Accelerating Asia

Asia looks set to remain a world economic powerhouse as although lower external demand is impacting growth, regional and domestic demand remains robust. Prudential is well placed to participate in this growth as one of the region's leading providers of long-term savings and protection products.

12m+
life customers

365,000+
agents

Accelerating Asia

Barry Stowe
Chief Executive
Prudential Corporation Asia

'Prudential has a clear strategy in Asia focused on continuing to build high quality, multi-channel distribution that enables us to meet Asia's fast growing savings and protection needs with a product portfolio centred on regular premium life insurance policies with protection riders.'

Market overview

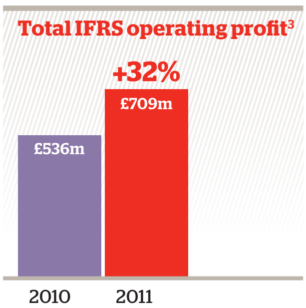
The European debt crisis is driving significant uncertainty in the global economy, however, Asia looks set to remain a world economic powerhouse as although lower external demand is impacting growth, regional and domestic demand remains robust.

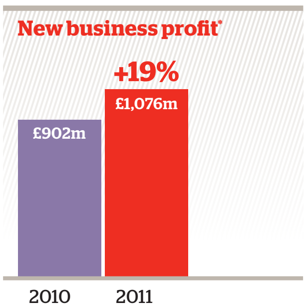
The Asian Development Bank[1] expects the Asian economies[2] to grow by around 7 per cent in 2012, down from about 7.5 per cent in 2011 and 9 per cent in 2010, but still significantly higher than the rest of the world. Prudential is well placed to participate in this growth as one of the region's leading providers of long-term savings and protection products.

Over the last decade Asia's sustained economic growth has resulted in the rapid growth of the Asian middle class and now this is one of the fastest growing population groupings in the world. Although Asia currently has less than 25 per cent of the world's middle class population, the Organisation for Economic Cooperation and Development (OECD) sees this figure doubling in the next 15 years. This middle class now have increasing disposable income, assets and lifestyles they want to protect and the recognition of a need to plan their own financial futures, independent of any state provisions.

Asia is also seeing a significant rise in the incidence of non-communicable diseases such as cancer, heart disease and diabetes as until comparatively recently people used to die from infectious diseases and malnutrition before 'middle age' ailments could arise. However, now 'rich country diseases' have very quickly become an issue in Asia. The World Health Organisation expects the number of deaths in South East Asia attributable to non-communicable diseases or critical illnesses to increase by 20 per cent over the next 10 years and the number of diabetics in China is expected to double by 2025. These critical illnesses not only have the potential to decimate individual families' finances, they also impose a huge burden on the economy due to lost working time through sick leave and acquired skills exiting the work force. Raising awareness of lifestyle and related health issues together with the promotion of regular check ups, for example in relation to underwriting insurance policies, is becoming increasingly important as economies continue to develop.

Aligning to these developments, Asia is seeing a significant expansion of its savings and protection industry supported by governments and regulators. For example, regulators in China, Singapore and Malaysia have all recently stressed the importance of continuing to increase the rates of insurance penetration in their markets. Regulatory standards are also being raised with, for example, greater emphasis on ensuring that products are fit for purpose and that customers fully appreciate the features of their policies. Whereas compliance with the relevant regulations was always implicit in the way insurers ran their businesses, there is a trend towards a more explicit demonstration of this through documentation, audits and more formal management structures.





*Excludes Japan which ceased writing new business in 2010.

Notes
1 Source: Published in the Asia Economic Monitor December 2011.
2 Excluding Australia and New Zealand
3 IFRS operating profit for insurance operations.

Financial performance

		AER		CER	
	2011 £m	2010 £m	Change %	2010 £m	Change %
APE sales[1]					
Asia (excluding India)	1,559	1,313	19	1,313	19
India	101	188	(46)	178	(43)
Total APE sales	1,660	1,501	11	1,491	11
NBP[1]	1,076	902	19	900	20
NBP margin (% APE)[1]	65%	60%		60 %	
Total IFRS operating profit*	709	536	32	533	33
Total EEV operating profit*	1,764	1,450	22	1,438	23

65%
New business margin (% APE)

Despite the attractiveness of these markets, the competitive environment in Asia has remained fairly constant over the past few years as barriers to entry remain high due to the material capital requirements combined with a shortage of the strategic and executional expertise needed for securing licences, establishing brands, building quality distribution and launching and administering products. Distribution in the region remains dominated by traditional tied agency forces, but banks are becoming increasingly significant distributors. The industry's growth has typically been constrained by the pace at which the insurers can build out distribution and assemble the infrastructures needed to administer and manage the increasing volumes of premiums generated by the business.

The size and significance of Asian insurers has increased in recent years. A consequence of this has been their increased presence in the capital markets. Today there is far more disclosure and analysis of the financial performance of the businesses than was the case a few years ago, but there is still some way to go before the industry has common reporting standards and accounting practices. Market leadership is still typically gauged by simple sales metrics although this is changing as metrics that emphasise value generated using a risk-based assessment of returns to policyholders and shareholders are becoming more prevalent. Regulators are now taking a broader view of market leadership too; leaders are expected to behave in an exemplary manner at all times, to drive improvements in all aspects of the business and to champion a variety of social initiatives.

Business performance

Prudential has had operations in Asia since the 1920s, but began expanding its Asian business in 1994 as the Asian economic revolution was getting under way. Today Prudential is a leading international insurer in Asia with six of its 11 operations being market leaders in terms of new business scale. Prudential has established a high performance platform with multichannel distribution, a product portfolio based on regular premium savings policies with attached riders that provide additional protections and a well respected brand that is becoming increasingly well known as a champion of CSR initiatives including financial literacy.

Our strategy is focused on building high quality tied agency and complementary third party distribution channels, providing products that demonstrably meet customers' savings and protection needs and strengthening and deepening customer relationships. It continues to be driven in a highly focused and disciplined way. While market outperformance in terms of new business growth is an indicator of success, Prudential prioritises quality of service, profitability, returns on capital and capital efficiency ahead of top-line growth.

*Operating profit from long-term operations excluding Eastspring Investments, development costs and Asia regional head office costs.

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

Accelerating Asia

2013 Financial objectives

- Double 2009 value of IFRS life and asset management pre-tax operating profit
- Double 2009 value of new business profits
- Deliver £300 million of net cash remittance to the Group

'Prudential has a diverse range of successful bank distribution partnerships across the region that includes regional relationships with international banks such as Standard Chartered and local ones such as E.Sun in Taiwan.'

At the country level the execution of the strategy varies depending on local conditions and objectives in each market. For example Prudential's agency management competencies drive effective selection discipline and training designed to 'fast start' new agents and improve the skills and productivity of the more experienced ones in all markets. However, agency priorities are differentiated with the emphasis more on increasing scale in some markets, such as Indonesia and Vietnam and productivity improvements in more established markets such as Hong Kong and Singapore.

Prudential has a diverse range of successful bank distribution partnerships across the region that includes regional relationships with international banks such as Standard Chartered and local ones such as E.Sun in Taiwan. We are also successful in working with multiple partners in one market. Key drivers of this success are a long-term commitment to creating value for ourselves and our partners, expertise in developing, training and motivating bank sales teams and committed marketing support.

Prudential's product mix is orientated around a core of regular premium policies with protection riders. The portfolio is regularly refreshed with new features and benefits that keep pace with evolving customer needs and also drive sales force activities.

Protecting the value of the in-force book is also a core priority for Prudential. Technology, such as iPad-based customer and agent services, drives operational efficiencies. Persistency drivers are actively monitored and achieving persistency targets forms part of compensation calculations for staff and agents. We have a robust claims platform with technical expertise and a disciplined approach to monitoring claims and re-pricing as necessary.

In September 2011 Prudential launched a major new CSR initiative in collaboration with Turner Broadcasting in the form of a fictional band called Cha-Ching, who through episodes running on the Cartoon Network across Asia and a fully interactive website, teach children about the basics of financial planning. Currently Cha-Ching is seen daily in over four million homes in seven markets (Hong Kong, the Philippines, Singapore, Indonesia, Vietnam, Thailand, and Malaysia). Cha-Ching.com has had over 18 million pages viewed in its first four months with an average duration of over nine minutes. The programme is being actively supported by regulators and local schools.

Prudential's focus on customer service and delivery is reflected through the number of awards received by its operations, that include in China, 'The Brand with Greatest Potential in the Insurance Industry', in India, 'Insurance Company of the Year', in Indonesia, 'Best Life Insurance Company', 'Best Islamic Insurance Company', 'Best Life Insurer in Achieving Total Customer Satisfaction', and in Vietnam, a Labour Medal from the President's Office, a first for a foreign insurance company in that country.

Cha-Ching

www.prudentialcorporation-asia.com

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4m
homes in seven markets view daily

18m+
page views in first four months – average duration over nine minutes

Financial performance

Prudential Asia remains well on track to deliver its 2013 new business profit, IFRS operating profit and cash remittance targets despite the more challenging external market conditions seen during 2011 where, for example, the MSCI Asia Pacific Excluding Japan Index was down 15 per cent and economic growth rates moderated.

New business sales APE for 2011 of £1,660 million was a record breaking high, representing an 11 per cent growth over 2010. Excluding India, where the market remains disrupted following the regulatory change in the third quarter 2010, APE growth was up 19 per cent. Prudential has now delivered 10 consecutive quarters where the APE is higher than the same quarter in the prior year and the average growth rate over this period was 19 per cent (including India). The fourth quarter APE at £513 million was also a record high, being up 18 per cent over prior year and 27 per cent higher than the third quarter of 2011.

Agency (excluding India) continues to be our largest distribution channel, generating 66 per cent of APE with a growth rate of 13 per cent over prior year. We ended the year with 228,000 agents (365,000 including India). However, although agency scale is important, management focus is also on further improving agent activity and productivity and we delivered a year-on-year increase in average active agents of 8 per cent, coupled with a 5 per cent increase in productivity.

Prudential's bancassurance model generated 29 per cent of APE in 2011 with a growth rate of 37 per cent over prior year. New relationships that include our first full year of operations with UOB contributed 16 percentage points of this growth but our long-established relationships with other partners including SCB, Maybank and SingPost also performed well, collectively growing 22 per cent over the prior year and reflecting our ongoing successes in generating value for our partners.

The new business mix for 2011 reflects our ongoing focus on regular premium savings with protection. The proportion of regular premium business remains high at 91 per cent of APE and in line with prior years. The proportion of protection business in the APE mix increased to 30 per cent from 27 per cent in the previous year while the proportion of linked business reduced to 32 per cent compared to 41 per cent in prior year principally due to a lower contribution from India and a move towards non linked policies in that market.

New business profits of £1,076 million are 19 per cent higher than last year and average new business profit margins increased from 60 per cent to 65 per cent. The key driver for the increase in new business profit margin was a favourable change in country mix, in particular, a lower proportion of sales from India.

EEV profits from our in-force business of £688 million are up 25 per cent on prior year mainly driven by higher unwind as the scale of the book continues to grow. We continue to review and update our models to reflect evolving experience trends and for year end 2011 we made a number of changes that resulted in a net positive assumption change of £10 million. This included net positive changes, mainly on mortality and morbidity, totalling £150 million that were offset by a remodelling of withdrawal and lapse trends. The main contributor to this negative adjustment was Malaysia where in the second half of 2011 we decided to strengthen our assumptions to reflect our recent experience on our PruSaver product riders in Malaysia where policyholders that had accumulated gains on the savings component of their unit-linked policies realised some of these when markets were high while continuing to make their regular premium payments. This amounted to a negative charge to in-force profits of £108 million and remodelling of lapse trends in other markets such as India amounted to a net £32 million. Actual net experience variances for the year were positive £65 million reflecting better than expected performances. The assumption changes and variances remain very small in the context of total EEV shareholders' funds of £8.5 billion.

Accelerating Asia

Operating profit on the IFRS basis grew strongly to £709 million, 32 per cent higher than last year. New business strain as a percentage of APE reduced during 2011 to 3.3 per cent compared to 3.7 per cent in 2010, driven by favourable product and country mix.

During 2011, shareholder-backed business policyholder liabilities have increased to £18.3 billion (2010: £17.7 billion). Our strong business momentum saw net insurance inflows of £1.8 billion (up 42 per cent on last year's equivalent amount of £1.3 billion), which were offset by falls in market value. As expected outflows including those from partial withdrawals are at a lower run rate than 2010, both in absolute terms and when expressed as a percentage of opening policyholder liabilities.

Underlying free surplus generated by the life operations grew by 26 per cent to £410 million as the emergence of profits from the in-force book is increasing at a faster rate than the investment in new business. The cash generating capacity of the life business is clearly demonstrated by net remittances of £239 million to the Group during 2011. This includes £6 million as Prudential's share of the first dividend ever to be paid by a life insurance company in India since the industry was nationalised in the 1950s.

Looking at individual countries:

China	AER			CER	
	2011 £m	2010 £m	Change %	2010 £m	Change %
APE sales (Prudential's 50 per cent share)	59	58	2	59	–

CITIC-Prudential remains one of the leading foreign joint ventures in a market that remains dominated by domestic players. We have true multi-channel distribution with a high quality agency force and a diverse range of national, regional and foreign bank partners covering many of the major cities and provinces in China's more developed eastern regions. Sales for 2011 were £59 million, 2 per cent higher than the prior year.

During the second half of 2011 the market conditions became increasingly challenging with general concerns about the economy reflected by the MSCI China index being down 18 per cent for the year. It remains challenging to recruit and retain good agents in this competitive market. Sales through the bank channel were also impacted by new regulations prohibiting sales by non-bank staff.

Hong Kong	AER			CER	
	2011 £m	2010 £m	Change %	2010 £m	Change %
APE sales	331	287	15	276	20

Prudential Hong Kong continues to deliver strong new business APE growth with an increase of 15 per cent over prior year to £331 million. Prudential remains the only leading player in Hong Kong to have a material presence in both the agency and bank distribution channels.

Agency APE grew at 9 per cent driven by increases in the number of active agents and increased case sizes as a new par product has proven to be particularly attractive. Bancassurance sales through Standard Chartered Bank (SCB) grew at a faster pace than agency at 29 per cent demonstrating the strength of this long-term relationship and the significance of the bank channel in Hong Kong. Bancassurance sales accounted for 41 per cent of the total (2010: 37 per cent).

India

	2011 £m	AER 2010 £m	AER Change %	CER 2010 £m	CER Change %
APE sales (Prudential's 26 per cent share)	101	188	(46)	178	(43)

The Indian market has been through a significant period of change during 2011, particularly following the regulatory driven refocus on savings and protection products, which came into effect on 1 September 2010. These factors led to a fall in sales from £188 million in 2010 to £101 million in 2011. Our joint venture with ICICI continues to be a leader in the private sector and the fourth quarter 2011 APE of £28 million was up 33 per cent on prior year, demonstrating some recovery in this business.

Indonesia

	2011 £m	AER 2010 £m	AER Change %	CER 2010 £m	CER Change %
APE sales	363	283	28	283	28

Indonesia is rapidly becoming one of Asia's fastest growing and highest potential economies and Prudential continues to be a clear market leader in the Indonesian life insurance sector.

The strong new business APE growth at 28 per cent to £363 million has been primarily driven by the ongoing, rigorously managed, expansion of the agency force to 142,000 at the end of 2011. Active manpower increased by 18 per cent as our method of recruiting, training and licensing continues to be effective and we increased productivity by 7 per cent. Although still small relative to our agency force, the volume of new business from the bank channel increased by over 81 per cent (accounting for 5 per cent of the total) and has high potential for the future. We are the leader in Syariah products with a 54 per cent market share, contributing 15 per cent of new business sales.

The product mix remains predominantly regular premium unit-linked with protection riders and a new Early Stage Crisis Cover rider launched last year proved very popular with an attachment ratio of 35 per cent.

Korea

	2011 £m	AER 2010 £m	AER Change %	CER 2010 £m	CER Change %
APE sales	101	96	5	96	5

In Korea we continue to balance growth and profitability and do not compete in the low margin, capital-intensive guaranteed return segment of the market. Work undertaken over the past 24 months to refocus the business is now showing good results and our own agency force is generating the majority of new business. Sales in the fourth quarter, down 26 per cent on prior year, were impacted by equity market volatility depressing what had otherwise been a strong performance during the rest of the year. Nevertheless, sales in 2011 were 5 per cent higher at £101 million. Encouragingly new business profit margins increased from 31 per cent to 43 per cent reflecting the lower operating costs of the revamped business and an increased proportion of linked products in the mix.

Accelerating Asia

Malaysia	AER			CER	
	2011 £m	2010 £m	Change %	2010 £m	Change %
APE sales	223	204	9	207	8

New business growth in Malaysia of 9 per cent to £223 million reflects the continued success of our agency channel and the development of our bank partnership channel which has performed very strongly. Prudential remains a strong market leader with agent recruits up 11 per cent on prior year and the total number of active agents up 9 per cent. We also had great success with bank distribution, up 164 per cent over prior year driven by increased activity with SCB and the launch of our Malaysian UOB partnership in April 2011.

Singapore	AER			CER	
	2011 £m	2010 £m	Change %	2010 £m	Change %
APE sales	235	175	34	183	28

Singapore recorded an excellent year with APE of £235 million up 34 per cent on prior year. The principal driver of growth was the partnership channel where we have a cross section of partners enabling us to access a broad customer range. This was our first full year partnering with UOB, who achieved a 154 per cent sales growth. Sales through our other principal partners also grew strongly with Maybank up 67 per cent, SCB up 38 per cent and SingPost up 23 per cent. Partnership channel sales amounted to £97 million (2010: £51 million).

Agency numbers in Singapore remain in line with prior year but agency productivity continues to grow strongly.

Taiwan		**AER**		**CER**	
	2011 £m	**2010** £m	**Change** %	**2010** £m	**Change** %
APE sales	**148**	120	23	123	20

Taiwan is now mainly focused on bank distribution with partners E.Sun and SCB although it does have growing direct marketing and worksite marketing activities, up 21 per cent and 33 per cent respectively in 2011.

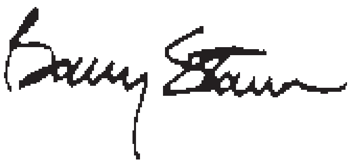
Sales for 2011 were 23 per cent higher at £148 million. In particular Taiwan's fourth quarter sales in 2011 of £53 million, were double those in the equivalent quarter last year, following successful marketing campaigns with SCB.

Others – Philippines, Thailand and Vietnam		**AER**		**CER**	
	2011 £m	**2010** £m	**Change** %	**2010** £m	**Change** %
APE sales	**99**	90	10	86	15

In Vietnam the depreciation of the local currency relative to sterling has made a strong underlying performance where new business APE in local currency is up 14 per cent, less visible in sterling terms. That strong performance has been driven primarily by an increase in agent numbers (38,000) and higher productivity. In Thailand, where we remain a relatively small player with market share of 2 per cent, volumes of new business were 4 per cent higher despite the disruption caused in the fourth quarter by the floods. Encouragingly, sales in December 2011 were 57 per cent higher than prior year. Philippines delivered excellent growth of 30 per cent driven by successes with partnership distribution and increased agency activity and productivity.

Japan

As previously announced, PCA Life Japan ceased writing new business with effect from 15 February 2010. Sales for Japan in 2010 amounted to £7 million.



Barry Stowe
Chief Executive
Prudential Corporation Asia

Strengthening
United States

The United States is the world's largest retirement savings market. Each year, many of the 78 million 'baby boomers'[1] reach retirement age. Jackson's strategy focuses on capturing this opportunity while balancing value, volume, capital efficiency, cash generation, balance sheet strength and strict pricing discipline.

2.9m+
policies and contracts in force

10,000
people reaching retirement age every day for next 20 years[1]

1 Source: US Census Bureau

Strengthening
United States

Mike Wells
President and
Chief Executive Officer
Jackson National Life
Insurance Company

'Our strategy focuses on balancing value, volume, capital efficiency, balance sheet strength and strict pricing discipline for both variable and fixed annuities. Fixed annuity sales have slowed as a result of the current interest rate environment.'

Market overview

The United States is the world's largest retirement savings market. Each year, many of the 78 million 'baby boomers'[1] reach retirement age, which will trigger a shift from savings accumulation to retirement income generation for more than US$10 trillion of accumulated wealth over the next decade[2].

During 2011, the US equity markets continued to be challenging for the financial services industry, with higher volatility returning during the second half of the year, along with a decline of interest rates to historically low levels. Despite a very volatile year, the S&P 500 index recovered from the large falls in the third quarter to finish flat for the year. Implied volatility ended the year higher than that at year end 2010. Overall, rates on 10-year treasuries reached new historical lows during the second half of 2011, finishing the year below 2 per cent, while AA corporate spreads widened from year end 2010 levels.

In such an environment, Jackson's asset and liability management continues to incorporate equity and interest rate exposure on an aggregate basis in order to ensure that total economic risk is hedged effectively within our established policy limits. Jackson continues to adapt its hedging programme to market conditions in order to ensure continued strong risk management. Despite historically low interest rates, volatile equity markets and the fluctuations in equity volatility experienced in 2011, Jackson's hedging programme continued to perform well, mitigating the impact of the macroeconomic challenges and supporting our robust capital position. Jackson's approach to pricing and hedging has always been to adopt a conservative stance and we believe that this positions Jackson well to outperform its peers during periods of market dislocation. Policyholder behaviour in 2011 continued to trend in line with both our pricing and reserving expectations.

The uncertain environment continues to provide an advantage to companies with good financial strength ratings and a track record of financial discipline. Companies that were hardest hit by the market disruptions over the last few years still have to work to regain market share as customers and distributors seek product providers that offer consistency, stability and financial strength. Jackson continues to benefit significantly from this flight to quality and heightened risk aversion.

Thanks to our financial stability and innovative products, we continue to enhance our reputation as a high-quality and reliable business partner, with sales increasing as more advisers have recognised the benefits of working with Jackson. A significant part of Jackson's growth continues to come from an increase in its distribution penetration with sales through distributors who either did not previously sell Jackson's products or simply did not sell variable annuities. In the second half of 2011, Jackson entered into another wirehouse distribution agreement further extending Jackson's ability to reach all major wirehouse firms in the US on attractive terms.

Our strategy focuses on balancing value, volume, capital efficiency, balance sheet strength and strict pricing discipline for both variable and fixed annuities. Fixed annuity sales have slowed as a result of the current interest rate environment.

Notes
1 Source: US Census Bureau
2 Source: McKinsey

Financial performance

		AER		CER	
	2011 £m	2010 £m	Change %	2010 £m	Change %
APE sales	1,275	1,164	10	1,121	14
NBP	815	761	7	734	11
NBP margin (% APE)	64%	65%		65%	
Total IFRS operating profit	694	833	(17)	803	(14)
Total EEV operating profit	1,431	1,458	(2)	1,406	2

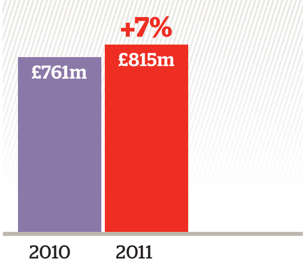
'Jackson's product diversity allows the company to quickly adapt to changing market conditions and sustain appropriate sales levels in all phases of the business cycle.'

Business performance

Continue to drive positive net retail sales

In 2011, Jackson achieved record APE retail sales of £1,251 million, an increase of 7 per cent over 2010. With the addition of modest institutional sales in 2011, total APE sales were £1,275 million, an increase of 10 per cent. Retail annuity net flows continued to benefit from increased sales and low levels of surrender activity, with an increase of 6 per cent from £8.0 billion in 2010 to £8.5 billion in 2011. Jackson's strategy continues to focus on balancing value, volume and capital consumption for its various annuity products. Jackson's product diversity allows the company to quickly adapt to changing market conditions and sustain appropriate sales levels in all phases of the business cycle. During the second half of 2011, sales slowed relative to the first half run rate due to proactive changes we made to our product offerings and shifts in the competitive environment. During the third quarter, Jackson implemented various product initiatives to enhance product diversity and margins and further optimise the balance between growth, capital and profitability.

New business profit



Innovate around our key variable annuity product

Jackson continues to innovate its product offerings, implementing various changes in 2011 to manage profitability, to comply with revised regulations and enhance risk management flexibility. Jackson continues to actively monitor its product offerings to ensure the company retains the appropriate pricing levels in current market conditions.

Further enhance operational efficiency

We continue to invest in our back office staffing and systems to provide world class customer service in an efficient and cost effective manner. In 2011, for the sixth consecutive year, Jackson was rated as a 'World Class' service provider by Service Quality Measurement Group. Jackson was able to provide this level of service in 2011 while processing record retail sales, and decreasing its ratio of statutory general expenses to average assets (one measure of efficiency) to 42 basis points, compared to the 2010 level of 44 basis points.

'In 2011, for the sixth consecutive year, Jackson was rated as a 'World Class' service provider by Service Quality Measurement Group.'

Financial performance

IFRS pre-tax operating profit was £694 million in 2011, down 17 per cent from £833 million in 2010. As previously indicated, this reduction was due to the expected accounting impact of accelerated deferred acquisition cost (DAC) amortisation of £232 million (2010: £11 million), which masked an underlying increase in earnings driven by higher fee income on separate account assets.

At 31 December 2011, Jackson had £37.8 billion in separate account assets, an increase of 21 per cent compared to £31.2 billion in 2010. The increase in separate account assets primarily reflects the impact of substantial positive net flows. This growth resulted in variable annuity separate account fee income of £680 million in 2011, up 34 per cent over the £506 million achieved in 2010.

Strengthening United States

2013 Financial objective

- Deliver £200 million of net cash remittance to the Group

Total spread income, including the expected return on shareholders' assets, was £813 million in 2011, compared to £817 million in 2010. Excluding the expected return on shareholders' assets, spread income was £730 million, an increase of £38 million over 2010. Spread income benefited by £113 million from swap transactions entered into to more closely match the overall asset and liability duration (2010: £108 million). This effect combined with the reduction in crediting rates has mitigated the downward pressures created by the lower interest rate environment.

Acquisition costs have increased in absolute terms compared to 2010 due to the growth in sales volumes. However, acquisition costs as a percentage of APE have decreased to 70 per cent for 2011, compared to 73 per cent for 2010.

The DAC amortisation charge increased in 2011 to £619 million (2010: £334 million). This comprises a core charge of £387 million (2010: £323 million) and an accelerated charge of £232 million (2010: £11 million). The higher core charge is in line with the increase in fee income and spread profits. The accelerated charge reflects the anticipated additional amortisation of £166 million relating to the reversal of the benefit received in 2008 from the mean reversion formula and a charge of £66 million caused by lower than assumed separate account returns.

Administration expenses increased to £412 million in 2011 compared to £344 million in 2010, with the increase due primarily to higher asset-based commissions paid on the larger 2011 separate account balance. These asset-based commissions paid upon policy anniversary dates are treated as an administration expense as opposed to a cost of acquisition and are offset by higher fees.

Jackson continues to actively manage its investment portfolio to mitigate investment risk. Jackson reported net realised gains on debt securities of £106 million in 2011 compared to £11 million in 2010. This comprises interest related realised gains during the period of £158 million (2010: £224 million), primarily due to sales of government and corporate debt, net recoveries on sales of previously impaired securities of £10 million (2010: losses of £89 million) and bond write-downs of £62 million (2010: £124 million). In addition to the net realised gains on debt securities described above, Jackson had write-downs of £28 million (2010: £12 million) on commercial mortgage loans. In 2011 and 2010, Jackson did not experience any defaults in its debt securities portfolio.

The net unrealised gain position has increased from £1,210 million at 31 December 2010 to £2,057 million at 31 December 2011 due primarily to the continued decline in the US Treasury rates. Gross unrealised losses decreased from £370 million at 31 December 2010 to £246 million at 31 December 2011.

Jackson delivered record APE retail sales of £1,251 million in 2011, representing a 7 per cent increase over 2010 (12 per cent at constant exchange rates). Jackson has achieved these sales levels, while maintaining its pricing discipline, as it continued to write new business at aggregate internal rates of return (IRR) in excess of 20 per cent.

In 2011, record variable annuity (VA) APE sales of £1,091 million were 15 per cent higher than in 2010, as Jackson continued to benefit from its customers' and distributors' flight to quality. Although we do not target volume or market share, these market conditions allowed Jackson's ranking to remain at third in variable annuity sales in the US for 2011, while increasing its market share to 11.4 per cent from 10.7 per cent for the full year 2010[1]. Jackson ranks first among VA providers for adviser loyalty. Jackson also earned the top ranking for satisfaction with external and internal wholesaler support among VA providers[2].

Jackson's strategy of proactively managing fixed annuity (FA) volumes resulted in APE sales of £47 million, 44 per cent lower than in 2010. Jackson ranked 14th in sales of traditional deferred fixed annuities through the third quarter of 2011, with a market share of 1.9 per cent, compared to eighth with a 3.4 per cent market share for the full year 2010[3].

Fixed index annuity (FIA) APE sales of £93 million in 2011 were down 15 per cent from 2010 as Jackson continued to focus its marketing efforts on higher margin VA products. Jackson ranked ninth in sales of fixed index annuities through the third quarter of 2011, with a market share of 4.6 per cent, down from sixth and a market share of 5.2 per cent in the full year 2010[4].

Jackson's growth moderated during the latter part of the year, with full year total retail annuity net flows of £8.5 billion in 2011, an increase of 6 per cent compared to 2010. This modest increase was due to the impact of volatility in the S&P 500 experienced during the second half of the year, along with various product initiatives that were implemented during the third quarter. These initiatives were taken in order to optimise the balance between growth, capital and profitability. Retail annuity net flows continued to benefit from increased sales and continued low levels of surrender activity. Jackson remained the third largest seller of individual annuities in the United States through the third quarter of 2011, with a market share of 8.4 per cent, up from a market share of 8.0 per cent for the full year 2010[1].

EEV basis new business profit of £815 million was up 7 per cent on 2010, broadly in line with the 10 per cent increase in total APE sales. Total new business margin was 64 per cent, compared to 65 per cent achieved in 2010.

The variable annuity new business margin of 69 per cent in 2011 decreased from 72 per cent in 2010. The adverse effect on margin of the 142 bps decline in 10-year Treasury rates was largely mitigated by pricing actions taken over the past 15 months and a favourable shift in VA business mix. The fixed indexed annuity new business margin remained flat at 41 per cent in 2011. Lower assumed target spreads and future reinvestment yields have resulted in a decrease in the fixed annuity new business margin from 34 per cent to 29 per cent.

Total EEV basis operating profit for the long-term business in 2011 was £1,431 million, compared to £1,458 million in 2010. In-force profits were £81 million lower than 2010, partially offset by the £54 million increase in new business profit. The decline in in-force profits to £616 million (2010: £697 million) was driven largely by a lower contribution from the unwind of the discount on the opening embedded value, as a result of lower interest rates, and by lower positive operating experience variances than seen in 2010.

In 2011, Jackson invested £202 million of free surplus to write £1,275 million of new business APE (2010: £300 million and £1,164 million, respectively). The reduction in capital consumption year-on-year principally reflects the benefit of lower costs generated by economies of scale and favourable business mix in 2011. Jackson wrote a higher proportion of variable annuity business, which consumes lower levels of initial capital and has lower initial reserving requirements as a result of product changes effected at the end of 2010.

Jackson's RBC level at the end of 2011 was 429 per cent, which compares to 483 per cent in 2010. Jackson continues to have in place a SSAP 86[5] permitted practice which has the effect of valuing the interest rate hedge programme at cost, thereby not recognising in the RBC ratio the significant mark to market gains on this programme that arose from the decline in interest rates during 2011. The RBC ratio would be 482 per cent (2010: 470 per cent) without the permitted practice. Jackson's RBC ratio remains at an appropriate level despite net remittances of £322 million during 2011, a testament to both the strength of Jackson's balance sheet and the effectiveness of the hedging programme.

Mike Wells
President and Chief Executive Officer
Jackson National Life Insurance Company

Notes
1 Source: Morningstar Annuity Research Center (MARC)
2 Source: Cogent Research Advisor Brandscape™ 2011
3 Source: LIMRA
4 Source: AnnuitySpecs
5 Statement of Statutory Principle No. 86 – Accounting for Derivative Instruments and Hedging, Income Generation, and Replication (Synthetic Asset) Transactions

Focusing
United Kingdom

The UK life & pensions market is characterised by a concentration of wealth in the 45 to 74 age group. Prudential UK is well positioned to help these 'baby boomers' and subsequent generations meet their financial needs.

7m
customers

Focusing
United Kingdom

Rob Devey
Chief Executive
Prudential UK and Europe

'In 2011 Prudential UK continued to pursue a value over volume strategy, actively choosing to compete selectively in the retirement savings and income markets, and balancing the writing of new business with sustainable cash generation and capital preservation.'

Market overview

The UK life & pensions market, which is mature and the third largest in the world, is characterised by a concentration of wealth in the 45 to 74 age group and an ageing population, as the 'baby boomers' get older and progressively move into retirement.

Many of these individuals are insufficiently prepared financially for the prospect of spending longer in retirement and as a result, are considering extending their working lives while adopting a more flexible approach towards retirement. Prudential UK is well positioned to help the 'baby boomers' and subsequent generations meet their financial needs both as they approach and during retirement through its range of market leading with-profits and annuity products.

In 2011 Prudential UK continued to pursue a value over volume strategy, actively choosing to compete selectively in the retirement savings and income markets, and balancing the writing of new business with sustainable cash generation and capital preservation.

Business performance

Strategic focus on core strengths

Prudential UK has a strong individual annuity business, built on a robust pipeline of internal vestings from maturing individual and corporate pension policies. The internal vestings pipeline is supplemented by sales through intermediaries and strategic partnerships with third parties where Prudential is the recommended annuity provider for customers vesting their pensions at retirement.

Sales of individual annuities of APE £179 million were 13 per cent lower than in 2010 as Prudential UK continues proactively to manage the flow of external conventional new business to control capital consumption. The proportion of with-profits annuity sales continues to increase, from 22 per cent in 2010 to 25 per cent in 2011.

Internal vestings sales of APE £122 million, were 2 per cent lower than in 2010, when a change in the minimum retirement age from 50 to 55 resulted in a temporary increase in sales, and a reduction in expected vestings in 2011. Sales of external annuities of APE £57 million were down 30 per cent on the same period last year, mainly due to the end of a partnership agreement in the second half of 2010, consistent with Prudential UK's value over volume strategy.

Financial performance

		AER		CER	
	2011 £m	2010 £m	Change %	2010 £m	Change %
APE sales	746	820	(9)	820	(9)
NBP	260	365	(29)	365	(29)
NBP margin (% APE)	35%	45%		45%	
Total IFRS operating profit	723	719	1	719	1
Total EEV operating profit	893	982	(9)	982	(9)

£723m
Total IFRS operating profit

Onshore bonds sales of APE £178 million were 7 per cent up on 2010, including with-profits bonds sales of APE £160 million, which increased by 9 per cent despite challenging market conditions. During 2011, Prudential UK reintroduced the PruFund Protected Growth Fund, with a range of guarantees added to both the Growth and Cautious funds. The PruFund range comprised 74 per cent of with-profits bond sales, driven by customer demand for products offering smoothed investment returns and optional capital guarantees. Since inception in 2004, PruFund has accumulated £5.4 billion funds under management. 2011 also saw the launch of four new Risk Managed PruFunds, which combine the strengths of our PruFund proposition with elements of the risk-managed approach adopted by our unit-linked Dynamic Portfolios.

Corporate pensions sales of APE £233 million were 5 per cent higher than in 2010, with strong sales to new members of existing private sector schemes in the first half of the year due in part to existing customers transferring members from their defined benefit schemes to defined contribution schemes. Prudential UK continues to focus on retaining and developing existing schemes, securing new members and incremental business.

Sales of other products, principally individual pensions, PruProtect, PruHealth and offshore bonds, of APE £122 million were 8 per cent below 2010. Within this, however, individual pensions sales (including income drawdown) of APE £72 million were 4 per cent above last year. Sales of the Flexible Retirement Plan, Prudential UK's Retail Distribution Review (RDR)-compliant individual pension and income drawdown product, grew by 20 per cent to APE £27 million.

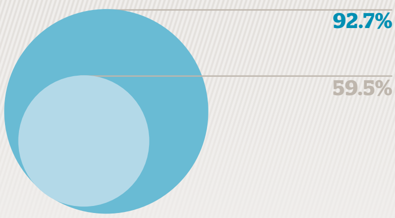
In the Wholesale market, Prudential UK's aim is to continue to participate selectively in bulk and back-book buyouts using its financial strength, superior investment track record and annuitant mortality risk assessment and servicing capabilities. In line with this approach, Prudential UK signed two bulk annuity buy-in insurance agreements in 2011, totalling £33 million APE (2010: £93 million APE). Prudential UK will continue to maintain a strict focus on value and only participate in capital-efficient transactions that meet its return on capital requirements.

With-profits performance

www.pru.co.uk

The strength and performance track record of Prudential UK's With-Profits Fund is widely recognised. Despite extreme market volatility in 2011 the Fund continues to provide customers with solid returns over medium to long-term time horizons. This strong performance has shown that with-profits, when invested in an actively managed and financially strong fund like Prudential's, continues to be a very attractive medium to long-term investment.

10 year investment returns vs FTSE All-Share Index (total return)



Focusing
United Kingdom

With-profits performance

The strength and performance track record of Prudential UK's With-Profits Fund is widely recognised. Despite extreme market volatility in 2011 the Fund continues to provide customers with solid returns over medium to long-term time horizons. Over 10 years the Fund has delivered investment returns of 92.7 per cent, which compares favourably with other with-profits funds and the FTSE All-Share Index (total return) of 59.5 per cent over the same period. This strong medium to long-term performance has shown that with-profits, when invested in an actively managed and financially strong fund like Prudential's, continues to be a very attractive medium to long-term investment, offering strong annualised returns compared with other investment options. Prudential's with-profits customers benefit from the security offered by Prudential's large inherited estate, with the free assets of the with-profits fund valued at approximately £6.1 billion at the year end, valued on the regulatory realistic basis.

Launch of direct advice service

In December 2011 Prudential UK launched a direct advice service, Prudential Financial Planning, to offer financial advice to existing customers who originally came to Prudential through its direct sales force. Starting with 25 advisers, the expectation is that this channel will grow further in 2012 to meet customer demand.

Enhancing customer service

Prudential UK's focus on delivering improved levels of customer service was recognised again at the 2011 Financial Adviser Service Awards, where it achieved two 5-Star ratings for excellent service in the Life & Pensions and Investment categories.

2013 Financial objective

- Deliver £350 million of net cash remittance to the Group

Financial performance

Total APE sales of £746 million were down 9 per cent on 2010, including bulk annuities of APE £33 million in 2011 and £93 million in 2010. EEV new business profit reduced by 29 per cent to £260 million and the total new business profit margin was 35 per cent for the period, 10 percentage points lower than in 2010. This reduction reflected the lower impact of bulk annuity transactions in 2011. The 2011 transactions generated EEV new business profit of £28 million (2010: £106 million) and IFRS operating profit of £23 million (2010: £63 million).

Retail sales of APE £712 million (excluding credit life and bulk annuities) were 2 per cent below last year, a reflection of Prudential's strategy to allocate capital to opportunities that play to the core strengths of the business rather than pursuing top-line sales growth. Retail EEV new business profit at £231 million was 10 per cent below 2010 (£257 million). Retail new business margin reduced to 32 per cent, 3 per cent down on 2010, primarily driven by a changing business mix of lower shareholder-backed annuity sales and higher sales of corporate pensions.

IFRS total operating profit was 1 per cent above the previous year at £723 million. Of this total, £293 million (2010: £310 million) relates to with-profits and £390 million (2010: £363 million) to shareholder-backed business reflecting higher annuity profits. Commission received on Prudential-branded General Insurance products contributed £40 million to IFRS operating profit in 2011, £6 million lower than in 2010 as the book of business originally transferred to Churchill in 2004 is, as expected, decreasing.

EEV total operating profit of £893 million was down 9 per cent, mainly due to the fall in new business profits. Life in-force profits were higher at £593 million (2010: £571 million). The contribution from the unwind of the discount on the opening embedded value was lower by £65 million reflecting the 151 bps reduction in long-term gilt yields. The effect of this was offset by higher experience profits and £79 million favourable assumption change arising from the reduction in the long-term tax rate to 25 per cent.

Prudential UK continues to manage actively the retention of the in-force book. During 2011, the experience at an aggregate level was in line with long-term assumptions.

Prudential UK writes with-profits annuity, with-profits bond and with-profits corporate and individual pensions business in its Life Fund, with other products backed by shareholder capital. The weighted average post-tax IRR on the shareholder capital allocated to new business in the UK was in excess of 20 per cent and the undiscounted payback period on that new business was four years.

Underlying free surplus generated from the long-term in-force business in the UK amounted to £503 million (2010: £529 million). Of this total, £54 million (2010: £65 million) was reinvested in writing shareholder-backed business at attractive average IRRs.

At half year 2010 Prudential announced that the UK business had achieved its cost savings target of £195 million per annum. At the end of 2010, the business announced a number of cost saving initiatives to reduce costs by a further £75 million per annum by the end of 2013. The business has made good progress towards this objective and remains on track to deliver these savings by the end of 2013.

During 2011 Prudential UK remitted cash of £297 million to the Group, comprising £223 million from the annual with-profits transfer to shareholders and £74 million from the shareholder-backed business. The business aims to generate £350 million per annum of sustainable cash remittances by 2013, supported by the strength of the with-profits business and surpluses arising from the large book of shareholder-backed annuities, maintained into the future by the pipeline of maturing individual and corporate pensions.

Rob Devey
Chief Executive
Prudential UK and Europe