

The directors are committed to high standards of corporate governance and support the Combined Code on Corporate Governance appended to the Listing Rules of the Financial Services Authority (the Code). The Board has adopted Group standards which set out the behaviours expected of staff in their dealings with shareholders, customers, fellow employees, suppliers and other stakeholders of the Group. The Company has complied throughout the financial year ended 31 December 2004 with all the Code provisions set out in Section 1 of the Code.

We have applied the principles of the Code in the manner described below and in the Remuneration Report.

THE BOARD

As at 31 December 2004, the Board comprised the Chairman, six executive directors and six independent non-executive directors. Following recent changes there will be, with effect from 1 April 2005, six executive directors and seven independent non-executive directors in addition to the Chairman. These non-executive directors bring a wide range of business, financial and global experience to the Board. Biographical details of the current Board members appear on pages 32 and 33. The roles of Chairman and Group Chief Executive are separate and clearly defined, and have been approved by the Board so that no individual has unfettered powers of decision. The Chairman is responsible for the leadership and governance of the Board as a whole and the Group Chief Executive for the management of the Group and the implementation of Board strategy and policy on the Board's behalf. In discharging his responsibility, the Group Chief Executive is advised and assisted by the Group Executive Committee, comprising all the business unit heads and a Group Head Office team of functional specialists. Rob Rowley is the Company's Senior Independent Director, to whom concerns may be conveyed by shareholders if they are unable to resolve them through the existing mechanisms for investor communications, or where such channels are inappropriate. The Chairman meets, at least annually, with the non-executive directors without the executive directors being present.

During 2004 the Board met 14 times and held a separate strategy day. Each year one of the Board meetings is held at one of the Group's business operations to facilitate a fuller understanding of the diversity of the business. In September 2004, a Board meeting was held in Scotland, following a series of presentations made to Board members on the UK business and future market opportunities by the Prudential UK management team at its Craigforth centre. All of the directors, save for Bridget Macaskill who missed one scheduled meeting due to injury, attended all of the eight scheduled Board meetings. The majority of the directors attended most of the remaining six additional Board meetings. Where a director was not able to attend any of the additional meetings, their views were canvassed prior to that

meeting. A further 14 Board Committee meetings took place during the year. The Board's terms of reference, which are regularly reviewed, set out those matters specifically reserved to it for decision, in order to ensure that it exercises control over the Group's affairs. These include, amongst other things, approval of the annual and interim results, strategy and corporate objectives, operating plans, significant transactions and matters affecting the Company's share capital.

A corporate governance framework approved by the Board maps out the internal approvals processes and those matters which are delegated to business units. These principally relate to the operational management of the Group's businesses and include pre-determined authority limits delegated by the Board to the Group Chief Executive for further delegation by him in respect of matters which are essential to the effective day-to-day running and management of the business.

The chief executive of each business unit, who in respect of his business unit responsibilities reports to the Group Chief Executive, has authority for management of that business unit and has established a management board comprising its most senior executives. In accordance with the Group Governance Framework, business unit chief executives are required to certify annually their compliance with the requirements of the framework.

The Board is accountable for ensuring that an effective system for succession planning and management development is in place. This is delivered through an established review process that is applied across all the businesses and covers both director and senior management succession and development. The Board reviews the outcomes of the review annually and actions arising from the review are implemented as part of the management development agenda.

All directors have direct access to the services of the Company Secretary who advises them on all corporate governance matters, on Board procedures, and on compliance with applicable rules and regulations. In order to ensure good information flows, full Board and Committee papers are provided to the directors by the Company Secretary approximately one week before each Board or Committee meeting. The Company Secretary also supports the Chairman in providing tailored induction programmes for new directors and on-going training for all directors.

Other commitments of the Chairman and changes during the year are detailed in his biography on page 32. The Board is satisfied that these other commitments are not such as to interfere with the performance of the Chairman's duties for the Group.

BOARD COMMITTEES

The Board has established the following standing committees of non-executive directors with written terms of reference which are kept under regular review:

Audit Committee Report

At Prudential, the Audit Committee is a key element of our governance framework. This report sets out its responsibilities and the work the Committee has done to meet its objectives.

Role of the Committee

The Audit Committee's principal oversight responsibilities cover:

- internal control and risk management;
- internal audit;
- external audit (including auditor independence); and
- financial reporting.

The Committee has formal terms of reference set by the Board, which are reviewed regularly.

Membership

All the members of the Audit Committee are independent non-executive directors. The members of the Committee (and their relevant experience) are:

- Rob Rowley (Chairman) – formerly Finance Director of Reuters Group PLC; currently also executive Deputy Chairman of Cable and Wireless plc;
- Kathleen O'Donovan – formerly Finance Director of BTR plc and audit partner at Ernst & Young; currently also a non-executive director of EMI Group plc and the Court of the Bank of England, and Chairman of the Audit Committee of the Bank of England and of the Audit Committee of the EMI Group plc; and
- James Ross – formerly a Managing Director of the British Petroleum Company plc and Chairman and Chief Executive of BP America Inc, Chief Executive of Cable and Wireless plc and Chairman of Littlewoods plc; he was also Deputy Chairman of National Grid Transco plc.

Sandy Stewart resigned from the Committee on 6 May 2004, and James Ross was appointed on 6 May 2004.

The Board has designated the Chairman of the Committee as its audit committee financial expert for Sarbanes-Oxley Act purposes; he also has recent and relevant financial experience for the purposes of the Code.

The Committee received detailed presentations during the year from senior management designed to keep members up to date and aware of the impacts on the business of changes to accounting standards and practices including International Financial Reporting Standards and European Embedded Value.

Meetings

The Audit Committee met nine times during the year. Additionally, by invitation, the Chairman of the Board, Group Chief Executive, Group Finance Director, heads of Group Internal Audit, Group Risk

and Group Compliance, as well as the external auditor attended the meetings. The Committee also meets solely with both external and internal auditors at least once a year.

The Chairman holds preparatory meetings with the Group Chief Internal Auditor, the external auditor and the Group Finance Director before each Committee meeting. A detailed forward agenda has been developed which ensures all matters that the Committee is responsible for are addressed at the appropriate time of the year. The principal business of the Committee's meetings includes:

- full year results and press release (including accounting policies and key judgemental areas), external auditor's full year memorandum, Turnbull compliance statement, internal audit effectiveness, effectiveness of the Group Risk Framework;
- annual report and accounts, external audit opinion and final management letter, effectiveness of the external audit process, external auditor's qualifications, expertise and resources;
- external auditor's interim management letter, Group Finance report on accounting policies (including judgemental areas), half year compliance and risk report, Audit Committee effectiveness, Audit Committee terms of reference;
- half year results and press release, external auditor's plans and audit strategy, half year key risk report;
- US filings and related external audit opinion, annual security report on anti-money laundering, Group policies for compliance with relevant regulations, half year compliance report;
- Group Security annual report, European Embedded Value, International Accounting Standards; and
- auditor independence.

During the year, the Committee's standing agenda items also included reports from Group Internal Audit, Group Compliance and Group Security, as well as reports on progress of the Sarbanes-Oxley Section 404 project from management and the external auditor. The Committee also received presentations from some of the business unit chief executives.

The Audit Committee Chairman reported to the Board on matters of particular significance after each Committee meeting. The minutes of Committee meetings were circulated to all Board members.

The Committee recognises the need to meet without the presence of executive management. Such sessions were held twice, in March and July 2004, with the external and internal auditors.

Internal control and risk management

The Audit Committee reviewed the Group's statement on internal control systems prior to its endorsement by the Board. It also reviewed the policies and processes for identifying, assessing and

managing business risks. The Committee also received the minutes of the Disclosure Committee and the Group Operational Risk Committee and noted their activities. Further information on these Committees appears on pages 39 and 40.

From the 2006 year end, the Group will need to undertake an assessment of the effectiveness of internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act. In common with other companies which have to comply with this legislation, this has required the Group to undertake a significant project to document and test its internal controls over financial reporting. The Committee has overseen the progress of this project through regular status reports submitted by management. In 2004 the Committee commissioned an independent review of progress towards compliance with Section 404 to be undertaken by the Group's external auditor, KPMG Audit Plc, and the results will be reported to the Committee during the first half of 2005.

Internal audit

The Audit Committee regards its relationship with internal audit as a particularly important one. Group Internal Audit plays an important role in supporting the Committee to fulfil its responsibilities under the Code and the Sarbanes-Oxley Act. Each of the Group's business units has its own internal audit function whose resources, plans and work are overseen by Group Internal Audit. The Group Chief Internal Auditor reports functionally to the Committee and administratively to the Group Finance Director.

During the year, the Committee reviewed and approved internal audit's plans, resources and the results of its work. Across the Group, total internal audit headcount stands at 110. Reporting to the Committee by Group Internal Audit is achieved through the submission and discussion of formal reports four times during the year, as well as regular private meetings between the Chairman of the Committee and the Group Chief Internal Auditor. Additionally, all members of the Committee attended the Group's internal audit conference in July 2004.

The effectiveness of internal audit was assessed through a review, carried out by external advisers, and through regular dialogue with the Group Chief Internal Auditor. An internal review of the role of internal audit was also undertaken, to ensure that its activities and resources are most effectively organised to support the Committee's oversight responsibilities.

External audit

The Audit Committee has a key oversight role in relation to the external auditor, KPMG Audit Plc, whose primary relationship is with the Committee. The Group's Auditor Independence Policy ensures that the independence and objectivity of the external auditor is not impaired, and that the Group maintains a sufficient choice of appropriately qualified audit firms. The policy sets out four key principles which underpin the provision of non-audit services by the external auditor, namely that the auditor should not:

- audit its own firm's work;
- make management decisions for the Group;
- have a mutuality of financial interest with the Group; and
- be put in the role of advocate for the Group.

The Committee reviewed the policy in December 2004, and a revised policy was approved.

The Group has a policy that at least once every five years, the Audit Committee undertakes a formal review to assess whether the external audit should be re-tendered. The external audit was last put out to competitive tender in 1999 when the present auditor was appointed. In February 2004, the Committee formally considered the need to re-tender the audit and concluded that, in view of the satisfactory performance of the external auditor and the cost of undertaking a tender exercise, it was inappropriate to do so, and the external auditor's reappointment was approved by the Committee.

During the year, the Audit Committee assessed the qualification, expertise and resources, effectiveness and independence of the external auditor. In addition to the questioning of the external auditor and the Group Finance Director that is a regular feature of meetings, the review of the effectiveness of the external audit process was conducted through a questionnaire-based exercise administered by Group Internal Audit, supplemented by interviews with senior finance staff and Audit Committee members.

For the year ended December 2004, fees for audit services of £5.6 million for 2004 were approved. All non-audit services were approved by the Committee in accordance with the Group's Auditor Independence Policy prior to work commencing and, at regular intervals in 2004, the Audit Committee reviewed the non-audit services being provided to the Group by its external auditor. During the year, fees for non-audit services of £4.1 million were put forward to the Audit Committee for approval. Fees for non-audit services amounted to 42 per cent of total fees paid to KPMG Audit Plc. These primarily related to Sarbanes-Oxley Section 404 assistance, the Rights Issue due diligence work, and International Financial Reporting Standards and other regulatory changes. A more detailed analysis is set out in note 19 to the accounts.

Financial reporting

The Audit Committee reviewed the interim and annual financial statements before their submission to the Board, paying particular attention to critical accounting policies and practices and any changes in them; decisions requiring a major element of judgement; unusual transactions; clarity of disclosures; significant audit adjustments; the going concern assumption; compliance with accounting standards; and compliance with obligations under the Code and other applicable laws and regulations.

The Committee is regularly briefed on the development of accounting standards, and during the year continued to review the progress of the Group project to implement International

Financial Reporting Standards. This project is discussed in more detail on pages 24 to 27.

Confidential reporting

At each meeting, the Committee received and reviewed a report on calls to the confidential reporting lines and other confidential communications received and investigated since the preceding meeting, and actions taken in response to these calls. The Committee also considered whether any internal control implications arose from communications received. No internal control implications were raised from calls to the confidential reporting lines.

Audit Committee effectiveness

During the year, the Audit Committee undertook a formal review of its own effectiveness and engaged independent external advisers to review the Committee's compliance with the requirements of the Code and the Sarbanes-Oxley Act. Further to these reviews, some minor improvements to the documentation of the Committee's work and its terms of reference have been implemented.

The Committee is satisfied, based on the findings of these reviews and the improvements made in response to them, that it had been operating as an effective Audit Committee, meeting all applicable legal and regulatory requirements. Further reviews of the effectiveness of the Audit Committee will be undertaken annually.

Remuneration Committee Report

Roberto Mendoza (Chairman)
Bart Becht (until 31 August 2004)
Michael Garrett (from 1 September 2004)
Bridget Macaskill
Kathleen O'Donovan
James Ross (from 6 May 2004)
Rob Rowley
Sandy Stewart (until 6 May 2004)

The Remuneration Committee is comprised exclusively of the independent non-executive directors of the Company. While the Chairman and Group Chief Executive are not members, they attend meetings unless they have a conflict of interest.

The Remuneration Committee normally has scheduled meetings at least three times a year and a number of additional meetings, as required, to review remuneration policy. The Remuneration Committee determines the remuneration packages of the Chairman and executive directors. During 2004, a total of six meetings were held. In framing its remuneration policy, the Committee has given full consideration to the provisions of Section 1B of and Schedule A to the Code. The Remuneration Report prepared by the Board is set out in full on pages 42 to 52. In preparing the Report, the Board has followed the provisions of the Code and The Directors' Remuneration Report Regulations 2002.

Except in relation to the remuneration of the Group Chief Executive, when only the Chairman is consulted, the Remuneration Committee consults the Chairman and the Group Chief Executive about the

Committee's proposals relating to the remuneration of all executive directors. Following the publication of the Code in July 2003, the terms of reference of the Committee were reviewed and amended. They were widened to include monitoring the level and structure of remuneration for a defined population of senior management as determined by the Board. The Committee agreed principles for the level and structure of remuneration for this population. The Committee has access to professional advice inside and outside the Company.

Nomination Committee Report

Sir David Clementi (Chairman)
Jonathan Bloomer
Bridget Macaskill (from 18 March 2004)
Kathleen O'Donovan (from 6 May 2004)
Rob Rowley
Sandy Stewart (until 6 May 2004)

The Nomination Committee, which is comprised of a majority of independent non-executive directors, meets as required to consider candidates for appointment to the Board and to make recommendations to the Board in respect of those candidates. The Committee, in consultation with the Board, evaluates the balance of skills, knowledge and experience on the Board and makes recommendations regarding appointments based on merit and against objective criteria and the requirements of the Group's business. In appropriate cases, search consultants are used to identify suitable candidates.

During the year the Nomination Committee initiated the search for additional non-executive directors. The Nomination Committee employed professional search consultants who oversaw the initial process. Candidates were interviewed initially by the Chairman and the Senior Independent Director and subsequently by other directors.

During 2004 the Committee held five meetings resulting in the appointment by the Board of three new independent non-executive directors. James Ross was appointed with effect from the conclusion of the Annual General Meeting on 6 May 2004, Michael Garrett was appointed to the Board on 1 September 2004 and Keki Dadiseth was appointed to the Board with effect from 1 April 2005. Biographical details of all these directors are set out on page 33.

BOARD COMMITTEES – TERMS OF REFERENCE

The full terms of reference of the Audit, Remuneration and Nomination Committees are available on the Company's website at www.prudential.co.uk under the section headed 'About Prudential'. Hard copies may be obtained upon written request to the Company Secretary at the Company's registered office.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The number of full Board and Committee meetings attended by each director during 2004 was as follows:

	Full Board meetings*	Audit Committee meetings**	Remuneration Committee meetings***	Nomination Committee meetings
Number of meetings in year	14	9	6	5
Sir David Clementi	14 (14)	n/a	n/a	5 (5)
Bart Becht ¹	9 (10)	n/a	3 (4)	n/a
Jonathan Bloomer	14 (14)	n/a	n/a	5 (5)
Philip Broadley	14 (14)	n/a	n/a	n/a
Michael Garrett ²	4 (4)	n/a	1 (2)	n/a
Bridget Macaskill ³	11 (14)	n/a	4 (6)	3 (4)
Clark Manning	14 (14)	n/a	n/a	n/a
Michael McLintock	14 (14)	n/a	n/a	n/a
Roberto Mendoza ⁴	12 (14)	n/a	6 (6)	n/a
Mark Norbom	12 (14)	n/a	n/a	n/a
Kathleen O'Donovan	13 (14)	8 (9)	5 (6)	2 (3)
James Ross ⁵	9 (9)	6 (6)	2 (3)	n/a
Rob Rowley	14 (14)	9 (9)	6 (6)	5 (5)
Sandy Stewart ⁶	5 (5)	3 (3)	3 (3)	3 (3)
Mark Wood	14 (14)	n/a	n/a	n/a

Notes

*During 2004 there were eight scheduled Board meetings and six additional Board meetings.

**During 2004 there were six scheduled Audit Committee meetings and three additional meetings.

***During 2004 there were six scheduled Remuneration Committee meetings.

1. Resigned as a director on 31 August 2004.

2. Appointed as a director on 1 September 2004.

3. Unable to attend one scheduled Board, Remuneration and Nomination Committee meeting due to injury.

4. Declared a conflict of interest on the subject under discussion at two Board meetings.

5. Appointed as a director on 6 May 2004.

6. Resigned as a director on 6 May 2004.

Figures in brackets indicate the maximum number of meetings in the period in which the individual was a Board or Committee member.

INDEPENDENT PROFESSIONAL ADVICE

The Board has approved a procedure whereby directors have the right in furtherance of their duties to seek independent professional advice at the Company's expense.

Copies of any instructions and advice given by an independent professional adviser to a director are supplied by the director to the Company Secretary who will, where appropriate, circulate to other directors sufficient information to ensure that other members of the Board are kept informed on issues arising which affect the Company or any of its subsidiaries.

Independent professional advice was sought by Roberto Mendoza during 2004 regarding a potential conflict of interest arising from his position as Chairman of Egg plc.

DIRECTORS' INDEPENDENCE, DEVELOPMENT AND RE-ELECTION

Throughout the year all the non-executive directors were considered by the Board to be independent in character and judgement. No non-executive director:

- has been an employee of the Group within the last five years;
- has, or has had within the last three years, a material business relationship with the Group;
- receives remuneration from the Group other than a director's fee;

- has close family ties with any of the Group's advisers, directors or senior employees;
- represents a significant shareholder; or
- has served on the Board for more than nine years.

A cross-directorship exists with Roberto Mendoza and Jonathan Bloomer who both sit on the Board of Egg plc, the Company's 79 per cent owned subsidiary which has its own listing on the London Stock Exchange. Under the Company's Relationship Agreement with Egg established prior to its flotation in 2000 the Company has agreed with Egg that, absent specific events, the number of Company related directors represents less than half the total number of directors in office. The Company has the right, while it continues to own more than 10 per cent of the voting shares, to nominate one director and also, while it continues to own more than 15 per cent of the voting shares, to appoint the Chairman of the Board. Jonathan Bloomer was accordingly appointed as the Company's nominated director and Roberto Mendoza was appointed as the Chairman of the Board of Egg. Consequently, Roberto Mendoza discloses his interest as Chairman of Egg and if a conflict of interest arises he will withdraw from any decision-making by the Board of Prudential plc in respect of matters regarding Egg. The Board does not consider that this relationship in any way affects his status as an independent director of the Company.

The Group is one of the UK's largest institutional investors and the Board does not believe that this situation compromises the independence of those non-executive directors who are also on the boards of companies in which the Company has a shareholding. The Board also believes that such shareholdings should not preclude the Company from having the most appropriate and highest calibre non-executive directors.

Non-executive directors are appointed initially for a three-year term. The terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting (AGM). Their appointment is reviewed towards the end of this period against performance and the requirements of the Group's businesses. Upon appointment, all directors embark upon a wide-ranging induction programme covering, amongst other things, the principal bases of accounting for the Group's results, the role of the Audit Committee and the ambit of the Internal Audit function. In addition, they receive detailed briefings on the Group's principal businesses, its product range, the markets in which it operates and the overall competitive environment. Other areas addressed include legal issues affecting directors of financial services companies, the Group's governance arrangements, its Investor Relations programme, as well as its remuneration policies.

A programme of on-going professional development was undertaken for all directors in 2004, which covered a number of sector specific and business issues as well as legal, accounting and regulatory changes and developments. A cornerstone of the programme was a series of presentations made to the Board by the Prudential UK management team on its UK business and future market opportunities, at Craigforth in September. Throughout their period in office the directors are continually updated on the Group's businesses and the regulatory and industry specific environments in which it operates. These updates are by way of written briefings and meetings with senior executives and, where appropriate, external sources. Directors are also advised on appointment of their legal and other duties and obligations as a director of a company listed on the London Stock Exchange both in writing and in face-to-face meetings with the Company Secretary.

All directors are required to submit themselves for re-election at the AGM at least every three years, and annually following their reaching the age of 70.

PERFORMANCE EVALUATION

An evaluation was carried out of the performance of the Board and its Committees, and of the individual directors, for the year 2004, in line with the requirements of the Code. The aim was to improve individual contributions, the effectiveness of the Board and its Committees and the Group's performance.

Following a competitive selection process, the evaluation of the Board as a whole and of the Chairman was carried out by an independent consultant, following a briefing by the Chairman and the Senior Independent Director. Interviews were conducted with each Board member by the independent consultant. The interview questions were based on the Code and sought views on the effectiveness of the Board and on the Chairman's performance. The independent consultant prepared its report based on the interviews with directors. The overall results of the evaluation were reviewed by the Board in January 2005. The non-executive directors met, under the leadership of the Senior Independent Director, to consider the report of the independent consultant and to review the performance of the Chairman. The performance of individual non-executive directors and the Group Chief Executive was evaluated by the Chairman in a meeting with each director and with the Group Chief Executive. The Group Chief Executive individually appraised the performance of the executive directors.

RELATIONS WITH SHAREHOLDERS

As a major institutional investor, the Company is acutely aware of the importance of maintaining good relations with its shareholders. The Company regularly holds discussions with major shareholders and a programme of meetings took place during 2004. Board members also regularly receive copies of the latest analysts' and brokers' reports on the Company and the sector, to further develop their knowledge and understanding of external views about the Company. The Chairman and the Senior Independent Director gave feedback to the Board on issues raised with them by major shareholders. Should major shareholders wish to meet newly appointed directors they are welcome to do so.

The Annual General Meeting will be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on 5 May 2005 at 11.00am. The Company believes the Annual General Meeting is an important forum for both institutional and private shareholders and encourages attendance by all its shareholders. At its Annual General Meeting in 2004, the Company indicated the balance of proxies lodged for and against each resolution after it had been dealt with on a show of hands, and the total percentage of share capital voted on all resolutions. This practice provides shareholders present with sufficient information regarding the level of support and opposition to each resolution. The Company discloses the number of the proxy votes cast on each resolution on its website after the Annual General Meeting. In 2005, as a result of a delay in finalising FRS 27 'Life Assurance' released on 13 December 2004, the Company has been unable to comply with the Code requirement that shareholders should be sent the Notice of Annual General Meeting at least 20 working days before the

meeting. In view of these exceptional circumstances, the Company has reverted to using the statutory period of 21 clear days' notice. At the 2005 Annual General Meeting, as with last year's meeting, shareholders will be given the opportunity to put questions to the Board on matters relating to the Group's operation and performance.

The Group maintains a corporate website www.prudential.co.uk containing a wide range of information of interest to private and institutional investors including the Group's financial calendar.

SARBANES-OXLEY ACT 2002

The Sarbanes-Oxley Act 2002 (the Act) was passed by the US Congress in July 2002 to establish new or enhanced standards for corporate accountability in the US. As a result of the listing of its securities on the New York Stock Exchange, the Company must comply with the relevant provisions of the Act.

The Company has already adopted procedures to comply with all applicable provisions of the Act.

In particular in relation to Section 302 of the Act which covers disclosure controls and procedures, a Disclosure Committee has been established, reporting to the Group Chief Executive, chaired by the Group Finance Director and comprising members of senior management. The objectives of this Committee are to:

- assist the Group Chief Executive and the Group Finance Director in designing, implementing and periodically evaluating the Company's disclosure controls and procedures;
- monitor compliance with the Company's disclosure controls and procedures;
- review and provide advice to the Group Chief Executive and Group Finance Director with regard to the scope and content of all public disclosures of the Company which are of material significance to the market or investors; and
- review and consider, and where applicable follow up on, matters raised by other components of the disclosure process, including assessments made by the Group Audit Committee, internal audit or the external auditor of the Company's internal controls to the extent they are relevant to the disclosure process.

In discharging these objectives, the Committee helps to support the Group Chief Executive's and Group Finance Director's certifications of the effectiveness of disclosure procedures and controls required by Section 302 of the Act.

The provisions of Section 404 of the Act require Prudential's management to report on the effectiveness of internal control over financial reporting in its annual report on Form 20-F which is filed with the US Securities and Exchange Commission. The first requirement for this report is for the year ending 31 December 2006, and in common with other companies which have to comply with this requirement, the Group has undertaken a significant

project to document and test its internal control over financial reporting in the format required by the Act. This project is on schedule to support certification as at 31 December 2006.

FINANCIAL REPORTING

The directors have a duty to report to shareholders on the performance and financial position of the Group and are responsible for preparing the financial statements on pages 56 to 95 and the achieved profits basis supplementary information on pages 113 to 124. It is the responsibility of the auditor to form an independent opinion, based on its audit of the financial statements and its review of the supplementary financial statements; and to report its opinions to the Company's shareholders. Its opinions are given on pages 97 and 125.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the results for the period and which comply with the Companies Act 1985. In preparing those statements, the directors ensure that suitable accounting policies are selected and applied consistently, that reasonable and prudent judgements and estimates are made and that applicable accounting standards are followed. They also ensure that appropriate accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Group and enable them to prepare the financial statements and that reasonable steps are taken to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

After making appropriate enquiries, the directors consider that the Group has adequate resources to continue its operations for the foreseeable future. They therefore continue to use the going concern basis in preparing the financial statements.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board has conducted a review of the effectiveness of the Group's system of internal control. The control procedures and systems the Group has established are designed to manage, rather than eliminate, the risk of failure to meet business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The system of internal control includes financial, operational and compliance controls and risk management.

The Group Risk Framework, adopted in 1999, requires that all of the Group's businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Group. The Group risk categorisation model breaks risk down into risk classes, risk categories and risk components. The seven risk classes cover business environment risk, strategic risk, credit risk, regulatory compliance risk, investment risk, underwriting risk and operational risk, and are intended to encompass all risks faced by

the Group. They are used by the business units and Group during risk identification, analysis, aggregation and reporting of risk. The Group's risk management framework includes the following committees:

Group Operational Risk Committee

The Group Operational Risk Committee is chaired by the Group Finance Director and its membership includes representatives of the business unit and Group functions who have input into the operation of the Group Risk Framework. The Group Operational Risk Committee is the senior management forum responsible for oversight of the Group Risk Framework across the business unit and Group functions, including monitoring operational risk and related policies and processes as they are applied throughout the Group. The Group Operational Risk Committee reports to the Group Chief Executive, who has overall responsibility for the risks faced by the Group. The Group Operational Risk Committee is supported in this role by the Group Risk Function and the Risk Committees and Risk Functions in each business unit. Quarterly risk reports from the business units and Group are reported to the Group Operational Risk Committee covering all risks of Group significance. Regular reports are also made to the Group and business unit audit committees by management, internal audit and compliance functions.

Group Asset Liability Committee

The Group Asset Liability Committee is chaired by the Group Finance Director and its membership includes business unit and Group management involved in the operation of the asset liability, credit and insurance risks framework. The Group Asset Liability Committee is the senior management forum responsible for oversight of asset-liability mismatch, solvency, market, credit and insurance risks across the Group. The Group Asset Liability Committee reports to the Group Chief Executive.

Group Balance Sheet Management Committee

The Group Balance Sheet Management Committee is chaired by the Group Finance Director and is the senior management forum responsible for oversight of the Group's balance sheet strategy, including debt capacity and capital structure. Its membership includes management involved in the operation of the Group's policies for balance sheet management, including liquidity, financing and capital adequacy. The Group Balance Sheet Management Committee reports to the Group Chief Executive.

Internal Control Framework

As a provider of financial services, including insurance, the Group's business is the managed acceptance of risk. The system of internal control is an essential and integral part of the risk management process. As part of the annual preparation of its business plan, all of the Group's businesses and functions are required to carry out a review of risks. This involves an assessment of the impact and likelihood of key risks and of the effectiveness of the controls in

place to manage them. The assessment is reviewed regularly throughout the year. In addition, business units review opportunities and risks to business objectives regularly with the Group Chief Executive and Group Finance Director.

Businesses are required to confirm annually that they have undertaken risk management during the year as required by the Group Risk Framework and that they have reviewed the effectiveness of the system of internal control. The results of this review were reported to and reviewed by the Group Audit Committee, and it was confirmed that the processes described above and required by the Group Risk Framework were in place throughout the period covered by this report, and complied with Internal Control: Guidance on the Combined Code (the Turnbull guidance). Business unit internal audit teams execute risk based audit plans throughout the Group, from which all significant issues are reported to the Group Audit Committee.

The Group's internal control framework includes detailed procedures laid down in financial and actuarial procedure manuals. The Group prepares an annual business plan with three-year projections. Executive management and the Board receive monthly reports on the Group's actual performance against plan, together with updated forecasts.