FINANCIAL REVIEW

RESULTS SUMMARY

International Financial Reporting Standards (IFRS) basis results*

Statutory IFRS basis results

	2010	2009
Profit after tax attributable to equity holders of the Company	£1,431m	£676m
Basic earnings per share	56.7p	27.0p
Shareholders' equity, excluding non-controlling interests	£8.0bn	£6.3bn

Supplementary IFRS basis information

	2010 £m	2009 £m note i
Asian operations	604	465
US operations	855	622
UK operations:		
UK insurance operations	719	657
M&G	284	238
Other income and expenditure	(450)	(395)
Restructuring and Solvency II implementation costs	(71)	(23)
OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS* note i	1,941	1,564
Short-term fluctuations in investment returns on shareholder-backed business	(123)	(123)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(10)	(74)
Costs of terminated AIA transaction	(377)	–
Gain on dilution of holding in PruHealth	30	–
Loss on sale and results of Taiwan agency business	–	(621)
Profit from continuing operations before tax attributable to shareholders	1,461	746
Operating earnings per share* note ii	62.0p	47.5p

European Embedded Value (EEV) basis results*

	2010 £m	2009 £m
Asian operations	1,518	1,154
US operations	1,480	1,237
UK operations:		
UK insurance operations	982	921
M&G	284	238
Other income and expenditure	(494)	(433)
Restructuring and Solvency II implementation costs	(74)	(27)
OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS*	3,696	3,090
Short-term fluctuations in investment returns	(30)	351
Mark to market value movements on core borrowings	(164)	(795)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(11)	(84)
Effect of changes in economic assumptions	(10)	(910)
Costs of terminated AIA transaction	(377)	–
Gain on dilution of holding in PruHealth	3	–
Profit on sale and results of Taiwan agency business	–	91
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX (INCLUDING ACTUAL INVESTMENT RETURNS)	3,107	1,743
Operating earnings per share* note ii	106.9p	88.8p
Shareholders' equity, excluding non-controlling interests	18.2bn	15.3bn

	2010	2009
DIVIDENDS PER SHARE DECLARED AND PAID IN REPORTING PERIOD	20.17p	19.20p
DIVIDENDS PER SHARE RELATING TO REPORTING PERIOD	23.85p	19.85p
FUNDS UNDER MANAGEMENT	£340bn	£290bn
INSURANCE GROUPS DIRECTIVE CAPITAL SURPLUS (AS ADJUSTED)*	£4.3bn	£3.4bn

Notes

i The Company has amended the presentation of IFRS operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in the supplementary analysis of profit in short-term fluctuations in investment returns. The 2009 amounts have been amended accordingly. As explained below and in Note C to the IFRS financial statements.

ii Operating earnings per share reflects operating profit based on longer-term investment returns after related tax and non-controlling interests but excludes in 2010 an exceptional tax credit of £158 million which primarily relates to the impact of a settlement agreed with the UK tax authorities.

* Basis of preparation

Results bases

With the exception of the adoption of IFRS 3 (Revised) on business combinations and associated amendments to other standards and the altered basis of presentation for Jackson's IFRS operating profit referred to below, the basis of preparation of the statutory IFRS basis results and supplementary IFRS basis information is consistent with that applied for the 2009 results and financial statements.

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. 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 in-force long-term businesses and is a valuable supplement to statutory accounts. With the exception of the presentation of the new business results of the Japan life operation which ceased writing new business in February 2010, there has been no change to the basis of presentation of the EEV results from the 2009 results and financial statements.

Exchange translation – Actual Exchange Rate (AER) and Constant Exchange Rate (CER)

The comparative results have been prepared using previously reported exchange rates (AER basis) except where otherwise stated.

Operating profit based on longer-term investment returns

Consistent with previous reporting practice, the Group provides supplementary analysis of IFRS profit before tax attributable to shareholders and analyses its EEV basis results, so as to distinguish operating profit based on longer-term investment returns from other elements of total profit. On both the IFRS and EEV bases, operating earnings per share are calculated using operating profits based on longer-term investment returns, after related tax and non-controlling 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. The operating profit based on longer-term investment returns for 2010 also excludes the costs associated with the terminated AIA transaction and the gain arising upon the dilution of the Group's holding in PruHealth. Consistent with the prior year presentation, the effect of disposal and the results of the Taiwan agency business are shown separate from operating profit based on longer-term investment returns for 2009.

In 2010 the Company amended its presentation of IFRS operating profit for its US insurance operations to exclude the net equity hedge accounting effect of negative £367 million (2009: negative £159 million) relating principally to its variable annuity business and reclassified it as a short-term fluctuation. Prior year comparatives have been amended accordingly. This is a presentational change and it has no impact on the IFRS profit before tax or the IFRS shareholders' funds. The change also has no impact on our EEV financial statements.

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.

After adjusting for related tax and non-controlling 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 2010, which is estimated, and 2009 are before allowing for the final dividends for 2010 and 2009 respectively.

FINANCIAL REVIEW

IFRS RESULTS

IFRS basis operating profit based on longer-term investment returns

		AER		CER	
	2010 £m	2009 £m	Change %	2009 £m	Change %
Insurance business					
Long-term business:					
Asia	536	416	29	451	19
US[note i]	833	618	35	626	33
UK	673	606	11	606	11
Development expenses	(4)	(6)	33	(6)	33
LONG-TERM BUSINESS OPERATING PROFIT	2,038	1,634	25	1,677	22
UK general insurance commission	46	51	(10)	51	(10)
Asset management business:					
M&G	284	238	19	238	19
Asia asset management	72	55	31	58	24
Curian	1	(6)	117	(6)	117
US broker-dealer and asset management	21	10	110	10	110
	2,462	1,982	24	2,028	21
Other income and expenditure	(450)	(395)	14	(396)	14
Solvency II implementation costs	(45)	–	100	–	100
Restructuring costs	(26)	(23)	13	(23)	13
TOTAL IFRS BASIS OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS[note i]	1,941	1,564	24	1,609	21

Note

i The Company has amended the presentation of IFRS operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in the supplementary analysis of profit in short-term fluctuations in investment returns. 2009 amounts have been amended accordingly.

Group IFRS operating profit before tax based on longer-term investment returns after Solvency II implementation and restructuring costs was £1,941 million, an increase of 24 per cent on 2009.

In Asia, IFRS operating profit for long-term business increased by 29 per cent from £416 million in 2009 to £536 million in 2010, with the £416 million in 2009 being inclusive of a £63 million one-off credit relating to changes to the Malaysia reserving basis. Profits from in-force business grew by 20 per cent from £494 million in 2009 to £593 million in 2010, reflecting the continued build-up of the business in the region and the positive impact of currency fluctuations. New business strain of £56 million[1] (2009: £72 million) was 3.7 per cent of APE new business sales, a significant improvement compared to last year (2009: 6.0 per cent[1]) demonstrating management's continued focus on capital efficient growth.

There was a continued strong performance across the Asian region. Hong Kong, Singapore, Malaysia and Indonesia accounted for 81 per cent or £434 million of operating profits (2009: £390 million, including the impact of the one-off credit recorded in Malaysia). Strong underlying improvements were reported in Indonesia with operating profits higher by 54 per cent to £157 million, reflecting both the success of our product offering and the growing maturity of this business. Malaysia operating profits, excluding the one-off credit in 2009, were also higher by 49 per cent to £97 million, reflecting the growing size of our book of business and the strong earnings profile of our health and protection business. The contribution to IFRS profits from the other Asian businesses is also improving. The closure of Japan to new business has substantially reduced the IFRS losses of this business and Taiwan saw an improvement in the year as it refocused on bancassurance business. Korea benefited from improved in-force profits in the period and

Note

1 Excluding Japan which ceased writing new business in 2010. IFRS new business strain including Japan was £57 million (2009: £78 million).

Vietnam was up 43 per cent to £43 million. Changes to reserving bases in India and China contributed a £19 million one-off profit, with both countries showing improvement in their underlying results excluding this change.

The US long-term business operating profit increased by 35 per cent from £618 million in 2009 to £833 million in 2010, reflecting strong growth in spread and fee income, up £195 million and £182 million respectively, as Jackson's policyholder liability balances grew. Jackson undertook various transactions in 2010 to more closely match the overall asset and liability duration. This contributed £108 million to operating profit in the period. These positive contributions to profits have been partially offset by increased costs and DAC amortisation primarily reflecting Jackson's growth.

Jackson's operating profit net of related DAC amortisation excludes the net equity hedge accounting effect of negative £367 million (2009: negative effect of £159 million) following a change in the presentation of operating profit based on longer-term investment returns. Jackson's hedging approach has always focused on optimising the economic outcome ahead of accounting results, which means we accept an element of variability in accounting outcomes in order to ensure we achieve the right economic result. We believe this presentational change, which reclassifies net equity hedge accounting effects as short-term fluctuations in investment returns, will ensure that Jackson's operating results better reflect its unchanged and continued focus on optimising economic value.

Accounting volatility previously arose within the reported IFRS operating profit due to the difference between the movement in the fair value of free standing derivatives within Jackson's equity hedging programme for annuity business and the movement in the accounting value of Jackson's liabilities for variable and fixed index annuity guarantees. Typically, under IFRS, reserves are not fair valued, which for the US variable annuities business produces a distorting accounting effect on the IFRS operating profit that is not representative of the true economics of Jackson's hedging programme. Jackson's economically based hedges are marked-to-market. As a result, when the marked-to-market value of the hedges changes, there are offsetting changes in the economic value of the hedged liabilities which are not reflected in our accounts. This is particularly relevant for the Guaranteed Minimum Death Benefit (GMDB) and the Guaranteed Minimum Withdrawal Benefit (GMWB) with 'for-life' features. This mismatch creates additional short-term volatility in our profit which does not reflect changes in the underlying economic position.

Over the long-term the impact of this accounting distortion should cumulatively net out to a broadly neutral effect, but in the short-term the impact to the IFRS total profit can be highly volatile. The recent growth in Jackson's variable annuity business has resulted in this short-term effect having a greater impact on our IFRS operating profit than in prior years. In the 2010 half year financial statements this accounting mismatch produced a positive contribution to the IFRS operating profit of £123 million for the first six months as compared to a negative contribution of £367 million for the full year.

In our UK business, total IFRS operating profit grew by nine per cent to £719 million in 2010, reflecting higher retail profits and the bulk annuity transaction agreed in the last quarter of 2010. Profit from UK general insurance commission decreased by £5 million to £46 million in 2010 in line with the decline in the in-force policy numbers as the business matures.

M&G's operating profit for 2010 was £284 million, an increase of 19 per cent from £238 million in 2009, primarily reflecting the continuation of exceptionally strong net inflows, including increased sales of higher margin equity products and higher equity market levels. In 2010 M&G had net inflows of £9.1 billion, the second highest annual level of flows after 2009.

The Asian asset management operations reported operating profits of £72 million, up by 31 per cent from £55 million in 2009, driven by increased operating revenues as a result of higher funds under management (FUM). Strong net inflows for retail and institutional business of £1.8 billion together with positive market and currency movements have contributed to a 22 per cent increase in FUM (including internal funds) to £52 billion at the end of 2010.

The £55 million increase in the charge for other income and expenditure to £450 million primarily reflects an increase in interest payable on core structural borrowings.

We incurred £45 million of Solvency II implementation costs in 2010.

FINANCIAL REVIEW

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

				AER			CER		
	2010			2009[i]			2009[i]		
	Operating profit £m	Average liability £m	Margin[ii] bps	Operating profit £m	Average liability £m	Margin[ii] bps	Operating profit £m	Average liability £m	Margin[ii] bps
Spread income	1,013	53,858	188	753	51,000	148	762	49,735	153
Fee income	688	57,496	120	458	43,373	106	469	43,153	109
With-profits	342	89,693	38	310	84,063	37	311	83,964	37
Insurance margin	592			448			466		
Margin on revenues	1,241			1,041			1,112		
Expenses									
Acquisition costs[iii]	(1,674)	3,492	(48)%	(1,487)	2,896	(51)%	(1,547)	2,947	(52)%
Administration expenses	(924)	111,354	(83)	(814)	94,373	(86)	(844)	92,888	(91)
DAC adjustments	518			614			628		
Expected return on shareholder assets	242			248			250		
Non-recurrent release of reserve for Malaysia Life	–			63			70		
Operating profit	2,038			1,634			1,677		

Notes

i The Company has amended the presentation of IFRS operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations. 2009 amounts have been amended accordingly.

ii Margin represents the operating return earned in the period as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus. Opening and closing policyholder liabilities have been used to derive an average balance for the period.

iii Acquisition cost ratio represents shareholder acquisition costs as a percentage of total APE, including Japan APE new business sales of £7 million (2009: £52 million).

Spread income has increased by £260 million to £1,013 million, an increase of 35 per cent. This is higher than the six per cent increase in average liabilities, leading to an increase in margin, from 148 bps in 2009 to 188 bps in 2010. The increase in spread income arises primarily in the US, where investment spread has increased by £168 million. This reflects transactions in the period to more closely match the overall asset and liability duration in 2010, with an overall impact of £108 million, as well as decreased crediting rates on fixed annuities.

Fee income has increased by £230 million to £688 million. This principally reflects improved equity market performance and net cash inflows into unit-linked liabilities of £6.7 billion during 2010, equivalent to an increase on opening liabilities of 13 per cent. The increase in fee margin from 106 bps to 120 bps reflects a richer mix of the higher fee variable annuity business.

Insurance margin has increased £144 million to £592 million in 2010. This increase is driven by growth in the in-force book in Asia which has a relatively high proportion of risk-based products.

Margin on revenues principally comprises amounts deducted from premiums to cover acquisition costs and administration expenses and has increased by 19 per cent from £1,041 million in 2009 to £1,241 million in 2010. This is driven by the growth of the business in Asia.

Acquisition costs have increased in absolute terms by £187 million to £1,674 million in 2010, but as percentage of APE new business sales they have fallen from 51 per cent in 2009 to 48 per cent in 2010. This is primarily due to Asia's continuing improvements to new business strain, and in the US a move away from up front commission to on-going asset based commission, which is treated as an administration expense.

Administration expenses have increased by £110 million to £924 million in 2010 reflecting the growth of the business in the year. Overall the margin in 2010 is 83 bps, lower than the prior year margin of 86 bps.The improvement in this margin reflects operational leverage benefits in Asia and UK cost savings which have more than offset the effect of the move towards asset based commission in the US as described above.

DAC adjustments represents the level of costs deferred in the year offset by amortisation in the period. The year-on-year movement reflects changes in business mix and, in part, the acceleration of DAC amortisation in US.

IFRS basis results – Analysis of asset management pre-tax IFRS operating profit based on longer-term investment returns

	2010 £m				
	M&G	Asia	PruCap	US	Total
Operating income*	632	191	88	229	1,140
Operating profit based on longer-term investment returns	246	72	38	22	378
Average funds under management (FUM)†	£186.5bn	£47.2bn			
Margin based on operating income†	34 bps	40 bps			
Cost/income ratio‡	63%	64%			

	2009 £m				
	M&G	Asia	PruCap	US	Total
Operating income*	482	160	89	183	914
Operating profit based on longer-term investment returns	177	55	61	4	297
Average funds under management (FUM)†	£157.5bn	£39.6bn			
Margin based on operating income†	31 bps	40 bps			
Cost/income ratio‡	65%	67%			

* Operating income is net of commissions and includes performance related fees.
† Margin represents operating income as a proportion of the related funds under management (FUM). Opening and closing FUM have been used to derive the average.
‡ Cost/income ratio is calculated as cost as a percentage of income excluding performance-related fees.

M&G increased its asset management fee margin during the year from 31 bps in 2009 to 34 bps in 2010. This reflects increased sales of higher margin equity funds in the year.

Asia maintained its margin at 40 bps from 2009 to 2010. This is driven by an improvement in the retail margin following positive inflows into higher margin equity and bond funds, offset by a decline in institutional margin caused by net outflows of money market funds.

PruCap's operating profit fell during 2010, reflecting market conditions and higher funding costs.

The increase in US asset management operating income principally arises in PPMA, reflecting increased performance fees and higher management fees.

FINANCIAL REVIEW

IFRS basis profit after tax

	AER	
	2010 £m	**2009 £m**
OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS	1,941	1,564
Short-term fluctuations in investment returns:[note i]		
Insurance operations	(148)	7
IGD hedge costs	–	(235)
Other operations	25	105
	(123)	(123)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(10)	(74)
Costs of terminated AIA transaction	(377)	–
Gain on dilution of holding in PruHealth	30	–
Loss on sale and results of Taiwan agency business	–	(621)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS ATTRIBUTABLE TO SHAREHOLDERS	1,461	746
Tax charge attributable to shareholders' profit[note ii]	(25)	(55)
Discontinued operations (net of tax)	–	(14)
Non-controlling interests	(5)	(1)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	1,431	676

Notes

i The Company has amended the presentation of IFRS operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations. 2009 amounts have been amended accordingly.

ii Tax charge attributable to shareholders' profit includes a credit of £158 million which primarily relates to the impact of a settlement agreed with the UK tax authorities.

IFRS basis profit after tax

The total profit before tax from continuing operations attributable to shareholders was £1,461 million in 2010, compared with £746 million in 2009. The improvement reflects the increase in operating profit based on longer-term investment returns and the impact of one-off items. The profit in 2010 was reduced by the terminated AIA transaction costs of £377 million, whereas 2009 was adversely impacted by the £621 million loss recorded as part of the disposal of the Taiwan Agency business and IGD hedge costs of £235 million.

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 negative £148 million comprise positive £114 million for Asia, negative £378 million for US operations and positive £116 million in the UK.

The positive short-term fluctuations of £114 million for our Asian operations primarily reflect unrealised gains on the shareholder debt portfolio, as well as a £30 million unrealised gain on the Group's 8.66 per cent stake in China Life Insurance Company of Taiwan.

The negative short-term fluctuations of £378 million for our US operations principally arise on derivative and embedded derivative value movements. They include the negative net equity hedge accounting effect (net of related DAC amortisation) of £367 million (2009: negative £159 million). The strong rise in the S&P Index in the last quarter of 2010 resulted in fair value reductions in the free-standing derivatives backing the guarantees embedded in Jackson's variable and fixed index annuity products. As a substantial proportion of these guarantees are not fair valued for accounting purposes, there is no accounting offset to these losses. Other US short-term fluctuations were negative £11 million.

The positive short-term fluctuations of £116 million for our UK operations reflect principally value movements on fixed income assets backing the capital of the shareholder-backed annuity business, brought about by the falls in yields during 2010.

Short-term fluctuations for other operations were positive £25 million and mainly represent unrealised appreciation on Prudential Capital's debt securities portfolio offset by unrealised value movements on centrally held derivatives. The 2009 result included £235 million costs incurred in respect of the hedge temporarily put in place during the first quarter to protect the IGD capital position in exceptional market conditions.

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 negative £10 million reflects the impact of assumption changes, being primarily a lower discount rate applied to the liabilities of the Scottish Amicable and M&G schemes, partially offset by actual asset returns being higher than the long-term rate assumed.

Costs of terminated AIA transaction

During the period the Group incurred pre-tax costs in relation to the AIA transaction of £377 million. This comprises the termination break fee of £153 million, the costs associated with foreign exchange hedging of £100 million, underwriting fees of £58 million and adviser and other fees totalling £66 million. After expected tax relief, the post-tax cost is £284 million.

Gain on dilution of holding in PruHealth

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

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

Effective tax rates

The effective rate of tax on operating profits, based on longer-term investment returns, was 11 per cent (2009: 24 per cent). Adjusting the reported tax rate to exclude the exceptional tax credit of £158 million which primarily relates to the impact of a settlement agreed with the UK tax authorities, the underlying tax rate on 2010 operating profits was 19 per cent. This is lower than 2009 primarily due to 2010 benefiting from revisions to prior period tax returns in the UK and an increase in the proportion of income in Asia which attracts lower tax. The effective rate of tax at the total IFRS profit level for continuing operations was two per cent (2009: seven per cent). Adjusting the rate in 2010 to exclude the exceptional tax credit of £158 million gives an underlying tax rate at the total IFRS profit level for 2010 of 13 per cent. In both 2009 and 2010, we have benefited from utilising carried forward tax losses for which no deferred tax asset had been previously recognised.

FINANCIAL REVIEW

EEV RESULTS

EEV basis operating profit based on longer-term investment returns

		AER		CER	
	2010 £m	2009 £m	Change %	2009 £m	Change %
Insurance business:					
Asia	1,450	1,105	31	1,190	22
US	1,458	1,233	18	1,249	17
UK	936	870	8	870	8
Development expenses	(4)	(6)	33	(6)	33
LONG-TERM BUSINESS PROFIT	3,840	3,202	20	3,303	16
UK general insurance commission	46	51	(10)	51	(10)
Asset management business:					
M&G	284	238	19	238	19
Asia asset management	72	55	31	58	24
Curian	1	(6)	117	(6)	117
US broker-dealer and asset management	21	10	110	10	110
	4,264	3,550	20	3,654	17
Other income and expenditure	(494)	(433)	14	(434)	14
Solvency II implementation costs	(46)	–	100	–	100
Restructuring costs	(28)	(27)	4	(27)	4
TOTAL EEV BASIS OPERATING PROFIT	3,696	3,090	20	3,193	16

In 2010, Prudential Group's total EEV basis operating profit based on longer-term investment returns was £3,696 million, an increase of 20 per cent from the same period in 2009.

Long-term business profits generated by the Group increased by 20 per cent to £3,840 million. These profits comprise:

- New business profits[1] of £2,028 million (2009: £1,619 million);
- In-force profits of £1,817 million (2009: £1,601 million); and
- Negative £5 million of other items including development expenses (2009: negative £18 million).

New business profits[1] at £2,028 million, were 25 per cent higher than last year, reflecting both a 23 per cent increase in sales volumes as compared to 2009. This represents a one percentage point increase in the average Group new business APE profit margin from 57 per cent in 2009 to 58 per cent in 2010.

Strong new business APE profit margins were recorded across the Group. The margin for the Asian business was maintained at 60 per cent and the UK new business margin increased by 13 percentage points to 45 per cent, benefiting both from the bulk annuity buy-in agreement written in December and higher underlying margins on retail business. The US maintained much of the high margins achieved in 2009, with margins falling by eight percentage points to 65 per cent, due primarily to anticipated reductions in spread margins on fixed and fixed index annuities and the impact of lower assumed equity return assumptions on variable annuities.

The contribution to operating profit from in-force business increased by £216 million to £1,817 million. This includes a £71 million increase in the unwind discount and other expected returns from £1,421 million in 2009 to £1,492 million in 2010, principally reflecting the growing maturity of the Asian in-force book. In-force profit in 2010 also includes the effect of operating assumption changes, experience variances and other items which had an aggregate positive impact of £325 million (2009: positive impact of £180 million). Of this amount, £328 million arises in the US, primarily reflecting positive mortality, persistency, expense and spread experience variances. The most significant of these relates to spread experience, contributing £158 million in 2010, arising principally from transactions undertaken in the year to more closely match the overall asset and liability duration, the effect of which is expected to persist in 2011, but at a reduced level.

Overall the impact of operating assumption changes, experience variances and other items on Asia was negative £24 million, with adverse expense and persistency changes being offset by positive mortality and morbidity amounts.

In the UK operating assumption changes, experience variances and other items had an overall impact of positive £21 million, which is not significant in the context of the size of this business.

Operating profit from the asset management business and other non-long term businesses increased to £424 million, up 22 per cent from £348 million in 2009.

Other income and expenditure totalled a net expense of £494 million compared with £433 million in 2009. The £61 million increase principally reflects the higher interest payable on core structural borrowings.

Note
1 Excludes Japan which ceased writing new business in 2010.

EEV basis profit after tax and non-controlling interests

	AER 2010 £m	2009 £m
EEV basis operating profit based on longer-term investment returns	3,696	3,090
Short-term fluctuations in investment returns:		
– Insurance operations	(55)	481
– IGD hedge costs	–	(235)
– Other operations	25	105
	(30)	351
Mark to market value movements on core borrowings	(164)	(795)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(11)	(84)
Effect of changes in economic assumptions	(10)	(910)
Costs of terminated AIA transaction	(377)	–
Gain on dilution of holding in PruHealth	3	–
Profit on sale and results of Taiwan agency business	–	91
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	3,107	1,743
Tax charge attributable to shareholders' profit[note i]	(530)	(481)
Discontinued operations (net of tax)	–	(14)
Non-controlling interests	(4)	(3)
PROFIT AFTER NON-CONTROLLING INTERESTS	2,573	1,245

Note

i Tax charge attributable to shareholders' profit includes a credit of £158 million which primarily relates to the impact of a settlement agreed with the UK tax authorities.

EEV basis profit after tax and non-controlling interests

Short-term fluctuations in investment returns

EEV operating profit is based on longer-term investment return assumptions rather than actual investment returns achieved. Short-term fluctuations represent the difference between the actual investment return and those assumed in arriving at the reported operating profit.

Short-term fluctuations in investment returns for insurance operations of negative £55 million comprise a positive £287 million for Asia, negative £678 million for our US operations and positive £336 million in the UK.

For our Asian business, short-term fluctuations of positive £287 million (2009: positive £437 million) primarily reflected the improvement in equity markets in 2010 and unrealised gains on the bond portfolio.

For our US business, short-term fluctuations in investment returns were negative £678 million (2009: negative £401 million), principally reflecting a reduction in expected yields on assets as a result of derisking activities within the portfolio and higher hedging costs, partially offset by separate account return in 2010 of 14.5 per cent being higher than the long-term expected level of 6.8 per cent.

For our UK business, the short-term fluctuations in investment returns were positive £336 million (2009: positive £445 million), principally due to the 2010 return on the investments of the with-profits life fund (covering policyholder liabilities and unallocated surplus) of positive 12.0 per cent being higher than the long-term assumed return of 6.7 per cent and to the unrealised gains arising on corporate bonds held as part of the annuity portfolio.

Mark to market movement on core borrowings

The mark to market movement on core borrowings was a negative £164 million, as credit spreads continued to narrow to more normal levels.

FINANCIAL REVIEW

EEV basis profit after tax and non-controlling interests > continued

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 on the EEV basis comprises the IFRS charge attributable to shareholders, and the shareholders' share of movements in the scheme assets and liabilities attributable to the PAC with-profits fund. On the EEV basis there was a charge of negative £11 million (2009: negative £84 million) which mainly reflects the impact of assumption changes, being primarily a lower discount rate to the liabilities of the Scottish Amicable and M&G schemes partially offset by actual asset returns being higher than the long-term rate assumed.

Effect of changes in economic assumptions

The effect of changes in economic assumptions of negative £10 million comprises negative £71 million for Asia, negative £1 million for the US and positive £62 million for the UK.

In our Asian business, economic assumption changes were negative £71 million mainly reflecting the impact of falls in interest rates and the derisking of the portfolios in Hong Kong and Singapore.

In our US business, economic assumption changes were negative £1 million, with the fall in the separate account return being offset by the beneficial effect arising from the decrease in the risk discount rate following a reduction of 0.6 per cent in the US 10-year Treasury rate during the period.

In our UK business, economic assumption changes were positive £62 million, where the impact of the lower risk discount rate more than offset the effect of lower expected long-term rates of return following a reduction in UK Gilt rates of 0.4 per cent during 2010.

Costs of terminated AIA transaction

As previously discussed, the Group incurred pre-tax costs of £377 million in 2010 (£284 million post-tax) related to the terminated AIA transaction.

Gain on dilution of holding in PruHealth

As previously discussed, the Company's holding of PruHealth has been reduced from 50 per cent to 25 per cent, following the injection into PruHealth of Standard Life Healthcare by the Group's joint venture partner, Discovery Holdings of South Africa.

On an EEV basis, a gain of £3 million arises upon the dilution, representing the difference between the fair value of the enlarged investment still held and the embedded value of the original 50 per cent investment holding. From 1 August 2010 the Group incorporates 25 per cent of PruHealth's new business sales, profits and EEV in-force results into its consolidated EEV financial results.

Effective tax rates

The fall in the total tax rate, excluding the impact of the exceptional tax credit, from 28 per cent in 2009 to 22 per cent in 2010 arises from the effect of the mark to market value movements on core borrowings. As noted above, these movements gave rise to a charge in the EEV income statement of £164 million in 2010 and £795 million in 2009. As the liabilities are generally held to maturity or for the long-term, no deferred tax asset or liability is established on the market value adjustments and therefore, in 2010 and 2009 no deferred tax credits were established. The underlying tax rate on profits excluding the mark to market value adjustment on core borrowings and the exceptional tax credit was 21 per cent in 2010 as against 19 per cent in 2009.

EARNINGS AND DIVIDEND PER SHARE

Earnings per share (EPS)

	2010 Excluding exceptional tax credit[i] pence	2010 Including exceptional tax credit pence	2009 pence
Basic EPS based on operating profit after tax and non-controlling interests:			
IFRS[note ii]	62.0	68.3	47.5
EEV	106.9	113.2	88.8

	2010 pence	2009 pence
Basic EPS based on total profit after non-controlling interests:		
IFRS	56.7	27.0
EEV	101.9	49.8

Notes

i The exceptional tax credit in 2010 relates to a £158 million credit which primarily relates to the impact of a settlement agreed with the UK tax authorities.

ii The Company has amended the presentation of IFRS operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations. 2009 amounts have been amended accordingly.

Dividend per share

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

Following the Board's decision to rebase the dividend upwards and subject to shareholders' approval, the 2010 final dividend of 17.24 pence per ordinary share will be paid on 26 May 2011 in sterling to shareholders on the principal and Irish branch registers at 6.00pm BST on Friday, 1 April 2011 (the 'Record Date'), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30pm Hong Kong time on the Record Date ('HK Shareholders'). Holders of US American Depositary Receipts ('US Shareholders') will be paid their dividends in US dollars on or about five days after the payment date of the dividend to shareholders on the principal register. The final dividend will be paid on or about 2 June 2011 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte.) Limited ('CDP') at 5.00pm Singapore time on the Record Date ('SG Shareholders'). The dividend payable to the HK Shareholders will be translated using the exchange rate quoted by the WM Company at 4.00pm UK time on 8 March 2011. The exchange rate at which the dividend payable to the SG Shareholders will be translated into SG$ will be determined by CDP. The dividend will distribute an estimated £439 million of shareholders' funds.

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

The final dividend of 17.24 pence per share brings the total dividend for the reporting period to 23.85 pence per share, four pence per share (20 per cent) higher than the 2009 total dividend.

The Board will maintain its focus on delivering a growing dividend from this new higher base, which will continue to be determined after taking into account the 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.

FINANCIAL REVIEW

MOVEMENT ON SHAREHOLDERS' FUNDS

	IFRS		EEV	
	2010 £m	2009 note e AER £m	2010 £m	2009 AER £m
Operating profit based on longer-term investment returns	1,941	1,564	3,696	3,090
Items excluded from operating profit	(480)	(818)	(589)	(1,347)
TOTAL PROFIT BEFORE TAX	1,461	746	3,107	1,743
Exceptional tax credit	158	–	158	–
Tax, discontinued operations and non-controlling interests	(188)	(70)	(692)	(498)
PROFIT FOR THE PERIOD	1,431	676	2,573	1,245
Exchange movements, net of related tax	251	(195)	693	(750)
Unrealised gains and losses on Jackson securities classified as available for sale[note a]	478	1,043	–	–
Dividends	(511)	(481)	(511)	(481)
New share capital subscribed	75	141	75	141
Other	36	29	104	162
NET INCREASE IN SHAREHOLDERS' FUNDS	1,760	1,213	2,934	317
Shareholders' funds at beginning of year	6,271	5,058	15,273	14,956
SHAREHOLDERS' FUNDS AT END OF YEAR	8,031	6,271	18,207	15,273
Comprising				
Long-term business				
Free surplus[note b]			2,748	2,065
Required capital			3,415	2,994
Net worth[note c]			6,163	5,059
Value of in-force			12,051	10,283
Total			18,214	15,342
Other business[note d]			(7)	(69)
TOTAL[note f]			18,207	15,273

Notes

a Net of related changes to deferred acquisition costs and tax.

b The increase in free surplus of £683 million from 2010 arises primarily from £1,284 million being generated by the long-term business, off-set by cash paid to the holding company and other items.

c The increase in net worth in the period principally reflects the free surplus generated in the period, offset by cash paid to the holding company, changes to required capital and other items.

d Shareholders' funds for other than long-term business of negative £7 million (2009: negative £69 million) comprises £1,787 million for asset management operations (2009: £1,659 million), including goodwill of £1,230 million (2009: £1,230 million), holding company net borrowings of £2,212 million (2009: £1,780 million) and net other shareholders' funds of £418 million (2009: £52 million).

e The Company has amended the presentation of IFRS operating profit for its US insurance operations to remove the net equity hedge accounting credit effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations. 2009 amounts have been amended accordingly.

f EEV shareholders' funds excluding goodwill attributable to shareholders is £16,741 million (2009: £13,963 million).

IFRS

Statutory IFRS basis shareholders' funds at 31 December 2010 were £8.0 billion. This compares to the £6.3 billion at 31 December 2009, an increase of £1.7 billion, and equivalent to 28 per cent.

The movement reflects the profit for the year after tax and non-controlling interests of £1.4 billion, exchange translation gains of £0.3 billion, the improvement in the level of net unrealised gains on Jackson's debt securities of £0.5 billion from the position at 31 December 2009 and other items of £0.1 billion, offset by dividend payments of £0.5 billion.

EEV

On an EEV basis, which recognises the shareholders' interest in long-term business, shareholder funds at 31 December 2010 were £18.2 billion, an increase of £2.9 billion from the 2009 level, equivalent to 19 per cent. This increased level of shareholders' funds primarily reflects the profit after tax of £2.6 billion, the positive effects of exchange movements of £0.7 billion offset by the dividend payments of £0.5 billion.

The shareholders' funds at 31 December relating to long-term business of £18.2 billion comprise £7.4 billion (up 29 per cent from 2009) for our Asian long-term business operations, £4.8 billion (up 16 per cent from 2009) for our US long-term business operations and £6.0 billion (up 10 per cent from 2009) for our UK long-term business operations.

At 31 December 2010, the embedded value for our Asian long-term business operations was £7.4 billion, with £6.0 billion (up 31 per cent from 2009) being in the South East Asia countries of Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam together with Hong Kong. For Prudential's other Asian markets, the embedded value was £1.4 billion (up 21 per cent from 2009) in aggregate.

FREE SURPLUS AND HOLDING COMPANY CASH FLOW

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

	AER	
	2010 £m	**2009** £m
Free surplus generation		
Expected in-force cash flows (including expected return on net assets)	2,139	1,914
Changes in operating assumptions and variances	220	175
UNDERLYING FREE SURPLUS GENERATED IN THE PERIOD FROM IN-FORCE BUSINESS	2,359	2,089
Market related items	(94)	(198)
Investment in new business:		
Excluding Japan	(643)	(660)
Japan	(2)	(15)
Total investment in new business	(645)	(675)
FREE SURPLUS GENERATED IN THE PERIOD FROM RETAINED BUSINESSES	1,620	1,216
Effect of disposal and trading results of Taiwan agency business	–	987
Net cash remitted by the business units	(935)	(688)
Other movements and timing differences[note 1]	122	157
TOTAL MOVEMENT DURING THE PERIOD	807	1,672
FREE SURPLUS AT 1 JANUARY	2,531	859
FREE SURPLUS AT 31 DECEMBER	3,338	2,531
Comprised of:		
Free surplus relating to long-term insurance business	2,748	2,065
Free surplus of other insurance business	33	37
IFRS net assets of asset management businesses excluding goodwill	557	429
Total free surplus	3,338	2,531

Note

1 Included within other movements and timing differences is £18 million arising on the acquisition of UOB.

Overview

The Group manages its internal cash flow by focusing on the free surplus generated by the life and asset management businesses as defined below and the percentage of net underlying free surplus that is remitted to the holding company as cash ('the remittance ratio'). The tables below set out the Group's free surplus generation for 2010, the holding company cash flow statement and a table showing the remittance ratio for each of the business operations.

Free surplus generation

Sources and uses of free surplus generation from the Group's insurance 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

FINANCIAL REVIEW

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 shareholders' other income and expenditure, and centrally arising restructuring and Solvency II implementation costs.

During 2010 we generated total free surplus from the retained businesses of £1,620 million (2009: £1,216 million). Underlying free surplus generated from the in-force book increased 13 per cent from £2,089 million in 2009 to £2,359 million in 2010, principally reflecting the underlying growth of the portfolio and positive changes in operating assumptions and variances of positive £220 million for our life businesses (2009: positive £175 million). These positive changes include positive £3 million in Asia (2009: negative £98 million), £26 million arising in the UK (2009: positive £158 million), £191 million in the US, principally reflecting favourable spread experience (2009: positive £115 million).

Underlying free surplus generated has been used by our life businesses to invest in new business. Investment in new business[1] has fallen by three per cent to £643 million in 2010. This compares to a 23 per cent increase in sales[1] and a 25 per cent increase in new business profits[1]. The strong improvement in capital efficiency is primarily the result of continuing the active management of the product and geographical mix of the new business sold, in line with the Group's disciplined approach to capital conservation and cash optimisation.

Market-related movements have improved from negative £198 million in 2009 to negative £94 million in 2010, of which negative £192 million relates to the US, principally reflecting investment returns on variable annuity business and related hedging activity. In addition, negative £74 million relates to the UK and is offset by positive £146 million relating to Asia principally related to favourable equity markets during 2010 and positive £26 million relating to our asset management businesses.

Note
1 Excludes Japan which ceased writing new business in 2010.

Value created through investment in new business by life operations

	2010 £m						
	Asian operations						
	Excluding Japan	Japan	Total	US operations	UK insurance operations	Group total excluding Japan	Group total including Japan
Free surplus invested in new business	(278)	(2)	(280)	(300)	(65)	(643)	(645)
Increase in required capital	84	–	84	270	107	461	461
Net worth invested in new business	(194)	(2)	(196)	(30)	42	(182)	(184)
Value of in-force created by new business	866	1	867	525	224	1,615	1,616
Post-tax new business profit for the year	672	(1)	671	495	266	1,433	1,432
Tax	230	–	230	266	99	595	595
Pre-tax new business profit for the year	902	(1)	901	761	365	2,028	2,027
New business sales (APE)	1,501		1,508	1,164	820		
New business margins (% APE)	60%		60%	65%	45%		
Internal rate of return*	>20%		>20%	>20%	>20%		

* The internal rate of return 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 required capital. The impact of the time value of options and guarantees is included in the calculation.

Value created through investment in new business by life operations > continued

	AER 2009 £m						
	Asian operations						
	Excluding Japan	Japan	Total	US operations	UK insurance operations	Group total excluding Japan	Group total including Japan
Free surplus invested in new business	(231)	(15)	(246)	(326)	(103)	(660)	(675)
Increase in required capital	69	–	69	300	82	451	451
Net worth invested in new business	(162)	(15)	(177)	(26)	(21)	(209)	(224)
Value of in-force created by new business	707	3	710	458	187	1,352	1,355
Post-tax new business profit for the year	545	(12)	533	432	166	1,143	1,131
Tax	180	–	180	232	64	476	476
Pre-tax new business profit for the year	725	(12)	713	664	230	1,619	1,607
New business sales (APE)	1,209		1,261	912	723		
New business margins (% APE)	60%		57%	73%	32%		
Internal rate of return*	>20%		>20%	>20%	>15%		

	CER 2009 £m						
	Asian operations						
	Excluding Japan	Japan	Total	US operations	UK insurance operations	Group total excluding Japan	Group total including Japan
Free surplus invested in new business	(245)	(16)	(261)	(330)	(103)	(678)	(694)
Increase in required capital	75	–	75	304	82	461	461
Net worth invested in new business	(170)	(16)	(186)	(26)	(21)	(217)	(233)
Value of in-force created by new business	759	3	762	464	187	1,410	1,413
Post-tax new business profit for the year	589	(13)	576	438	166	1,193	1,180
Tax	194	–	194	235	64	493	493
Pre-tax new business profit for the year	783	(13)	770	673	230	1,686	1,673
New business sales (APE)	1,300		1,356	924	723		
New business margins (% APE)	60%		57%	73%	32%		
Internal rate of return*	>20%		>20%	>20%	>15%		

* The internal rate of return 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 required capital. The impact of the time value of options and guarantees is included in the calculation.

FINANCIAL REVIEW

Overall, the Group wrote £3,485 million of sales on an APE basis[1] in 2010 (2009: £2,844 million) generating a post-tax new business contribution to embedded value of £1,433 million (2009: £1,143 million). To support these sales, we invested £643 million of capital (2009: £660 million). By focusing on sales of products and in geographies which are less capital intensive, the Group has increased the amount of post-tax new business profit contribution[1] to embedded value per £1 million of free surplus invested by 29 per cent to £2.2 million (2009: £1.7 million). We estimate the Group's internal rate of return for the 12 months ended 31 December 2010 to be greater than 20 per cent. The amount of capital invested covers both new business strain, including commissions, of £182 million (2009: £209 million) and the required capital of £461 million (2009: £451 million). Management will continue to focus on capital preservation and investment in those areas which add most value to the Group.

In Asia, investment in new business[1] was £278 million, which was up 20 per cent compared to 2009 (£231 million). This compares to a 24 per cent increase in new business sales (APE). For each £1 million of free surplus invested we generated £2.4 million of post-tax new business contribution to embedded value broadly consistent with 2009, excluding Japan (2009: £2.4 million)[1]. The average free surplus undiscounted payback period for business written in the 12 months to 31 December 2010 was three years (2009: three years).

In the US, investment in new business was £300 million, eight per cent lower than 2009 (£326 million) and considerably lower than the 28 per cent increase in APE new business sales. For each £1 million of free surplus invested we generated £1.7 million of post-tax new business contribution to embedded value (2009: £1.3 million). This higher return reflects a change in business mix with a higher proportion of variable annuity business and a reduced proportion of more capital intensive fixed annuities. The average free surplus undiscounted payback period for business written in the 12 months to 31 December 2010 was one year (2009: two years).

In the UK, investment in new business decreased by 37 per cent from £103 million in 2009 to £65 million in 2010. This decrease compares with a 13 per cent increase in APE new business sales in the period. For each £1 million of free surplus invested we generated £4.1 million of post-tax new business contribution to embedded value (2009: £1.6 million). This increase reflects the UK's disciplined approach to pricing which has led to higher retail margins across the product range in 2010. It is also improved by the large bulk annuity transaction undertaken in 2010, the size of which may not be repeated in future years. The average free surplus undiscounted payback period for shareholder-backed business written in the 12 months to 31 December 2010 was four years (2009: five years).

Note

1 Excludes Japan which ceased writing new business in 2010.

The preceding tables focused on actual free surplus in the year from the in-force book of business and the level of investment in new business. The tables below show how the VIF generated by the in-force long-term business and the associated required capital is modelled as emerging into free surplus over future years. The modelled cash flows use the same methodology underpinning the Group's embedded value reporting and so are subject to the same assumptions and sensitivities.

In addition to showing the amounts, both discounted and undiscounted, expected to be generated from all in-force business at 31 December 2010, the tables also present the expected future free surplus to be generated from the investment made in new business during 2010.

Expected transfer of value of in-force (VIF) and required capital business to free surplus

	2010 £m							
	Undiscounted expected generation from all in-force business at 31 December*				Undiscounted expected generation from 2010 long-term new business written*			
Expected period of emergence	Asia	US	UK	Total	Asia	US	UK	Total
2011	635	852	436	1,923	93	313	21	427
2012	598	546	407	1,551	106	134	28	268
2013	573	490	516	1,579	132	85	27	244
2014	558	440	451	1,449	99	(18)	24	105
2015	554	449	443	1,446	91	97	26	214
2016	554	380	433	1,367	78	72	28	178
2017	541	371	432	1,344	79	56	26	161
2018	521	349	428	1,298	80	89	25	194
2019	495	288	424	1,207	79	73	26	178
2020	478	274	416	1,168	74	63	37	174
2021	468	255	409	1,132	73	59	24	156
2022	461	216	405	1,082	68	49	24	141
2023	446	178	406	1,030	69	38	25	132
2024	439	162	401	1,002	67	32	24	123
2025	429	138	393	960	65	27	24	116
2026	438	123	383	944	62	23	24	109
2027	433	113	375	921	64	19	24	107
2028	425	106	368	899	61	17	25	103
2029	422	88	361	871	64	14	24	102
2030	416	84	350	850	57	9	26	92
2031–2035	2,040	303	1,445	3,788	303	27	115	445
2036–2040	1,992	171	1,040	3,203	271	4	118	393
2041–2045	2,007	–	510	2,517	269	–	75	344
2046–2050	2,021	–	301	2,322	279	–	50	329
2050+	10,453	–	344	10,797	1,997	–	41	2,038
Total	28,397	6,376	11,877	46,650	4,680	1,282	911	6,873

* The analysis excludes amounts incorporated into VIF at 31 December 2010 where there is no definitive timeframe for when the payments will be made. In particular it excludes the value of the shareholders' interest in the estate. All amounts have been translated at year end exchange rates.

FINANCIAL REVIEW

The above amounts can be reconciled to the new 2010 business amounts as follows:

2010 New business

	Asia* £m	US £m	UK £m	Total £m
Undiscounted expected free surplus generation	4,680	1,282	911	6,873
Less: discount effect	(3,713)	(434)	(582)	(4,729)
Discounted expected free surplus generation	967	848	329	2,144
Less: Free surplus investment in new business	(280)	(300)	(65)	(645)
Other items†	(16)	(53)	2	(67)
Post-tax EEV new business profit	671	495	266	1,432
Tax	230	266	99	595
PRE-TAX EEV NEW BUSINESS PROFIT	901	761	365	2,027

* Includes Japan.
† Other items represents the impact of the time value of options and guarantees on new business, foreign exchange effects and other non-modelled items. Foreign exchange effects arise as EEV new business profit amounts are translated at average exchange rates and expected free surplus generation uses year end closing rates.

The equivalent discounted amounts of the totals shown in the table on the preceding are outlined below:

	2010 £m							
	Discounted expected generation from all in-force business at 31 December				Discounted expected generation from 2010 long-term new business written			
Expected period of emergence	Asia	US	UK	Total	Asia	US	UK	Total
2011	575	800	403	1,778	88	292	18	398
2012	510	481	348	1,339	91	116	24	231
2013	444	408	405	1,257	101	68	22	191
2014	405	344	333	1,082	70	(13)	18	75
2015	370	325	303	998	59	68	19	146
2016	343	258	274	875	47	48	19	114
2017	310	237	255	802	44	35	16	95
2018	280	207	234	721	41	50	15	106
2019	249	161	215	625	38	39	14	91
2020	225	144	195	564	33	31	19	83
2021	207	125	177	509	30	27	12	69
2022	190	99	163	452	27	21	11	59
2023	170	78	151	399	25	15	11	51
2024	157	66	138	361	22	11	9	42
2025	142	53	126	321	19	9	9	37
2026	139	45	113	297	19	7	8	34
2027	128	40	102	270	18	6	8	32
2028	117	35	93	245	16	5	7	28
2029	108	28	84	220	15	4	7	26
2030	99	25	76	200	12	2	7	21
2031–2035	400	79	240	719	53	5	25	83
2036–2040	275	40	109	424	35	2	18	55
2041–2045	195	–	29	224	24	–	8	32
2046–2050	139	–	11	150	18	–	4	22
2050+	152	–	6	158	22	–	1	23
TOTAL	6,329	4,078	4,583	14,990	967	848	329	2,144

The above amounts can be reconciled to the Group's financial statements as follows:

	Total £m
Discounted expected generation from all in-force business at 31 December 2010	14,990
Add: Free surplus of life operations held at 31 December 2010	2,748
Less: Time value of options and guarantees	(369)
Other non-modelled items*	845
Total EEV of life operations	18,214

* These relate to items where there is no definitive timeframe for when the payments will be made and are, consequently, excluded from the amounts incorporated into the tables above showing the expected generation of free surplus from in-force business at 31 December 2010. In particular it excludes the value of the shareholders' interest in the estate.

In recent years, our strategic focus on capital conservation and value optimisation has enabled us to transform the free surplus generation profile of the Group. The undiscounted in-force free surplus generation ability of the Group is now significant, with all businesses contributing material amounts.

Our disciplined approach to writing low strain, high return, short payback new business, produces an expected free surplus generation profile with sizeable free surplus releases in the early years, thereby ensuring that the initial investment is paid back quickly and incremental profits are earned thereafter.

The combination of the long-term business in-force releases depicted in the previous tables, coupled with asset management profits, returns on excess assets together with the impact of future new business, reinforces our confidence that we remain on track to deliver a cumulative net free surplus after new business investment of £6.5 billion in the 2010 to 2013 period.

FINANCIAL REVIEW

Holding company cash flow

	2010 £m	2009 £m
NET CASH REMITTED BY BUSINESS UNITS:		
UK Life fund paid to Group	202	284
Shareholder-backed business:		
Other UK paid to Group	275	189
Group invested in UK	(57)	(39)
Total shareholder-backed business	218	150
UK NET	420	434
US paid to Group	80	39
Group invested in US	–	–
US NET	80	39
Asia paid to Group		
Long-term business	330	181
Other operations	33	46
	363	227
Group invested in Asia		
Long-term business	(63)	(101)
Other operations	(67)	(86)
	(130)	(187)
ASIA NET	233	40
M&G PAID TO GROUP	150	93
PRUCAP PAID TO GROUP	52	82
NET REMITTANCES TO GROUP FROM BUSINESS UNITS	935	688
Net interest paid	(231)	(214)
Tax received	185	71
Corporate activities	(146)	(163)
Solvency II costs	(34)	–
TOTAL CENTRAL OUTFLOWS	(226)	(306)
OPERATING HOLDING COMPANY* CASH FLOW BEFORE DIVIDEND	709	382
Dividend paid net of scrip	(449)	(344)
OPERATING HOLDING COMPANY* CASH FLOW AFTER DIVIDEND	260	38
Exceptional Items:		
Cash flow arising from sale of Taiwan agency business	–	(125)
Acquisition of UOB Life and related distribution agreements	(276)	–
Costs of terminated AIA transaction	(377)	–
IGD hedge costs	–	(235)
Bank loan reorganisation	120	–
Other cash movements:		
Issue of hybrid debt, net of costs	–	822
Repayment of maturing debt	–	(249)
Receipts arising from foreign exchange movements on US$ hedging instruments	–	60
Total holding company cash flow	(273)	311
Cash and short-term investments at beginning of period	1,486	1,165
Foreign exchange movements	19	10
CASH AND SHORT-TERM INVESTMENTS AT END OF PERIOD	1,232	1,486

* Including central finance subsidiaries.

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 retention and 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 ordinarily balance close to zero before exceptional cash flows, but from time to time additional remittances from business operations will be made to provide the Group with greater financial flexibility at the corporate centre.

Operating holding company cash flow for 2010 before the shareholder dividend was £709 million, £327 million higher than 2009. After deducting the shareholder dividend paid net of scrip, the operating holding company cash flow was positive £260 million (2009: £38 million).

Remittance ratio analysis

	2010			2009		
	Net remittance to Group £m	Net underlying free surplus note i £m	Remittance ratio %	Net Remittance to Group £m	Net underlying free surplus note i £m	Remittance ratio %
Asia	233	383	61	40	161	25
US	80	627	13	39	516	8
UK	420	497	85	434	562	77
M&G (including PruCap)	202	207	98	175	175	100
Total	935	1,714	55	688	1,414	49

Note

i Underlying free surplus generated in the period from in-force business less investment in new business.

Cash remittances as a percentage of free surplus

As previously highlighted, the Group focuses on the generation of free surplus by each of the Group's business units and then balances cash remittances from these units between financing new business growth, managing market shocks and covering the Group's central outgoings, including the shareholder dividend. The table above highlights this balance by comparing the 2010 net underlying free surplus generated with the net amounts that have been remitted by each of our underlying business operations.

Remittance ratio analysis

The holding company received £935 million of net cash remittances from the business units in 2010, an increase of £247 million from 2009. Overall net remittances as a percentage of net underlying free surplus increased from 49 per cent in 2009 to 55 per cent in 2010. In line with the Group's strategy the highest remittance ratios are from the UK businesses. The UK insurance operations remitted £420 million in 2010 (2009: £434 million), equivalent to 85 per cent of net underlying free surplus. Contributions from UK with-profits were lower, reflecting the bonus reductions effected at the start of 2009, resulting in a lower share for shareholders in that year and lower remittances in 2010. Net remittances from our shareholder-backed businesses were £218 million, an increase of £68 million from 2009. M&G and PruCap collectively remitted £202 million in 2010 (2009: £175 million) equivalent to 98 per cent of net underlying free surplus.

Asia remitted net cash of £233 million in 2010, an increase of £193 million from the net £40 million remitted in 2009. This includes a one-off remittance of £130 million from Malaysia, representing the accumulation of historic distributable reserves. Total injections in 2010 were £130 million; £57 million lower than the £187 million paid in 2009. This primarily reflects the injection made into Taiwan in 2009 to facilitate the required restructuring after the sale of the agency business in that year.

Cash received from Jackson was £80 million in 2010, £41 million higher than the £39 million remitted in 2009. This is equivalent to a modest proportion of net underlying free surplus generated, reflecting our decision to retain free surplus in the business, in order to provide the capital to capture the attractive new business returns created by the market dislocation and to rebuild the capital buffers of this business following the 2008/2009 financial crisis. From 2011, it is planned that Jackson will increase the level of remittances to the Group.

Central outflows improved by £80 million to £226 million in 2010 (2009: £306 million). Lower corporate costs and higher tax receipts in 2010 more than offset increased net interest payments, following the additional debt raised in 2009, and Solvency II project spend.

Following a settlement reached with the UK tax authorities in relation to matters arising principally in 2001 to 2008, £266 million in exceptional tax outflows are expected to be made over the period from 2011 to 2013. We anticipate that half will be paid in 2011 and the remainder split evenly over 2012 and 2013.

After central costs, there was a net cash inflow before dividend of £709 million in 2010 compared to £382 million for 2009. The dividend paid net of scrip, was £449 million in 2010 compared to £344 million in 2009. The take-up of scrip dividends in 2010 was £62 million compared to £137 million for 2009.

In 2010, central cash resources funded the acquisition of UOB Life and related distribution agreements. In addition, £377 million relating to costs associated with the terminated AIA transaction were also funded from our central resources. Offsetting these outflows were net funds received of £120 million following bank loan reorganisation.

As a result of the transactions above, together with a £19 million foreign exchange revaluation gain, the overall holding company cash and short-term investment balances at 31 December 2010 decreased by £254 million to £1.2 billion from the £1.5 billion at 31 December 2009.

FINANCIAL REVIEW

Balance Sheet
Summary

	AER	
	2010 £m	2009 £m
Goodwill attributable to shareholders	1,466	1,310
Investments	239,297	208,722
Holding company cash and short-term investments	1,232	1,486
Other	18,811	16,236
Total assets	260,806	227,754
Less: Liabilities		
Policyholder liabilities	214,727	186,398
Unallocated surplus of with-profits funds	10,253	10,019
	224,980	196,417
Less: Shareholders' accrued interest in the long-term business	(10,176)	(9,002)
	214,804	187,415
Core structural borrowings of shareholders' financed operations (IFRS book value basis)	3,676	3,394
Other liabilities including non-controlling interest	24,119	21,672
Total liabilities and non-controlling interest	242,599	212,481
EEV BASIS NET ASSETS	18,207	15,273
Share capital and premium	1,983	1,970
IFRS basis shareholders' reserves	6,048	4,301
IFRS basis shareholders' equity	8,031	6,271
Additional EEV basis retained profit	10,176	9,002
EEV BASIS SHAREHOLDERS' EQUITY (EXCLUDING NON-CONTROLLING INTEREST)	18,207	15,273

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

Investments

	2010 £m				2009 £m
	Participating funds	Unit-linked and variable annuities	Shareholder-backed	Total Group	Total Group
Debt securities	53,261	9,054	54,037	116,352	101,751
Equity	31,371	54,274	990	86,635	69,354
Property investments	8,993	745	1,509	11,247	10,905
Commercial mortgage loans	256	–	4,693	4,949	4,634
Other loans	1,888	–	2,424	4,312	4,120
Deposits	7,272	749	1,931	9,952	12,820
Other investments[note i]	3,887	131	1,832	5,850	5,138
Total	106,928	64,953	67,416	239,297	208,722

Note
i Includes £71 million of investments, including PruHealth from 1 August 2010, accounted for using the equity method (2009: £6 million).

Total investments held by the Group at 31 December 2010 were £239 billion, of which £107 billion were held by participating funds, £65 billion by unit-linked funds and £67 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 £ 67 billion investments related to shareholder-backed operations, £6 billion was held by Asia long-term business, £32 billion by Jackson and £26 billion by the UK long-term business respectively. In addition £3 billion is held by our asset management and other operations.

The investments held by the shareholder-backed operations are predominantly debt securities, totalling £54 billion, £4 billion, £26 billion and £22 billion for Asia, the US and the UK long-term businesses respectively, of which 84 per cent, 95 per cent and 98 per cent are rated, either externally or internally, as investment grade.

In addition, £2 billion of debt securities was held by asset management and other operations, substantially all of which was managed by Prudential Capital.

Policyholder liabilities and unallocated surplus of with-profits funds

	AER				
	2010 £m				2009 £m
Shareholder-backed business	**Asia**	**US**	**UK**	**Total**	**Total**
At 1 January	13,050	48,311	38,700	100,061	92,189
Premiums	3,270	11,735	4,579	19,584	15,757
Surrenders	(1,800)	(3,598)	(1,326)	(6,724)	(5,672)
Maturities/Deaths	(172)	(769)	(2,224)	(3,165)	(2,914)
NET FLOWS	1,298	7,368	1,029	9,695	7,171
Investment related items and other movements	1,523	3,464	4,289	9,276	10,820
Assumption changes	19	–	(46)	(27)	(113)
Acquisition of UOB Life Assurance Limited	464	–	–	464	–
Dilution of holding in PruHealth	–	–	(27)	(27)	–
Disposal of Taiwan agency business	–	–	–	–	(3,508)
Foreign exchange translation difference	1,362	1,380	(1)	2,741	(6,498)
At 31 December	17,716	60,523	43,944	122,183	100,061
WITH-PROFITS FUNDS					
– Policyholder liabilities				92,544	86,337
– Unallocated surplus				10,253	10,019
TOTAL AT 31 DECEMBER				102,797	96,356
TOTAL POLICYHOLDER LIABILITIES INCLUDING UNALLOCATED SURPLUS AT 31 DECEMBER				224,980	196,417

Policyholder liabilities and unallocated surplus of with-profits funds

Policyholder liabilities related to shareholder-backed business grew by £22.1 billion from £100.1 billion at 31 December 2009 to £122.2 billion at 31 December 2010.

The increase reflects positive net flows (premiums less surrenders and maturities/deaths) of £9.7 billion in 2010 (2009: £7.2 billion), driven by strong inflows in the US (£7.4 billion) and Asia (£1.3 billion) and the £0.9 billion bulk annuity transaction in the UK. Positive investment-related and other items of £9.3 billion (2009: £10.8 billion) also contributed to the growth following improvements in the bond and equity markets during the year.

Other movements include foreign exchange movements of positive £2.7 billion (2009: negative £6.5 billion) and an increase following the acquisition of UOB Life of £464 million.

During 2010, the unallocated surplus, which represents the excess of assets over policyholder liabilities for the Group's with-profit funds on a statutory basis, increased two per cent in 2010 to £10.3 billion.

FINANCIAL REVIEW

Fair valuation of guarantees attaching to Jackson's variable annuity business

The IFRS accounting for guarantees on US variable annuity contracts has a mixed measurement approach. GMWB 'not for life' contract features are fair valued under IAS 39 and FAS 157 with a capping feature to prevent early anticipation of expected fees for guarantees. However, the GMDB and GMWB 'for life' blocks of business are accounted for under grandfathered US GAAP which does not, and is not intended to, fair value the liabilities.

If we had fair valued the GMDB and GMWB 'for life' guarantees as if they were embedded derivatives but restricted or capped the recognition of future fees in line with IFRS, the liabilities at 31 December 2010 would have been higher by some £650 million and £50 million, respectively. After offsetting related adjustments to DAC amortisation and deferred tax, the net effect would have been a reduction in shareholders' equity of approximately £150 million.

If the liabilities were remeasured to fair value them using IAS 39 and FAS 157 principles, but with the removal of the fee capping feature, so as to include the full value of future expected fees for guarantees, the change in liability from the IFRS accounting value would be favourable by some £100 million. After offsetting related adjustments to DAC amortisation on the respective GMDB and GMWB components of the change, and for deferred tax, the net effect would be an increase in shareholders' equity, which is also estimated to be approximately £100 million.

Shareholders' net borrowings and ratings

Shareholders' net borrowings at 31 December 2010:

	AER					
	2010 £m			2009 £m		
	IFRS basis	Mark to market value	EEV basis	IFRS basis	Mark to market value	EEV basis
Perpetual subordinated						
Capital securities (Innovative Tier 1)	1,463	28	1,491	1,422	(71)	1,351
Subordinated notes (Lower Tier 2)	1,255	117	1,372	1,269	103	1,372
	2,718	145	2,863	2,691	32	2,723
Senior debt						
2023	300	33	333	300	8	308
2029	249	(1)	248	249	(14)	235
Holding company total	3,267	177	3,444	3,240	26	3,266
Prudential Capital	250	–	250	–	–	–
Jackson surplus notes (Lower Tier 2)	159	13	172	154	4	158
Total	3,676	190	3,866	3,394	30	3,424
Less: Holding company cash and short-term investments	(1,232)	–	(1,232)	(1,486)	–	(1,486)
Net core structural borrowings of shareholder-financed operations	2,444	190	2,634	1,908	30	1,938

Shareholders' net borrowings and ratings

The Group's core structural borrowings at 31 December 2010 totalled £3.7 billion on an IFRS basis, compared with £3.4 billion at 31 December 2009. The movement of £0.3 billion mainly reflects the addition of a £250 million bank funding facility in the period following activities to reorganise certain bank loans in the period.

After adjusting for holding company cash and short-term investments of £1.2 billion, net core structural borrowings at 31 December 2010 were £2.4 billion compared with £1.9 billion at 31 December 2009. The movement of £0.5 billion includes positive operating cash flows of £0.3 billion, the movement in borrowings of £0.3 billion mentioned above and the use of £0.7 billion of central resources to fund the acquisition of UOB Life and related distribution agreements and the terminated AIA transaction costs.

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

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 2010, we had issued commercial paper under this programme totalling £127 million, US$2,350 million, EUR 743 million and CHF 50 million. The central treasury function also manages our £5,000 million medium-term note (MTN) programme, covering both core and non-core borrowings. During January 2010, we raised non-core borrowings of £250 million from this programme. In April and October 2010 we refinanced an existing internal £200 million issue under the same programme. In total, at 31 December 2010 the outstanding subordinated debt under the programme was £835 million, US$750 million and EUR 520 million, while the senior debt outstanding was £450 million. In addition, our holding company has access to £2.1 billion of syndicated and bilateral committed revolving credit facilities, provided by 17 major international banks, expiring between 2011 and 2015. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 31 December 2010. The commercial paper programme, the MTN programme and the committed revolving credit facilities 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 2010, the gearing ratio (debt, net of cash and short-term investments, as a proportion of EEV shareholders' funds plus debt) was 11.8 per cent, compared with 11.1 per cent at 31 December 2009. Prudential plc has strong debt ratings from Standard & Poor's, Moody's and Fitch. Prudential's long-term senior debt is rated A+, A2 (negative outlook) and A 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 by Standard & Poor's, Aa2 (negative outlook) by Moody's and AA by Fitch.

Jackson National Life's financial strength is rated AA by Standard & Poor's, A1 (negative outlook) by Moody's and AA 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. No formal deficit plan was required. However, in recognition of the fall in value of the Scheme's investments between 5 April 2008 and the completion of the actuarial valuation, additional funding akin to deficit funding was agreed by the Trustees. This is subject to reassessment when the next valuation is completed. The total contributions being currently made by the Group into the scheme, representing the annual accrual cost and deficit funding, are £50 million per annum. Deficit funding for PSPS is apportioned in the ratio of 70/30 between the PAC with-profits fund and shareholder-backed operations.

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 and subsequent agreements with the Trustees, £13.1 million per annum of deficit funding is currently being paid into the scheme. The next triennial valuations for the PSPS and SAPS schemes are scheduled to take place as at 5 April 2011 and 31 March 2011 respectively.

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 £51 million. Based on this valuation, deficit funding amounts designed to eliminate the actuarial deficit over a five year period have been agreed with £14.1 million being paid in each of 2010 and 2011 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. In particular, reflecting the trust deed provisions over distributions, the net underlying surplus of £421 million for PSPS is not recognised. As at 31 December 2010, on the Group IFRS statement of financial position, the shareholders' share of the liabilities for these UK schemes amounted to a £83 million liability net of related tax relief. The total share attributable to the PAC with-profits fund amounted to a liability of £99 million net of related tax relief.

Changes to Group holdings during the period

During 2010 we completed the acquisition of UOB Life for total cash consideration, of SGD 495 million (£220 million), giving rise to goodwill of £141 million. This acquisition accompanied a long-term strategic partnership with UOB facilitating distribution of Prudential's life insurance products through UOB's bank branches in Singapore, Indonesia and Thailand.

We also announced the acquisition of Standard Life Healthcare by our PruHealth joint venture partner Discovery and its combination with the existing PruHealth business. This led to a reduction in our shareholding in the enlarged combined businesses from 50 per cent to 25 per cent effective from 1 August, the date of the acquisition. The effects on our EEV and IFRS accounting are as previously set out in this review.

Financial instruments

The Group is exposed to financial risk through its financial assets, financial liabilities, and policyholder liabilities. The key financial risk factors that affect the Group include market risk, credit risk and liquidity risk. Information on the 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 the Group's financial instruments to market risk and its use of derivatives is also provided in the financial statements.