss attributable to shareholders or shareholders' equity. There was no deferred tax impact on this fair value adjustment.

Amendments to IFRS 7, 'Improving Disclosures about Financial Instruments'
In March 2009, the IASB issued amendments to IFRS 7 which require enhanced disclosures about fair value measurements and liquidity risk. The amendments include the introduction of a three-level hierarchy for fair value measurement disclosures and require additional disclosures about the relative reliability of fair value measurements. The disclosures in respect of the fair value hierarchy requirement have been included in note T. Additional disclosures to meet the requirements for the amendments to IFRS 7 will be included in the Group financial statements.

In addition, the Group has also adopted the following accounting pronouncements in 2009 but their adoption has had no material impact on results and financial position of the Group:

- *Amendments to IFRS 2, 'Share-based Payment: Vesting Conditions and Cancellations'*
- *Amendments to IAS 23 'Borrowing costs'*
- *Amendments to IAS 32 and IAS 1, 'Presentation of financial statements' – Puttable Financial Instruments and Obligations Arising on Liquidation'*
- *IFRIC 16, 'Hedges of a Net Investment in a Foreign Operation'*

C Segment disclosure – income statement

	2009 £m	2008 £m
Asian operations (note i)		
Insurance operations (note D (i)):		
Underlying results before exceptional credit	**353**	257
Exceptional credit for Malaysia operations (note D (i))	**63**	–
Total Asian insurance operations	**416**	257
Development expenses	**(6)**	(26)
Total Asian insurance operations after development expenses	**410**	231
Asian asset management	**55**	52
Total Asian operations	**465**	283
US operations		
Jackson (US insurance operations) (note D (ii))	**459**	406
Broker-dealer and asset management	**4**	7
Total US operations	**463**	413
UK operations		
UK insurance operations:		
Long-term business (note D (iii))	**606**	545
General insurance commission (note (ii))	**51**	44
Total UK insurance operations	**657**	589
M&G	**238**	286
Total UK operations	**895**	875
Total segment profit	**1,823**	1,571
Other income and expenditure		
Investment return and other income	**22**	89
Interest payable on core structural borrowings	**(209)**	(172)
Corporate expenditure:		
Group Head Office	**(146)**	(130)
Asia Regional Head Office	**(57)**	(41)
Charge for share-based payments for Prudential schemes (note (iii))	**(5)**	(6)
Total	**(395)**	(260)
Restructuring costs (note (iv))	**(23)**	(28)
Operating profit based on longer-term investment returns (note (i))	**1,405**	1,283
Short-term fluctuations in investment returns on shareholder-backed business (note F)	**36**	(1,721)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes (note (v))	**(74)**	(13)
Loss on sale and results for Taiwan agency business (notes (i) and G)	**(621)**	1
Profit (loss) from continuing operations before tax attributable to shareholders	**746**	(450)

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.

(ii) 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.

(iii) The charge for share-based payments for Prudential schemes is for the SAYE and Group performance-related schemes.

(iv) Restructuring costs are incurred in the UK as part of EEV covered business (£16 million) and as part of central operations (EEV non-covered business) (£7 million). (2008: £10 million and £18 million respectively).

(v) 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 under IFRS 8 are determined as described in note B. The operating segments are:
Insurance operations
- Asia
- US (Jackson)
- UK

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

The Group uses operating profit based on longer-term investment returns to measure the performance of its operational segments.

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 risk margin reserve based charge for expected defaults is most relevant to the Group's US insurance operations. During 2009 the National Association of Insurance Commissioners (NAIC) changed its approach to the valuation of residential mortgage-backed securities (RMBS) within its risk-based capital (RBC) framework. This recognised the complexities associated with these investments and the limitations of the credit rating previously applied. The new valuation framework has been developed by an external third party, PIMCO, and provides RBC valuation data for more than 18,000 RMBS securities owned by US insurers at the end of 2009. Jackson has decided to use the ratings implicit in this valuation model to determine the average annual RMR for 2009 as this is considered more relevant information for the RMBS securities concerned. If the previous approach of using Moody's ratings for these investments had been used this would have resulted in an annual RMR of 31 basis points for 2009, an additional £11 million of annual expected losses for the year. It should be noted that this change has no impact on the valuation applied to these securities within the IFRS statement of financial position and there is no impact to IFRS profit before tax or shareholders' equity as a result of this change.

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

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

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

There are two exceptions to the basis described above for determining operating results based on longer-term investment returns. These are for:
- Unit linked and US variable annuity separate account business. For such business the policyholder liabilities are directly reflective of the asset value movements. Accordingly all asset value movements are recorded in the operating results based on longer-term investment returns.

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

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

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

Examples where such bifurcation is necessary are:

(i) <u>Asia</u>
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 and that in any one reporting period movements on liabilities to policyholders caused by investment returns are substantially matched in the presentation of the segmental analysis of profit before tax attributable to policyholders.

Non-participating business
Liabilities are bifurcated so that the total movement in the carrying value of liabilities is split between that which is included in operating results based on longer-term investment returns, and the residual element for the effect of using year end rates is included in short-term fluctuations 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 SOP 03-01, 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) <u>US operations – Embedded derivatives for variable annuity guarantee features</u>
Under IFRS, the Guaranteed Minimum Withdrawal Benefit (GMWB) and Guaranteed Minimum Income Benefit (GMIB) reinsurance are required to be fair valued as embedded derivatives. The movements in carrying values are affected by changes in the level of observed implied equity volatility and changes to the discount rate applied from year to year. For these embedded derivatives the discount rate applied reflects AA corporate bond curve rates. For the purposes of determining operating profit based on longer-term investment returns, the charge for these features is determined using historical longer-term equity volatility levels and long-term average AA corporate bond rate curves.

(iii) <u>UK shareholder-backed annuity business</u>
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 Prudential Retirement Insurance Limited ('PRIL') and the Prudential Assurance Company Limited ('PAC') non-profit sub-fund.

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

(d) 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 substance of the arrangements.

D Impact on profit before tax arising from changes in key assumptions, estimates and bases used to measure insurance assets and liabilities

(i) Asian insurance operations: exceptional credit of £63 million regarding the liability measurement for Malaysia long-term business

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) US insurance operations: Measurement basis for embedded derivatives of variable annuity business and other policyholder liability

Certain variable annuity products sold by Jackson include Guaranteed Minimum Withdrawal Benefits (GMWB) which, in accordance with the Group's accounting policies, are measured within the IFRS balance sheet at fair value. This requires a number of assumptions related to projected future cash flows, including those driven by policyholder behaviours such as lapses, fund selections and withdrawals utilisation. During 2009 the GMWB utilisation assumptions were revised to take account of the more recent experience of policyholder behaviour. Previously policyholder behaviour for the utilisation of GMWB was assumed to be largely driven by the extent to which benefits were 'in the money'. For 2009, the assumption has been altered to take account of recent experience which shows that the attained age of the policyholder is the key factor in determining utilisation levels. This has led to a release in policyholder liabilities of £96 million which is offset by a corresponding DAC amortisation charge of £68 million to give an overall impact on profit before tax of £28 million. This assumption change has been offset by sundry other assumption changes such that the overall impact on operating profit of policyholder liability assumption changes, after taking into account DAC amortisation offsets, is £4 million.

(iii) UK insurance operations – annuity business: allowance for credit risk
Overview of approach

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:
- the expected level of future defaults;
- the credit risk premium that is required to compensate for the potential volatility in default levels; and
- the liquidity premium that is required to compensate for the lower liquidity of corporate bonds relative to swaps.

The credit risk allowance is a function of the asset mix and the credit quality of the underlying portfolio. At 31 December 2009 80 per cent (2008: 75 per cent) of the assets backing the shareholder annuity and other business were debt securities. 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 N.

Given that the normal business model is 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 2009, 31 December 2008 and 31 December 2007, based on the asset mix at the relevant balance sheet date are shown below.

31 December 2009	**Pillar 1 regulatory basis (bps)**	**Adjustment from regulatory to IFRS basis (bps)** (note v)	**IFRS (bps)**
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**

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

31 December 2007	Pillar 1 regulatory basis (bps)	Adjustment from regulatory to IFRS basis (bps) (note v)	IFRS (bps)
Bond spread over swap rates (note (i))	76		76
Credit risk allowance			
Long-term expected defaults (note (ii))	13	–	13
Long-term credit risk premium (note (iii))	10	(3)	7
Short-term allowance for credit risk (note (iv))	10	(10)	–
Total credit risk allowance	33	(13)	20
Liquidity premium	43	13	56

Notes

(i) Bond spread over swap rates reflect market observed data.

(ii) Long-term expected defaults are derived by applying Moody's data from 1970 to 2004 uplifted by between 100 per cent (B) and 200 per cent (AAA) according to credit rating on the annuity asset portfolio. The credit rating assigned to each asset held is based on external credit rating and for this purpose the credit rating assigned to each asset held is the lowest credit rating published by Moody's, Standard and Poors and Fitch.

(iii) 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.

(iv) The short-term allowance for credit risk assumed in the Pillar 1 solvency valuations at 31 December 2007 and 31 December 2008 were 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.

(v) 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'. In years prior to 2008 long-term IFRS default assumptions had been set mid-way between the EEV and Pillar 1 assumptions. At 31 December 2008, in light of the increased uncertainty surrounding future credit default experience, the IFRS long-term assumptions was strengthened to bring them into line with the long-term Pillar 1 default assumptions. In addition a short-term allowance for credit risk was established but at a lower level than allowed for in the Pillar 1 regulatory basis.

Factors affecting the credit risk allowance at 31 December 2009

The main factors influencing the credit risk allowance at 31 December 2009 are as follows:

Credit downgrades and default experience

As highlighted above, the short term allowance at 31 December 2008 was intended to cover both short term credit downgrades and losses in excess of the longer term expectations. Downgrades in 2009 have been within the opening Pillar 1 assumptions and hence the increase in the long term allowance as a result of credit downgrades has been offset by an equal decrease in the short term allowance. Defaults for the UK shareholder-backed annuity business totalled £11 million during 2009, below the amount allowed for within the short term allowance. The allowance (in bps terms) has been adjusted to eliminate any experience profits that would have otherwise arisen.

a) Asset trading in relation to subordinated financial debt

During the second half of 2009, the Group decided to trade out of subordinated financial debt into higher quality assets. This resulted in a gross transaction loss arising from the lower expected yield on the newly purchased assets. The reduction in subordinated financial debt holdings improved the overall credit quality of the corporate bond portfolio and so allowed a release of long-term credit reserves to offset this loss. In addition the allowance for the short-term defaults above has been notionally allocated to the highest yielding assets and so the allowance attaching to the subordinated debt sold has also been released.

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, a lower short-term default reserve was held at 31 December 2008 and the release of the reserves in respect of the subordinated debt is therefore lower. Overall the reduction in subordinated financial debt holdings generated a pre-tax IFRS operating loss of £51 million.

b) Asset purchases in respect of new business

The assets purchased during 2009 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 2009 is reduced when the new business assets and in-force assets are aggregated together.

d) Overall impact on the PRIL credit risk premium

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

	Pillar 1 Regulatory basis (bps)			**IFRS (bps)**		
	Long term	**Short term**	**Total**	**Long term**	**Short term**	**Total**
Total allowance for credit risk at 31 December 2008	**26**	**54**	**80**	**26**	**29**	**55**
Credit downgrades	**14**	**(14)**	**–**	**14**	**(14)**	**–**
Retention of surplus from favourable default experience	**–**	**5**	**5**	**–**	**1**	**1**
Asset trading	**(8)**	**(4)**	**(12)**	**(8)**	**(1)**	**(9)**
New business	**–**	**(2)**	**(2)**	**–**	**(1)**	**(1)**
Other	**–**	**–**	**–**	**–**	**1**	**1**
Total allowance for credit risk at 31 December 2009	**32**	**39**	**71**	**32**	**15**	**47**

Overall this has led to the credit allowance for Pillar 1 purposes to be 41 per cent (2008: 25 per cent) of the bond spread over swap rates. For IFRS purposes it represents 27 per cent of the bond spread over swap rates (2008:17 per cent)

E Profit before tax – Asset management operations

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

	M&G	**US**	**Asia**	**Total 2009**	Total 2008
	£m	**£m**	**£m**	**£m**	£m
Revenue (note (i))	**799**	**500**	**217**	**1,516**	664
Charges	**(505)**	**(496)**	**(162)**	**(1,163)**	(524)
Profit before tax	**294**	**4**	**55**	**353**	140
Comprising:					
Operating profit based on longer-term investment returns (note (ii))	**238**	**4**	**55**	**297**	345
Short-term fluctuations in investment returns (note (iii))	**70**	**–**	**–**	**70**	(195)
Shareholder's share of actuarial gains and losses on defined benefit pension schemes	**(14)**	**–**	**–**	**(14)**	(10)
Profit before tax	**294**	**4**	**55**	**353**	140

Notes

(i) Included within revenue for M&G are realised and unrealised net gains of £176 million (2008: losses of £673 million) in respect of consolidated investment funds and Prudential Capital. The investment funds are managed on behalf of third parties and consolidated under IFRS in recognition of the control arrangements for the funds. The investment losses in respect of the investment funds are non-recourse to M&G and the Group and are added back through charges and consequently there is no impact on the profit before tax. Excluding the impact of the grossing up in respect of the consolidated investment funds, the revenue for M&G would be £697 million (2008: £494 million) and the charges £403 million (2008: £413 million).

(ii) No impairments were recorded in 2009. In 2008 operating profit based on longer-term investment returns included a £28 million charge for an impairment loss on a holding in Lehman Brothers.

(iii) Short-term fluctuations for M&G are primarily in respect of unrealised value movements, on Prudential Capital's bond portfolio.

(ii) M&G operating profit based on longer-term investment returns

	2009	2008
	£m	£m
Asset management fee income	**457**	455
Other income	**13**	25
Staff costs	**(205)**	(184)
Other costs	**(100)**	(111)
Underlying profit before performance-related fees	**165**	185
Performance-related fees	**12**	43
Operating profit from asset management operations	**177**	228
Operating profit from Prudential Capital	**61**	58
Total M&G operating profit based on longer-term investment returns	**238**	286

The difference between the fees and other income shown above in respect of asset management operations, and the revenue figure for M&G shown in the main table primarily relates to income and investment gains (losses) earned by Prudential Capital and by investment funds controlled by the asset management operations which are consolidated under IFRS.

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

	2009 £m	2008 £m
Insurance operations:		
Asia (note (ii))	**31**	(138)
US (note (iii))	**27**	(1,058)
UK (note (iv))	**108**	(212)
Other operations		
– IGD hedge costs (note (v))	**(235)**	–
– Other (note (vi))	**105**	(313)
	(130)	(313)
Total	**36**	(1,721)

Notes

(i) *General overview of defaults*
The Group incurred defaults of £11 million in 2009 (2008: £206 million) on its debt securities portfolio. The defaults of £11 million in 2009 were experienced by the UK Shareholder-backed annuity business. Jackson experienced less than £1 million of default losses during 2009. Defaults in 2008 of £206 million (including losses on sale) arose primarily in respect of Lehman Brothers (£110 million) and Washington Mutual (£91 million), the majority of which arose in Jackson.

(ii) *Asian insurance operations*
The fluctuations for Asian insurance operations in 2009 of a gain of £31 million primarily relate to strong market performance in Taiwan and Japan partially offset by the fall in the Vietnamese bond markets.
For 2008, the fluctuations of a charge of £138 million relate mainly to £81 million for Vietnam, reflecting a significant fall in the Vietnamese bond and equity markets.

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

	2009 £m	2008 £m
Short-term fluctuations relating to debt securities:		
Charges in the year (note a)		
Defaults	**–**	(78)
Losses on sales of impaired and deteriorating bonds	**(6)**	(130)
Bond write downs	**(630)**	(419)
Recoveries / reversals	**5**	3
	(631)	(624)
Less: Risk margin charge included in operating profit based on longer-term investment returns (note b)	**76**	54
	(555)	(570)
Interest related realised gains (losses):		
Arising in the year	**125**	(25)
Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns	**(59)**	(28)
	66	(53)
Related change to amortisation of deferred acquisition costs	**75**	88
Total short-term fluctuation related to debt securities	**(414)**	(535)
Derivatives (other than equity related): market value movement (net of related change to amortisation of deferred acquisition costs) (note c)	**385**	(369)
Equity type investments: actual less longer-term return (net of related change to amortisation of deferred acquisition costs)	**(59)**	(69)
Other items (net of related change to amortisation of deferred acquisition costs) (note d)	**115**	(85)
Total	**27**	(1,058)

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 2009 £m	Total 2008 £m
Residential mortgage-backed securities:						
Prime	–	**268**	–	–	**268**	25
Alt-A	–	**192**	**(10)**	–	**182**	138
Sub-prime	–	**49**	–	–	**49**	4
Total residential mortgage-backed securities	–	**509**	**(10)**	–	**499**	167
Corporate debt securities	–	**91**	**16**	–	**107**	441
Other	–	**30**	–	**(5)**	**25**	16
Total	–	**630**	**6**	**(5)**	**631**	624

Other bond write downs and defaults of £30 million relate 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 2009 is based on an average annual RMR of 27 basis points (2008: 23 basis points) on average book values for the year as shown below:

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

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

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

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

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

c) The gain of £385 million (2008: charge of £369 million) value movement is for freestanding derivatives held to manage the fixed annuity and other general account business. Under IAS 39, unless hedge accounting is applied value movements on derivatives are recognised in the income statement.

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

For the derivatives programme attaching to the fixed annuity and other general account business the Group has continued in its approach of not seeking to apply 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 £115 million gain (2008: charge of £85 million) for other items shown above comprises a gain of £85 million (2008: charge of £70 million) for the difference between the charge for embedded derivatives included in the operating result and the charge to the total result and a gain of £30 million (2008: charge of £15 million) of other items. For embedded derivatives the operating result reflects the application of 10-year average AA corporate bond rate curves and a static historical equity volatility assumption. The total result reflects the application of year-end AA corporate bond rate curves and current equity volatility levels.

In addition, for US insurance operations, included within the statement of comprehensive income is a reduction in net unrealised losses on debt securities classified as available-for-sale of £2,669 million (2008: increase in net unrealised losses of £2,104 million).These temporary market value movements do not reflect defaults or impairments. Additional details on the movement in the value of the Jackson portfolio are included in note O.

(iv) *UK insurance operations*

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

(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:

	2009 £m	2008 £m
Sale of investment in India mutual fund in May 2008 giving rise to a transfer to operating profit of £47m for the crystallised gain, and value reduction in the year, prior to sale, of £24m	**–**	(71)
Unrealised value movements on swaps held centrally to manage Group assets and liabilities	**28**	(38)
Unrealised value movements on Prudential Capital bond portfolio	**66**	(190)
Unrealised value movements on investments held by other operations	**11**	(14)
	105	(313)

G Sale of legacy agency book and agency force in Taiwan to China Life Insurance of Taiwan

On 20 February 2009, the Company announced that it had entered into an agreement to sell the assets and liabilities of its agency distribution business and its agency force in Taiwan to China Life Insurance Company Ltd of Taiwan for the nominal sum of NT$1 subject to regulatory approval. In addition, the Company would invest £45 million to purchase a 9.99 per cent stake in China Life through a share placement. The business transferred represented 94 per cent of Prudential's in-force liabilities in Taiwan and included Prudential's legacy interest rate guaranteed products with IFRS basis gross assets at 31 December 2008 of £4.5 billion. After taking account of IFRS shareholders' equity of the business at 31 December 2008, provisions for restructuring costs, and other costs the Group's IFRS shareholders' equity at 31 December 2008 was expected to decrease by approximately £595 million.

The Company retains its interest in life insurance business in Taiwan through its retained bank distribution partnerships and its direct investment of 9.99 per cent in China Life.

The sale was completed, following regulatory approval, on 19 June 2009. The trading results shown below are for the period 1 January to 19 June 2009.

The carrying value of the IFRS equity of the business, as applied in the calculation of the loss on sale, reflects the application of 'grandfathered' US GAAP under IFRS 4 of insurance assets and liabilities. US GAAP does not, and is not designed to, include the cost of holding economic capital to support the legacy interest rate guaranteed products as recognised under the Company's supplementary reporting basis under European Embedded Value principles. The IFRS loss on sale reflects this missing element of the economic value. The effects on the IFRS income statement and equity attributable to shareholders is shown below.

The loss on sale and trading results of the Taiwan agency business for the period of ownership comprise:

	2009	2008
	£m	£m
Loss on sale:		
As estimated and announced on 20 February 2009:		
Proceeds	**–**	–
Net asset value attributable to equity holders of the Company and provision for restructuring costs	**(551)**	–
Goodwill written off	**(44)**	–
	(595)	–
Trading losses to completion, net of tax, as shown below	**44**	–
Minority interests and other adjustments	**(8)**	–
Loss on sale of the Taiwan agency business, gross and net of tax (as shown in income statement)	**(559)**	–
Trading results before tax (including short-term fluctuations in investment returns)	**(62)**	1
Related tax	**18**	(4)
Total	**(44)**	(3)
Loss on sale and trading results of the Taiwan agency business:		
Gross of tax	**(621)**	1
Tax	**18**	(4)
Net of tax	**(603)**	(3)
Attributable to:		
Equity holders of the Company	**(598)**	(3)
Minority interests	**(5)**	–
Loss on sale and results of the Taiwan agency business, net of tax	**(603)**	(3)

The loss on disposal of £559 million includes cumulative foreign exchange gains of £9 million recycled through the profit and loss account as required by IAS 21. The impact on shareholders' funds of the disposal (including trading losses up to the date of disposal) is £607 million. The difference of £12 million from the estimate of £595 million reflects a number of minor adjustments.

Cash and cash equivalents disposed of were £388 million and restructuring and other costs incurred in cash in the year were £64 million. In addition, the Company invested £45 million in China Life as described above. Accordingly, the cash outflow for the

Group arising from the sale of the Taiwan agency business, as shown in the consolidated statement of cash flows, was £497 million.
In order to facilitate comparisons of the Group's retained businesses, the presentation of the segmental analysis of IFRS loss before shareholder tax (as shown in note C) has been adjusted to show separately the result for the sold Taiwan agency business, as explained below.

	2008		
	As previously published	Adjustment	Adjusted
	£m	£m	£m
Operating profit based on longer-term investment return	1,347	(64)	1,283
Short-term fluctuations in investment returns	(1,783)	62	(1,721)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(14)	1	(13)
Results of sold Taiwan agency business	Included above	1	1
Loss before tax	(450)	–	(450)

H Tax

(i) Tax (charge) credit

The total tax charge of £873 million for 2009 (2008: credit of £1,683 million) comprises a charge of £895 million (2008: credit of £1,758 million) for UK tax and a credit of £22 million (2008: charge of £75 million) for overseas tax. This 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 £55 million for 2009 (2008: credit of £59 million) comprises a charge of £176 million (2008: credit of £95 million) for UK tax and a credit of £121 million (2008: charge of £36 million) for overseas tax.
The total tax (charge) credit for the year is analysed as follows:

	2009 £m	2008 £m
Total current tax	**(529)**	134
Total deferred tax	**(344)**	1,549
	(873)	1,683

(ii) Deferred tax

The total deferred tax (charge) credit arises as follows:

	2009 £m	2008 £m
Unrealised gains and losses on investments	**(35)**	1,521
Balances relating to investment and insurance contracts	**(12)**	(239)
Short-term timing differences	**(105)**	(29)
Capital allowances	**1**	2
Unused tax losses	**(193)**	294
Deferred tax (charge) credit	**(344)**	1,549

The balance sheet contains the following deferred tax assets and liabilities:

	2009		2008	
	Deferred tax assets	**Deferred tax liabilities**	Deferred tax assets	Deferred tax liabilities
	£m	**£m**	£m	£m
Unrealised gains and losses on investments	**1,156**	**(1,744)**	1,267	(765)
Balances relating to investment and insurance contracts	**20**	**(961)**	12	(968)
Short-term timing differences	**1,228**	**(1,159)**	1,282	(1,490)
Capital allowances	**18**	**(8)**	16	(6)
Unused tax losses	**286**	**–**	309	–
Total	**2,708**	**(3,872)**	2,886	(3,229)

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 decrease in 2009 is primarily due to the continuing increase in value of investments in Jackson along with the utilisation of tax losses from prior years.

The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. Accordingly, for the 2009 results and statement of financial position at 31 December 2009, the possible tax benefit of approximately £257 million (2008: £211 million), which may arise from capital losses valued at approximately £1.2 billion (2008: £1 billion), is sufficiently uncertain that it has not been recognised. In addition, a potential deferred tax asset of £607 million (2008: £678 million), which may arise from tax losses and other potential temporary differences totalling £2.1 billion (2008: £2.2 billion) is sufficiently uncertain that it has not been recognised. Forecasts as to when the tax losses and other temporary differences are likely to be utilised indicate that they may not be utilised in the short term.

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

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

2009	**Asian insurance operations £m**	**US insurance operations £m**	**UK insurance operations £m**	**Other operations £m**	**Total £m**
Profit (loss) before tax attributable to shareholders:					
Operating profit based on longer-term investment returns (note (iii))	**410**	**459**	**657**	**(121)**	**1,405**
Short-term fluctuations in investment returns	**31**	**27**	**108**	**(130)**	**36**
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%**	**29%**
Short-term fluctuations in investment returns	**25%**	**35%**	**28%**	**36%**	**0%**
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)**	**(161)**	**(184)**	**34**	**(409)**
Short-term fluctuations in investment returns	**(8)**	**(9)**	**(30)**	**47**	**–**
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**	**77**	**(29)**	**8**	**91**
Short-term fluctuations in investment returns	**15**	**195**	**–**	**14**	**224**
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)**	**(84)**	**(213)**	**42**	**(318)**
Short-term fluctuations in investment returns	**7**	**186**	**(30)**	**61**	**224**
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%**	**18%**	**32%**	**35%**	**23%**
Total	**(21)%**	**(21)%**	**32%**	**40%**	**7%**

2008	Asian insurance operations £m	US insurance operations £m	UK insurance operations £m	Other operations £m	Total £m
Profit (loss) before tax attributable to shareholders:					
Operating profit based on longer-term investment returns (note (iii))	231	406	589	57	1,283
Short-term fluctuations in investment returns	(138)	(1,058)	(212)	(313)	(1,721)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(2)	–	–	(11)	(13)
Results for Taiwan agency business	1	–	–	–	1
Total	92	(652)	377	(267)	(450)
Expected tax rate (note (i)):					
Operating profit based on longer-term investment returns (note (iii))	23%	35%	28%	17%	29%
Short-term fluctuations in investment returns	28%	35%	28%	28%	32%
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	25%	–	–	28%	27%
Results for Taiwan agency business	25%	–	–	–	25%
Expected tax credit (charge) based on expected tax rates:					
Operating profit based on longer-term investment returns (note (iii))	(54)	(142)	(165)	(10)	(371)
Short-term fluctuations in investment returns	38	370	59	88	555
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	1	–	–	3	4
Results for Taiwan agency business	–	–	–	–	–
Total	(15)	228	(106)	81	188
Variance from expected tax charge (note (ii)):					
Operating profit based on longer-term investment returns (note (iii))	(51)	17	57	56	79
Short-term fluctuations in investment returns	(3)	(173)	(8)	(19)	(203)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	–	(1)	(1)
Results for Taiwan agency business	(4)	–	–	–	(4)
Total	(58)	(156)	49	36	(129)
Actual tax credit (charge)					
Operating profit based on longer-term investment returns (note (iii))	(105)	(125)	(108)	46	(292)
Short-term fluctuations in investment returns	35	197	51	69	352
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	1	–	–	2	3
Results for Taiwan agency business	(4)	–	–	–	(4)
Total	(73)	72	(57)	117	59
Actual tax rate: operating profit based on longer-term investment returns	45%	31%	18%	(81%)	23%
Total	79%	11%	15%	44%	13%

Notes

(i) Expected tax rates for profit attributable to shareholders:
The expected tax rates shown in the table above reflect the corporate tax rates generally applied to taxable profits of the relevant country jurisdictions.
For Asian operations the expected tax rates reflect the corporate tax rates weighted by reference to the source of profits of operations contributing to the aggregate business result.
The expected tax rate for Other operations reflects the mix of business between UK and overseas operations, which are taxed at a variety of rates. The rate will fluctuate from year to year dependent on the mix of profits.

(ii) For 2009, the principal variances arise from differences between the standard corporation tax rate and actual rates due to a number of factors, including:

a For Asian long-term operations, 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 For Jackson, 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 For UK insurance operations, adjustments in respect of the prior year tax charge and different tax bases of UK life business;

d For Other operations, the ability to now recognise a deferred tax asset on various tax losses which we were previously unable to recognise offset by adjustments in respect of the prior year tax charge; and

e The actual tax rate in relation to Asia excluding the result for the sold Taiwan agency business would have been 9 per cent for the period.

(iii) Operating profit based on longer-term investment returns is net of attributable development expenses.

I Supplementary analysis of earnings per share

	2009					
	Before tax (note C) £m	**Tax (note H) £m**	**Minority interests £m**	**Net of tax and minority interests £m**	**Basic earnings per share Pence**	**Diluted earnings per share Pence**
Based on operating profit based on longer-term investment returns	**1,405**	**(318)**	**(2)**	**1,085**	**43.4p**	**43.3p**
Short-term fluctuations in investment returns on shareholder-backed business	**36**	**224**	**1**	**261**	**10.4p**	**10.4p**
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**	**27.6p**	**27.6p**
Adjustment for post-tax results of discontinued operations	**(14)**	**–**	**–**	**(14)**	**(0.6)p**	**(0.6)p**
Based on profit for the year	**732**	**(55)**	**(1)**	**676**	**27.0p**	**27.0p**

	2008					
	Before tax (note C) £m	Tax (note H) £m	Minority interests £m	Net of tax and minority interests £m	Basic earnings per share Pence	Diluted earnings per share Pence
Based on operating profit based on longer-term investment returns	1,283	(292)	(4)	987	39.9p	39.9p
Short-term fluctuations in investment returns on shareholder-backed business	(1,721)	352	(1)	(1,370)	(55.4)p	(55.4)p
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(13)	3	–	(10)	(0.4)p	(0.4)p
Adjustment for result of sold Taiwan agency business	1	(4)	–	(3)	(0.1)p	(0.1)p
Based on loss for the year from continuing operations / loss for the year	(450)	59	(5)	(396)	(16.0)p	(16.0)p

The weighted average number of shares for calculating basic earnings per share for 2009 was 2,501 million (2008: 2,472 million). The weighted average number of shares for calculating diluted earnings per share for 2009 was 2,506 million (2008: 2,472 million). In addition, at 31 December 2008 there were 7 million shares under option offset by 6 million shares that would have been issued at fair value on assumed option exercise. The net one million potentially dilutive ordinary shares have been excluded from the 2008 diluted earnings per share calculation as their inclusion would have decreased the loss per share.

J Dividend

Dividends per share (in pence)	**2009**	2008
Dividends relating to reporting year:		
Interim dividend (2009 and 2008)	**6.29p**	5.99p
Final dividend (2009 and 2008)	**13.56p**	12.91p
Total	**19.85p**	18.90p
Dividends declared and paid in reporting year:		
Current year interim dividend	**6.29p**	5.99p
Final dividend for prior year	**12.91p**	12.30p
Total	**19.20p**	18.29p

The Board intends to recommend a final dividend for 2009 of 13.56p per share. Subject to shareholder approval, the dividend will be paid on 27 May 2010 to shareholders on the register at the close of business on 9 April 2010. The dividend will absorb an estimated £343 million of shareholders' funds. A scrip dividend alternative will be offered to shareholders.

K Group statement of financial position analysis

(i) Group statement of financial position

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.

This analysis is shown below for the Group statement of financial position by operating segment at 31 December 2009.

By operating segment	Insurance operations (note L) UK £m	US £m	Asia £m	Total insurance operations £m	Asset management operations (note (L)) £m	Unallocated to a segment (central operations) £m	Intra-group eliminations £m	2009 Group total £m	2008 Group total £m
Assets									
Intangible assets attributable to shareholders:									
Goodwill (note (i))	–	–	80	80	1,230	–	–	1,310	1,341
Deferred acquisition costs and other intangible assets (note R)	127	3,092	822	4,041	8	–	–	4,049	5,349
Total	127	3,092	902	4,121	1,238	–	–	5,359	6,690
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes	124	–	–	124	–	–	–	124	174
Deferred acquisition costs and other intangible assets	9	–	97	106	–	–	–	106	126
Total	133	–	97	230	–	–	–	230	300
Total	260	3,092	999	4,351	1,238	–	–	5,589	6,990
Deferred tax assets	292	1,944	132	2,368	132	208	–	2,708	2,886
Other non investment and non-cash assets	3,074	1,404	880	5,358	718	4,393	(5,044)	5,425	6,277
Investment of long term business and other operations:									
Investment properties	10,861	33	11	10,905	–	–	–	10,905	11,992
Investments accounted for using the equity method	4	–	2	6	–	–	–	6	10
Financial investments:									
Loans (note M)	1,815	4,319	1,207	7,341	1,413	–	–	8,754	10,491
Equity securities and portfolio holdings in unit trusts	37,051	20,984	11,182	69,217	137	–	–	69,354	62,122
Debt securities (note N)	67,772	22,831	9,984	100,587	1,164	–	–	101,751	95,224
Other investments	3,630	955	258	4,843	113	176	–	5,132	6,301
Deposits	11,557	454	746	12,757	63	–	–	12,820	7,294
Total investments	132,690	49,576	23,390	205,656	2,890	176	–	208,722	193,434
Properties held for sale	–	3	–	3	–	–	–	3	–
Cash and cash equivalents	2,265	340	837	3,442	970	895	–	5,307	5,955
Total assets	138,581	56,359	26,238	221,178	5,948	5,672	(5,044)	227,754	215,542

Note

(i) Goodwill attributable to shareholders

Goodwill attributable to shareholders has decreased from £1,341 million at 31 December 2008 to £1,310 million at 31 December 2009 due to the write-off of the goodwill of £44 million relating to the sold Taiwan agency business offset by additional consideration paid in relation to other Asian subsidiaries.

By operating segment	Insurance operations (note L) UK £m	US £m	Asia £m	Total insurance operations £m	Asset management operations (note (L)) £m	Unallocated to a segment (central operations) £m	Intra-group eliminations £m	2009 Group total £m	2008 Group total £m
Equity and liabilities									
Equity									
Shareholders' equity	**1,939**	**3,011**	**1,462**	**6,412**	**1,659**	**(1,800)**	**–**	**6,271**	5,058
Minority interests	**28**	**–**	**1**	**29**	**3**	**–**	**–**	**32**	55
Total equity	**1,967**	**3,011**	**1,463**	**6,441**	**1,662**	**(1,800)**	**–**	**6,303**	5,113
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Insurance contract liabilities	**77,655**	**46,346**	**21,712**	**145,713**	**–**	**–**	**–**	**145,713**	136,030
Investment contract liabilities with discretionary participation features	**24,780**	**–**	**100**	**24,880**	**–**	**–**	**–**	**24,880**	23,446
Investment contract liabilities without discretionary participation features	**13,794**	**1,965**	**46**	**15,805**	**–**	**–**	**–**	**15,805**	14,501
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds)	**9,966**	**–**	**53**	**10,019**	**–**	**–**	**–**	**10,019**	8,414
Total policyholder liabilities and unallocated surplus of with-profits funds	**126,195**	**48,311**	**21,911**	**196,417**	**–**	**–**	**–**	**196,417**	182,391
Core structural borrowings of shareholder financed operations:									
Subordinated debt	**–**	**–**	**–**		**–**	**2,691**	**–**	**2,691**	1,987
Other	**–**	**154**	**–**	**154**	**–**	**549**	**–**	**703**	971
Total (note P)	**–**	**154**	**–**	**154**	**–**	**3,240**	**–**	**3,394**	2,958
Operational borrowings attributable to shareholder financed operations (note Q)	**158**	**203**	**210**	**571**	**142**	**2,038**	**–**	**2,751**	1,977
Borrowings attributable to with-profits operations (note Q)	**1,284**	**–**	**–**	**1,284**	**–**	**–**	**–**	**1,284**	1,308
Other non-insurance liabilities:							**–**		
Obligations under funding, securities lending and sale and repurchase agreements	**2,108**	**1,374**	**–**	**3,482**	**–**	**–**	**–**	**3,482**	5,572
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**2,534**	**47**	**818**	**3,399**	**410**	**–**	**–**	**3,809**	3,843
Deferred tax liabilities	**1,606**	**1,858**	**384**	**3,848**	**5**	**19**	**–**	**3,872**	3,229
Current tax liabilities	**426**	**89**	**85**	**600**	**35**	**580**	**–**	**1,215**	842
Accruals and deferred income	**271**	**–**	**105**	**376**	**209**	**9**	**–**	**594**	630
Other creditors	**726**	**532**	**760**	**2,018**	**3,292**	**1,346**	**(5,044)**	**1,612**	1,496
Provisions	**406**	**10**	**50**	**466**	**127**	**50**	**–**	**643**	461
Derivative liabilities	**709**	**461**	**146**	**1,316**	**49**	**136**	**–**	**1,501**	4,832
Other liabilities	**191**	**309**	**306**	**806**	**17**	**54**	**–**	**877**	890
Total	**8,977**	**4,680**	**2,654**	**16,311**	**4,144**	**2,194**	**(5,044)**	**17,605**	21,795
Total liabilities	**136,614**	**53,348**	**24,775**	**214,737**	**4,286**	**7,472**	**(5,044)**	**221,451**	210,429
Total equity and liabilities	**138,581**	**56,359**	**26,238**	**221,178**	**5,948**	**5,672**	**(5,044)**	**227,754**	215,542

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

	Participating funds	Shareholder-backed business: Unit-linked and variable annuity	Non-linked business	Asset management operations	Unallocated to a segment (central operations)	Intra-group eliminations	2009 Group total	2008 Group total
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Intangible assets attributable to shareholders:								
Goodwill	–	–	80	1,230	–	–	1,310	1,341
Deferred acquisition costs and other intangible assets	–	–	4,041	8	–	–	4,049	5,349
Total	–	–	4,121	1,238	–	–	5,359	6,690
Intangible assets attributable to with-profits funds:								
In respect of acquired subsidiaries for venture fund and other investment purposes	124	–	–	–	–	–	124	174
Deferred acquisition costs and other intangible assets	106	–	–	–	–	–	106	126
Total	230	–	–	–	–	–	230	300
Total	230	–	4,121	1,238	–	–	5,589	6,990
Deferred tax assets	156	–	2,212	132	208	–	2,708	2,886
Other non-investment and non-cash assets	2,017	630	2,711	718	4,393	(5,044)	5,425	6,277
Investment of long term business and other operations:								
Investment properties	8,759	662	1,484	–	–	–	10,905	11,992
Investments accounted for using the equity method	–	–	6	–	–	–	6	10
Financial investments:								
Loans (note M)	1,887	27	5,427	1,413	–	–	8,754	10,491
Equity securities and portfolio holdings in unit trusts	29,962	38,620	635	137	–	–	69,354	62,122
Debt securities (note N)	47,327	8,848	44,412	1,164	–	–	101,751	95,224
Other investments	3,448	110	1,285	113	176	–	5,132	6,301
Deposits	9,638	746	2,373	63	–	–	12,820	7,294
Total investments	101,021	49,013	55,622	2,890	176	–	208,722	193,434
Properties held for sale	–	–	3	–	–	–	3	–
Cash and cash equivalents	1,421	1,174	847	970	895	–	5,307	5,955
Total assets	104,845	50,817	65,516	5,948	5,672	(5,044)	227,754	215,542

	Participating funds £m	Shareholder-backed business: 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	2009 Group total £m	2008 Group total £m
Equity and liabilities								
Equity								
Shareholders' equity	**–**	**–**	**6,412**	**1,659**	**(1,800)**	**–**	**6,271**	5,058
Minority interests	**28**	**–**	**1**	**3**	**–**	**–**	**32**	55
Total equity	**28**	**–**	**6,413**	**1,662**	**(1,800)**	**–**	**6,303**	5,113
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)	**86,337**	**49,391**	**50,670**	**–**	**–**	**–**	**186,398**	173,977
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds)	**10,019**	**–**	**–**	**–**	**–**	**–**	**10,019**	8,414
Total policyholder liabilities and unallocated surplus of with-profits funds	**96,356**	**49,391**	**50,670**	**–**	**–**	**–**	**196,417**	182,391
Core structural borrowings of shareholder-financed operations: (note P)								
Subordinated debt	**–**	**–**	**–**	**–**	**2,691**	**–**	**2,691**	1,987
Other	**–**	**–**	**154**	**–**	**549**	**–**	**703**	971
Total	**–**	**–**	**154**	**–**	**3,240**	**–**	**3,394**	2,958
Operational borrowings attributable to shareholder financed operations (note Q)	**–**	**–**	**571**	**142**	**2,038**	**–**	**2,751**	1,977
Borrowings attributable to with-profits operations	**1,284**	**–**	**–**	**–**	**–**	**–**	**1,284**	1,308
Deferred tax liabilities	**1,420**	**12**	**2,416**	**5**	**19**	**–**	**3,872**	3,229
Other non-insurance liabilities	**5,757**	**1,414**	**5,292**	**4,139**	**2,175**	**(5,044)**	**13,733**	18,566
Total liabilities	**104,817**	**50,817**	**59,103**	**4,286**	**7,472**	**(5,044)**	**221,451**	210,429
Total equity and liabilities	**104,845**	**50,817**	**65,516**	**5,948**	**5,672**	**(5,044)**	**227,754**	215,542

L Statement of financial position at 31 December 2009

(i) UK insurance operations

In order to explain the different types of UK business and fund structure, the statement of financial position of the UK insurance operations may be analysed by the assets and liabilities 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 business .The assets and liabilities of these funds and subsidiaries are shown in the table below.

		PAC with-profits fund (note (i))			Other funds and subsidiaries				
	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	2009 Total £m	2008 Total £m
Assets									
Intangible assets attributable to shareholders:									
Deferred acquisition costs and other intangible assets	–	–	–	–	–	127	127	127	134
	–	–	–	–	–	127	127	127	134
Intangible assets attributable to PAC with-profits fund:									
In respect of acquired subsidiaries for venture fund and other investment purposes	–	124	–	124	–	–	–	124	174
Deferred acquisition costs	2	7	–	7	–	–	–	9	13
	2	131	–	131	–	–	–	133	187
Total	2	131	–	131	–	127	127	260	321
Deferred tax assets	2	84	70	154		136	136	292	513
Other non-investment and non-cash assets	419	1,020	344	1,364	547	744	1,291	3,074	4,962
Investments of long-term business and other operations:									
Investment properties	710	7,330	719	8,049	662	1,440	2,102	10,861	11,959
Investments accounted for using the equity method	–	–	–	–	–	4	4	4	–
Financial investments									
Loans (note M)	138	825	143	968	–	709	709	1,815	1,902
Equity securities and portfolio holdings in unit trusts	2,994	23,062	215	23,277	10,757	23	10,780	37,051	38,880
Debt securities (note N)	4,797	25,358	12,184	37,542	6,386	19,047	25,433	67,772	58,871
Other investments (note (v))	340	2,879	156	3,035	66	189	255	3,630	4,160
Deposits	869	8,378	377	8,755	550	1,383	1,933	11,557	6,090
Total investments	9,848	67,832	13,794	81,626	18,421	22,795	41,216	132,690	121,862
Cash and cash equivalents	214	948	34	982	939	130	1,069	2,265	2,571
Total assets	10,485	70,015	14,242	84,257	19,907	23,932	43,839	138,581	130,229

	Scottish Amicable Insurance Fund (note (ii)) £m	PAC with-profits fund (note (i)) Excluding Prudential Annuities Limited £m	Prudential Annuities Limited (note (iii)) £m	Total (note (iv)) £m	Other funds and subsidiaries Unit-linked assets and liabilities £m	Annuity and other long-term business £m	Total £m	2009 Total £m	2008 Total £m
Equity and liabilities									
Equity									
Shareholders' equity	–	–	–	–	–	1,939	1,939	1,939	1,655
Minority interests	–	28		28	–	–	–	28	47
Total equity	–	28	–	28	–	1,939	1,939	1,967	1,702
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)	9,972	55,588	11,969	67,557	19,035	19,665	38,700	116,229	107,707
Unallocated surplus of with-profits funds (reflecting application of 'realistic' provisions for UK regulated with-profits funds) (note (vi))	–	8,421	1,545	9,966	–	–	–	9,966	8,254
Total	9,972	64,009	13,514	77,523	19,035	19,665	38,700	126,195	115,961
Operational borrowings attributable to shareholder-financed operations	–	–	–	–	–	158	158	158	54
Borrowings attributable to with-profits funds	118	1,166	–	1,166	–	–	–	1,284	1,308
Deferred tax liabilities	66	807	281	1,088	–	452	452	1,606	1,421
Other non-insurance liabilities	329	4,005	447	4,452	872	1,718	2,590	7,371	9,783
Total liabilities	10,485	69,987	14,242	84,229	19,907	21,993	41,900	136,614	128,527
Total equity and liabilities	10,485	70,015	14,242	84,257	19,907	23,932	43,839	138,581	130,229

Notes

(i) For the purposes of this table and subsequent explanation, references to the PAC WPSF also include, for convenience, the amounts attaching to the Defined Charges Participating Sub-fund, which 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 investments comprise:

	2009 £m	2008 £m
Derivative assets*	910	1,326
Partnerships in investment pool and other**	2,720	2,834
	3,630	4,160

*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 £709 million (31 December 2008: £3,401 million), which are also included in the statement of financial position, the overall derivative position was a net asset of £201 million (31 December 2008: net liability of £2,075 million).

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

(vi) Unallocated surplus of with-profits funds
Prudential's long-term business written in the UK comprises predominantly life insurance policies with discretionary participating features under which the policyholders are entitled to participate in the returns of the funds supporting these policies. Such policies are called with-profits policies. Prudential maintains with-profits funds within the Group's long-term business funds, which segregate the assets and liabilities and accumulate the returns related to that with-profits business. The amounts accumulated in these with-profits funds are available to provide for future policyholder benefit provisions and for bonuses to be distributed to with-profits policyholders. The bonuses, both annual and final, reflect the right of the with-profits policyholders to participate in the financial performance of the with-profits funds. Shareholders' profits with respect to bonuses declared on with-profits business correspond to the shareholders' share of the cost of bonuses as declared by the Board of directors. The shareholders' share currently represents one-ninth of the cost of bonuses declared for with-profits policies.

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

(ii) US insurance operations

	2009			2008
	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		**3,092**	**3,092**	3,962
Total		**3,092**	**3,092**	3,962
Deferred tax assets		**1,944**	**1,944**	1,969
Other non-investment and non-cash assets		**1,404**	**1,404**	1,819
Investments of long-term business and other operations:				
Investment properties		**33**	**33**	13
Financial investments:				
Loans (note M)		**4,319**	**4,319**	5,121
Equity securities and portfolio holdings in unit trusts	**20,639**	**345**	**20,984**	15,142
Debt securities (note N)		**22,831**	**22,831**	24,249
Other investments (note (ii))		**955**	**955**	1,256
Deposits		**454**	**454**	390
Total investments	**20,639**	**28,937**	**49,576**	46,171
Properties held for sale		**3**	**3**	–
Cash and cash equivalents		**340**	**340**	246
Total assets	**20,639**	**35,720**	**56,359**	54,167
Equity and liabilities				
Equity				
Shareholders' equity (note (iii))		**3,011**	**3,011**	1,698
Minority interests		**–**	**–**	–
Total equity		**3,011**	**3,011**	1,698
Liabilities				
Policyholder:				
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	**20,639**	**27,672**	**48,311**	45,361
Total	**20,639**	**27,672**	**48,311**	45,361
Core structural borrowings of shareholder-financed operations		**154**	**154**	173
Operational borrowings attributable to shareholder-financed operations		**203**	**203**	511
Deferred tax liabilities		**1,858**	**1,858**	1,337
Other non-insurance liabilities		**2,822**	**2,822**	5,087
Total liabilities	**20,639**	**32,709**	**53,348**	52,469
Total equity and liabilities	**20,639**	**35,720**	**56,359**	54,167

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:

	2009	2008
	£m	£m
Derivative assets*	**519**	675
Partnerships in investment pool and other**	**436**	581
	955	1,256

* 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 £461 million (2008: £863 million), which is also included in the statement of financial position, the derivative position for US operations is a net asset of £58 million (2008: net liability of £188 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 159 (2008: 157) other partnerships by independent money managers that generally invest in various equities and fixed income loans and securities.

(iii) Changes in shareholder equity

	2009	2008
	£m	£m
Operating profits based on longer-term investment returns (note C)	**459**	406
Short-term fluctuations in investment returns (note F)	**27**	(1,058)
Profit (loss) before shareholder tax	**486**	(652)
Tax (note H)	**102**	72
Profit (loss) for the year	**588**	(580)

	2009	2008
	£m	£m
Profit (loss) for the year (as above)	**588**	(580)
Items recognised directly in equity:		
Exchange movements	**(231)**	545
Unrealised valuation movements on securities classified as available-for sale:		
Unrealised holding gains (losses) arising during the year	**2,249**	(2,482)
Less losses included in the income statement	**420**	378
Total unrealised valuation movements	**2,669**	(2,104)
Related change in amortisation of deferred income and acquisition costs (note R)	**(1,069)**	831
Related tax	**(557)**	442
Total other comprehensive income (loss)	**812**	(286)
Total comprehensive income (loss) for the year	**1,400**	(866)
Dividends and interest payments to central companies	**(87)**	(126)
Net increase (decrease) in equity	**1,313**	(992)
Shareholders' equity at beginning of year	**1,698**	2,690
Shareholders' equity at end of year	**3,011**	1,698

(iii) Asian insurance operations

	2009				2008
	With-profits business (note (i)) £m	Unit-linked assets and liabilities £m	Other £m	Total £m	Total £m
Assets					
Intangible assets attributable to shareholders:					
Goodwill	–	–	**80**	**80**	111
Deferred acquisition costs and other intangible assets	–	–	**822**	**822**	1,247
Total	–	–	**902**	**902**	1,358
Intangible assets attributable to with-profits fund:					
Deferred acquisition costs and other intangible assets	**97**	–		**97**	113
Deferred tax assets			**132**	**132**	101
Other non-investment and non-cash assets (note (ii))	**234**	**83**	**563**	**880**	1,416
Investments of long-term business and other operations:					
Investment properties	–	–	**11**	**11**	20
Investments accounted for using the equity method	–	–	**2**	**2**	–
Financial investments:					
Loans (note M)	**781**	**27**	**399**	**1,207**	1,705
Equity securities and portfolio holdings in unit trusts	**3,691**	**7,224**	**267**	**11,182**	8,077
Debt securities (note N)	**4,988**	**2,462**	**2,534**	**9,984**	11,113
Other investments	**73**	**44**	**141**	**258**	144
Deposits	**14**	**196**	**536**	**746**	750
Total investments	**9,547**	**9,953**	**3,890**	**23,390**	21,809
Cash and cash equivalents	**225**	**235**	**377**	**837**	1,501
Total assets	**10,103**	**10,271**	**5,864**	**26,238**	26,298
Equity and liabilities					
Equity					
Shareholders' equity	–	–	**1,462**	**1,462**	2,167
Minority interests	–	–	**1**	**1**	7
Total equity	–	–	**1,463**	**1,463**	2,174
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)	**8,808**	**9,717**	**3,333**	**21,858**	20,909
Unallocated surplus of with-profits funds	**53**	–	–	**53**	160
Total	**8,861**	**9,717**	**3,333**	**21,911**	21,069
Operational borrowings attributable to shareholders-financed operations	–	–	**210**	**210**	130
Deferred tax liabilities	**266**	**12**	**106**	**384**	441
Other non-insurance liabilities	**976**	**542**	**752**	**2,270**	2,484
Total liabilities	**10,103**	**10,271**	**4,401**	**24,775**	24,124
Total equity and liabilities	**10,103**	**10,271**	**5,864**	**26,238**	26,298

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'.

(ii) Further segmental analysis
No goodwill attributable to any individual country included in the Asia total of £80 million (2008: £111 million) exceeds 10 per cent of the Group goodwill attributable to shareholders of £1,310 million (2008: £1,341 million).
Included within "Other non-investment and non-cash assets" of £880 million (2008: £1,416 million), was "Property, plant and equipment" of £94 million (2008: £144 million). No individual country in Asia held property, plant and equipment at the end of the year which exceeds 10 per cent of the Group total of £367 million (2008: £635 million).

(iv) Asset management operations

	M & G £m	US £m	Asia £m	Total 2009 £m	Total 2008 £m
Assets					
Intangible assets:					
Goodwill	**1,153**	**16**	**61**	**1,230**	1,230
Deferred acquisition costs	**8**	**–**	**–**	**8**	6
Total	**1,161**	**16**	**61**	**1,238**	1,236
Other non-investment and non-cash assets	**607**	**161**	**82**	**850**	295
Financial investments:					
Loans (note M)	**1,413**	**–**	**–**	**1,413**	1,763
Equity securities and portfolio holdings in unit trusts	**129**	**–**	**8**	**137**	23
Debt securities (note N)	**1,149**	**–**	**15**	**1,164**	991
Other investments (note (iii))	**106**	**2**	**5**	**113**	462
Deposits	**38**	**13**	**12**	**63**	64
Total financial investments	**2,835**	**15**	**40**	**2,890**	3,303
Cash and cash equivalents (note (iii))	**820**	**40**	**110**	**970**	1,472
Total assets	**5,423**	**232**	**293**	**5,948**	6,306
Equity and liabilities					
Equity					
Shareholders' equity (note (i))	**1,326**	**111**	**222**	**1,659**	1,642
Minority interests	**3**	**–**	**–**	**3**	1
Total equity	**1,329**	**111**	**222**	**1,662**	1,643
Liabilities					
Intra-group debt represented by operational borrowings at Group level (note (ii))	**2,038**	**–**	**–**	**2,038**	1,278
Net asset value attributable to external holders of consolidated unit trusts and similar funds (note (iii))	**410**	**–**	**–**	**410**	1,065
Other non-insurance liabilities	**1,646**	**121**	**71**	**1,838**	2,320
Total liabilities	**4,094**	**121**	**71**	**4,286**	4,663
Total equity and liabilities	**5,423**	**232**	**293**	**5,948**	6,306

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 £2,031 million (2008: £1,269 million) of commercial paper and £7 million (2008: £9 million) of medium-term notes.

(iii) Consolidated unit trusts and similar 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 £269 million, £158 million of other investments, £(17) million of other net assets and liabilities and the net asset value attributable to external unit holders of £410 million, which are non-recourse to M&G and the Group.

M Loans portfolio

Loans are accounted for at amortised cost unless impaired. The amounts included in the statement of financial position are analysed as follows:

	2009	2008
	£m	£m
Insurance operations		
UK (note(i))	**1,815**	1,902
US (note (ii))	**4,319**	5,121
Asia (note (iii))	**1,207**	1,705
Asset management operations		
M&G (note (iv))	**1,413**	1,763
Total	**8,754**	10,491

Notes

(i) *UK insurance operations*

The loans of the Group's UK insurance operations of £1,815 million (2008: £1,902 million) comprise loans held by the PAC WPSF of £1,106 million (2008: £1,345 million) and loans held by shareholder-backed business of £709 million (2008: £557 million).

The loans held by the PAC WPSF comprise mortgage loans of £145 million, policy loans of £24 million and other loans of £937 million (2008: £150 million, £29 million and £1,166 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 £702 million (2008: £551 million) and other loans of £7 million (2008: £6 million).

(ii) *US insurance operations*

The loans of the Group's US insurance operations of £4,319 million (2008: £5,121 million) comprise mortgage loans of £3,774 million, policy loans of £530 million and other loans of £15 million (2008: £4,534 million, £587 million and nil 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:

	2009	2008
	%	%
Industrial	**32**	29
Multi-family residential	**18**	21
Office	**20**	21
Retail	**19**	17
Hotels	**10**	10
Other	**1**	2
	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 £6.3 million (2008: £7.5 million). The portfolio has a current estimated average loan to value of 74 per cent (2008: 73 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 £1,207 million at 31 December 2009 (2008: £1,705 million) comprise mortgage loans of £13 million, policy loans of £437 million and other loans of £757 million (2008: £238 million, £675 million and £792 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 £1,413 million (2008: £1,763 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: £92million A+ to A- (2008: nil), £835 million BBB+ to BBB- (2008: £1,100 million), £330 million BB+ to BB- (2008: £663 million) and £156 million B+ to B- (2008: nil).

N 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 2009 provided in the notes below.

	2009 £m	2008 £m
Insurance operations		
UK (note(i))	**67,772**	58,871
US (note (ii))	**22,831**	24,249
Asia (note (iii))	**9,984**	11,113
Asset management operations (note (iv))	**1,164**	991
Total	**101,751**	95,224

(i) *UK insurance operations*

		PAC-with-profits sub-fund			**Other funds and subsidiaries**			**UK insurance operations**	
	Scottish Amicable Insurance Fund £m	**Excluding Prudential Annuities Limited £m**	**Prudential Annuities Limited £m**	**Total £m**	**Unit-linked assets and liabilities £m**	**PRIL £m**	**Other annuity and long-term business £m**	**2009 Total £m**	2008 Total £m
S&P – AAA	**1,018**	**4,594**	**2,531**	**7,125**	**2,451**	**4,702**	**795**	**16,091**	18,981
S&P – AA+ to AA-	**399**	**2,242**	**1,131**	**3,373**	**765**	**1,716**	**219**	**6,472**	6,012
S&P – A+ to A-	**1,210**	**6,954**	**3,685**	**10,639**	**1,788**	**5,366**	**690**	**19,693**	15,929
S&P – BBB+ to BBB-	**1,124**	**6,141**	**1,287**	**7,428**	**905**	**2,276**	**450**	**12,183**	7,413
S&P – Other	**316**	**1,618**	**168**	**1,786**	**360**	**182**	**23**	**2,667**	1,033
	4,067	**21,549**	**8,802**	**30,351**	**6,269**	**14,242**	**2,177**	**57,106**	49,368
Moody's – Aaa	**59**	**252**	**51**	**303**	**4**	**76**	**21**	**463**	681
Moody's – Aa1 to Aa3	**18**	**108**	**40**	**148**	**–**	**85**	**25**	**276**	833
Moody's – A1 to A3	**36**	**181**	**290**	**471**	**–**	**251**	**43**	**801**	678
Moody's – Baa1 to Baa3	**65**	**324**	**258**	**582**	**–**	**141**	**27**	**815**	454
Moody's – Other	**27**	**140**	**61**	**201**	**–**	**102**	**9**	**339**	162
	205	**1,005**	**700**	**1,705**	**4**	**655**	**125**	**2,694**	2,808
Fitch	**46**	**300**	**331**	**631**	**–**	**314**	**31**	**1,022**	560
Other	**479**	**2,504**	**2,351**	**4,855**	**113**	**1,423**	**80**	**6,950**	6,135
Total debt securities	**4,797**	**25,358**	**12,184**	**37,542**	**6,386**	**16,634**	**2,413**	**67,772**	58,871

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 £6,950 million total debt securities held in 2009 (2008: £6,135 million) which are not externally rated, £2,190 million were internally rated AAA to A-, £3,445 million were internally rated BBB to B- and £1,315 million were rated below B- or unrated (2008: £2,325 million, £3,149 million and £661 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 £1,503 million PRIL and other annuity and long-term business investments which are not externally rated, £15 million were internally rated AAA, £88 million AA, £495 million A, £647 million BBB, £123 million BB and £135 million were internally rated B+ and below.

(ii) *US insurance operations*

US insurance operations held total debt securities with a carrying value of £22,831 million at 31 December 2009 (2008: £24,249 million). The table below provides information relating to the credit risk of the aforementioned debt securities.

Summary	**2009 Carrying value £m**	2008 Carrying value £m
Corporate security and commercial loans:		
Publicly traded and SEC Rule 144A traded	**13,338**	13,198
Non-SEC Rule 144A traded	**3,117**	3,273
Total	**16,455**	16,471
Residential mortgage-backed securities	**3,316**	4,509
Commercial mortgage-backed securities	**2,104**	1,869
Other debt securities	**956**	1,400
Total debt securities	**22,831**	24,249

The following table summarises the securities detailed above by rating as at 31 December 2009 using Standard and Poor's (S&P), Moody's, Fitch and implicit ratings of RMBS based on NAIC valuations:

	2009 £m	2008 £m
S&P – AAA	**3,287**	5,321
S&P – AA+ to AA-	**846**	853
S&P – A+ to A-	**5,192**	5,244
S&P – BBB+ to BBB-	**7,659**	7,077
S&P – Other	**895**	1,321
	17,879	19,816
Moody's – Aaa	**273**	458
Moody's – Aa1 to Aa3	**43**	100
Moody's – A1 to A3	**32**	111
Moody's – Baa1 to Baa3	**64**	100
Moody's – Other	**57**	95
	469	864
Implicit ratings of RMBS based on NAIC valuations (see below)		
NAIC 1	**747**	–
NAIC 2	**105**	–
NAIC 3-6	**473**	–
	1,325	–
Fitch	**281**	464
Other *	**2,877**	3,105
Total debt securities	**22,831**	24,249

In the table above, with the exception of residential mortgage-backed securities for 2009, 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 National Association of Insurance Commissioners (NAIC) in the US revised the regulatory rating process for more than 18,000 residential mortgage-backed securities. The table above includes these securities, where held by Jackson, using the regulatory rating levels established by an external third party (PIMCO).

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

	2009 £m	2008 £m
NAIC 1	**1,102**	1,334
NAIC 2	**1,623**	1,650
NAIC 3-6	**152**	121
	2,877	3,105

(iii) *Asia insurance operations*

	With-profits business £m	Unit-linked business £m	Other business £m	2009 Total £m	2008 Total £m
S&P – AAA	**1,778**	**295**	**186**	**2,259**	2,632
S&P – AA+ to AA-	**657**	**345**	**592**	**1,594**	3,746
S&P – A+ to A-	**749**	**463**	**284**	**1,496**	808
S&P – BBB+ to BBB-	**472**	**103**	**107**	**682**	902
S&P – Other	**397**	**3**	**517**	**917**	253
	4,053	**1,209**	**1,686**	**6,948**	8,341
Moody's – Aaa	**86**	**33**	**15**	**134**	494
Moody's – Aa1 to Aa3	**38**	**32**	**279**	**349**	108
Moody's – A1 to A3	**12**	**283**	**14**	**309**	398
Moody's – Baa1 to Baa3	**17**	**16**	**7**	**40**	60
Moody's – Other	**–**	**–**	**15**	**15**	50
	153	**364**	**330**	**847**	1,110
Fitch	**–**	**38**	**1**	**39**	41
Other	**782**	**851**	**517**	**2,150**	1,621
Total debt securities	**4,988**	**2,462**	**2,534**	**9,984**	11,113

Of the £517 million (2008: £555 million) of debt securities for other business which are not rated in the table above, £225 million (31 December 2008: £231 million) are in respect of government bonds and £265 million (2008: £221 million) are in respect of corporate bonds rated as investment grade by local external ratings agencies, and £22 million (2008: nil) 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 £1,164 million at 31 December 2009 (2008: £991 million) £1,149 million relates to M&G (2008: £975 million), £1,072 million were rated AAA to A– by Standard and Poor's or Aaa rated by Moody's (2008: £959 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 2009 is as follows:

	2009 £m	2008 £m
Shareholder-backed operations:		
UK insurance operations (note (a))	**2,044**	1,075
US insurance operations (note (b))	**6,376**	7,464
Asian insurance operations (note (c))	**59**	15
Other operations (note (d))	**326**	407
	8,805	8,961
With-profits operations:		
UK insurance operations (note (a))	**6,451**	4,977
Asian insurance operations (note (c))	**378**	328
	6,829	5,305
Total	**15,634**	14,266

(a) UK insurance operations

The UK insurance operations' exposure to asset-backed securities at 31 December 2009 comprises:

	2009 £m	2008 £m
Shareholder-backed business (31 Dec 2009: 29% AAA, 24% AA)	**2,044**	1,075
With-profits operations (31 Dec 2009: 33% AAA, 14% AA)	**6,451**	4,977
Total	**8,495**	6,052

All of the £2,044 million (2008: £1,075 million) exposure of the shareholder-backed business relates to the UK market and primarily relates to investments held by PRIL. £4,695 million of the £6,451 million (2008: £2,721 million of the £4,977 million) exposure of the with-profits operations relates to exposure to the UK market while the remaining £1,756 million (2008: £2,256 million) relates to exposure to the US market.

(b) US insurance operations

US insurance operations' exposure to asset-backed securities at 31 December 2009 comprises:

	2009 £m	2008 £m
RMBS Sub-prime (31 Dec 2009: 76% AAA, 1% AA)**	**194**	291
Alt-A (31 Dec 2009: 24% AAA, 5% AA)	**443**	646
Prime (31 Dec 2009: 82% AAA, 4% AA)	**2,679**	3,572
CMBS (31 Dec 2009: 46% AAA, 14% AA)	**2,104**	1,869
CDO funds (31 Dec 2009: 29% AAA, 10% AA)*, including £3m exposure to sub-prime	**79**	320
ABS (31 Dec 2009: 25% AAA, 18% AA), including nil exposure to sub-prime	**877**	766
Total	**6,376**	7,464

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

** RMBS 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 £378 million (2008: £328 million) asset-backed securities exposure of the Asian with-profit operations comprises:

	2009 £m	2008 £m
RMBS – all without sub-prime exposure	**–**	46
CMBS	**91**	88
CDO funds and ABS	**287**	194
Total	**378**	328

The £378 million (2008: £328 million) includes £228 million (2008: £259 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 £61 million (2008: £32 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 £378 million, 72 per cent (2008: £328 million, 70 per cent) are investment graded by Standard and Poor's.

(d) Other operations

Other operations' exposure to asset-backed securities at 31 December 2009 is held by Prudential Capital and comprises:

	2009 £m	2008 £m
RMBS Prime (2009: 92% AAA, 8% AA)	**91**	106
CMBS (2009: 48% AAA, 18% AA)	**193**	230
CDO funds - all without sub-prime exposure (AAA)	**42**	38
ABS	**–**	33
Total	**326**	407

O 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 are in inactive markets, 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 2009, 3 per cent of Jackson's debt securities were classified as level 3 (2008: 15 per cent) being fair values where there are significant inputs which are not based on observable market data. The higher proportion at 31 December 2008 arises from the illiquidity of the market at the time and hence a greater use of internal valuation techniques.

In 2008, due to inactive and illiquid markets, beginning at the end of the third quarter of 2008 the external prices obtained for certain asset-backed securities were deemed not to reflect fair value in the dislocated market conditions at that time. For the valuations at 31 December 2008, Jackson had therefore utilised internal valuation models, provided by PPM America, as best estimate of fair values of all non agency Residential Mortgage-backed Securities (RMBS) and Asset-backed Securities (ABS) and certain Commercial Mortgage-backed Securities (CMBS).

During 2009, improvements were observed in the level of liquidity for these sectors of structured securities and this increased liquidity in the markets for certain tranches of non-agency RMBS and ABS resulted in Jackson being able to rely on external prices for the securities as the most appropriate measure of fair value.

Accordingly, at 31 December 2009, nearly all of the non-agency RMBS, ABS and certain CMBS which at 31 December 2008 were valued using internal valuation models due to the dislocated market conditions in 2008, have now been valued using external prices.

(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, are recorded in the income statement 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) 2009 movements in unrealised gains and losses
In general, the debt securities of the Group's US insurance operations are purchased with the intention to hold them for the longer-term. In 2009 there was a movement in the statement of financial position value for debt securities classified as available-for-sale from a net unrealised loss of £2,897 million to a net unrealised gain of £4 million (2008: net unrealised loss of £136 million to a net unrealised loss of £2,897 million), principally as a result of improving credit spreads more than offsetting the negative effect on the bond values from the increase in the US treasury yields. During 2009, the gross unrealised gain in the statement of financial position increased from £281 million at 31 December 2008 to £970 million at 31 December 2009, while the gross unrealised loss decreased from £3,178 million at 31 December 2008 to £966 million at 31 December 2009.

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

	2009	Changes in Unrealised appreciation**	Foreign exchange translation	2008
		Reflected as part of movement in comprehensive income		
	£m	£m	£m	£m
Assets fair valued at below book value				
Book value*	**8,220**			20,600
Unrealised gain (loss)	**(966)**	**1,925**	**287**	(3,178)
Fair value (as included in statement of financial position)	**7,254**			17,422
Assets fair valued at or above book value				
Book value*	**14,444**			6,296
Unrealised gain	**970**	**744**	**(55)**	281
Fair value (as included in statement of financial position)	**15,414**			6,577
Total				
Book value*	**22,664**			26,896
Net unrealised loss	**4**	**2,669**	**232**	(2,897)
Fair value (as included in statement of financial position)***	**22,668**			23,999
Reflected as part of movement in comprehensive income				
Movement in unrealised appreciation	**2,669**			(2,104)
Exchange movements	**232**			(657)
	2,901			(2,761)

*Book value represents cost/amortised cost of the debt securities
**Translated at the average rate of $1.57: £1.
*** Debt securities for US operations included in the statement of financial position at 31 December 2009 of £22,831 million (2008: £24,249 million), and as referred to in note N, comprise £22,668 million (2008: £23,999 million) for securities classified as available-for-sale, as shown above, and £163 million (2008: £250 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 £1,925 million (2008: £1,997 million) as shown above was value reduction of £72 million (2008: £105 million) 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 2009.

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

The unrealised losses in the Jackson statement of financial position on unimpaired securities are £966 million (2008: £3,178 million). This relates to assets with fair market value and book value of £7,254 million (2008: £17,422 million) and £8,220 million (2008: £20,600 million) respectively. The following table shows the fair value of the debt securities in a gross unrealised loss position for various percentages of book value at 31 December:

	2009		2008	
	Fair value £m	**Unrealised loss £m**	Fair value £m	Unrealised loss £m
Between 90% and 100%	**5,127**	**(169)**	8,757	(431)
Between 80% and 90%	**1,201**	**(203)**	4,581	(809)
Below 80% (note(d))	**926**	**(594)**	4,084	(1,938)
Total	**7,254**	**(966)**	17,422	(3,178)

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

	2009		2008	
	Fair value £m	**Unrealised loss £m**	Fair value £m	Unrealised loss £m
Between 90% and 100%	**102**	**(3)**	479	(27)
Between 80% and 90%	**160**	**(28)**	120	(19)
Below 80% (note(d))	**159**	**(88)**	192	(166)
Total	**421**	**(119)**	791	(212)

(b) Unrealised losses by maturity of security

	2009 £m	2008 £m
Less than 1 year	**–**	(21)
1 year to 5 years	**(29)**	(537)
5 years to 10 years	**(127)**	(1,236)
More than 10 years	**(92)**	(395)
Mortgage-backed and other debt securities	**(718)**	(989)
Total	**(966)**	(3,178)

(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:

	2009			2008		
	Non investment grade £m	**Investment grade £m**	**Total £m**	Non investment grade £m	Investment grade £m	Total £m
Less than 6 months	**(7)**	**(51)**	**(58)**	(108)	(362)	(470)
6 months to 1 year	**(25)**	**(59)**	**(84)**	(125)	(1,164)	(1,289)
1 year to 2 years	**(59)**	**(234)**	**(293)**	(154)	(622)	(776)
2 years to 3 years	**(125)**	**(199)**	**(324)**	(15)	(91)	(106)
More than 3 years	**(35)**	**(172)**	**(207)**	(61)	(476)	(537)
Total	**(251)**	**(715)**	**(966)**	(463)	(2,715)	(3,178)

At 31 December 2009, the gross unrealised losses in the statement of financial position for the sub-prime and Alt-A securities in an unrealised loss position were £119 million (31 December 2008: £212 million), as shown above in note (a). Of these losses £21 million (31 December 2008: £91 million) relate to securities that have been in an unrealised loss position for less than one year and £98 million (31 December 2008: £121 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, £594 million of the £966 million of gross unrealised losses at 31 December 2009 (31 December 2008: £1,938 million of the £3,178 million of gross unrealised losses) related to securities whose fair value was below 80 per cent of the book value. The analysis of the £594 million (31 December 2008: £1,938 million), by category of debt securities and by age analysis indicating the length of time for which their fair value was below 80 per cent of the book value, is as follows:

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

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

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

P Core structural borrowings of shareholder-financed operations

	2009 £m	2008 £m
Core structural borrowings of shareholder-financed operations:		
Perpetual subordinated capital securities (Innovative Tier 1*)	**1,422**	1,059
Subordinated notes (Lower Tier 2*)	**1,269**	928
Subordinated debt total	**2,691**	1,987
Senior debt :**		
2009	**–**	249
2023	**300**	300
2029	**249**	249
Holding company total	**3,240**	2,785
Jackson surplus notes (Lower Tier 2*)	**154**	173
Total (per consolidated statement of financial position)	**3,394**	2,958

* These debt classifications are consistent with the treatment of capital for regulatory purposes, as defined in the FSA handbook.
** The senior debt ranks above subordinated debt in the event of liquidation.

Management analyses the net core structural borrowings position as follows:

	2009 £m	2008 £m
Total core structural borrowings (as above)	**3,394**	2,958
Less: Holding company cash and short-term investments (recorded within the consolidated statement of financial position)	**(1,486)**	(1,165)
Net core structural borrowings of shareholder-financed operations	**1,908**	1,793

In May 2009, the Company repaid the maturing £249 million senior debt. In the same month, the Company issued £400 million subordinated debt in part to replace the maturing debt.

In July 2009, the Company issued US$750 million perpetual subordinated capital securities.

Q Other borrowings

	2009 £m	2008 £m
Operational borrowings attributable to shareholder-financed operations		
Borrowings in respect of short-term fixed income securities programmes	**2,038**	1,278
Non-recourse borrowings of US operations	**203**	511
Other borrowings (note (i))	**510**	188
Total	**2,751**	1,977
Borrowings attributable to with-profits operations		
Non-recourse borrowings of consolidated investment funds	**1,016**	1,161
£100m 8.5% undated subordinated guaranteed bonds of the Scottish Amicable Insurance Fund	**100**	100
Other borrowings (predominantly obligations under finance leases)	**168**	47
Total	**1,284**	1,308

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 sufficient 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.

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 are for individual and group annuity business where the incidence of acquisition costs is negligible.

In the case of Jackson term business, acquisition costs are deferred and amortised in line with expected premiums. For annuity business, acquisition costs are deferred and amortised in line with expected gross profits on the relevant contracts. For interest-sensitive business, the key assumption is the long-term spread between the earned rate and the rate credited to policyholders, which is based on the annual spread analysis. In addition, expected gross profits depend on mortality assumptions, assumed unit costs and terminations other than deaths (including the related charges), all of which are based on a combination of actual experience of Jackson, industry experience and future expectations. A detailed analysis of actual mortality experience is measured by internally developed mortality studies.

Variable annuity contracts written by Jackson may provide for guaranteed minimum death, income, or withdrawal benefit features. In general terms, liabilities for these benefits are accounted for under US GAAP by using estimates of future benefits and fees under best estimate assumptions. For variable annuity business the key assumption is the expected long-term level of equity market returns, which for 2009 and 2008 was 8.4 per cent per annum (gross of fund management fees) determined using a mean reversion methodology. Under the mean reversion methodology, projected returns over the next five years are flexed (subject to capping) so that, combined with the actual rates of return for the current and the previous two years the 8.4 per cent rate is maintained. The projected rates of return are capped at no more than 15 per cent for each of the next five years.

These returns affect the level of future expected profits through their effects on the fee income with consequential impact on the amortisation of deferred acquisition costs and the required level of provision for guaranteed minimum death benefit claims.

For traditional life insurance contracts, provisions for future policy benefits are determined using the net level premium method and assumptions as of the issue date as to mortality, interest, policy lapses and expenses plus provisions for adverse deviation.

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

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

	2009 £m	2008 £m
Deferred acquisition costs (DAC) related to insurance contracts as classified under IFRS 4	**3,823**	5,097
Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	**107**	108
	3,930	5,205
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4	**52**	64
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**	1
Distribution rights	**66**	79
	119	144
Total of deferred acquisition costs and other intangible assets	**4,049**	5,349
Arising in:		
UK insurance operations	**127**	134
US insurance operations	**3,092**	3,962
Asia insurance operations	**822**	1,247
Asset management operations	**8**	6
	4,049	5,349

The movement in the year comprises:

	2009 £m	2008 £m
Balance at the beginning of the year	**5,349**	2,836
Additions	**1,071**	959
Amortisation to income statement	**(316)**	(551)
Exchange differences	**(550)**	1,274
Change in shadow DAC	**(1,069)**	831
DAC movement on sale of Taiwan agency business	**(436)**	–
Balance at the end of the year	**4,049**	5,349

S Defined benefit pension schemes

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

	2009 £m	2008 £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)	**(122)**	(67)
Attributable to shareholder-backed operations (i.e. shareholders' equity)	**(128)**	(82)
Economic deficit	**(250)**	(149)
Exclude: investments in Prudential insurance liabilities (offset on consolidation in the Group financial statements against insurance liabilities)	**(187)**	(157)
Deficit under IAS 19 included in Provisions in the statement of financial position	**(437)**	(306)

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.

Under the IAS 19 valuation basis, the Group adopted IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" in 2008. Under IFRIC 14, the Group has not recognised the underlying PSPS surplus of £513 million gross of deferred tax (2008: £728 million) due to the Group not having an unconditional right of refund to any surplus in the scheme. Additionally, under IFRIC 14, the Group has also recognised a liability for committed deficit funding obligation to PSPS. Although the contributions would increase the surplus in the scheme, the corresponding asset will not be recognised in the Group accounts. At 31 December 2009, based on the new funding arrangement as described below, the Group has recognised a liability for deficit funding to 30 June 2012 for PSPS of £75 million, gross of deferred tax (2008: £65 million gross of deferred tax based on the previous deficit funding commitment to 5 April 2010).

The economic financial position of the defined benefit pension schemes reflects the total assets of the schemes including investments in Prudential policies. This is to be contrasted with the IAS 19 basis assets of the M&G scheme, as consolidated into the Group statement of financial position, where the investments in Prudential insurance policies are netted against policyholder liabilities. The M&G pension scheme has invested £187 million at 31 December 2009 (2008: £157 million) in Prudential insurance policies. Additionally, the PSPS scheme has invested £101 million at 31 December 2009 (2008: £103 million) in Prudential insurance policies. However, these PSPS assets are not recognised due to the application of IFRIC 14.

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 form the basis of the scheme's statutory funding objective. Accordingly, the total contributions to be made by the Group into the scheme were reduced from the previous arrangement of £70-£75 million per annum to £50 million per annum effective from 1 July 2009. As the scheme was in a surplus position at the valuation date, no formal deficit funding plan was required. However, recognising that there had been a significant deterioration in the value of the scheme assets from since 5 April 2008 to the date of the finalisation of the valuation, contributions to the scheme for additional funding of £25 million per annum, as well as the £25 million per annum employer's contributions for ongoing service of current employees, was agreed with the Trustees subject to a reassessment when the next valuation is completed. The additional funding is akin to deficit funding. 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, with a shortfall of actuarially determined liabilities of 9 per cent, representing a deficit of £38 million. Based on this valuation, deficit funding amounts designed to eliminate the actuarial deficit over a 7 year period were made from July 2009 of £7.3 million per annum. The IAS 19 deficit of the Scottish Amicable Pension Scheme at 31 December 2009 of £139 million (2008: £44 million) has been allocated 50 per cent to the PAC with-profits fund and 50 per cent to the PAC shareholders fund.

The valuation of the M&G pension scheme as at 31 December 2008 demonstrated the scheme to be 76 per cent funded, with a shortfall of actuarially determined assets to liabilities of £51 million. Based on this valuation, deficit funding amounts designed to eliminate the actuarial deficit over a five year period are being 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 at 31 December 2009 was £36 million (2008: £23 million) and is wholly attributable to shareholders.

(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:

	2009 %	2008 %
Discount rate	**5.8**	6.1
Rate of increase in salaries	**5.7**	5.0
Rate of inflation	**3.7**	3.0
Rate of increase of pensions in payment for inflation:		
Guaranteed (maximum 5%)	**3.7**	3.0
Guaranteed (maximum 2.5%)	**2.5**	2.5
Discretionary	**2.5**	2.5
Expected returns on plan assets	**4.5**	6.2

The calculations are based on current actuarially calculated mortality estimates with a specific allowance made for future improvements in mortality, which is broadly based on adjusted versions of the medium cohort projections prepared by the Continuous Mortality Investigation Bureau of the Institute and Faculty of Actuaries.

The tables used for PSPS immediate annuities in payment at 31 December 2009 were:

Male: 108.6 per cent PNMA 00 with medium cohort improvements subject to a floor of 1.75 per cent up to the age of 90, decreasing linearly to zero by age of 120; and
Female: 103.4 per cent PNFA 00 with 75 per cent medium cohort improvements subject to a floor of one per cent up to the age of 90 and decreasing linearly to zero by age of 120.

(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:

	2009 £m					
		(Charge) credit to income statement				
	Surplus (deficit) in scheme at 1 January 2009	Operating results (based on longer-term investment returns) (note a)	Actuarial and other gains and losses (note b)	Contributions paid	Disposal of Taiwan agency business*	Surplus (deficit) in scheme at 31 Dec 2009 (note c)
All schemes underlying position (without the effect of IFRIC 14)						
Surplus (deficit)	**644**	**(71)**	**(337)**	**85**	**17**	**338**
Less: amount attributable to PAC with-profits fund	**(483)**	**33**	**207**	**(42)**	**–**	**(285)**
Shareholders' share:						
Gross of tax surplus (deficit)	**161**	**(38)**	**(130)**	**43**	**17**	**53**
Related tax	**(47)**	**11**	**36**	**(11)**	**(4)**	**(15)**
Net of shareholders' tax	**114**	**(27)**	**(94)**	**32**	**13**	**38**
Effect of IFRIC 14						
Surplus (deficit)	**(793)**	**23**	**182**	**–**	**–**	**(588)**
Less: amount attributable to PAC with-profits fund	**550**	**(17)**	**(126)**	**–**	**–**	**407**
Shareholders' share:						
Gross of tax surplus (deficit)	**(243)**	**6**	**56**	**–**	**–**	**(181)**
Related tax	**68**	**(2)**	**(15)**	**–**	**–**	**51**
Net of shareholders' tax	**(175)**	**4**	**41**	**–**	**–**	**(130)**
With the effect of IFRIC 14						
Surplus (deficit)	**(149)**	**(48)**	**(155)**	**85**	**17**	**(250)**
Less: amount attributable to PAC with-profits fund	**67**	**16**	**81**	**(42)**	**–**	**122**
Shareholders' share:						
Gross of tax surplus (deficit)	**(82)**	**(32)**	**(74)**	**43**	**17**	**(128)**
Related tax	**21**	**9**	**21**	**(11)**	**(4)**	**36**
Net of shareholders' tax	**(61)**	**(23)**	**(53)**	**32**	**13**	**(92)**

* Including the effect of exchange translation difference.

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:

	2009 £m	2008 £m
Service cost	**(34)**	(45)
Curtailment credit	**–**	44
Finance (expense) income:		
Interest on pension scheme liabilities	**(277)**	(289)
Expected return on assets	**240**	336
Total (charge) credit without the effect IFRIC 14	**(71)**	46
Effect of IFRIC 14 for pension schemes	**23**	(82)
Total charge after the effect of IFRIC 14	**(48)**	(36)

The net charge to operating profit (gross of the share attributable to the PAC with-profits fund) of £48 million (2008: £36 million) is made up of a charge of £29 million (2008: £29 million) relating to PSPS and a charge of £19 million (2008: £7 million) for other schemes. This net charge represents:

	2009 £m	2008 £m
Underlying IAS 19 charge for other pension schemes	**(19)**	(7)
Cash costs for PSPS	**(25)**	(25)
Unwind of discount on opening provision for deficit funding for PSPS	**(4)**	(4)
	(48)	(36)

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 excluding the charge relating to the sold Taiwan agency business) are as follows:

	2009 £m	2008 £m
Actual less expected return on assets	**108**	(356)
(Losses) gains on changes of assumptions for plan liabilities	**(521)**	272
Experience gains on liabilities	**76**	145
Total charge without the effect of IFRIC 14	**(337)**	61
Effect of IFRIC 14 for pension schemes	**182**	(81)
Actuarial and other gains and losses after the effect of IFRIC 14	**(155)**	(20)

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 2009 actuarial losses of £337 million primarily reflects the effect of increases in inflation rates and decrease in risk discount rates partially offset by the excess of market returns over long-term assumptions and experience gains on liabilities.

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 2009 in relation to this provision recognised above as other gains and losses on defined benefit pension schemes was £48 million (2008: £13 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:

	2009 £m	2008 £m
Equities	**1,096**	1,036
Bonds	**3,686**	2,707
Properties	**287**	301
Cash-like investments	**443**	1,273
Total value of assets	**5,512**	5,317
Present value of benefit obligations	**(5,174)**	(4,673)
	338	644
Effect of the application of IFRIC 14 for pension schemes:		
Derecognition of PSPS surplus	**(513)**	(728)
Set up obligation for deficit funding for PSPS	**(75)**	(65)
Pre-tax deficit	**(250)**	(149)

(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 2009 of £4,436 million, £515 million and £223 million respectively (2008: £4,075 million, £398 million and £180 million) to changes in discount rates and inflation rates.

2009

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

2008

Assumption	**Change in assumption**	**Impact on scheme liabilities on IAS 19 basis**	
Discount rate	Decrease by 0.2% from 6.1% to 5.9%	Increase in scheme liabilities by:	
		PSPS	3.3%
		Scottish Amicable	4.9%
		M&G	4.5%
Discount rate	Increase by 0.2% from 6.1% to 6.3%	Decrease in scheme liabilities by:	
		PSPS	3.1%
		Scottish Amicable	4.6%
		M&G	4.2%
Rate of inflation	Decrease by 0.2% from 3.0% to 2.8%	Decrease in scheme liabilities by:	
	with consequent reduction in salary	PSPS	0.8%
	increases	Scottish Amicable	4.5%
		M&G	3.8%

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

For PSPS, the underlying surplus of the scheme of £513 million (2008: £728 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.

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

T 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 2009 is summarised below:

	2009			2008		
	At fair value £m	**Cost / Amortised cost (note (i)) £m**	**Total £m**	At fair value £m	Cost / Amortised cost (note (i)) £m	Total £m
Intangible assets attributable to shareholders:						
Goodwill	**–**	**1,310**	**1,310**	–	1,341	1,341
Deferred acquisition costs and other intangible assets	**–**	**4,049**	**4,049**	–	5,349	5,349
Total	**–**	**5,359**	**5,359**	–	6,690	6,690
Intangible assets attributable to with-profits funds:						
In respect of acquired subsidiaries for venture fund and other investment purposes	**–**	**124**	**124**	–	174	174
Deferred acquisition costs and other intangible assets	**–**	**106**	**106**	–	126	126
Total	**–**	**230**	**230**	–	300	300
Total	**–**	**5,589**	**5,589**	–	6,990	6,990
Other non-investment and non-cash assets:						
Property, plant and equipment	**–**	**367**	**367**	–	635	635
Reinsurers' share of insurance contract liabilities	**–**	**1,187**	**1,187**	–	1,240	1,240
Deferred tax asset	**–**	**2,708**	**2,708**	–	2,886	2,886
Current tax recoverable	**–**	**636**	**636**	–	657	657
Accrued investment income	**–**	**2,473**	**2,473**	–	2,513	2,513
Other debtors	**–**	**762**	**762**	–	1,232	1,232
Total	**–**	**8,133**	**8,133**	–	9,163	9,163
Investments of long-term business and other operations:						
Investment properties	**10,905**	**–**	**10,905**	11,992	–	11,992
Investments accounted for using the equity method	**–**	**6**	**6**	–	10	10
Financial investments:						
Loans (note M)	**–**	**8,754**	**8,754**	–	10,491	10,491
Equity securities and portfolio holdings in unit trusts (note (ii))	**69,354**	**–**	**69,354**	62,122	–	62,122
Debt securities (note (ii) and N)	**101,751**	**–**	**101,751**	95,224	–	95,224
Other investments (note (ii))	**5,132**	**–**	**5,132**	6,301	–	6,301
Deposits	**12,820**	**–**	**12,820**	7,294	–	7,294
Total	**199,962**	**8,760**	**208,722**	182,933	10,501	193,434
Properties held for sale	**3**	**–**	**3**	–	–	-
Cash and cash equivalents	**5,307**	**–**	**5,307**	5,955	–	5,955
Total assets	**205,272**	**22,482**	**227,754**	188,888	26,654	215,542
Percentage of Group total assets	**90%**	**10%**	**100%**	88%	12%	100%

Notes

(i) Assets carried at cost or amortised cost are subject to impairment testing where appropriate under IFRS requirements.

(ii) These assets comprise financial instruments requiring fair valuation under IAS 39 with a value of £176.2 billion (2008: £163.6 billion).

Determination of fair value
The fair values of the financial assets and liabilities as shown on the table above have been determined on the following bases.

The fair values of the financial instruments for which fair valuation is required under IFRS are determined by the use of current market bid prices for quoted investments, or by using quotations from independent third-parties, such as brokers and pricing services 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 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 judgements about the financial instruments, including estimates of the timing and amount of expected future cash flows and the credit standing of counterparties. Such estimates do not reflect any premium or discount that could result from offering for sale at one time the Group's entire holdings of a particular financial instrument, nor do they consider the tax impact of the realisation of unrealised gains or losses from selling the financial instrument being fair valued. In some cases the fair value estimates cannot be substantiated by comparison to independent markets, nor can the disclosed value be realised in immediate settlement of the financial instrument.

At 31 December 2008 illiquid market conditions resulted in inactive markets for certain of the Group's financial instruments namely certain asset-backed securities issued by Jackson. As a result, there was generally limited observable market information for these instruments. Fair value estimates for financial instruments deemed to be in an illiquid market are based on judgements regarding current economic conditions, liquidity discounts, currency, credit and interest rate risks, loss experience and other factors. These fair values are estimates and involve considerable uncertainty and variability as a result of the inputs selected and may differ significantly from the values that would have been used had the ready market existed, and the differences could be material. At 31 December 2008 Jackson utilised internal valuation models as best estimate of fair values of all non-agency Residential Mortgage-Backed Securities (RMBS) and Asset-Backed Securities (ABS) and certain Commercial Mortgage-Backed Securities (CMBS). During 2009, improvements were observed in the level of liquidity for these sectors of structured securities with the result that Jackson was able to rely on external prices for these securities as the most appropriate measure of fair value. At 31 December 2009 nearly all of the non-agency RMBS, ABS and certain CMBS which at 31 December 2008 were valued using internal models due to the dislocated market conditions in 2008 have now been valued using external prices.

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.

The fair value of borrowings is based on quoted market prices, where available.

For investment contracts in the US with fixed and guaranteed terms the fair value is determined based on the present value of future cash flows discounted at current interest rates.

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

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

In March 2009 IFRS 7 *Financial Instruments: Disclosures* was amended by the IASB to require certain additional disclosures to be included in IFRS financial statements. This includes, as is presented below, a table of 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. IFRS 7 does not require comparatives to be provided in the year of adoption but we have chosen to provide the table at both 31 December 2009 and 31 December 2008.

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 fund valued with observable inputs. It also includes net assets attributable to unitholders 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 have generally been classified as level 2 as the nature of broker quotations means that it does not strictly meet the definition of a level 1 asset. However 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.

In addition level 2 includes debt securities that are valued internally using standard market practices. Of the total level 2 debt securities of £83,301 million at 31 December 2009, £6,426 million are valued internally. The majority of such securities use matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities. 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 2009 the Group held £5,190 million, 3 per cent of the fair valued financial instruments, within level 3. Of these amounts £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 3.7 per cent of the total assets of the participating funds at 31 December 2009. Total level 3 liabilities were £348 million out of total participating fund liabilities of £104,817 million.

Of the £1,684 million level 3 financial investments, net of derivative liabilities which support non-linked shareholder-backed business (3.6 per cent of the total assets net of derivative liabilities backing this business), £1,653 million are externally valued and £31 million are internally valued. Internal valuations, which represent only 0.04 per cent of the total assets net of derivative liabilities supporting non-linked shareholder-backed business, are inherently more subjective than external valuations.

If the value of all level 3 investments backing non-linked shareholder-backed business was varied by 10 per cent, the change in valuation would be £ 3 million, which would reduce shareholders' equity by this amount before tax. Of this amount a £5 million increase would pass through the income statement substantially as part of short term fluctuations outside of operating profit offset by a £8 million decrease included as part of other comprehensive income, being unrealised movements on assets classified as available-for-sale.

	31 December 2009			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£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**
Borrowing attributable to the with-profits fund held at fair value	**–**	**(105)**	**–**	**(105)**
Investment contract 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				
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 contract 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 contract 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**
Borrowing attributable to the with-profits fund held at fair value	**–**	**(105)**	**–**	**(105)**
Investment contract 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%**

	31 December 2008			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
With-profits				
Equity securities and portfolio holdings in unit trusts	30,427	885	509	31,821
Debt securities	6,765	34,858	1,342	42,965
Other investments (including derivative assets)	77	1,569	2,122	3,768
Derivative liabilities	(166)	(2,861)	–	(3,027)
Total financial investments net of derivative liabilities	37,103	34,451	3,973	75,527
Borrowing attributable to the with-profits fund held at fair value	–	(158)	–	(158)
Investment contract liabilities without discretionary participation features held at fair value	–	–	–	–
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,010)	(384)	(381)	(1,775)
Total	36,093	33,909	3,592	73,594
Percentage of total	49%	46%	5%	100%
Unit-linked and variable annuity				
Equity securities and portfolio holdings in unit trusts	29,097	114	–	29,211
Debt securities	2,650	3,615	33	6,298
Other investments (including derivative assets)	117	87	–	204
Derivative liabilities	–	–	–	–
Total financial investments net of derivative liabilities	31,864	3,816	33	35,713
Investment contract liabilities without discretionary participation features held at fair value	–	(10,309)	–	(10,309)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(877)	–	–	(877)
Total	30,987	(6,493)	33	24,527
Percentage of total	126%	(26)%	0%	100%
Non-linked shareholder-backed				
Equity securities and portfolio holdings in unit trusts	745	27	318	1,090
Debt securities	6,514	35,451	3,996	45,961
Other investments (including derivative assets)	427	1,210	692	2,329
Derivative liabilities	(38)	(1,521)	(246)	(1,805)
Total financial investments net of derivative liabilities	7,648	35,167	4,760	47,575
Investment contract liabilities without discretionary participation features held at fair value	–	(1,307)	–	(1,307)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(311)	(815)	(65)	(1,191)
Total	7,337	33,045	4,695	45,077
Percentage of total	16%	73%	11%	100%
Group total				
Equity securities and portfolio holdings in unit trusts	60,269	1,026	827	62,122
Debt securities	15,929	73,924	5,371	95,224
Other investments (including derivative assets)	621	2,866	2,814	6,301
Derivative liabilities	(204)	(4,382)	(246)	(4,832)
Total financial investments net of derivative liabilities	76,615	73,434	8,766	158,815
Borrowing attributable to with-profits fund at fair value	–	(158)	–	(158)
Investment contract liabilities without discretionary participation features held at fair value	–	(11,616)	–	(11,616)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(2,198)	(1,199)	(446)	(3,843)
Total	74,417	60,461	8,320	143,198
Percentage of total	52%	42%	6%	100%

U Policyholder liabilities

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

Group insurance operations

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

	Insurance operations			
	UK	**US**	**Asia**	**Total**
	£m	£m	£m	£m
At 1 January 2008	138,290	34,848	17,179	190,317
Premiums	9,372	6,728	4,162	20,262
Surrenders	(4,281)	(3,852)	(1,191)	(9,324)
Maturities/Deaths	(8,324)	(564)	(354)	(9,242)
Net cash flows	(3,233)	2,312	2,617	1,696
Shareholders transfers post tax	(284)	–	(23)	(307)
Investment-related items and other movements	(16,331)	(4,552)	(4,293)	(25,176)
Foreign exchange translation differences	(2,481)	12,753	5,589	15,861
At 31 December 2008 / 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 cash 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)**
As at 31 December 2009	**126,195**	**48,311**	**21,911**	**196,417**

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).

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 funds and subsidiaries		
	SAIF and PAC with-profits sub-fund	**Unit-linked liabilities**	**Annuity and other long-term business**	**Total**
	£m	**£m**	**£m**	**£m**
At 1 January 2008	103,772	18,977	15,541	138,290
Premiums	3,157	2,435	3,780	9,372
Surrenders	(2,336)	(1,838)	(107)	(4,281)
Maturities/Deaths	(6,309)	(666)	(1,349)	(8,324)
Net cash flows (note (a))	(5,488)	(69)	2,324	(3,233)
Shareholders transfers post tax	(284)	–	–	(284)
Switches	(360)	360	–	–
Assumption changes (shareholder-backed business) (note (c))	–	–	447	447
Investment-related items and other movements (note (b))	(13,049)	(2,952)	(777)	(16,778)
Foreign exchange translation differences	(2,483)	2	–	(2,481)
At 31 December 2008 / 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 cash 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	**87,495**	**19,035**	**19,665**	**126,195**

Notes

(a) Net cash flows of negative £4,343 million have increased from negative £3,233 million in 2008, principally as a result of a decrease in premiums following the decision to limit bulk annuity transactions in the period.

(b) Investment-related items and other movements of £14,118 million across fund types reflected the strong performance of UK equity markets in 2009, as well as the increase in value of debt securities and the reversal of unrealised losses on property investments recorded in 2008.

(c) Assumption changes principally represent the net impact of changes to the deflation reserve, expense assumptions and modelling changes.

US insurance operations

	Variable annuity separate account liabilities	Fixed annuity, GIC and other business	Total
	£m	£m	£m
At 1 January 2008	15,027	19,821	34,848
Premiums	2,637	4,091	6,728
Surrenders	(1,053)	(2,799)	(3,852)
Maturities/Deaths	(161)	(403)	(564)
Net cash flows (note (b))	1,423	889	2,312
Investment-related items and other movements (note (c))	(6,288)	1,736	(4,552)
Foreign exchange translation differences (note (a))	4,376	8,377	12,753
At 31 December 2008 / 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 cash 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	**20,639**	**27,672**	**48,311**

Note

(a) Movements in the year have been translated at an average rate of 1.5656 (full year 2008: 1.8518). The closing balance has been translated at closing rate of 1.6149 (full year 2008: 1.4378). Differences upon retranslation are included in foreign exchange translation differences of £5,225 million.

(b) Net cash flows for the year were £5,189 million compared with £2,312 million in 2008, 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 were impacted by the recovery of US equity markets during 2009. Negative movements in fixed annuity, GIC and other business of £382 million primarily represents a reduction in the liabilities for variable annuity guarantees following improvements in equity markets and increases in interest rates offset by interest credited to policyholder accounts.

Asian insurance operations

	With-profits business £m	Unit-linked liabilities £m	Other £m	Total £m
At 1 January 2008	6,547	6,971	3,661	17,179
Premiums				
New business (note (b))	391	1,252	233	1,876
In force	647	1,009	630	2,286
	1,038	2,261	863	4,162
Surrenders	(354)	(614)	(223)	(1,191)
Maturities/Deaths	(181)	(14)	(159)	(354)
Net cash flows	503	1,633	481	2,617
Shareholders transfers post tax	(23)	–	–	(23)
Investment-related items and other movements (note (d))	(1,320)	(3,158)	185	(4,293)
Foreign exchange translation differences (note (a))	2,387	1,774	1,428	5,589
At 31 December 2008 / 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 cash flows	**209**	**1,181**	**874**	**2,264**
Shareholders transfers post tax	**(20)**	**–**	**–**	**(20)**
Change in reserving basis in Malaysia (note (c))	**–**	**(9)**	**(54)**	**(63)**
Change in other reserving basis	**–**	**–**	**(4)**	**(4)**
Investment-related items and other movements (note (d))	**1,431**	**2,661**	**150**	**4,242**
Foreign exchange translation differences (note (a))	**(853)**	**(612)**	**(604)**	**(2,069)**
Disposal of Taiwan agency business (note (e))	**–**	**(724)**	**(2,784)**	**(3,508)**
At 31 December 2009	**8,861**	**9,717**	**3,333**	**21,911**

Notes

(a) Movements in the year have been translated at the average exchange rate for the year ended 31 December 2009. The closing balance has been translated at the closing spot rates as at 31 December 2009. Differences upon retranslation are included in foreign exchange translation differences of negative £2,069 million.

(b) The increase in policyholder liabilities due to new business premium for the with-profits business fell by £345 million to £46 million. This is predominantly driven by a fall in sales of single premium with-profits policies in Hong Kong, following the withdrawal of the PruSaver product in 2009. The increase in policyholder liabilities due to new business premium for Asia unit-linked business was lower by £609 million in 2009, in line with decreases in single premium sales during the year.

(c) 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.

(d) The positive investment related items and other movements for with-profits (£1,431 million) and unit-linked business (£2,661 million) are mainly driven from Asian equity market gains in the period.

(e) The disposal of Taiwan agency business reflects the liabilities transferred at the date of disposal.

(ii) Duration of policyholder liabilities

	2009				2008			
	UK insurance operations	**US insurance operations**	**Asian insurance operations**	**Total**	UK insurance operations	US insurance operations	Asian insurance operations	Total
	(note (i)) **£m**	(note (ii)) **£m**	(note (iii)) **£m**	**£m**	£m	£m	£m	£m
Insurance contract liabilities	**77,655**	**46,346**	**21,712**	**145,713**	72,756	42,476	20,798	136,030
Investment contract liabilities with discretionary participation features	**24,780**	**–**	**100**	**24,880**	23,367	–	79	23,446
Investment contract liabilities without discretionary participation features	**13,794**	**1,965**	**46**	**15,805**	11,584	2,885	32	14,501
	116,229	**48,311**	**21,858**	**186,398**	107,707	45,361	20,909	173,977

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 also 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**			**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**	
5 to 10 years	**26**	**25**	**26**	**25**	**23**	**24**	**25**	**22**	**23**	
10 to 15 years	**13**	**19**	**15**	**18**	**17**	**17**	**18**	**19**	**18**	
15 to 20 years	**6**	**14**	**9**	**11**	**12**	**12**	**11**	**11**	**11**	
20 to 25 years	**3**	**9**	**6**	**7**	**8**	**7**	**7**	**6**	**6**	
over 25 years	**2**	**4**	**3**	**7**	**9**	**8**	**5**	**7**	**7**	

	With-profits business			Annuity business			Other			Total
	Insurance contracts	Investment contracts	Total	PAL	PRIL	Total	Insurance contracts	Investments contracts	Total	
2008	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Policyholders liabilities	39,010	23,367	62,377	11,477	12,513	23,990	9,756	11,584	21,340	107,707
	%	%	%	%	%	%	%	%	%	
Expected maturity:										
0 to 5 years	47	26	38	30	29	29	31	32	32	
5 to 10 years	26	23	25	24	23	23	23	22	23	
10 to 15 years	13	19	15	18	17	18	18	18	18	
15 to 20 years	7	15	10	12	13	13	12	12	12	
20 to 25 years	4	11	7	8	8	8	8	7	7	
over 25 years	3	6	5	8	10	9	8	9	8	

(a) Benefit payments do not reflect the pattern of bonuses and shareholder transfers in respect of the with-profits business.

(b) Investment contracts under Other comprise certain unit-linked and similar contracts accounted for under IAS 39 and IAS 18.

(c) 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

	2009			2008		
	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	**27,672**	**20,639**	**48,311**	30,823	14,538	45,361
	%	%		%	%	
Expected maturity:						
0 to 5 years	**52**	**50**		49	46	
5 to 10 years	**27**	**28**		26	28	
10 to 15 years	**10**	**12**		11	14	
15 to 20 years	**5**	**6**		6	7	
20 to 25 years	**3**	**2**		3	3	
Over 25 years	**3**	**2**		5	2	

(iii) Asian insurance operations

	2009	2008
	£m	£m
Policyholder liabilities	**21,858**	20,909
Expected maturity:	**%**	%
0 to 5 years	**24**	23
5 to 10 years	**21**	21
10 to 15 years	**15**	15
15 to 20 years	**12**	13
20 to 25 years	**9**	10
Over 25 years	**19**	18

V Sensitivity analysis

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

Overview of risks by business unit
The financial assets and liabilities attaching to the Group's life assurance business are, to varying degrees, subject to market and insurance risk and other changes of experience assumptions that may have a material effect on IFRS basis profit or loss and equity.
Market risk is the risk that the fair value or future cash flows of a financial instrument or, in the case of liabilities of insurance contracts, their carrying value will fluctuate because of changes in market prices. Market risk comprises three types of risk, namely:

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

Policyholder liabilities relating to the Group's life assurance businesses are also sensitive to the effects of other changes in experience, or expected future experience, such as for mortality, other insurance risk and lapse risk.
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 fund's investments. Except for second order effects, for example on asset management fees and shareholders' share of cost of bonuses for with-profits business, shareholder results are not directly affected by market value movements on the assets of these funds;
- the Group's shareholder results are most sensitive to market risks for assets of shareholder-backed business; and
- the main exposures of the Group's IFRS basis results to market risk for life assurance operations on investments of shareholder-backed business are for debt securities.

The most significant items for which the IFRS basis 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.

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

Market and credit risk
UK insurance operations
With-profits business

- With-profits business
  Shareholder results of UK with-profits business are sensitive to market risk only through the indirect effect of investment performance on declared policyholder bonuses.
  The investment assets of the PAC with-profits fund are subject to market risk. However, changes in their carrying value, net of related changes to asset-share liabilities of with-profit contracts, affect the level of unallocated surplus of the fund. As unallocated surplus is accounted for as a liability under IFRS, movements in its value do not affect shareholders' profit or equity.
  The shareholder results of the UK with-profits fund correspond to the shareholders' share of the cost of bonuses declared on the with-profits business. This currently corresponds to one-ninth of the cost of bonuses declared.
  Investment performance is a key driver of bonuses, and hence the shareholders' share of cost of bonuses. Due to the 'smoothed' basis of bonus declaration the sensitivity to investment performance in a single year is low. However, over multiple periods it is important.

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

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

UK insurance operations

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 of 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 – net effect of market risk arising from the incidence and valuation of guarantee features and variability of asset management fees offset by derivative hedging performance. The net effect of market risk in Jackson's guarantees and derivatives included in operating result excludes the impact of changes in market implied volatility. Further movements in reserves for guarantees reflected in operating result are also based on a discount rate using a long-term average Corporate AA credit curve instead of the actual Corporate AA credit curve at the valuation date. The derivative hedging programme is designed to be economically effective and there can be some accounting mis–matches for those guarantee features which are not economically valued under grandfathered US GAAP, for example guaranteed minimum death benefits. These accounting mis-matches are magnified in periods of market dislocation.

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

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

Asian 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 be only marginally affected. However, altered persistency trends may affect future expected shareholder transfers.

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

Jackson is sensitive to lapse risk. However, Jackson uses swaption derivatives to ameliorate the effect of a sharp rise in interest rates, which would be the most likely cause of a sudden change in policyholder 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 £44 million (2008: £35 million). A decrease in credit default assumptions of five basis points would increase gross profits by £91 million (2008: £71 million). A decrease in renewal expenses (excluding asset management expenses) of five per cent would increase gross profits by £17 million (2008: £15 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 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.

	2009 £m				2008 £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	**5,372**	**2,422**	**(2,020)**	**(3,731)**	4,362	1,983	(1,676)	(3,108)
Policyholder liabilities	**(5,125)**	**(2,304)**	**1,905**	**3,498**	(3,974)	(1,798)	1,503	2,773
Related deferred tax effects	**(69)**	**(33)**	**32**	**65**	(109)	(52)	48	94
Net sensitivity of profit after tax and shareholders' equity	**178**	**85**	**(83)**	**(168)**	279	133	(125)	(241)

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.

	2009 £m		2008 £m		
	A decrease of 20%	**A decrease of 10%**	A decrease of 40%	A decrease of 20%	A decrease of 10%
Pre-tax profit	**(292)**	**(146)**	(508)	(254)	(127)
Related deferred tax effects	**82**	**41**	142	71	35
Net sensitivity of profit after tax and shareholders' equity	**(210)**	**(105)**	(366)	(183)	(92)

A 10 or 20 per cent (2008: 10, 20 or 40 per cent) increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above. The market risk sensitivities shown above reflect the impact of temporary market movements and, therefore, the primary effect of such movements would, in the Group's segmental analysis of profits, be included within the short-term fluctuations in investment returns.

(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 2009, the rates were US$1.57 (2008: US$1.85) and US$1.61 (2008: US$1.44) 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**	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Profit (loss) before tax attributable to shareholders (note (i))	**(44)**	59	**54**	(72)
Profit (loss) for the year	**(54)**	51	**65**	(62)
Shareholders' equity attributable to US insurance operations	**(274)**	(158)	**335**	193

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.

- incidence of guarantees and the effectiveness of the related hedge programme.
- spread returns for the difference between investment returns and rates credited to policyholders.

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

- amortisation of deferred acquisition costs.

  For term business, acquisition costs are deferred and amortised in line with expected premiums. For annuity business, acquisition costs are deferred and amortised in line with expected gross profits on the relevant contracts. For interest-sensitive business, the key assumption is the expected long-term spread between the earned rate and the rate credited to policyholders, which is based on an annual spread analysis. In addition, expected gross profits depend on mortality assumptions, assumed unit costs and terminations other than deaths (including the related charges) all of which are based on a combination of actual experience of Jackson, industry experience and future expectations.
  A detailed analysis of actual experience is measured by internally developed mortality and persistency studies. For variable annuity business, the key assumption is the expected long-term level of equity market returns, which for 2009 and 2008 was 8.4 per cent per annum implemented using a mean reversion methodology. These returns affect the level of future expected profits through their effects on the fee income and the required level of provision for guaranteed minimum death benefit claims. The mean reversion methodology dampens the impact of equity market movements during a particular year, but does not fully eliminate the effects of movements in the equity markets.
  In addition, the mean reversion methodology includes both a cap and a floor that determine the maximum impact that the methodology may have. Due to the significant market movements during 2008, Jackson exceeded the cap on future equity market returns, resulting in a higher level of sensitivity to market movements than would than would have been recognised had the cap not been met at the end of 2008. Given the low market return in 2008 this cap remained in place at 31 December 2009 and so the higher level of sensitivity remains.

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
Jackson is exposed to equity risk through the options embedded in the fixed indexed liabilities and GMDB and GMWB guarantees included in certain VA benefits. This risk is managed using a comprehensive equity hedging programme to minimise the risk of a significant economic impact as a result of increases or decreases in equity market levels while taking advantage of naturally offsetting exposures in Jackson's operations. Jackson purchases external futures and options that hedge the risks inherent in these products, while also considering the impact of rising and falling separate account fees.
As a result of this hedging programme, if the equity markets were to increase 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 the 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 2009 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 £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 2009 of up to £40 million. An immediate decrease in the equity markets of 20 per cent is estimated to result in an accounting credit, net of related DAC amortisation, before tax of up to £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 2009 of up to £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.

At 31 December 2008, based on the hedges in place at that time, it was estimated that an immediate decrease in the equity markets at 10 per cent would result in an accounting charge, net of related DAC amortisation, before tax of up to £20 million, excluding the impact on future separate account fees. After related deferred tax, it was estimated that there would have been an increase in shareholders' equity of up to £15 million. An immediate decrease in the equity markets of 20 and 40 per cent was estimated to result in an account charge, net of related DAC amortisation, before tax of up to £40 million and £90 million respectively, excluding the impact of future separate account fees. After related deferred tax there would have been an estimated reduction in shareholders' equity at 31 December 2008 of up to £30 million and £60 million respectively. The difference in the effects of a decrease in the equity markets at 31 December 2009 as compared to 2008 was due to a high number of GMDB and GMWB guarantees being 'in the money' at 31 December 2008. As a result, the adverse effects on provisions for policyholder liabilities from a decreasing equity market at 31 December 2008 more than offset the benefits from the hedging instruments held at that time.

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

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

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 2009 and 31 December 2008. The table below shows the sensitivity to a 10 and 20 per cent (2008: 10, 20 and 40 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.

	2009 £m		2008 £m		
	A decrease of 20%	**A decrease of 10%**	A decrease of 40%	A decrease of 20%	A decrease of 10%
Pre-tax profit, net of related changes in amortisation of DAC	**(117)**	**(58)**	(255)	(141)	(98)
Related deferred tax effects	**41**	**20**	89	49	34
Net sensitivity of profit after tax and shareholders' equity	**(76)**	**(38)**	(166)	(92)	(64)

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 basis of measurement. The GMWB features attaching to variable annuity business represents embedded derivatives which are fair valued and so will be sensitive to changes in interest rate.

Debt securities and related derivatives are marked to fair value. Value movements on derivatives, again net of related changes to amortisation of DAC and deferred tax, are recorded within profit and loss. Fair value movements on debt securities, net of related changes to amortisation of DAC and deferred tax, are recorded within the statement of changes in equity. 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 2009 and is as follows:

	2009 £m				2008 £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	**(319)**	**(148)**	**159**	**370**	(575)	(268)	283	639
Policyholder liabilities	**(418)**	**(185)**	**170**	**334**	(517)	(218)	182	350
Related effect on amortisation of DAC	**364**	**162**	**(156)**	**(328)**	498	215	(193)	(395)
Pre-tax profit effect								
Operating profit based on longer-term investment returns	**(144)**	**(62)**	**56**	**109**	(128)	(59)	64	146
Short-term fluctuations in investment returns	**(229)**	**(109)**	**117**	**267**	(466)	(212)	208	448
	(373)	**(171)**	**173**	**376**	(594)	(271)	272	594
Related effect on charge for deferred tax	**131**	**60**	**(60)**	**(131)**	206	94	(95)	(207)
Net profit effect	**(242)**	**(111)**	**113**	**245**	(388)	(177)	177	387
Other comprehensive income								
Direct effect on carrying value of debt securities	**2,183**	**1,179**	**(1,179)**	**(2,183)**	2,476	1,238	(1,238)	(2,476)

Related effect on amortisation of DAC	**(764)**	**(413)**	**413**	**764**	(619)	(310)	310	619
Related effect on movement in deferred tax	**(497)**	**(268)**	**268**	**497**	(650)	(325)	325	650
Net effect	**922**	**498**	**(498)**	**(922)**	1,207	603	(603)	(1,207)
Total net effect on IFRS equity	**680**	**387**	**(385)**	**(677)**	819	426	(426)	(820)

(iii) Asian insurance operations

Sensitivity of IFRS basis profit and equity and other risks

Currency translation

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

A 10 per cent increase or decrease in these rates would have reduced of 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**	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Profit before tax attributable to shareholders (note(i))	**(40)**	(14)	**49**	18
Profit for the year	**(35)**	(6)	**43**	8
Shareholders' equity, excluding goodwill, attributable to Asian operations	**(129)**	(202)	**158**	246

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 relating 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 for Taiwan
  For 2008, the principal other business of Asian operations that was most sensitive to movements in interest rates was the whole of life business written in Taiwan. In June 2009 the Company completed the sale of its agency distribution business and associated liabilities and its agency force in Taiwan to China Life Insurance Company Ltd as explained in note G. For 2009 the assets and liabilities of the element of Taiwan business retained by the Company are relatively less sensitive to variances in interest rates, with a reasonably possible decrease in interest rates of 0.5 per cent leading to an increase in IFRS pre-tax profits of £24 million. After adjusting these results for deferred tax the reasonably possible effect on shareholders' equity is £19 million. A 0.5 per cent increase in interest rates is estimated to have an approximately equal and opposite effect on profit and shareholders' equity.

- Interest rate risk for other business excluding Taiwan
  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 along with Taiwan, 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 2009, 10 year government bond rates vary from territory to territory and range from 1.3 per cent to 11.45 per cent (2008: 1.17 per cent to 10.18 per cent). An exception to this arises in Japan where reasonably possible interest rate movements have been determined as 0.5 per cent respectively. (2008: Japan 0.5 per cent, Vietnam 1.5 per cent). These reasonably possible changes would have the following impact:

	2009 £m	2008 £m
	A decrease of 1% (note (i))	A decrease of 1% (note (i))
Pre-tax profit	**67**	56
Related deferred tax (where applicable)	**(17)**	(11)
Net effect on profit and equity	**50**	45

Note

(i) 1 per cent sensitivity has been used in all territories except Japan (0.5 per cent) (2008: Japan 0.5 per cent, Vietnam: 1.5 per cent) The pre-tax impacts, if they arose, would be recorded within the category short-term fluctuations in investments returns in the Group's segmental analysis of profit before tax.

At 31 December 2009, an increase in the rates of 1 per cent (Japan (0.5 per cent)) is estimated to have the effect of decreasing pre-tax profit by £87 million. After adjusting these results for deferred tax the reasonable possible effect on shareholders' equity is a decrease of £65 million.

Equity price risk

The non-linked shareholder business has limited exposure to equity and property investment (£278 million at 31 December 2009). 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 (2008: 10, 20 and 40 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 2009 and 2008 would be as follows:

	2009 £m		2008 £m		
	A decrease of 20%	**A decrease of 10%**	A decrease of 40%	A decrease of 20%	A decrease of 10%
Pre-tax profit	**(58)**	**(29)**	(176)	(88)	(44)
Related deferred tax (where applicable)	**8**	**4**	5	3	1
Net effect on profit and equity	**(50)**	**(25)**	(171)	(85)	(43)

A 10 or 20 per cent (2008: 10, 20 or 40 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. The low tax rate effect, which is particularly evident in 2008 relates to the availability of losses in some of the territories.

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 5 per cent (estimated at one in ten year shock) then it is estimated that post tax IFRS profit would be impacted by approximately £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 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 AC.
A 10 per cent increase in the relevant Asian 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 £5 million (2008: £5 million) and £23 million (2008: £26 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 2009 by asset management operations were £1,164 million (2008: £991 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.

W Related party transactions

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

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

Executive officers and directors of the Company may from time to time purchase insurance, asset management or annuity products marketed by Group companies in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons.

Apart from the transactions with directors referred to below, no director had interests in shares, transactions or arrangements that require disclosure, other than those to be given in the directors' remuneration report in the Group's audited financial statements.

In 2009 and 2008, other transactions with directors were not deemed to be significant both by virtue of their size and in the context of the directors' financial positions. As indicated above, all of these transactions are on terms broadly equivalent to those that prevail in arm's length transactions.

X Post balance sheet events

(i) Acquisition of UOB Life Assurance Limited
On 6 January 2010 the Group announced the acquisition from United Overseas Bank Limited (UOB) of its 100 per cent interest in UOB Life Assurance in Singapore for total cash consideration of SGD428 million (£192 million) subject to a post-completion adjustment to reflect the net asset value as at the completion date. This acquisition accompanied the announcement of a long-term strategic partnership with UOB. Through this partnership Prudential's life insurance products will be distributed through UOB's 414 bank branches across Singapore, Indonesia and Thailand.

The Group continues to complete its compilation of the acquisition balance sheet and further details will be provided in the Group's 2010 half year results announcement.

(ii) Japanese insurance subsidiary's suspension of writing new business
On 15 January 2010 the Group's Japanese insurance subsidiary announced its intention to suspend underwriting new policyholder contracts in Japan after 15 February 2010. The company re-enforced its commitment to servicing its existing policyholder base, which comprised over 170,000 contracts as at 30 September 2009. This decision will be reviewed on an on-going basis in the light of changes to the business environment.

This decision does not affect the Group's asset management operation in Japan, which ranks among the largest foreign asset managers.

(iii) Agreement to acquire AIA Group Limited
On 1 March 2010 the Group announced that it had reached agreement with American International Group (AIG) on terms for Prudential to acquire AIA Group Limited, a wholly owned subsidiary of AIG.

Additional Unaudited Financial Information

Y Analysis of long-term insurance pre-tax IFRS operating profit 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) Investment spread - this represents the difference between net investment income (or premium income in the case of the UK annuities new business) and amounts credited to policyholder accounts.

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

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

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

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

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

An analysis of Group pre-tax IFRS operating profit has also been provided and is based on the long-term insurance operation tables below with the following additions:
• The results of Group asset management operations have been included within asset management fees.
• UK general insurance commission of £51 million (2008: £44 million) has been included within the other income line.
• Group Head Office (GHO) expenses consist of other operating income and expenditure and UK restructuring costs.

IFRS operating profit

	2009 £m			
	Long-term business	**Non-long-term business**	**Group total**	2008
	£m	**£m**	**£m**	£m
Investment spread	**1,001**	**–**	**1,001**	748
Asset management fees	**458**	**297**	**755**	751
Net expense margin	**(388)**	**–**	**(388)**	(389)
DAC amortisation (Jackson only)	**(223)**	**–**	**(223)**	(450)
Net Insurance margin	**472**	**–**	**472**	308
With-profits business	**310**	**–**	**310**	425
Non-recurrent release of reserves for Malaysia Life operation	**63**	**–**	**63**	–
Other	**(218)**	**51**	**(167)**	178
GHO expenses	**–**	**(418)**	**(418)**	(288)
Total	**1,475**	**(70)**	**1,405**	1,283

Analysis of pre-tax IFRS profit by driver by long-term business unit.

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

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

Note

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

(ii) 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 included separately within the analysis of operating profit.

Z Asian operations – analysis of operating profit by territory

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

	2009 £m	2008 £m
China	**4**	(3)
Hong Kong	**48**	33
India	**12**	(6)
Indonesia	**102**	55
Japan	**(18)**	3
Korea	**6**	12
Malaysia		
– underlying results	**65**	46
– Exceptional credit for Malaysia operations (note (i))	**63**	–
Philippines	**2**	5
Singapore	**112**	83
Taiwan bancassurance business (note (ii))	**(7)**	(4)
Thailand	**(1)**	(2)
Vietnam	**30**	37
Prudential Services Asia	**(2)**	(2)
Total insurance operations (note (iii))	**416**	257
Development expenses	**(6)**	(26)
Total long-term business operating profit (schedule (iii))	**410**	231
Asset management	**55**	52
Total Asian operations (note (iii))	**465**	283

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) **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 included separately within the analysis of operating profit.

(iii) **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:

	2009 £m	2008 £m
New business strain	**(78)**	(97)
Business in force	**494**	354
Total	**416**	257

The IFRS new business strain corresponds to approximately 6 per cent of new business APE premiums for 2009 (2008: approximately 8 per cent of new business APE).

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

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

(i) Shareholders' fund summary

	2009 £m	2008 £m
Asian operations		
Insurance operations		
Net assets of operation	**1,382**	2,056
Acquired goodwill	**80**	111
Total	**1,462**	2,167
Asset management		
Net assets of operation	**161**	167
Acquired goodwill	**61**	61
Total	**222**	228
Total	**1,684**	2,395
US operations		
Jackson (net of surplus note borrowings)	**3,011**	1,698
Broker-dealer, asset management and Curian operations:		
Net assets of operation	**95**	98
Acquired goodwill	**16**	16
Total	**111**	114
Total	**3,122**	1,812
UK operations		
Insurance operations:		
Long-term business operations	**1,902**	1,655
Other	**37**	–
Total	**1,939**	1,655
M&G		
Net assets of operation	**173**	147
Acquired goodwill	**1,153**	1,153
Total	**1,326**	1,300
Total	**3,265**	2,955
Other operations		
Holding company net borrowings	**(1,754)**	(1,620)
Shareholders' share of deficit of the Prudential Staff Pension Scheme (net of tax) (note (a))	**(16)**	(31)
Other net liabilities	**(30)**	(453)
Total	**(1,800)**	(2,104)
Total of all operations	**6,271**	5,058

Note

(a) The 2008 comparatives also included the shareholders' share of the deficit of Scottish Amicable Pension Scheme which is included within UK Insurance Operations from 2009.

(ii) Net asset value per share

	2009 £m	2008 £m
Closing equity shareholders' funds	**6,271**	5,058
Net asset value per share attributable to equity shareholders (note (i))	**248p**	203p

Note

(i) Based on the closing issued share capital as at December 2009 of 2,532 million shares (2008: 2,497 million shares).

AB Funds under management

(i) Summary

	2009 £bn	2008 £bn
Business area		
Asian operations	**23.7**	21.9
US operations	**49.6**	46.3
UK operations	**135.6**	125.6
Internal funds under management	**208.9**	193.8
External funds (note (i))	**80.9**	55.5
Total funds under management	**289.8**	249.3

Note

(i) External funds shown above for 2009 of £80.9 billion (2008: £55.5 billion) comprise £89.8 billion (2008: £62.3 billion) in respect of investment products, as published in the full year 2009 New Business schedules (see schedule 2B) less £8.9 billion (2008: £6.8 billion) that are classified within internal funds.

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

	Asian operations		US operations		UK operations		Total	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Investment properties	**0.0**	0.1	**0.1**	0.1	**11.0**	12.2	**11.1**	12.4
Equity securities	**11.4**	8.1	**21.0**	15.1	**37.0**	38.9	**69.4**	62.1
Debt securities	**10.0**	11.1	**22.8**	24.3	**69.1**	59.8	**101.9**	95.2
Loans and receivables	**1.2**	1.7	**4.3**	5.1	**3.3**	3.7	**8.8**	10.5
Other investments	**1.1**	0.9	**1.4**	1.7	**15.2**	11.0	**17.7**	13.6
Total	**23.7**	21.9	**49.6**	46.3	**135.6**	125.6	**208.9**	193.8

Note

(i) As included in the investments section of the consolidated statement of financial position at 31 December 2009 except for £0.2 billion (2008: £0.4 billion) investment properties which are held-for-sale or occupied by the Group and, accordingly under IFRS, are included in other statement of financial position captions.

AC 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 2009**	**Average 2009**	Closing 2008	Average 2008
Hong Kong	**12.52**	**12.14**	11.14	14.42
Indonesia	**15,171.52**	**16,173.28**	15,799.22	17,749.22
Japan	**150.33**	**146.46**	130.33	192.09
Malaysia	**5.53**	**5.51**	5.02	6.15
Singapore	**2.27**	**2.27**	2.07	2.61
Taiwan	**51.65**	**51.65**	47.28	58.24
USA	**1.61**	**1.57**	1.44	1.85

(ii) Effect of rate movements on results

EEV basis results	**As published 2009 (note (i)) £m**	Memorandum 2008 (note (i) and (ii)) £m
Asian operations:		
New business	**713**	711
Business in force	**392**	668
Long-term operations	**1,105**	1,379
Asset management	**55**	61
Development expenses	**(6)**	(29)
Total Asia operations	**1,154**	1,411
US operations		
New business	**664**	347
Business in force	**569**	346
Jackson	**1,233**	693
Broker-dealer, asset management and Curian operations	**4**	8
Total US operations	**1,237**	701
UK operations		
New business	**230**	273
Business in force	**640**	764
Long-term business	**870**	1,037
General insurance commission	**51**	44
Total insurance	**921**	1,081
M&G	**238**	286
Total UK operations	**1,159**	1,367
Other income and expenditure	**(433)**	(309)
Restructuring costs	**(27)**	(32)
Operating profit from continuing operations on longer-term investment returns	**3,090**	3,138
Shareholders' funds	**15,273**	14,058

IFRS basis results	**As published 2009 (note (i)) £m**	Memorandum 2008 (note (i) and (ii)) £m
Asian operations:		
Long-term operations	**416**	290
Asset management	**55**	61
Development expenses	**(6)**	(29)
Total Asia operations	**465**	322
US operations		
Jackson	**459**	480
Broker-dealer, asset management and Curian operations	**4**	8
Total US operations	**463**	488
UK operations		
Long-term business	**606**	545
General insurance commission	**51**	44
Total UK insurance operations	**657**	589
M&G	**238**	286
Total UK operations	**895**	875
Total segment profit	**1,823**	1,685
Other income and expenditure	**(395)**	(267)
Restructuring costs	**(23)**	(28)
Operating profit from continuing operations on longer-term investment returns	**1,405**	1,390
Shareholders' funds	**6,271**	4,810

Note

(i) The 'as published' operating profit for 2009 and 'memorandum' operating profit have been calculated by applying average 2009 exchange rates (CER).
The 'as published' shareholders' funds for 2009 and memorandum' shareholders' funds for 2008 have been calculated by applying closing period end 2009 exchange rates.

(ii) The 2008 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.

AD New business summary

(i) Insurance products and investment products (note a)

	Insurance products gross premiums		Investment products gross inflows (note (b))		Total	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Asian operations	**2,019**	2,422	**71,176**	46,957	**73,195**	49,379
US operations	**8,909**	6,941	**6**	36	**8,915**	6,977
UK operations	**5,014**	7,183	**24,875**	16,154	**29,889**	23,337
Group total	**15,942**	16,546	**96,057**	63,147	**111,999**	79,693

(ii) Insurance products new business retail and wholesale

	2009 £m	2008 £m
New Business		
Annual premium equivalent (APE) sales:		
– Retail:		
– Asia	**1,261**	1,216
– US	**912**	596
– UK	**717**	803
– Total retail	**2,890**	2,615
– Wholesale	**6**	264
– Total Group APE sales	**2,896**	2,879

(iii) Insurance products – new business premiums and contributions (note (a))

	Single		Regular		Annual premium and contribution equivalents	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Asian operations (note (c))						
China (Group's 50% interest)	**72**	63	**38**	32	**45**	38
Hong Kong	**94**	507	**232**	154	**241**	205
India (Group's 26% interest)	**47**	60	**163**	202	**168**	208
Indonesia	**41**	94	**186**	167	**190**	176
Japan	**57**	115	**46**	30	**52**	42
Korea	**38**	78	**118**	211	**122**	219
Malaysia	**63**	28	**140**	99	**146**	102
Singapore	**297**	341	**98**	78	**128**	112
Taiwan (note (c))	**104**	36	**97**	55	**107**	58
Other	**29**	18	**59**	54	**62**	56
Total Asian operations (all retail)	**842**	1,340	**1,177**	1,082	**1,261**	1,216
US operations (note(iv))						
Fixed annuities	**1,053**	1,724	**–**	–	**105**	172
Fixed index annuities	**1,433**	501	**–**	–	**143**	50
Variable annuities	**6,389**	3,491	**–**	–	**639**	349
Life	**10**	7	**24**	24	**25**	25
Total US operations – retail	**8,885**	5,723	**24**	24	**912**	596
Guaranteed investment contracts	**–**	857	**–**	–	**–**	86
GIC – Medium Term Notes	**–**	337	**–**	–	**–**	34
Total US operations	**8,885**	6,917	**24**	24	**912**	716

UK operations						
Product summary						
Internal vesting annuities	**1,357**	1,600	**–**	–	**136**	160
Direct and partnership annuities	**590**	703	**–**	–	**59**	70
Intermediated annuities	**242**	497	**–**	–	**24**	50
Total individual annuities	**2,189**	2,800	**–**	–	**219**	280
Income drawdown	**91**	75	**–**	–	**9**	8
Equity release	**127**	242	**–**	–	**13**	24
Individual pensions	**198**	115	**7**	3	**27**	14
Corporate pensions	**81**	221	**86**	88	**94**	110
Unit-linked bonds	**122**	109	**–**	–	**12**	11
With-profits bonds	**1,264**	869	**–**	–	**126**	87
Protection	**–**	–	**17**	6	**17**	6
Offshore products	**317**	551	**3**	4	**35**	59
PruHealth	**–**	–	**11**	16	**11**	16
Total retail retirement	**4,389**	4,982	**124**	117	**563**	615
Corporate pensions	**111**	227	**105**	116	**116**	139
Other products	**79**	132	**17**	21	**25**	34
DWP rebates	**127**	153	**–**	–	**13**	15
Total mature life and pensions	**317**	512	**122**	137	**154**	188
Total UK retail	**4,706**	5,494	**246**	254	**717**	803
Wholesale annuities	**39**	1,417	**–**	–	**4**	142
Credit life	**23**	18	**–**	–	**2**	2
Total UK operations	**4,768**	6,929	**246**	254	**723**	947
Channel summary						
Direct and partnership	**1,814**	2,352	**201**	215	**382**	450
Intermediated	**2,765**	2,990	**45**	39	**322**	338
Wholesale	**62**	1,434	**–**	–	**6**	144
Sub-total	**4,641**	6,776	**246**	254	**710**	932
DWP rebates	**127**	153	**–**	–	**13**	15
Total UK operations	**4,768**	6,929	**246**	254	**723**	947
Group total	**14,495**	15,186	**1,447**	1,360	**2,896**	2,879

(iv) Investment products – funds under management (notes (b) and (d))

	2009 £m				
	1 Jan 2009	**Market gross inflows**	**Redemptions**	**Market exchange translation and other movements**	**31 Dec 2009**
Asian operations	**15,232**	**71,176**	**(69,177)**	**2,243**	**19,474**
US operations	**50**	**6**	**(66)**	**10**	**–**
UK operations	**46,997**	**24,875**	**(11,397)**	**9,831**	**70,306**
Group total	**62,279**	**96,057**	**(80,640)**	**12,084**	**89,780**

	2008 £m				
	1 Jan 2008	Market gross inflows	Redemptions	Market exchange translation and other movements	31 Dec 2008
Asian operations	17,393	46,957	(46,102)	(3,016)	15,232
US operations	55	36	(32)	(9)	50
UK operations	51,221	16,154	(12,747)	(7,631)	46,997
Group total	68,669	63,147	(58,881)	(10,656)	62,279

Notes

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

Annual Premium Equivalents (APEs) are calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts. New business premiums for regular premium products are shown on an annualised basis. Department of Work and Pensions (DWP) rebate business is classified as single recurrent business. Internal vesting business is classified as new business where the contracts include an open market option.

The format of the tables shown above is consistent with the distinction between insurance and investment products as applied for previous financial reporting periods. With the exception of some US institutional business, 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 above 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.

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

(c) The tables above include new business for the Taiwan bank distribution operation. New business of the Taiwan Agency business, which was sold in June 2009 (as explained in note I1) are excluded from the tables. Comparative figures have been adjusted accordingly.

(d) New business and market gross inflows and redemption have been translated at the average exchange rate for the year applicable. Funds under management at points in time are translated at the exchange rate applicable at those dates.

(e) The 2008 comparatives shown in the tables above are at actual exchange rates (AER).

(v) New business at constant exchange rates

	As published 2009 (note (i)) £m	Memorandum 2008 (note (i) and (ii)) £m
Annual premium equivalent insurance product sales (note (ii))		
Asian operations	**1,261**	1,350
US operations	**912**	846
UK operations	**723**	947
Total	**2,896**	3,143
Present value of new business premiums (PVNBP)		
Asian operations	**6,245**	7,304
US operations	**9,048**	8,448
UK operations	**5,902**	8,081
Total	**21,195**	23,833
Gross investment product inflows		
Asian operations	**71,176**	50,407
US operations	**6**	43
UK operations	**24,875**	16,154
Total	**96,057**	66,604
Total insurance and investment product flows		
Insurance	**15,942**	18,148
Investment	**96,057**	66,604
Total	**111,999**	84,752

Notes

(i) The 'as published' results for 2009 and memorandum' results for 2008 have been calculated by applying average 2009 exchange rates

(ii) The annual premium equivalent sales for insurance products shown above include contributions for contracts that are classified as 'investment contracts' under IFRS 4 as they do not contain significant insurance risk. Additional details on the basis of preparation are shown in note AE.

AE Detailed analysis of Prudential plc new business - 2009

Schedule 1A - Constant Exchange Rates

TOTAL INSURANCE AND INVESTMENT NEW BUSINESS

	UK			US (1b)			Asia (1b)			Total		
	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/-(%)
Total Insurance Products	**5,014**	7,183	(30%)	**8,909**	8,212	8%	**2,019**	2,753	(27%)	**15,942**	18,148	(12%)
Total Investment Products Gross Inflows[2]	**24,875**	16,154	54%	**6**	43	(86%)	**71,176**	50,407	41%	**96,057**	66,604	44%
	29,889	23,337	28%	**8,915**	8,255	8%	**73,195**	53,160	38%	**111,999**	84,752	32%

INSURANCE OPERATIONS

	Single			Regular			Total			Annual Equivalents[3]		
	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/-(%)
UK Insurance Operations												
Product Summary												
Internal Vesting annuities	**1,357**	1,600	(15%)	**-**	-	-	**1,357**	1,600	(15%)	**136**	160	(15%)
Direct and Partnership Annuities	**590**	703	(16%)	**-**	-	-	**590**	703	(16%)	**59**	70	(16%)
Intermediated Annuities	**242**	497	(51%)	**-**	-	-	**242**	497	(51%)	**24**	50	(52%)
Total Individual Annuities	**2,189**	2,800	(22%)	**-**	-	-	**2,189**	2,800	(22%)	**219**	280	(22%)
Income Drawdown	**91**	75	21%	**-**	-	-	**91**	75	21%	**9**	8	13%
Equity Release	**127**	242	(48%)	**-**	-	-	**127**	242	(48%)	**13**	24	(46%)
Individual Pensions	**198**	115	72%	**7**	3	133%	**205**	118	74%	**27**	14	93%
Corporate Pensions	**81**	221	(63%)	**86**	88	(2%)	**167**	309	(46%)	**94**	110	(15%)
Unit Linked Bonds	**122**	109	12%	**-**	-	-	**122**	109	12%	**12**	11	9%
With-Profit Bonds	**1,264**	869	45%	**-**	-	-	**1,264**	869	45%	**126**	87	45%
Protection	**-**	-	-	**17**	6	183%	**17**	6	183%	**17**	6	183%
Offshore Products	**317**	551	(42%)	**3**	4	(25%)	**320**	555	(42%)	**35**	59	(41%)
Pru Health[8]	**-**	-	-	**11**	16	(31%)	**11**	16	(31%)	**11**	16	(31%)
Total Retail Retirement	**4,389**	4,982	(12%)	**124**	117	6%	**4,513**	5,099	(11%)	**563**	615	(8%)
Corporate Pensions	**111**	227	(51%)	**105**	116	(9%)	**216**	343	(37%)	**116**	139	(17%)
Other Products	**79**	132	(40%)	**17**	21	(19%)	**96**	153	(37%)	**25**	34	(26%)
DWP Rebates	**127**	153	(17%)	**-**	-	-	**127**	153	(17%)	**13**	15	(13%)
Total Mature Life and Pensions	**317**	512	(38%)	**122**	137	(11%)	**439**	649	(32%)	**154**	188	(18%)
Total Retail	**4,706**	5,494	(14%)	**246**	254	(3%)	**4,952**	5,748	(14%)	**717**	803	(11%)
Wholesale Annuities	**39**	1,417	(97%)	**-**	-	-	**39**	1,417	(97%)	**4**	142	(97%)
Credit Life	**23**	18	28%	**-**	-	-	**23**	18	28%	**2**	2	0%
Total UK Insurance Operations	**4,768**	6,929	(31%)	**246**	254	(3%)	**5,014**	7,183	(30%)	**723**	947	(24%)
Channel Summary												
Direct and Partnership	**1,814**	2,352	(23%)	**201**	215	(7%)	**2,015**	2,567	(22%)	**382**	450	(15%)
Intermediated	**2,765**	2,990	(8%)	**45**	39	15%	**2,810**	3,029	(7%)	**322**	338	(5%)
Wholesale	**62**	1,434	(96%)	**-**	-	-	**62**	1,434	(96%)	**6**	143	(96%)
Sub-Total	**4,641**	6,776	(32%)	**246**	254	(3%)	**4,887**	7,030	(30%)	**710**	932	(24%)
DWP Rebates	**127**	153	(17%)	**-**	**-**	-	**127**	153	(17%)	**13**	15	(13%)
Total UK Insurance Operations	**4,768**	6,929	(31%)	**246**	254	(3%)	**5,014**	7,183	(30%)	**723**	947	(24%)
US Insurance Operations[1b]												
Fixed Annuities	**1,053**	2,039	(48%)	**-**	-	-	**1,053**	2,039	(48%)	**105**	204	(49%)
Fixed Index Annuities	**1,433**	593	142%	**-**	-	-	**1,433**	593	142%	**143**	59	142%
Variable Annuities	**6,389**	4,130	55%	**-**	-	-	**6,389**	4,130	55%	**639**	413	55%
Life	**10**	9	11%	**24**	28	(14%)	**34**	37	(8%)	**25**	29	(14%)
Sub-Total Retail	**8,885**	6,771	31%	**24**	**28**	(14%)	**8,909**	6,799	31%	**912**	705	30%
Guaranteed Investment Contracts	**-**	1,014	-	**-**	-	-	**-**	1,014	-	**-**	101	-
GIC - Medium Term Note	**-**	399	-	**-**	-	-	**-**	399	-	**-**	40	-
Total US Insurance Operations	**8,885**	8,184	9%	**24**	28	(14%)	**8,909**	8,212	8%	**912**	846	8%

Asian Insurance Operations[1b]												
China	**72**	76	(5%)	**38**	39	(3%)	**110**	115	(4%)	**45**	47	(4%)
Hong Kong	**94**	602	(84%)	**232**	183	27%	**326**	785	(58%)	**241**	243	(1%)
India	**47**	64	(27%)	**163**	213	(23%)	**210**	277	(24%)	**168**	219	(23%)
Indonesia	**41**	104	(61%)	**186**	184	1%	**227**	288	(21%)	**190**	194	(2%)
Japan	**57**	151	(62%)	**46**	39	18%	**103**	190	(46%)	**52**	54	(4%)
Korea	**38**	79	(52%)	**118**	213	(45%)	**156**	292	(47%)	**122**	221	(45%)
Malaysia	**63**	31	103%	**140**	111	26%	**203**	142	43%	**146**	114	28%
Singapore	**297**	392	(24%)	**98**	90	9%	**395**	482	(18%)	**128**	129	(1%)
Taiwan	**104**	41	154%	**97**	63	54%	**201**	104	93%	**107**	67	60%
Other[4]	**29**	19	53%	**59**	59	0%	**88**	78	13%	**62**	61	2%
Total Asian Insurance Operations	**842**	1,559	(46%)	**1,177**	1,194	(1%)	**2,019**	2,753	(27%)	**1,261**	1,350	(7%)
Group Total	**14,495**	16,672	(13%)	**1,447**	1,476	(2%)	**15,942**	18,148	(12%)	**2,896**	3,143	(8%)

Schedule 1B - Actual Exchange Rates

PRUDENTIAL PLC - NEW BUSINESS - FULL YEAR 2009

TOTAL INSURANCE AND INVESTMENT NEW BUSINESS

	UK			US[1a]			Asia[1a]			Total		
	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/- (%)
Total Insurance Products	**5,014**	7,183	(30%)	**8,909**	6,941	28%	**2,019**	2,422	(17%)	**15,942**	16,546	(4%)
Total Investment Products Gross Inflows[2]	**24,875**	16,154	54%	**6**	36	(83%)	**71,176**	46,957	52%	**96,057**	63,147	52%
	29,889	23,337	28%	**8,915**	6,977	28%	**73,195**	49,379	48%	**111,999**	79,693	41%

INSURANCE OPERATIONS

	Single			Regular			Total			Annual Equivalents[3]		
	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/- (%)
UK Insurance Operations												
Product Summary												
Internal Vesting annuities	**1,357**	1,600	(15%)	**-**	-	-	**1,357**	1,600	(15%)	**136**	160	(15%)
Direct and Partnership Annuities	**590**	703	(16%)	**-**	-	-	**590**	703	(16%)	**59**	70	(16%)
Intermediated Annuities	**242**	497	(51%)	**-**	-	-	**242**	497	(51%)	**24**	50	(52%)
Total Individual Annuities	**2,189**	2,800	(22%)	**-**	-	-	**2,189**	2,800	(22%)	**219**	280	(22%)
Income Drawdown	**91**	75	21%	**-**	-	-	**91**	75	21%	**9**	8	13%
Equity Release	**127**	242	(48%)	**-**	-	-	**127**	242	(48%)	**13**	24	(46%)
Individual Pensions	**198**	115	72%	**7**	3	133%	**205**	118	74%	**27**	14	93%
Corporate Pensions	**81**	221	(63%)	**86**	88	(2%)	**167**	309	(46%)	**94**	110	(15%)
Unit Linked Bonds	**122**	109	12%	**-**	-	-	**122**	109	12%	**12**	11	9%
With-Profit Bonds	**1,264**	869	45%	**-**	-	-	**1,264**	869	45%	**126**	87	45%
Protection	**-**	-	-	**17**	6	183%	**17**	6	183%	**17**	6	183%
Offshore Products	**317**	551	(42%)	**3**	4	(25%)	**320**	555	(42%)	**35**	59	(41%)
Pru Health[8]	**-**	-	-	**11**	16	(31%)	**11**	16	(31%)	**11**	16	(31%)
Total Retail Retirement	**4,389**	4,982	(12%)	**124**	117	6%	**4,513**	5,099	(11%)	**563**	615	(8%)
Corporate Pensions	**111**	227	(51%)	**105**	116	(9%)	**216**	343	(37%)	**116**	139	(17%)
Other Products	**79**	132	(40%)	**17**	21	(19%)	**96**	153	(37%)	**25**	34	(26%)
DWP Rebates	**127**	153	(17%)	**-**	-	-	**127**	153	(17%)	**13**	15	(13%)
Total Mature Life and Pensions	**317**	512	(38%)	**122**	137	(11%)	**439**	649	(32%)	**154**	188	(18%)
Total Retail	**4,706**	5,494	(14%)	**246**	254	(3%)	**4,952**	5,748	(14%)	**717**	803	(11%)
Wholesale Annuities	**39**	1,417	(97%)	**-**	-	-	**39**	1,417	(97%)	**4**	142	(97%)
Credit Life	**23**	18	28%	**-**	-	-	**23**	18	28%	**2**	2	0%
Total UK Insurance Operations	**4,768**	6,929	(31%)	**246**	254	(3%)	**5,014**	7,183	(30%)	**723**	947	(24%)
Channel Summary												
Direct and Partnership	**1,814**	2,352	(23%)	**201**	215	(7%)	**2,015**	2,567	(22%)	**382**	450	(15%)
Intermediated	**2,765**	2,990	(8%)	**45**	39	15%	**2,810**	3,029	(7%)	**322**	338	(5%)
Wholesale	**62**	1,434	(96%)	**-**	-	-	**62**	1,434	(96%)	**6**	144	(96%)
Sub-Total	**4,641**	6,776	(32%)	**246**	254	(3%)	**4,887**	7,030	(30%)	**710**	932	(24%)
DWP Rebates	**127**	153	(17%)	**-**	-	-	**127**	153	(17%)	**13**	15	(13%)
Total UK Insurance Operations	**4,768**	6,929	(31%)	**246**	254	(3%)	**5,014**	7,183	(30%)	**723**	947	(24%)
US Insurance Operations[1a]												
Fixed Annuities	**1,053**	1,724	(39%)	**-**	-	-	**1,053**	1,724	(39%)	**105**	172	(39%)
Fixed Index Annuities	**1,433**	501	186%	**-**	-	-	**1,433**	501	186%	**143**	50	186%
Variable Annuities	**6,389**	3,491	83%	**-**	-	-	**6,389**	3,491	83%	**639**	349	83%
Life	**10**	7	43%	**24**	24	0%	**34**	31	10%	**25**	25	0%
Sub-Total Retail	**8,885**	5,723	55%	**24**	**24**	0%	**8,909**	5,747	55%	**912**	596	53%
Guaranteed Investment Contracts	**-**	857	-	**-**	-	-	**-**	857	-	**-**	86	-
GIC - Medium Term Note	**-**	337	-	**-**	-	-	**-**	337	-	**-**	34	-
Total US Insurance Operations	**8,885**	6,917	28%	**24**	24	0%	**8,909**	6,941	28%	**912**	716	27%

Asian Insurance Operations[1a]												
China	**72**	63	14%	**38**	32	19%	**110**	95	16%	**45**	38	18%
Hong Kong	**94**	507	(81%)	**232**	154	51%	**326**	661	(51%)	**241**	205	18%
India	**47**	60	(22%)	**163**	202	(19%)	**210**	262	(20%)	**168**	208	(19%)
Indonesia	**41**	94	(56%)	**186**	167	11%	**227**	261	(13%)	**190**	176	8%
Japan	**57**	115	(50%)	**46**	30	53%	**103**	145	(29%)	**52**	42	24%
Korea	**38**	78	(51%)	**118**	211	(44%)	**156**	289	(46%)	**122**	219	(44%)
Malaysia	**63**	28	125%	**140**	99	41%	**203**	127	60%	**146**	102	43%
Singapore	**297**	341	(13%)	**98**	78	26%	**395**	419	(6%)	**128**	112	14%
Taiwan	**104**	36	189%	**97**	55	76%	**201**	91	121%	**107**	58	84%
Other[4]	**29**	18	61%	**59**	54	9%	**88**	72	22%	**62**	56	11%
Total Asian Insurance Operations	**842**	1,340	(37%)	**1,177**	1,082	9%	**2,019**	2,422	(17%)	**1,261**	1,216	4%
Group Total	**14,495**	15,186	(5%)	**1,447**	1,360	6%	**15,942**	16,546	(4%)	**2,896**	2,879	1%

Schedule 2A - Constant Exchange Rates

PRUDENTIAL PLC - NEW BUSINESS - FULL YEAR 2009

INVESTMENT OPERATIONS

2009	Gross Inflows £m	Redemptions £m	Net Inflows £m	Opening FUM £m	Closing FUM £m	Variance %
M&G						
Retail	13,568	(6,052)	**7,516**	**19,142**	**31,059**	**62%**
Institutional[5]	11,307	(5,345)	**5,962**	**27,855**	**39,247**	**41%**
Total M&G	24,875	(11,397)	**13,478**	**46,997**	**70,306**	**50%**
Asia						
India	552	(880)	**(328)**	**1,461**	**1,852**	**27%**
Taiwan	1,169	(1,019)	**150**	**1,058**	**1,655**	**56%**
Korea	647	(809)	**(162)**	**1,808**	**1,843**	**2%**
Japan	1,109	(903)	**206**	**2,783**	**4,203**	**51%**
Other Mutual Fund Operations	1,754	(1,437)	**317**	**2,470**	**3,569**	**44%**
Total Asian Equity/Bond/Other	5,231	(5,048)	**183**	**9,580**	**13,122**	**37%**
MMF						
India	59,688	(58,022)	**1,666**	**1,456**	**3,009**	**107%**
Taiwan	2,260	(2,559)	**(299)**	**1,300**	**1,006**	**(23%)**
Korea	2,600	(2,584)	**16**	**456**	**447**	**(2%)**
Other Mutual Fund Operations	980	(920)	**60**	**375**	**440**	**17%**
Total Asian MMF	65,528	(64,085)	**1,443**	**3,587**	**4,902**	**37%**
Total Asia Retail Mutual Funds	70,759	(69,133)	**1,626**	**13,167**	**18,024**	**37%**
Third Party Institutional Mandates	417	(44)	**373**	**715**	**1,450**	**103%**
Total Asian Investment Operations	71,176	(69,177)	**1,999**	**13,882**	**19,474**	**40%**
US						
Retail	6	(66)	**(60)**	**45**	**-**	**(100%)**
Total US	6	(66)	**(60)**	**45**	**-**	**(100%)**
Total Investment Products	96,057	(80,640)	**15,417**	**60,924**	**89,780**	**47%**

2008	Gross Inflows £m	Redemptions £m	**Net Inflows £m**
M&G			
Retail	9,040	(6,945)	**2,095**
Institutional[5]	7,114	(5,802)	**1,312**
Total M&G	16,154	(12,747)	**3,407**
Asia			
India	1,024	(1,164)	**(140)**
Taiwan	1,119	(1,068)	**51**
Korea	1,429	(1,332)	**97**
Japan	1,403	(1,124)	**279**
Other Mutual Fund Operations	1,888	(1,334)	**554**
Total Asia Equity/Bond/Other	6,863	(6,022)	**841**
MMF			
India	35,853	(36,039)	**(186)**
Taiwan	4,563	(4,071)	**492**
Korea	1,954	(1,977)	**(23)**
Other Mutual Fund Operations	879	(819)	**60**
Total Asian MMF	43,249	(42,906)	**343**
Total Asia Retail Mutual Funds	50,112	(48,928)	**1,184**
Third Party Institutional Mandates	295	(435)	**(140)**
Total Asian Investment Operations	50,407	(49,363)	**1,044**
US			
Retail	43	(38)	**5**
Total US	43	(38)	**5**
Total Investment Products	66,604	(62,148)	**4,456**

2009 Movement Relative to 2008	Gross Inflows %	Redemptions %	**Net Inflows %**
M&G			
Retail	50%	13%	**259%**
Institutional[5]	59%	8%	**354%**
Total M&G	54%	11%	**296%**
Asia			
India	(46%)	24%	**(134%)**
Taiwan	4%	5%	**194%**
Korea	(55%)	39%	**(267%)**
Japan	(21%)	20%	**(26%)**
Other Mutual Fund Operations	(7%)	(8%)	**(43%)**
Total Asia Equity/Bond/Other	(24%)	16%	**(78%)**
MMF			
India	66%	(61%)	**996%**
Taiwan	(50%)	37%	**(161%)**
Korea	33%	(31%)	**170%**
Other Mutual Fund Operations	11%	(12%)	**0%**
Total Asian MMF	52%	(49%)	**321%**
Total Asian Retail Mutual Funds	41%	(41%)	**37%**
Third Party Institutional Mandates	41%	90%	**366%**
Total Asian Investment Operations	41%	(40%)	**91%**
US			
Retail	(86%)	(74%)	**(1,300%)**
Total US	(86%)	(74%)	**(1,300%)**
Total Investment Products	44%	(30%)	**246%**

	2009 Q4 YTD £m	2008 Q4 YTD £m	+/- (%)
US[7]			
Curian Capital			
External funds under administration	**2,260**	1,618	40%

PRUDENTIAL PLC - NEW BUSINESS - FULL YEAR 2009

INVESTMENT OPERATIONS

2009		Opening FUM £m	Gross Inflows £m	Redemptions £m	Net Inflows £m	Other Movements £m	Market & Currency Movements £m	Net Movement In FUM £m	Closing FUM £m
	M&G								
	Retail	**19,142**	13,568	(6,052)	**7,516**	(626)	5,027	**11,917**	**31,059**
	Institutional(5)	**27,855**	11,307	(5,342)	**5,962**	(158)	5,588	**11,392**	**39,247**
	Total M&G	**46,997**	24,875	(11,397)	**13,478**	(784)	10,615	**23,309**	**70,306**
	Asia								
	India	**1,567**	552	(880)	**(328)**	233	380	**285**	**1,852**
	Taiwan	**1,156**	1,169	(1,019)	**150**	-	349	**499**	**1,655**
	Korea	**1,878**	647	(809)	**(162)**	(398)	525	**(35)**	**1,843**
	Japan	**3,211**	1,109	(903)	**206**	-	786	**992**	**4,203**
	Other Mutual Fund Operations	**2,758**	1,754	(1,437)	**317**	(1)	495	**811**	**3,569**
	Total Asian Equity/Bond/Other	**10,570**	5,231	(5,048)	**183**	(166)	2,535	**2,552**	**13,122**
	MMF								
	India	**1,562**	59,688	(58,022)	**1,666**	(274)	55	**1,447**	**3,009**
	Taiwan	**1,421**	2,260	(2,559)	**(299)**	-	(116)	**(415)**	**1,006**
	Korea	**474**	2,600	(2,584)	**16**	(41)	(2)	**(27)**	**447**
	Other Mutual Fund Operations	**416**	980	(920)	**60**	-	(36)	**24**	**440**
	Total Asian MMF	**3,873**	65,528	(64,085)	**1,443**	(315)	(99)	**1,029**	**4,902**
	Total Asia Retail Mutual Funds	**14,443**	70,759	(69,133)	**1,626**	(481)	2,436	**3,581**	**18,024**
	Third Party Institutional Mandates	**789**	417	(44)	**373**	-	288	**661**	**1,450**
	Total Asian Investment Operations	**15,232**	71,176	(69,177)	**1,999**	(481)	2,724	**4,242**	**19,474**
	US								
	Retail	**50**	6	(66)	**(60)**	2	8	**(50)**	**-**
	Total US	**50**	6	(66)	**(60)**	2	8	**(50)**	**-**
	Total Investment Products	**62,279**	96,057	(80,640)	**15,417**	(1,263)	13,347	**27,501**	**89,780**

2008		Opening FUM £m	Gross Inflows £m	Redemptions £m	Net Inflows £m	Other Movements £m	Market & Currency Movements £m	Net Movement In FUM £m	Closing FUM £m
	M&G								
	Retail	**22,320**	9,040	(6,945)	**2,095**	-	(5,273)	**(3,178)**	**19,142**
	Institutional(5)	**28,901**	7,114	(5,802)	**1,312**	91	(2,449)	**(1,046)**	**27,855**
	Total M&G	**51,221**	16,154	(12,747)	**3,407**	91	(7,722)	**(4,224)**	**46,997**
	Asia								
	India	**2,225**	968	(1,100)	**(132)**	(104)	(422)	**(658)**	**1,567**
	Taiwan	**1,476**	992	(947)	**45**	-	(365)	**(320)**	**1,156**
	Korea	**2,946**	1,413	(1,317)	**96**	(177)	(987)	**(1,068)**	**1,878**
	Japan	**4,313**	1,070	(857)	**213**	-	(1,315)	**(1,102)**	**3,211**
	Other Mutual Fund Operations	**2,537**	1,602	(1,145)	**457**	(13)	(223)	**221**	**2,758**
	Total Asia Equity/Bond/Other	**13,497**	6,045	(5,366)	**679**	(294)	(3,312)	**(2,927)**	**10,570**
	MMF								
	India	**1,416**	33,896	(34,072)	**(176)**	16	306	**146**	**1,562**
	Taiwan	**632**	4,047	(3,610)	**437**	-	352	**789**	**1,421**
	Korea	**480**	1,933	(1,955)	**(22)**	(21)	37	**(6)**	**474**
	Other Mutual Fund Operations	**252**	780	(727)	**53**	-	111	**164**	**416**
	Total Asian MMF	**2,780**	40,656	(40,364)	**292**	(5)	806	**1,093**	**3,873**
	Total Asia Retail Mutual Funds	**16,277**	46,701	(45,730)	**971**	(299)	(2,506)	**(1,834)**	**14,443**

Third Party Institutional Mandates	**1,116**	256	(372)	**(116)**	-	(211)	**(327)**	**789**
Total Asian Investment Operations	**17,393**	46,957	(46,102)	**855**	(299)	(2,717)	**(2,161)**	**15,232**
US								
Retail	**55**	36	(32)	**4**	4	(13)	**(5)**	**50**
Total US	**55**	36	(32)	**4**	4	(13)	**(5)**	**50**
Total Investment Products	**68,669**	63,147	(58,881)	**4,266**	(204)	(10,452)	**(6,390)**	**62,279**

2009 Movement Relative to 2008	**Opening FUM** %	Gross Inflows %	Redemptions %	**Net Inflows** %	Other Movements %	Market & Currency Movements %	**Net Movement In FUM** %	**Closing FUM** %
M&G								
Retail	**(14%)**	50%	13%	**259%**	-	195%	**475%**	**62%**
Institutional[5]	**(4%)**	59%	8%	**354%**	(274%)	328%	**1,189%**	**41%**
Total M&G	**(8%)**	54%	11%	**296%**	(962%)	237%	**652%**	**50%**
Asia								
India	**(30%)**	(43%)	20%	**(148%)**	324%	190%	**143%**	**18%**
Taiwan	**(22%)**	18%	(8%)	**233%**	-	196%	**256%**	**43%**
Korea	**(36%)**	(54%)	39%	**(269%)**	(125%)	153%	**97%**	**(2%)**
Japan	**(26%)**	4%	(5%)	**(3%)**	-	160%	**190%**	**31%**
Other Mutual Fund Operations	**9%**	9%	(26%)	**(31%)**	92%	322%	**267%**	**29%**
Total Asia Equity/Bond/Other	**(22%)**	(13%)	6%	**(73%)**	44%	177%	**187%**	**24%**
MMF								
India	**10%**	76%	(70%)	**1,047%**	(1,813%)	(82%)	**891%**	**93%**
Taiwan	**125%**	(44%)	29%	**(168%)**	-	(133%)	**(153%)**	**(29%)**
Korea	**(1%)**	35%	(32%)	**173%**	(95%)	(105%)	**(350%)**	**(6%)**
Other Mutual Fund Operations	**65%**	26%	(27%)	**13%**	-	(132%)	**(85%)**	**6%**
Total Asian MMF	**39%**	61%	(59%)	**394%**	(6,200%)	(112%)	**(6%)**	**27%**
Total Asian Retail Mutual Funds	**(11%)**	52%	(51%)	**67%**	(61%)	197%	**295%**	**25%**
Third Party Institutional Mandates	**(29%)**	63%	88%	**422%**	-	236%	**302%**	**84%**
Total Asian Investment Operations	**(12%)**	52%	(50%)	**134%**	(61%)	200%	**296%**	**28%**
US								
Retail	**(9%)**	(83%)	(106%)	**(1,600%)**	(50%)	162%	**(900%)**	**-**
Total US	**(9%)**	(83%)	(106%)	**(1,600%)**	(50%)	162%	**(900%)**	**-**
Total Investment Products	**(9%)**	52%	(37%)	**261%**	(519%)	228%	**530%**	**44%**

US	**2009 Q4 YTD £m**	**2008 Q4 YTD £m**	**+/- (%)**
Curian Capital			
External Funds Under Administration	**2,260**	1,818	24%

PRUDENTIAL PLC - NEW BUSINESS - QUARTER 4 2009 VERSUS QUARTER 4 2008

INSURANCE OPERATIONS

	Single			Regular			Total			Annual Equivalents[3]		
	Q4 2009 £m	Q4 2008 £m	+/-(%)	Q4 2009 £m	Q4 2008 £m	+/- (%)	Q4 2009 £m	Q4 2008 £m	+/-(%)	Q4 2009 £m	Q4 2008 £m	+/-(%)
UK Insurance Operations												
Product Summary												
Internal Vesting annuities	**334**	471	(29%)	**-**	-	-	**334**	471	(29%)	**33**	47	(30%)
Direct and Partnership Annuities	**166**	153	8%	**-**	-	-	**166**	153	8%	**17**	15	13%
Intermediated Annuities	**46**	96	(52%)	**-**	-	-	**46**	96	(52%)	**5**	10	(50%)
Total Individual Annuities	**546**	720	(24%)	**-**	**-**	-	**546**	720	(24%)	**55**	72	(24%)
Income Drawdown	**21**	21	0%	**-**	-	-	**21**	21	0%	**2**	2	0%
Equity Release	**43**	54	(20%)	**-**	-	-	**43**	54	(20%)	**4**	5	(20%)
Individual Pensions	**53**	63	(16%)	**2**	1	100%	**55**	64	(14%)	**7**	7	0%
Corporate Pensions	**26**	67	(61%)	**25**	24	4%	**51**	91	(44%)	**28**	31	(10%)
Unit Linked Bonds	**39**	21	86%	**-**	-	-	**39**	21	86%	**4**	2	100%
With-Profit Bonds	**295**	218	35%	**-**	-	-	**295**	218	35%	**30**	22	36%
Protection	**-**	-	-	**5**	2	150%	**5**	2	150%	**5**	2	150%
Offshore Products	**110**	104	6%	**-**	1	-	**110**	105	5%	**11**	11	0%
Pru Health[8]	**-**	-	-	**2**	2	0%	**2**	2	0%	**2**	2	0%
Total Retail Retirement	**1,133**	1,268	(11%)	**34**	30	13%	**1,167**	1,298	(10%)	**147**	157	(6%)
Corporate Pensions	**23**	-	-	**25**	28	(11%)	**48**	28	71%	**27**	28	(4%)
Other Products	**20**	19	5%	**4**	4	0%	**24**	23	4%	**6**	6	0%
DWP Rebates	**47**	50	(6%)	**-**	-	-	**47**	50	(6%)	**5**	5	0%
Total Mature Life and Pensions	**90**	69	30%	**29**	**32**	**(9%)**	**119**	101	18%	**38**	39	(3%)
Total Retail	**1,223**	1,337	(9%)	**63**	62	2%	**1,286**	1,399	(8%)	**185**	196	(6%)
Wholesale Annuities	**27**	47	(43%)	**-**	-	-	**27**	47	(43%)	**3**	5	(40%)
Credit Life	**6**	7	(14%)	**-**	-	-	**6**	7	(14%)	**1**	1	0%
Total UK Insurance Operations	**1,256**	1,391	(10%)	**63**	62	2%	**1,319**	1,453	(9%)	**189**	201	(6%)
Channel Summary												
Direct and Partnership	**467**	623	(25%)	**52**	54	(4%)	**519**	677	(23%)	**99**	116	(15%)
Intermediated	**709**	664	7%	**11**	8	38%	**720**	672	7%	**82**	74	11%
Wholesale	**33**	54	(39%)	**-**	-	-	**33**	54	(39%)	**3**	5	(40%)
Sub-Total	**1,209**	1,341	(10%)	**63**	**62**	2%	**1,272**	1,403	(9%)	**184**	196	(6%)
DWP Rebates	**47**	50	(6%)	**-**	-	-	**47**	50	(6%)	**5**	5	0%
Total UK Insurance Operations	**1,256**	1,391	(10%)	**63**	62	2%	**1,319**	1,453	(9%)	**189**	201	(6%)
US Insurance Operations[1a] [7]												
Fixed Annuities	**212**	583	(64%)	**-**	-	-	**212**	583	(64%)	**21**	58	(64%)
Fixed Index Annuities	**378**	184	105%	**-**	-	-	**378**	184	105%	**38**	18	111%
Variable Annuities	**2,068**	895	131%	**-**	-	-	**2,068**	895	131%	**207**	90	130%
Life	**3**	1	200%	**6**	6	0%	**9**	7	29%	**6**	6	0%
Sub-Total Retail	**2,661**	1,663	60%	**6**	**6**	0%	**2,667**	1,669	60%	**272**	172	58%
Guaranteed Investment Contracts	**-**	42	-	**-**	-	-	**-**	42	-	**-**	4	-
GIC - Medium Term Note	**-**	16	-	**-**	-	-	**-**	16	-	**-**	2	-
Total US Insurance Operations	**2,661**	1,721	55%	**6**	6	0%	**2,667**	1,727	54%	**272**	178	53%

Asian Insurance Operations[1a]												
China	**14**	16	(13%)	**10**	9	11%	**24**	25	(4%)	**11**	11	0%
Hong Kong	**30**	47	(36%)	**88**	41	115%	**118**	88	34%	**91**	46	98%
India	**10**	7	43%	**51**	34	50%	**61**	41	49%	**52**	35	49%
Indonesia	**17**	9	89%	**62**	46	35%	**79**	55	44%	**64**	47	36%
Japan	**7**	21	(67%)	**11**	6	83%	**18**	27	(33%)	**12**	8	50%
Korea	**10**	15	(33%)	**25**	35	(29%)	**35**	50	(30%)	**26**	37	(30%)
Malaysia	**13**	6	117%	**61**	35	74%	**74**	41	80%	**62**	36	72%
Singapore	**135**	35	286%	**34**	22	55%	**169**	57	196%	**48**	26	85%
Taiwan	**34**	3	1,033%	**27**	29	(7%)	**61**	32	91%	**30**	29	3%
Other[4]	**12**	4	200%	**18**	14	29%	**30**	18	67%	**19**	14	36%
Total Asian Insurance Operations	**282**	163	73%	**387**	**271**	**43%**	**669**	434	54%	**415**	287	45%
Group Total	**4,199**	3,275	28%	**456**	339	35%	**4,655**	3,614	29%	**876**	667	31%

INVESTMENT OPERATIONS

		Opening FUM	Gross Inflows	Redemptions	**Net Inflows**	Other Movements	Market & Currency Movements	**Net Movement In FUM**	**Closing FUM**
		£m	£m	£m	**£m**	£m	£m	**£m**	**£m**
M&G[5]	Q4 2009	**66,235**	6,434	(4,093)	**2,341**	(53)	1,783	**4,071**	**70,306**
	Q4 2008	**49,994**	4,040	(4,775)	**(735)**	110	(2,372)	**(2,997)**	**46,997**
	+/-(%)	**32%**	59%	14%	**419%**	(148%)	175%	**236%**	**50%**
Asia Retail Mutual Funds	Q4 2009	**17,773**	18,130	(18,394)	**(264)**	(28)	543	**251**	**18,024**
	Q4 2008	**13,594**	12,529	(12,618)	**(89)**	(6)	944	**849**	**14,443**
	+/-(%)	**31%**	45%	(46%)	**(197%)**	(367%)	(42%)	**(70%)**	**25%**
Asia Third Party	Q4 2009	**1,008**	378	(6)	**372**	-	70	**442**	**1,450**
	Q4 2008	**755**	16	(24)	**(8)**	-	42	**34**	**789**
	+/-(%)	**34%**	2,263%	75%	**4,750%**	-	67%	**1,200%**	**84%**
US Retail Mutual Funds	Q4 2009	**-**	-	1	**1**	-	(1)	**-**	**-**
	Q4 2008	**58**	4	(8)	**(4)**	2	(6)	**(8)**	**50**
	+/-(%)	**(100%)**	-	113%	**125%**	-	83%	**-**	**(100%)**
Total Investment Products	Q4 2009	**85,016**	24,942	(22,492)	**2,450**	(81)	2,395	**4,764**	**89,780**
	Q4 2008	**64,401**	16,589	(17,425)	**(836)**	106	(1,392)	**(2,122)**	**62,279**
	+/-(%)	**32%**	50%	(29%)	**393%**	(176%)	272%	**325%**	**44%**

Schedule 4 - Actual Exchange Rates

PRUDENTIAL PLC - NEW BUSINESS - QUARTER 4 2009 VERSUS QUARTER 3 2009

INSURANCE OPERATIONS

	Single			Regular			Total			Annual Equivalents[3]		
	Q4 2009 £m	Q3 2009 £m	+/- (%)	Q4 2009 £m	Q 3 2009 £m	+/- (%)	Q4 2009 £m	Q 3 2009 £m	+/- (%)	Q4 2009 £m	Q3 2009 £m	+/-(%)
UK Insurance Operations												
Product Summary												
Internal Vesting annuities	334	297	12%	-	-	-	334	297	12%	33	30	10%
Direct and Partnership Annuities	166	151	10%	-	-	-	166	151	10%	17	15	13%
Intermediated Annuities	46	56	(18%)	-	-	-	46	56	(18%)	5	6	(17%)
Total Individual Annuities	546	504	8%	-	-	-	546	504	8%	55	50	10%
Income Drawdown	21	24	(13%)	-	-	-	21	24	(13%)	2	2	0%
Equity Release	43	30	43%	-	-	-	43	30	43%	4	3	33%
Individual Pensions	53	47	13%	2	2	0%	55	49	12%	7	7	0%
Corporate Pensions	26	8	225%	25	17	47%	51	25	104%	28	18	56%
Unit Linked Bonds	39	34	15%	-	-	-	39	34	15%	4	3	33%
With-Profit Bonds	295	285	4%	-	-	-	295	285	4%	30	29	3%
Protection	-	-	-	5	5	0%	5	5	0%	5	5	0%
Offshore Products	110	80	38%	-	1	-	110	81	36%	11	9	22%
Pru Health[8]	-	-	-	2	3	(33%)	2	3	(33%)	2	3	(33%)
Total Retail Retirement	1,133	1,012	12%	34	28	21%	1,167	1,040	12%	147	129	14%
Corporate Pensions	23	20	15%	25	21	19%	48	41	17%	27	23	17%
Other Products	20	20	0%	4	3	33%	24	23	4%	6	5	20%
DWP Rebates	47	-	-	-	-	-	47	-	-	5	-	-
Total Mature Life and Pensions	90	40	125%	29	24	21%	119	64	86%	38	28	36%
Total Retail	1,223	1,052	16%	63	52	21%	1,286	1,104	16%	185	157	18%
Wholesale Annuities	27	4	575%	-	-	-	27	4	575%	3	-	-
Credit Life	6	5	20%	-	-	-	6	5	20%	1	1	0%
Total UK Insurance Operations	1,256	1,061	18%	63	52	21%	1,319	1,113	19%	189	158	20%
Channel Summary												
Direct and Partnership	467	398	17%	52	41	27%	519	439	18%	99	81	22%
Intermediated	709	654	8%	11	11	0%	720	665	8%	82	76	8%
Wholesale	33	9	267%	-	-	-	33	9	267%	3	1	200%
Sub-Total	1,209	1,061	14%	63	52	21%	1,272	1,113	14%	184	158	16%
DWP Rebates	47	-	-	-	-	-	47	-	-	5	-	-
Total UK Insurance Operations	1,256	1,061	18%	63	52	21%	1,319	1,113	19%	189	158	20%
US Insurance Operations[1a] [7]												
Fixed Annuities	212	140	51%	-	-	-	212	140	51%	21	14	50%
Fixed Index Annuities	378	480	(21%)	-	-	-	378	480	(21%)	38	48	(21%)
Variable Annuities	2,068	1,804	15%	-	-	-	2,068	1,804	15%	207	180	15%
Life	3	2	50%	6	6	0%	9	8	13%	6	6	0%
Sub-Total Retail	2,661	2,426	10%	6	6	0%	2,667	2,432	10%	272	249	9%
Guaranteed Investment Contracts	-	-	-	-	-	-	-	-	-	-	-	-
GIC - Medium Term Note	-	-	-	-	-	-	-	-	-	-	-	-
Total US Insurance Operations	2,661	2,426	10%	6	6	0%	2,667	2,432	10%	272	249	9%

Asian Insurance Operations[1a] [7]												
China	**14**	15	(7%)	**10**	11	(9%)	**24**	26	(8%)	**11**	13	(15%)
Hong Kong	**30**	33	(9%)	**88**	52	69%	**118**	85	39%	**91**	55	65%
India	**10**	5	100%	**51**	39	31%	**61**	44	39%	**52**	40	30%
Indonesia	**17**	11	55%	**62**	42	48%	**79**	53	49%	**64**	43	49%
Japan	**7**	12	(42%)	**11**	10	10%	**18**	22	(18%)	**12**	11	9%
Korea	**10**	8	25%	**25**	29	(14%)	**35**	37	(5%)	**26**	30	(13%)
Malaysia	**13**	17	(24%)	**61**	30	103%	**74**	47	57%	**62**	32	94%
Singapore	**135**	47	187%	**34**	24	42%	**169**	71	138%	**48**	29	66%
Taiwan	**34**	38	(11%)	**27**	22	23%	**61**	60	2%	**30**	26	15%
Other[4]	**12**	9	33%	**18**	14	29%	**30**	23	30%	**19**	15	27%
Total Asian Insurance Operations	**282**	195	45%	**387**	**273**	**42%**	**669**	468	43%	**415**	293	42%
Group Total	**4,199**	3,682	14%	**456**	**331**	**38%**	**4,655**	4,013	16%	**876**	700	25%

INVESTMENT OPERATIONS

		Opening FUM	Gross Inflows	Redemptions	**Net Inflows**	Other Movements	Market &Currency Movements	**Net Movement In FUM**	**Closing FUM**
		£m	£m	£m	**£m**	£m	£m	**£m**	**£m**
M&G[5]	Q4 2009	**66,235**	6,434	(4,093)	**2,341**	(53)	1,783	**4,071**	**70,306**
	Q3 2009	**55,921**	5,810	(3,298)	**2,512**	(113)	7,915	**10,314**	**66,235**
	+/-(%)	**18%**	11%	(24%)	**(7%)**	53%	(77%)	**(61%)**	**6%**
Asia Retail Mutual Funds	Q4 2009	**17,773**	18,130	(18,394)	**(264)**	(28)	543	**251**	**18,024**
	Q3 2009	**15,518**	20,579	(20,142)	**437**	(1)	1,819	**2,255**	**17,773**
	+/-(%)	**15%**	(12%)	9%	**(160%)**	(2,700%)	(70%)	**(89%)**	**1%**
Asia Third Party	Q4 2009	**1,008**	378	(6)	**372**	-	70	**442**	**1,450**
	Q3 2009	**859**	5	(7)	**(2)**	-	151	**149**	**1,008**
	+/-(%)	**17%**	7,460%	14%	**18,700%**	-	(54%)	**197%**	**44%**
US Retail Mutual Funds	Q4 2009	**-**	-	1	**1**	-	(1)	**-**	**-**
	Q3 2009	**38**	-	(49)	**(49)**	1	10	**(38)**	**-**
	+/-(%)	**-**	-	102%	**102%**	-	-	**-**	**-**
Total Investment Products	Q4 2009	**85,016**	24,942	(22,492)	**2,450**	(81)	2,395	**4,764**	**89,780**
	Q3 2009	**72,336**	26,394	(23,496)	**2,898**	(113)	9,895	**12,680**	**85,016**
	+/-(%)	**18%**	(6%)	4%	**(15%)**	28%	(76%)	**(62%)**	**6%**

PRUDENTIAL PLC - NEW BUSINESS - FULL YEAR 2009

TOTAL INSURANCE AND INVESTMENT NEW BUSINESS

	UK			US[1b]			Asia[1b]			Total		
	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/-(%)	FY 2009 £m	FY 2008 £m	+/- (%)
Total Insurance Products	**5,014**	7,183	(30%)	**8,909**	8,212	8%	**2,019**	2,753	(27%)	**15,942**	18,148	(12%)
Total Investment Products Gross Inflows[2]	**24,875**	16,154	54%	**6**	43	(86%)	**71,176**	50,407	41%	**96,057**	66,604	44%
	29,889	23,337	28%	**8,915**	8,255	8%	**73,195**	53,160	38%	**111,999**	84,752	32%

INSURANCE OPERATIONS

	Single			Regular			Total			PVNBP		
	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/-(%)	FY 2009 £m	FY 2008 £m	+/-(%)
UK Insurance Operations												
Product Summary												
Internal Vesting annuities	**1,357**	1,600	(15%)	**-**	-	-	**1,357**	1,600	(15%)	**1,357**	1,600	(15%)
Direct and Partnership Annuities	**590**	703	(16%)	**-**	-	-	**590**	703	(16%)	**590**	703	(16%)
Intermediated Annuities	**242**	497	(51%)	**-**	-	-	**242**	497	(51%)	**242**	497	(51%)
Total Individual Annuities	**2,189**	2,800	(22%)	**-**	-	-	**2,189**	2,800	(22%)	**2,189**	2,800	(22%)
Income Drawdown	**91**	75	21%	**-**	-	-	**91**	75	21%	**91**	75	21%
Equity Release	**127**	242	(48%)	**-**	-	-	**127**	242	(48%)	**127**	242	(48%)
Individual Pensions	**198**	115	72%	**7**	3	133%	**205**	118	74%	**218**	124	76%
Corporate Pensions	**81**	221	(63%)	**86**	88	(2%)	**167**	309	(46%)	**547**	645	(15%)
Unit Linked Bonds	**122**	109	12%	**-**	-	-	**122**	109	12%	**122**	109	12%
With-Profit Bonds	**1,264**	869	45%	**-**	-	-	**1,264**	869	45%	**1,264**	869	45%
Protection	**-**	-	-	**17**	6	183%	**17**	6	183%	**110**	38	189%
Offshore Products	**317**	551	(42%)	**3**	4	(25%)	**320**	555	(42%)	**336**	573	(41%)
Pru Health[8]	**-**	-	-	**11**	16	(31%)	**11**	16	(31%)	**111**	146	(24%)
Total Retail Retirement	**4,389**	4,982	(12%)	**124**	117	6%	**4,513**	5,099	(11%)	**5,115**	5,621	(9%)
Corporate Pensions	**111**	227	(51%)	**105**	116	(9%)	**216**	343	(37%)	**460**	653	(30%)
Other Products	**79**	132	(40%)	**17**	21	(19%)	**96**	153	(37%)	**138**	219	(37%)
DWP Rebates	**127**	153	(17%)	**-**	-	-	**127**	153	(17%)	**127**	153	(17%)
Total Mature Life and Pensions	**317**	512	(38%)	**122**	137	(11%)	**439**	649	(32%)	**725**	1,025	(29%)
Total Retail	**4,706**	5,494	(14%)	**246**	254	(3%)	**4,952**	5,748	(14%)	**5,840**	6,646	(12%)
Wholesale Annuities	**39**	1,417	(97%)	**-**	-	-	**39**	1,417	(97%)	**39**	1,417	(97%)
Credit Life	**23**	18	28%	**-**	-	-	**23**	18	28%	**23**	18	28%
Total UK Insurance Operations	**4,768**	6,929	(31%)	**246**	254	(3%)	**5,014**	7,183	(30%)	**5,902**	8,081	(27%)
Channel Summary												
Direct and Partnership	**1,814**	2,352	(23%)	**201**	215	(7%)	**2,015**	2,567	(22%)	**2,667**	3,268	(18%)
Intermediated	**2,765**	2,990	(8%)	**45**	39	15%	**2,810**	3,029	(7%)	**3,046**	3,227	(6%)
Wholesale	**62**	1,434	(96%)	**-**	-	-	**62**	1,434	(96%)	**62**	1,434	(96%)
Sub-Total	**4,641**	6,776	(32%)	**246**	254	(3%)	**4,887**	7,030	(30%)	**5,775**	7,929	(27%)
DWP Rebates	**127**	153	(17%)	**-**	**-**	-	**127**	153	(17%)	**127**	153	(17%)
Total UK Insurance Operations	**4,768**	6,929	(31%)	**246**	254	(3%)	**5,014**	7,183	(30%)	**5,902**	8,081	(27%)

US Insurance Operations[1b]												
Fixed Annuities	**1,053**	2,039	(48%)	**-**	-	-	**1,053**	2,039	(48%)	**1,053**	2,039	(48%)
Fixed Index Annuities	**1,433**	593	142%	**-**	-	-	**1,433**	593	142%	**1,433**	593	142%
Variable Annuities	**6,389**	4,130	55%	**-**	-	-	**6,389**	4,130	55%	**6,389**	4,130	55%
Life	**10**	9	11%	**24**	28	(14%)	**34**	37	(8%)	**173**	273	(37%)
Sub-Total Retail	**8,885**	6,771	31%	**24**	**28**	(14%)	**8,909**	6,799	31%	**9,048**	7,035	29%
Guaranteed Investment Contracts	**-**	1,014	-	**-**	-	-	**-**	1,014	-	**-**	1,014	-
GIC - Medium Term Note	**-**	399	-	**-**	-	-	**-**	399	-	**-**	399	-
Total US Insurance Operations	**8,885**	8,184	9%	**24**	28	(14%)	**8,909**	8,212	8%	**9,048**	8,448	7%
Asian Insurance Operations[1b]												
China	**72**	76	(5%)	**38**	39	(3%)	**110**	115	(4%)	**253**	277	(9%)
Hong Kong	**94**	602	(84%)	**232**	183	27%	**326**	785	(58%)	**1,414**	1,915	(26%)
India	**47**	64	(27%)	**163**	213	(23%)	**210**	277	(24%)	**581**	790	(26%)
Indonesia	**41**	104	(61%)	**186**	184	1%	**227**	288	(21%)	**671**	713	(6%)
Japan	**57**	151	(62%)	**46**	39	18%	**103**	190	(46%)	**263**	284	(7%)
Korea	**38**	79	(52%)	**118**	213	(45%)	**156**	292	(47%)	**568**	1,109	(49%)
Malaysia	**63**	31	103%	**140**	111	26%	**203**	142	43%	**814**	636	28%
Singapore	**297**	392	(24%)	**98**	90	9%	**395**	482	(18%)	**1,033**	1,104	(6%)
Taiwan	**104**	41	154%	**97**	63	54%	**201**	104	93%	**427**	268	59%
Other[4]	**29**	19	53%	**59**	59	0%	**88**	78	13%	**221**	208	6%
Total Asian Insurance Operations	**842**	1,559	(46%)	**1,177**	1,194	(1%)	**2,019**	2,753	(27%)	**6,245**	7,304	(14%)
Group Total	**14,495**	16,672	(13%)	**1,447**	1,476	(2%)	**15,942**	18,148	(12%)	**21,195**	23,833	(11%)

Schedule 6 - Actual Exchange Rates

PRUDENTIAL PLC - NEW BUSINESS - FULL YEAR 2009

TOTAL INSURANCE AND INVESTMENT NEW BUSINESS

	UK			US[1a]			Asia[1a]			Total		
	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/-(%)	FY 2009 £m	FY 2008 £m	+/- (%)
Total Insurance Products	5,014	7,183	(30%)	8,909	6,941	28%	2,019	2,422	(17%)	15,942	16,546	(4%)
Total Investment Products Gross Inflows[2]	24,875	16,154	54%	6	36	(83%)	71,176	46,957	52%	96,057	63,147	52%
	29,889	23,337	28%	8,915	6,977	28%	73,195	49,379	48%	111,999	79,693	41%

INSURANCE OPERATIONS

	Single			Regular			Total			PVNBP		
	FY 2009 £m	FY 2008 £m	+/-(%)	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/- (%)	FY 2009 £m	FY 2008 £m	+/- (%)
UK Insurance Operations Product Summary												
Internal Vesting annuities	1,357	1,600	(15%)	-	-	-	1,357	1,600	(15%)	1,357	1,600	(15%)
Direct and Partnership Annuities	590	703	(16%)	-	-	-	590	703	(16%)	590	703	(16%)
Intermediated Annuities	242	497	(51%)	-	-	-	242	497	(51%)	242	497	(51%)
Total Individual Annuities	2,189	2,800	(22%)	-	-	-	2,189	2,800	(22%)	2,189	2,800	(22%)
Income Drawdown	91	75	21%	-	-	-	91	75	21%	91	75	21%
Equity Release	127	242	(48%)	-	-	-	127	242	(48%)	127	242	(48%)
Individual Pensions	198	115	72%	7	3	133%	205	118	74%	218	124	76%
Corporate Pensions	81	221	(63%)	86	88	(2%)	167	309	(46%)	547	645	(15%)
Unit Linked Bonds	122	109	12%	-	-	-	122	109	12%	122	109	12%
With-Profit Bonds	1,264	869	45%	-	-	-	1,264	869	45%	1,264	869	45%
Protection	-	-	-	17	6	183%	17	6	183%	110	38	189%
Offshore Products	317	551	(42%)	3	4	(25%)	320	555	(42%)	336	573	(41%)
Pru Health[8]	-	-	-	11	16	(31%)	11	16	(31%)	111	146	(24%)
Total Retail Retirement	4,389	4,982	(12%)	124	117	6%	4,513	5,099	(11%)	5,115	5,621	(9%)
Corporate Pensions	111	227	(51%)	105	116	(9%)	216	343	(37%)	460	653	(30%)
Other Products	79	132	(40%)	17	21	(19%)	96	153	(37%)	138	219	(37%)
DWP Rebates	127	153	(17%)	-	-	-	127	153	(17%)	127	153	(17%)
Total Mature Life and Pensions	317	512	(38%)	122	137	(11%)	439	649	(32%)	725	1,025	(29%)
Total Retail	4,706	5,494	(14%)	246	254	(3%)	4,952	5,748	(14%)	5,840	6,646	(12%)
Wholesale Annuities	39	1,417	(97%)	-	-	-	39	1,417	(97%)	39	1,417	(97%)
Credit Life	23	18	28%	-	-	-	23	18	28%	23	18	28%
Total UK Insurance Operations	4,768	6,929	(31%)	246	254	(3%)	5,014	7,183	(30%)	5,902	8,081	(27%)
Channel Summary												
Direct and Partnership	1,814	2,352	(23%)	201	215	(7%)	2,015	2,567	(22%)	2,667	3,268	(18%)
Intermediated	2,765	2,990	(8%)	45	39	15%	2,810	3,029	(7%)	3,046	3,227	(6%)
Wholesale	62	1,434	(96%)	-	-	-	62	1,434	(96%)	62	1,434	(96%)
Sub-Total	4,641	6,776	(32%)	246	254	(3%)	4,887	7,030	(30%)	5,775	7,929	(27%)
DWP Rebates	127	153	(17%)	-	-	-	127	153	(17%)	127	153	(17%)
Total UK Insurance Operations	4,768	6,929	(31%)	246	254	(3%)	5,014	7,183	(30%)	5,902	8,081	(27%)
US Insurance Operations[1a]												
Fixed Annuities	1,053	1,724	(39%)	-	-	-	1,053	1,724	(39%)	1,053	1,724	(39%)
Fixed Index Annuities	1,433	501	186%	-	-	-	1,433	501	186%	1,433	501	186%
Variable Annuities	6,389	3,491	83%	-	-	-	6,389	3,491	83%	6,389	3,491	83%
Life	10	7	43%	24	24	0%	34	31	10%	173	230	(25%)
Sub-Total Retail	8,885	5,723	55%	24	24	0%	8,909	5,747	55%	9,048	5,946	52%
Guaranteed Investment Contracts	-	857	-	-	-	-	-	857	-	-	857	-
GIC - Medium Term Note	-	337	-	-	-	-	-	337	-	-	337	-
Total US Insurance Operations[1a]	8,885	6,917	28%	24	24	0%	8,909	6,941	28%	9,048	7,140	27%

Asian Insurance Operations[1a]												
China	**72**	63	14%	**38**	32	19%	**110**	95	16%	**253**	230	10%
Hong Kong	**94**	507	(81%)	**232**	154	51%	**326**	661	(51%)	**1,414**	1,612	(12%)
India	**47**	60	(22%)	**163**	202	(19%)	**210**	262	(20%)	**581**	747	(22%)
Indonesia	**41**	94	(56%)	**186**	167	11%	**227**	261	(13%)	**671**	649	3%
Japan	**57**	115	(50%)	**46**	30	53%	**103**	145	(29%)	**263**	217	21%
Korea	**38**	78	(51%)	**118**	211	(44%)	**156**	289	(46%)	**568**	1,097	(48%)
Malaysia	**63**	28	125%	**140**	99	41%	**203**	127	60%	**814**	570	43%
Singapore	**297**	341	(13%)	**98**	78	26%	**395**	419	(6%)	**1,033**	961	7%
Taiwan	**104**	36	189%	**97**	55	76%	**201**	91	121%	**427**	237	80%
Other[4]	**29**	18	61%	**59**	54	9%	**88**	72	22%	**221**	188	18%
Total Asian Insurance Operations	**842**	1,340	(37%)	**1,177**	1,082	9%	**2,019**	2,422	(17%)	**6,245**	6,508	(4%)
Group Total	**14,495**	15,186	(5%)	**1,447**	1,360	6%	**15,942**	16,546	(4%)	**21,195**	21,729	(2%)

PRUDENTIAL PLC - NEW BUSINESS - QUARTER 4 2009 VERSUS QUARTER 4 2008

INSURANCE OPERATIONS

	Single			Regular			Total			PVNBP		
	Q4 2009	Q4 2008	+/-(%)	Q4 2009	Q4 2008	+/-(%)	Q4 2009	Q4 2008	+/-(%)	Q4 2009	Q4 2008	+/-(%)
	£m	£m		£m	£m		£m	£m		£m	£m	
UK Insurance Operations												
Product Summary												
Internal Vesting annuities	**334**	471	(29%)	**-**	-	-	**334**	471	(29%)	**334**	471	(29%)
Direct and Partnership Annuities	**166**	153	8%	**-**	-	-	**166**	153	8%	**166**	153	8%
Intermediated Annuities	**46**	96	(52%)	**-**	-	-	**46**	96	(52%)	**46**	96	(52%)
Total Individual Annuities	**546**	720	(24%)	**-**	**-**	-	**546**	720	(24%)	**546**	720	(24%)
Income Drawdown	**21**	21	0%	**-**	-	-	**21**	21	0%	**21**	21	0%
Equity Release	**43**	54	(20%)	**-**	-	-	**43**	54	(20%)	**43**	54	(20%)
Individual Pensions	**53**	63	(16%)	**2**	1	100%	**55**	64	(14%)	**59**	67	(12%)
Corporate Pensions	**26**	67	(61%)	**25**	24	4%	**51**	91	(44%)	**161**	190	(15%)
Unit Linked Bonds	**39**	21	86%	**-**	-	-	**39**	21	86%	**39**	21	86%
With-Profit Bonds	**295**	218	35%	**-**	-	-	**295**	218	35%	**295**	218	35%
Protection	**-**	-	-	**5**	2	150%	**5**	2	150%	**34**	12	183%
Offshore Products	**110**	104	6%	**-**	1	-	**110**	105	5%	**114**	110	4%
Pru Health	**-**	-	-	**2**	2	0%	**2**	2	0%	**29**	17	71%
Total Retail Retirement	**1,133**	1,268	(11%)	**34**	30	13%	**1,167**	1,298	(10%)	**1,341**	1,430	(6%)
Corporate Pensions	**23**	-	-	**25**	28	(11%)	**48**	28	71%	**75**	132	(43%)
Other Products	**20**	19	5%	**4**	4	0%	**24**	23	4%	**34**	53	(36%)
DWP Rebates	**47**	50	(6%)	**-**	-	-	**47**	50	(6%)	**47**	50	(6%)
Total Mature Life and Pensions	**90**	69	30%	**29**	**32**	**(9%)**	**119**	101	18%	**156**	235	(34%)
Total Retail	**1,223**	1,337	(9%)	**63**	62	2%	**1,286**	1,399	(8%)	**1,497**	1,665	(10%)
Wholesale Annuities	**27**	47	(43%)	**-**	-	-	**27**	47	(43%)	**27**	47	(43%)
Credit Life	**6**	7	(14%)	**-**	-	-	**6**	7	(14%)	**6**	7	(14%)
Total UK Insurance Operations	**1,256**	1,391	(10%)	**63**	62	2%	**1,319**	1,453	(9%)	**1,530**	1,719	(11%)
Channel Summary												
Direct and Partnership	**467**	623	(25%)	**52**	54	(4%)	**519**	677	(23%)	**659**	887	(26%)
Intermediated	**709**	664	7%	**11**	8	38%	**720**	672	7%	**791**	730	8%
Wholesale	**33**	54	(39%)	**-**	-	-	**33**	54	(39%)	**33**	54	(39%)
Sub-Total	**1,209**	1,341	(10%)	**63**	**62**	2%	**1,272**	1,403	(9%)	**1,483**	1,671	(11%)
DWP Rebates	**47**	50	(6%)	**-**	-	-	**47**	50	(6%)	**47**	50	(6%)
Total UK Insurance Operations	**1,256**	1,391	(10%)	**63**	62	2%	**1,319**	1,453	(9%)	**1,530**	1,719	(11%)
US Insurance Operations [1a] [7]												
Fixed Annuities	**212**	583	(64%)	**-**	-	-	**212**	583	(64%)	**212**	583	(64%)
Fixed Index Annuities	**378**	184	105%	**-**	-	-	**378**	184	105%	**378**	184	105%
Variable Annuities	**2,068**	895	131%	**-**	-	-	**2,068**	895	131%	**2,068**	895	131%
Life	**3**	1	200%	**6**	6	0%	**9**	7	29%	**30**	85	(65%)
Sub-Total Retail	**2,661**	1,663	60%	**6**	**6**	0%	**2,667**	1,669	60%	**2,688**	1,747	54%
Guaranteed Investment Contracts	**-**	42	-	**-**	-	-	**-**	42	-	**-**	42	-
GIC - Medium Term Note	**-**	16	-	**-**	-	-	**-**	16	-	**-**	16	-
Total US Insurance Operations	**2,661**	1,721	55%	**6**	6	0%	**2,667**	1,727	54%	**2,688**	1,805	49%

Asian Insurance Operations[1a] [7]												
China	**14**	16	(13%)	**10**	9	11%	**24**	25	(4%)	**60**	66	(9%)
Hong Kong	**30**	47	(36%)	**88**	41	115%	**118**	88	34%	**483**	450	7%
India	**10**	7	43%	**51**	34	50%	**61**	41	49%	**172**	141	22%
Indonesia	**17**	9	89%	**62**	46	35%	**79**	55	44%	**240**	154	56%
Japan	**7**	21	(67%)	**11**	6	83%	**18**	27	(30%)	**51**	12	325%
Korea	**10**	15	(33%)	**25**	35	(29%)	**35**	50	(30%)	**114**	220	(48%)
Malaysia	**13**	6	117%	**61**	35	74%	**74**	41	80%	**340**	193	76%
Singapore	**135**	35	286%	**34**	22	55%	**169**	57	196%	**380**	208	83%
Taiwan	**34**	3	1,033%	**27**	29	(7%)	**61**	32	91%	**136**	116	17%
Other[4]	**12**	4	200%	**18**	14	29%	**30**	18	67%	**70**	48	46%
Total Asian Insurance Operations	**282**	163	73%	**387**	**271**	**43%**	**669**	434	54%	**2,046**	1,608	27%
Group Total	**4,199**	3,275	28%	**456**	339	35%	**4,655**	3,614	29%	**6,264**	5,132	22%

INVESTMENT OPERATIONS

		Opening FUM	Gross Inflows	Redemptions	**Net Inflows**	Other Movements	Market & Currency Movements	**Net Movement In FUM**	**Closing FUM**
		£m	£m	£m	**£m**	£m	£m	**£m**	**£m**
M&G[5]	Q4 2009	**66,235**	6,434	(4,093)	**2,341**	(53)	1,783	**4,071**	**70,306**
	Q4 2008	**49,994**	4,040	(4,775)	**(735)**	110	(2,372)	**(2,997)**	**46,997**
	+/-(%)	**32%**	59	14%	**419%**	(148%)	175%	**236%**	**50%**
Asia Retail Mutual Funds	Q4 2009	**17,773**	18,130	(18,394)	**(264)**	(28)	543	**251**	**18,024**
	Q4 2008	**13,594**	12,529	(12,618)	**(89)**	(6)	944	**849**	**14,443**
	+/-(%)	**31%**	45%	(46%)	**(197%)**	(367%)	(42%)	**(70%)**	**25%**
Asia Third Party	Q4 2009	**1,008**	378	(6)	**372**	-	70	**442**	**1,450**
	Q4 2008	**755**	16	(24)	**(8)**	-	42	**34**	**789**
	+/-(%)	**34%**	2,263%	75%	**4,750%**	-	67%	**1,200%**	**84%**
US Retail Mutual Funds	Q4 2009	**-**	-	1	**1**	-	(1)	**-**	**-**
	Q4 2008	**58**	4	(8)	**(4)**	2	(6)	**(8)**	**50**
	+/-(%)	**(100%)**	-	113%	**125%**	-	83%	**-**	**(100%)**
Total Investment Products	Q4 2009	**85,016**	24,942	(22,492)	**2,450**	(81)	2,395	**4,764**	**89,780**
	Q4 2008	**64,401**	16,589	(17,425)	**(836)**	106	(1,392)	**(2,122)**	**62,279**
	+/-(%)	**32%**	50%	(29%)	**393%**	(176%)	272%	**325%**	**44%**

Schedule 8 - Actual Exchange Rates

PRUDENTIAL PLC - NEW BUSINESS - QUARTER 4 2009 VERSUS QUARTER 3 2009

INSURANCE OPERATIONS

	Single			Regular			Total			PVNBP		
	Q4 2009 £m	Q 3 2009 £m	+/- (%)	Q4 2009 £m	Q 3 2009 £m	+/- (%)	Q4 2009 £m	Q 3 2009 £m	+/- (%)	Q4 2009 £m	Q 3 2009 £m	+/- (%)
UK Insurance Operations												
Product Summary												
Internal Vesting annuities	334	297	12%	-	-	-	334	297	12%	334	297	12%
Direct and Partnership Annuities	166	151	10%	-	-	-	166	151	10%	166	151	10%
Intermediated Annuities	46	56	(18%)	-	-	-	46	56	(18%)	46	56	(18%)
Total Individual Annuities	546	504	8%	-	-	-	546	504	8%	546	504	8%
Income Drawdown	21	24	(13%)	-	-	-	21	24	(13%)	21	24	(13%)
Equity Release	43	30	43%	-	-	-	43	30	43%	43	30	43%
Individual Pensions	53	47	13%	2	2	0%	55	49	12%	59	52	13%
Corporate Pensions	26	8	225%	25	17	47%	51	25	104%	161	100	61%
Unit Linked Bonds	39	34	15%	-	-	-	39	34	15%	39	34	15%
With-Profit Bonds	295	285	4%	-	-	-	295	285	4%	295	285	4%
Protection	-	-	-	5	5	0%	5	5	0%	34	31	10%
Offshore Products	110	80	38%	-	1	-	110	81	36%	114	85	34%
Pru Health	-	-	-	2	3	(33%)	2	3	(33%)	29	26	12%
Total Retail Retirement	1,133	1,012	12%	34	28	21%	1,167	1,040	12%	1,341	1,171	15%
Corporate Pensions	23	20	15%	25	21	19%	48	41	17%	75	100	(25%)
Other Products	20	20	0%	4	3	33%	24	23	4%	34	30	13%
DWP Rebates	47	-	-	-	-	-	47	-	-	47	-	-
Total Mature Life and Pensions	90	40	125%	29	24	21%	119	64	86%	156	130	20%
Total Retail	1,223	1,052	16%	63	52	21%	1,286	1,104	16%	1,497	1,301	15%
Wholesale Annuities	27	4	575%	-	-	-	27	4	575%	27	4	575%
Credit Life	6	5	20%	-	-	-	6	5	20%	6	5	20%
Total UK Insurance Operations	1,256	1,061	18%	63	52	21%	1,319	1,113	19%	1,530	1,310	17%
Channel Summary												
Direct and Partnership	467	398	17%	52	41	27%	519	439	18%	659	586	12%
Intermediated	709	654	8%	11	11	0%	720	665	8%	791	715	11%
Wholesale	33	9	267%	-	-	-	33	9	267%	33	9	267%
Sub-Total	1,209	1,061	14%	63	52	21%	1,272	1,113	14%	1,483	1,310	13%
DWP Rebates	47	-	-	-	-	-	47	-	-	47	-	-
Total UK Insurance Operations	1,256	1,061	18%	63	52	21%	1,319	1,113	19%	1,530	1,310	17%
US Insurance Operations												
Fixed Annuities	212	140	51%	-	-	-	212	140	51%	212	140	51%
Fixed Index Annuities	378	480	(21%)	-	-	-	378	480	(21%)	378	480	(21%)
Variable Annuities	2,068	1,804	15%	-	-	-	2,068	1,804	15%	2,068	1,804	15%
Life	3	2	50%	6	6	0%	9	8	13%	30	47	(36%)
Sub-Total Retail	2,661	2,426	10%	6	6	0%	2,667	2,432	10%	2,688	2,471	9%
Guaranteed Investment Contracts	-	-	-	-	-	-	-	-	-	-	-	-
GIC - Medium Term Note	-	-	-	-	-	-	-	-	-	-	-	-
Total US Insurance Operations	2,661	2,426	10%	6	6	0%	2,667	2,432	10%	2,688	2,471	9%

Asian Insurance Operations[1a] [7]												
China	**14**	15	(7%)	**10**	11	(9%)	**24**	26	(8%)	**60**	68	(12%)
Hong Kong	**30**	33	(9%)	**88**	52	69%	**118**	85	39%	**483**	349	38%
India	**10**	5	100%	**51**	39	31%	**61**	44	39%	**172**	137	26%
Indonesia	**17**	11	55%	**62**	42	48%	**79**	53	49%	**240**	149	61%
Japan	**7**	12	(42%)	**11**	10	10%	**18**	22	(18%)	**51**	57	(11%)
Korea	**10**	8	25%	**25**	29	(14%)	**35**	37	(5%)	**114**	140	(19%)
Malaysia	**13**	17	(24%)	**61**	30	103%	**74**	47	57%	**340**	179	90%
Singapore	**135**	47	187%	**34**	24	42%	**169**	71	138%	**380**	244	56%
Taiwan	**34**	38	(11%)	**27**	22	23%	**61**	60	2%	**136**	113	20%
Other	**12**	9	33%	**18**	14	29%	**30**	23	30%	**70**	57	23%
Total Asian Insurance Operations	**282**	195	45%	**387**	**273**	**42%**	**669**	468	43%	**2,046**	1,493	37%
Group Total	**4,199**	3,682	14%	**456**	**331**	**38%**	**4,655**	4,013	16%	**6,264**	5,274	19%

INVESTMENT OPERATIONS

		Opening FUM	Gross Inflows	Redemptions	**Net Inflows**	Other Movements	Market &Currency Movements	**Net Movement In FUM**	**Closing FUM**
		£m	£m	£m	**£m**	£m	£m	**£m**	**£m**
M&G[5]	Q4 2009	**66,235**	6,434	(4,093)	**2,341**	(53)	1,783	**4,071**	**70,306**
	Q3 2009	**55,921**	5,810	(3,298)	**2,512**	(113)	7,915	**10,314**	**66,235**
	+/-(%)	**18%**	11%	(24%)	**(7%)**	53%	(77%)	**(61%)**	**6%**
Asia Retail Mutual Funds	Q4 2009	**17,773**	18,130	(18,394)	**(264)**	(28)	543	**251**	**18,024**
	Q3 2009	**15,518**	20,579	(20,142)	**437**	(1)	1,819	**2,255**	**17,773**
	+/-(%)	**15%**	(12%)	9%	**(160%)**	(2,700%)	(70%)	**(89%)**	**1%**
Asia Third Party	Q4 2009	**1,008**	378	(6)	**372**	-	70	**442**	**1,450**
	Q3 2009	**859**	5	(7)	**(2)**	-	151	**149**	**1,008**
	+/-(%)	**17%**	7,460%	14%	**18,700%**	-	(54%)	**197%**	**44%**
US Retail Mutual Funds	Q4 2009	**-**	-	1	**1**	-	(1)	**-**	**-**
	Q3 2009	**38**	-	(49)	**(49)**	1	10	**(38)**	**-**
	+/-(%)	**-**	-	102%	**102%**	-	-	**-**	**-**
Total Investment Products	Q4 2009	**85,016**	24,942	(22,492)	**2,450**	(81)	2,395	**4,764**	**89,780**
	Q3 2009	**72,336**	26,394	(23,496)	**2,898**	(113)	9,895	**12,680**	**85,016**
	+/-(%)	**18%**	(6%)	4%	**(15%)**	28%	(76%)	**(62%)**	**6%**

PRUDENTIAL PLC - 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.

New business in India is included at Prudential's 26 per cent interest in the India life operation.

New business in China is included at Prudential's 50 per cent interest in the China life operation.

Mandatory Provident Fund (MPF) product sales in Hong Kong are included at Prudential's 36 per cent interest in Hong Kong MPF operation.

Notes to Schedules 1 - 8

(1a) Insurance and investment new business for overseas operations has been calculated using average exchange rates. The applicable rate for Jackson is 1.57 (2008: 1.85).

(1b) Insurance and investment new business for overseas operations has been calculated using constant exchange rates. The applicable rate for Jackson is 1.57.

(2) Represents cash received from sale of investment products.

(3) Annual Equivalents, calculated as regular new business contributions plus 10 per cent 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) In Asia, 'Other' insurance operations include Thailand, the Philippines and Vietnam.

(5) 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.

(6) Balance Sheet figures have been calculated at the closing exchange rate. Prior year balance is shown on a constant 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) Pru Health sales exclude £6m (£3m 50% share) of Trust business.

RISK FACTORS

A number of factors (risk factors) affect Prudential's operating results and financial condition and, accordingly, the trading price of its shares. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The information given is as of the date of this report, is not updated, and any forward-looking statements are made subject to the reservations specified under 'Forward-Looking Statements" at the end of the news release.

Risks Relating to Prudential's Business

Prudential's businesses are inherently subject to market fluctuations and general economic conditions.

Prudential's businesses are inherently subject to market fluctuations and general economic conditions. Uncertain or negative trends in international economic and investment climates which have adversely affected Prudential's business and profitability could be repeated, or prolonged, or could worsen. The adverse effects of such trends, including the unprecedented market dislocation across asset classes and geographical markets witnessed in 2008 and in the first half of 2009, have been and would be felt principally through the following:

- investment impairments or reduced investment returns, as a result of market volatility, could impair Prudential's ability to write significant volumes of new business as a result of market volatility, which would have a negative impact on its assets under management and profit;
- higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses, as experienced during 2008 and 2009, when illiquidity and credit spreads reached all-time highs;
- Prudential in the normal course of business enters into a variety of transactions with counterparties, including derivative transactions. Failure of any of these counterparties to discharge their obligations, or where adequate collateral is not in place, could have an adverse impact on Prudential's results; and
- in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain value and estimates of value require substantial elements of judgement, assumptions and estimates (which may change over time). Increased illiquidity also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline.

Estimates of financial instruments' value are difficult because a significant part of Prudential's shareholders' profit is related to bonuses for policyholders declared on its with-profits products, which are broadly based on historic and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns. During 2008 and for the first half of 2009, Prudential has had to operate in the UK against a challenging background of unprecedented volatility in capital and equity markets, interest rates and widespread economic uncertainty. This has led, among other things, to reduced consumer spending, an increase in unemployment, and consequently reduced liquidity, requiring the intervention of the Bank of England via a quantitative easing programme to restore credit liquidity in the market.

In the US fluctuations in prevailing interest rates can affect results from Jackson National Life Insurance Company ("Jackson"), which has a significant spread-based business, with the majority of its assets invested in fixed income securities. In particular, fixed annuities and stable value products written by Jackson expose the Prudential Group to the risk that changes in interest rates, which are not fully reflected in the interest rates credited to customers, will reduce spread. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. During 2008, the US financial services industry faced an unprecedented array of challenges: the S&P 500 index fell by 38.5 per cent, government interest rates fell to historic lows, and global markets experienced a significant increase in volatility. In addition, credit markets seized up and global credit spreads widened to historic levels. These factors contributed to substantial increases in Jackson's unrealised losses. Although global markets have begun to stabilise beginning in 2009, interest rates remain low, many of the challenges of 2008 persist in the credit markets and new challenges such as potential sovereign credit deterioration and defaults continue to emerge. Declines in spread from these products or other spread businesses that Jackson conducts could have a material impact on its businesses or results of operations. Jackson also writes a significant amount of variable annuities that offer capital or income protection guarantees. There could be unforeseen market circumstances where the derivatives that it enters into to hedge its market risks may not fully offset its losses, and any cost of the guarantees that remain unhedged will also affect the Company's results.

For some non unit-linked investment products, in particular those written in some of Prudential Group's Asian operations, it may not be possible to hold assets which will provide cash flows to exactly match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets where regulated surrender values are set with reference to the interest rate environment prevailing at the time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. This residual asset/liability mismatch risk can be managed but not eliminated. Where interest rates in these markets remain lower than interest rates used to calculate surrender values over a sustained period, this could have an adverse impact on Prudential Group's reported profit.

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

Due to the geographical diversity of its businesses, Prudential is subject to the risk of exchange rate fluctuations. Prudential's international operations in the US and Asia, which represent a significant proportion of operating profit and shareholders' funds, generally write policies and invest in assets denominated in local currency. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential's consolidated financial statements upon translation of results into Sterling. The currency exposure relating to the translation of reported earnings is not separately managed. Consequently, this could impact on Prudential Group's gearing ratios (defined as debt over debt plus shareholders' funds). The impact of gains or losses on currency translations is recorded as a component of shareholders' funds within the statement of changes in equity.

Prudential conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates.

Changes in government policy, legislation (including tax) or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates, which in some circumstances maybe applied retrospectively, may adversely affect Prudential's product range, distribution channels, capital requirements and, consequently, reported results and financing requirements. For instance, regulators in jurisdictions in which Prudential operates may change the level of capital required to be held by individual businesses. Also these changes could include possible changes in the regulatory framework for pension arrangements and policies, the regulation of selling practices and solvency requirements. Furthermore, as a result of the recent interventions by governments in response to global economic conditions, it is widely expected that there will be a substantial increase in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transaction structure, and enhanced supervisory powers.

Current EU directives, including the EU Insurance Groups Directive ("IGD") require European financial services groups to demonstrate net aggregate surplus capital in excess of solvency requirements at the Group level in respect of shareholder-owned entities. The test is a continuous requirement, so that Prudential needs to maintain a somewhat higher amount of regulatory capital at the Group level than otherwise necessary in respect of some of its individual businesses to accommodate, for example, short term movements in global foreign exchange rates, interest rates, deterioration in credit quality and equity markets. The EU is also developing a new solvency framework for insurance companies, referred to as "Solvency II". The new approach will be based on the concept of three pillars – minimum capital requirements, supervisory review of firms' assessment of risk, and enhanced disclosure requirements – and will cover valuations, the treatment of insurance groups, the definition of capital and the overall level of capital requirements. A key aspect of Solvency II is that the assessment of risks and capital requirements will be aligned more closely with economic capital methodologies, and may allow the Group to make use of its internal economic capital models, if approved by the FSA. The Solvency II Directive was formally approved by a meeting of the EU's Economic and Financial Affairs Council on 10 November 2009. The European Commission has already initiated the process of developing the detailed rules that will complement the high-level Principles of the Directive, referred to as "implementing measures", which are subject to a consultation process and are not expected to be finalised until late 2011. There is a significant uncertainty regarding the final outcome of this process. As a result there is a risk that the effect of the measures finally adopted could be adverse for the Group, including potentially a significant increase in the capital required to support the UK annuity business. In addition, the application of Solvency II to international groups is still unclear and there is a risk of inconsistent application, which may place Prudential at a competitive disadvantage to other European and non European financial services groups.

Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise where Prudential, along with other companies, may be required to make such contributions.

The Group's accounts are prepared in accordance with current International Financial Reporting Standards ("IFRS") applicable to the insurance industry. The International Accounting Standards Board ("IASB") introduced a framework that it described as Phase I, which permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. The IASB has published proposals in its Phase II discussion paper, which would introduce significant changes to the statutory reporting of insurance entities that prepare accounts according to IFRS and has stated its intention to publish an Exposure Draft in 2010. It is uncertain whether and how the proposals in the discussion paper will become definitive IFRS and when such changes might take effect.

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

European Embedded Value ("EEV") basis results are published as supplementary information by Prudential using principles issued by the European CFO (Chief Financial Officers) Forum. The EEV basis is a value based reporting method for Prudential's long-term business which is used by market analysts and which underpins a significant part of the key performance indicators used by Prudential's management for both internal and external reporting purposes. In June 2008, in an effort to improve the consistency and transparency of embedded value reporting, the CFO Forum published the Market Consistent Embedded Value (MCEV)

Principles. Following a review of the impact of turbulent market conditions on the MCEV Principles, the CFO Forum announced in May 2009 the postponement of the mandatory reporting on MCEV basis until 2011 and subsequently, in October 2009, changes in the principles to allow for the inclusion of a liquidity premium, which is the additional return investors require for investing in less liquid assets and is a key component in the calculation of the profitability of UK annuity business. It also announced that it was performing further work to develop more detailed application guidance to increase consistency going forward. When the work has been completed, Prudential will consider its approach to the new Principles. The adoption of the new Principles would give rise to different embedded value results from those prepared under the application of European Embedded Value Principles.

The resolution of several issues affecting the financial services industry could have a negative impact on Prudential's reported results or on its relations with current and potential customers.

Prudential is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally. This could be a review of business sold in the past under previously acceptable market practices at the time, such as the requirement in the UK to provide redress to certain past purchasers of pension and mortgage endowment policies, changes to the tax regime affecting products and regulatory reviews on products sold and industry practices, including, in the latter case, businesses it has closed.

Regulators particularly, but not exclusively, in the US and the UK are moving towards a regime based on principles-based regulation which brings an element of uncertainty. These regulators are increasingly interested in the approach that product providers use to select third party distributors and to monitor the appropriateness of sales made by them. In some cases product providers can be held responsible for the deficiencies of third-party distributors.

In the US, federal and state regulators have focused on, and continue to devote substantial attention to, the mutual fund, fixed index variable annuity and insurance product industries. This includes new regulations in respect of the suitability of broker-dealers' sales of certain products. As a result of publicity relating to widespread perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms.

In Asia, regulatory regimes are developing at different speeds, driven by a combination of global factors and local considerations. There is a risk that new requirements are introduced that are retrospectively applied to sales made prior to their introduction.

Litigation and disputes may adversely affect Prudential's profitability and financial condition.

Prudential is, and may be in the future, subject to legal actions and disputes in the ordinary course of its insurance, investment management and other business operations. These legal actions and disputes may relate to aspects of Prudential's businesses and operations that are specific to Prudential, or that are common to companies that operate in Prudential's markets. Legal actions and disputes may arise under contracts, regulations (including tax) or from a course of conduct taken by Prudential, and may be class actions. Although Prudential believes that it has adequately provided in all material aspects for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought, and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome could, from time to time, have an adverse effect on Prudential's results of operation or cash flows.

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

The markets for financial services in the UK, US and Asia are highly competitive, with several factors affecting Prudential's ability to sell its products and continued profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance, historical bonus levels, developing demographic trends and customer appetite for certain savings products. In some of its markets, Prudential faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates or claims-paying ratios. Further, heightened competition for talented and skilled employees with local experience, particularly in Asia, may limit Prudential Group's potential to grow its business as quickly as planned.

Within the UK, Prudential's principal competitors in the life market include many of the major retail financial services companies including, in particular, Aviva, Legal & General, Lloyds Banking Group and Standard Life.

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

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

Prudential believes competition will intensify across all regions in response to consumer demand, technological advances, the impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures.

Downgrades in Prudential's financial strength and credit ratings could significantly impact its competitive position and hurt its relationships with creditors or trading counterparties.

Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in most of Prudential's products, and as a result its competitiveness. Changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition. Downgrades in Prudential's ratings could have an adverse effect on its ability to market products and retain current policyholders. In addition, the interest rates Prudential pays on its borrowings are affected by its debt credit ratings, which are in place to measure Prudential's ability to meet its contractual obligations.

Prudential's long-term senior debt is rated as A2 (negative outlook) by Moody's, A+ (negative outlook) by Standard & Poor's and A+ (negative outlook) by Fitch.

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

Prudential Assurance Company Limited ("Prudential Assurance") long-term fund is rated Aa2 (negative outlook) by Moody's, AA (negative outlook) by Standard & Poor's and AA+ (negative outlook) by Fitch.

Jackson's financial strength is rated AA (negative outlook) by Standard & Poor's and Fitch, A1 (negative outlook) by Moody's, and A+ (negative outlook) by AM Best.

Adverse experience in the operational risks inherent in Prudential's business could have a negative impact on its results of operations.

Operational risks are present in all of Prudential's businesses, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events. Prudential's business is dependent on processing a large number of complex transactions across numerous and diverse products, and is subject to a number of different legal and regulatory regimes. In addition, Prudential outsources several operations, including in the UK a significant part of its back office and customer-facing functions as well as a number of IT functions. In turn, Prudential is reliant upon the operational processing performance of its outsourcing partners.

Further, because of the long-term nature of much of Prudential's business, accurate records have to be maintained for significant periods. Prudential's systems and processes incorporate controls which are designed to manage and mitigate the operational risks associated with its activities. For example, any weakness in the administration systems or actuarial reserving processes could have an impact on its results of operations during the effective period. Prudential has not experienced or identified any operational risks in its systems or processes during 2009, which have subsequently caused, or are expected to cause, a significant negative impact on its results of operations.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that Prudential or any member of Prudential Group will be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated by the FSA.

Adverse experience against the assumptions used in pricing products and reporting business results could significantly affect Prudential's results of operations.

Prudential needs to make assumptions about a number of factors in determining the pricing of its products, and for reporting the capital levels and the results of its long-term business operations. For example, the assumption that Prudential makes about future expected levels of mortality is particularly relevant for its UK annuity business. In exchange for a premium equal to the capital value of their accumulated pension fund, pension annuity policyholders receive a guaranteed payment, usually monthly, for as long as they are alive. Prudential conducts rigorous research into longevity risk, using data from its substantial annuitant portfolio. As part of its pension annuity pricing and reserving policy, Prudential assumes that current rates of mortality continuously improve over time at levels based on adjusted data from the Continuous Mortality Investigations (CMI) as published by the Institute and Faculty of Actuaries. If mortality improvement rates significantly exceed the improvement assumed, Prudential's results of operations could be adversely affected.

A further example is the assumption that Prudential makes about future expected levels of the rates of early termination of products by its customers (persistency). This is particularly relevant to its lines of business other than its UK annuity business. Prudential's persistency assumptions reflect recent past experience for each relevant line of business. Any expected deterioration in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly lower than assumed (that is, policy termination rates are significantly higher than assumed), Prudential's results of operations could be adversely affected.

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

As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments.

Prudential's insurance and investment management operations are generally conducted through direct and indirect subsidiaries. As a holding company, Prudential's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from Prudential's long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper. Certain of the subsidiaries have regulatory restrictions that can limit the payment of dividends, which in some circumstances could limit Prudential Group's ability to pay dividends to shareholders.

Prudential operates in a number of markets through joint ventures and other arrangements with third parties (including in China and India). These arrangements involve certain risks that Prudential does not face with respect to its consolidated subsidiaries.

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures (including in China and India). Prudential's ability to exercise management control over its joint venture operations and its investment in them depends on the terms of the joint venture agreements, in particular, the allocation of control among, and continued co-operation between, the joint venture participants. Prudential may also face financial or other exposure in the event that any of its joint venture partners fails to meet its obligations under the joint venture or encounters financial difficulty. In addition, a significant proportion of the Prudential Group's product distribution is carried out through arrangements with third parties not controlled by Prudential and is dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements could adversely affect Prudential's results of operations.

Prudential's Articles of Association contain an exclusive jurisdiction provision

Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings between a shareholder (in its capacity as such) against Prudential and/or its directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service provider. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.