Asia: accelerate

Our strategy in Asia is focused on meeting the needs of the emerging middle class for savings and protection. The region's positive demographics, strong economic growth, sound public finances and favourable public policy environment with a clear preference for private provision of protection, have all led to a rapidly expanding middle class, with a strong and growing demand for our savings and protection products.

13m+
insurance customers

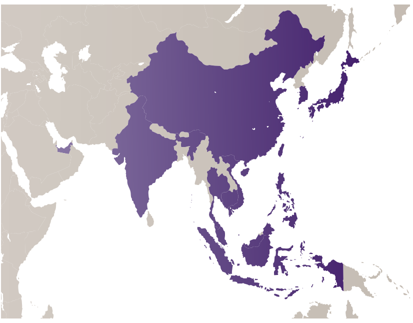
400,000+
agents

Insurance operations

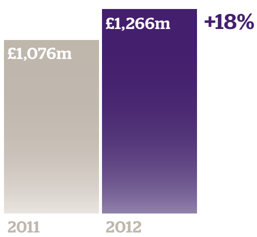
Asia: accelerate

'Prudential's strategy in Asia is well established and continues to be highly effective. We are focused on building high-quality, multi-channel distribution that provides customers with access to products that are appropriate for their financial planning needs. Typically this involves a high proportion of regular premium policies that combine savings and protection.'

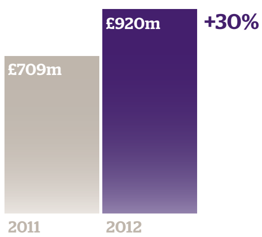
Barry Stowe
Chief Executive
Prudential Corporation Asia



New business profit



Total IFRS operating profit



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.

Financial performance

		AER		CER	
	2012 £m	**2011** £m	**Change** %	**2011** £m	**Change** %
APE sales	1,897	1,660	14	1,642	16
New business profit	1,266	1,076	18	1,065	19
Total IFRS operating profit[notes (i)(ii)]	920	709	30	697	32
Total EEV operating profit[note (i)]	1,960	1,764	11	1,747	12

Notes
(i) Operating profit from long-term operations excluding Eastspring Investments, development costs and Asia regional head office costs.
(ii) Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note A5 of the IFRS financial statements.

Market overview

Asia's rapidly-growing middle class remains a key growth driver for the retail financial services sector, particularly life insurance with an emphasis on protection. Research has shown that as the middle class becomes more established the proportion of income they allocate to financial planning increases from 5 per cent to around 12 per cent[1].

The manifestation of this demand varies significantly across the region, reflecting the various stages of development in each individual market, together with their distinct regulatory and competitive environments, cultural differences and customer preferences. However, across all markets there is increasing recognition among governments and regulators of the social utility of a vibrant private sector life insurance market that provides financial security to families, efficiently channels long-term savings into financial markets and generates employment opportunities within the industry.

During 2012, Asia's average economic growth rates, although they remained well above the global average, continued to moderate following the post-crisis high seen in 2010. This is to some degree a consequence of the weakness of the economies of North America and Europe. While domestic factors were a significant influence in India and China as policymakers grapple with sensitive political situations and economic imbalances, the resilience of many other economies in the region, particularly in South-east Asia, was highlighted by upward revisions to IMF growth forecasts in the second half of the year. Hong Kong's economic growth accelerated during the fourth quarter last year and looks set to have an improved year in 2013 and the Singaporean Government has said that the outlook for its economy is cautiously positive as it also had a better than expected fourth quarter. However, the strongest performing regional economies were led by Indonesia, Malaysia, the Philippines and Thailand where growth is increasingly driven by the expansion of domestic demand and is less reliant on exports. Face to face sales, typically through an agent, remains the dominant distribution channel throughout the Asia region and the expertise needed to build and manage agency represents a significant barrier for new entrants. Bancassurance has been growing at a faster rate than agency in recent years from a lower base.

As the life insurance industry continues to grow, so the regulatory environment continues to evolve. Regulators are encouraging insurers to strengthen their risk and solvency management processes and to improve their sales processes to ensure that customers receive good quality advice and buy products suitable to their needs. Most international insurers operating in the region are supportive of these trends and generally aim to operate above current local regulatory standards. The recent recommendations of the Monetary Authority of Singapore's FAIR Panel are indicative of the kind of regulatory efforts under way in the region to improve the overall standard of agency distribution in insurance.

We believe the Asian life insurance markets remain a highly compelling opportunity for delivering profitable growth over the long term with South-east Asia, including Hong Kong, currently offering the most attractive market dynamics for insurance providers, with increasing opportunities to provide financial security to the new middle class whose expectations now go beyond basic subsistence to protecting and improving their personal finances over the long term.

Business performance

Prudential's strategy in Asia is well established and continues to be highly effective. The customer is at the heart of our strategy and Asian customers find our offering of regular premium savings and protection products distributed principally through high-quality face to face distribution channels particularly attractive. The quality of our brand, our products, and of our distribution allows us to translate our sales into strong returns to our shareholders.

Building and strengthening Prudential's multichannel distribution capabilities is a constant objective for us. Tied-agency remains a highly effective and efficient distribution channel in Asia and Prudential has one of the region's largest agency forces. We focus both on the size and the productivity of our agency force. Agency activity is a key indicator of quality and performance; during 2012 Prudential's average active agency manpower rate increased by 14 per cent (excluding India). In our sweet-spot of South-east Asia, the increase in active agency manpower of 15 per cent contributed significantly to a 19 per cent increase in new business profit in the agency channel.

Bancassurance has been growing rapidly in the region in recent years and Prudential remains a regional leader in this channel with APE growth of 29 per cent, led by highly productive relationships including SCB, where APE sales were up 42 per cent this year and UOB, where APE sales grew at an even faster rate of 65 per cent year-on-year. In November, Prudential announced a new and strategically significant, exclusive long-term partnership with Thailand's Thanachart Bank as part of a deal that will see Thanachart Life merged with our existing life operation in the country immediately doubling our market share. The deal is expected to complete during the first half of 2013.

It is part of our strategy to focus on regular premium products which allow our customers to invest over the long term and smooth the impact of timing on their investment returns. We aim to make most of our sales as regular premiums and in 2012, the proportion of regular premium in our APE sales was in excess of 90 per cent, which ensures the profitability and resilience of our growing in-force book. Although single premium products can provide appropriate opportunities for customers with lump sums, we believe that regular premium policies with protection riders best meet the majority of our customers' needs. In 2012, 32 per cent of our new business APE was related to protection, up 2 percentage points over prior year. Given the recent volatility in the financial markets, we have seen a shift towards non-linked products; the proportion of linked products in the new business APE mix declined to 29 per cent compared to 32 per cent for 2011.

Note
1 HSBC Global Research.

Insurance operations continued

Asia: accelerate

Managing the in-force book is always a high priority as this ensures that the shareholder value that we expect to capture over the life of the product does emerge over time as distributable shareholder profits. For 2012 we reported small net positive experience and assumptions change of £95 million up from £75 million in 2011.

On 2 July, we announced that Prudential has received in-principle approval from Cambodia's Ministry of Economy and Finance to establish a wholly foreign-owned life insurance operation in the country. Although the Cambodian economy is relatively small at present, it has delivered strong GDP growth over the past 10 years and we believe this presents excellent opportunities to develop the life insurance industry in the coming years. The business sold its first policies in January 2013.

In addition to providing value directly to our customers through our products and services, we aim to provide wider benefits to the community where we operate. Therefore, Prudential supports a range of corporate social responsibility activities across Asia, with a focus on providing disaster relief, promoting financial literacy and benefiting children. During 2012, Prudential extended its highly successful children's financial literacy programme, 'Cha-Ching'; for example, this has now been adopted in the Philippines as part of the school curriculum.

Financial performance

Prudential Asia has delivered in 2012 IFRS operating profit and cash remittance ahead of the 2013 objectives with strong operational performances enhanced by some non-recurring items. We remain on track to meet our third objective in the region of doubling the 2009 new business profit by 2013.

New business APE was £1,897 million, an increase of 14 per cent over prior year. During the second half of 2012 the reported growth rates did moderate as the economic climate became generally more challenging and specifically in Malaysia, Korea and Taiwan we deliberately and proactively slowed sales of lower margin products.

New business profit of £1,266 million grew at a faster rate than APE at 18 per cent. This reflects the positive impacts of product participation decisions as outlined above, proactive pricing actions to mitigate the adverse effects of low interest rates and a shift in country mix. Our agency and bank channels grew their respective contribution to new business profit at similar rates in 2012.

EEV operating profit from our in-force business of £694 million is in line with prior year as the impact of the significant increase in the unwind that comes from a larger in-force book and the net positive movement in the contribution to profits from assumption changes and experience variances was offset by the drag from lower discount rates.

Operating profit on an IFRS basis from Asia's life businesses, continues to grow strongly at £920 million, 30 per cent higher than in 2011. This includes £51 million of one-off profit from the sale of the Group's interest in China Life Insurance Company of Taiwan. Excluding this amount, IFRS operating profit was £869 million, 23 per cent higher than last year. This is principally driven by improved in-force profits, which grew by 18 per cent in the year, reflecting the increasing scale of the business.

During 2012, shareholder-backed business policyholder liabilities have increased by 16 per cent to £21.2 billion (31 December 2011: £18.3 billion), due to strong business flows of £2.0 billion (up 8 per cent on last year's equivalent amount of £1.8 billion) and higher bond and equity values.

Underlying free surplus generated by the in-force life business was 9 per cent higher at £771 million (2011: £707 million) reflecting the increasing scale of the business. Of this total, £292 million (2011: £297 million) was reinvested in new business at internal rates of return of over 20 per cent and average payback periods of three years. The overall cash generating capacity of the life business is clearly demonstrated by net remittances of £384 million to the Group during 2012.

Looking at individual countries:

China		AER		CER	
	2012 £m	2011 £m	Change %	2011 £m	Change %
APE sales (Prudential's 50 per cent share)	56	59	(5)	61	(8)

Market conditions in China during 2012 have been challenging as economic growth slowed and the country continued to adjust to a changing political environment.

CITIC-Prudential remains one of the leading foreign joint ventures in a market that remains dominated by domestic players. We do anticipate the market liberalising at some point in the future, however the timing of such an opening remains uncertain. In the meantime, we are focused on continuing to build a high-quality, multichannel distribution organisation.

Prudential's 50 per cent share of sales for 2012 was £56 million, broadly in line with the prior year. During this year we continued to focus on agent recruitment and on promoting sales of regular premium business. Bancassurance, which accounts for nearly half of our total sales in China, has seen lower productivity from bank branches following the tightening of regulations that came into effect last year.

Hong Kong		AER		CER	
	2012 £m	2011 £m	Change %	2011 £m	Change %
APE sales	396	331	20	336	18

The Hong Kong economy continues to benefit from its close ties with mainland China and it remains a financial and logistics hub for the region beyond China, which ensures a continued and strong demand for our products.

Prudential Hong Kong delivered strong new business APE growth with an increase of 20 per cent over the prior year to £396 million. Prudential remains the only leading player in Hong Kong to have a material presence in both agency and bank distribution, enabling it to reach the widest range of customers. Both channels performed well in 2012.

India

		AER		CER	
	2012 £m	2011 £m	Change %	2011 £m	Change %
APE sales (Prudential's 26 per cent share)	102	101	1	90	13

The Indian life insurance market has been going through a significant period of change, however there are signs it has begun to grow again following the regulator-driven refocus on savings and protection products, which came into effect in 2010. During the second half the economy faltered, impacted by domestic imbalances and a challenging political environment. Although we remain optimistic about the long-term potential of the market, we expect it will be some time before private sector sales volumes return to pre-2010 levels.

Prudential's joint venture with ICICI continues to be the leader in the private sector.

Indonesia

		AER		CER	
	2012 £m	2011 £m	Change %	2011 £m	Change %
APE sales	446	363	23	343	30

The Indonesian economy continues to outperform and this is underpinned by the scale and resilience of its domestic demand. Indonesia has one of the region's largest populations and lowest rates of insurance penetration.

Prudential has a strong market leading position with over 60 per cent of the industry's registered tied-agents and has successfully been building its business outside of Jakarta; now around 45 per cent of APE is from outside the capital. New business APE growth of 23 per cent to £446 million has been primarily driven by the continued expansion of the agency force. Growth in the agency force is now being supplemented by the smaller but fast growing bancassurance channel which includes partnerships with UOB, BII, Citibank and Permata.

Korea

		AER		CER	
	2012 £m	2011 £m	Change %	2011 £m	Change %
APE sales	95	101	(6)	101	(6)

In Korea, the weak economic climate has resulted in a decline in demand for unit-linked products, with consumers opting instead for interest sensitive products. Against this backdrop, we have chosen to relinquish volume rather than compete for the low margin, capital-intensive guaranteed return segment of the market. Consequently, we have deliberately let our sales via banks and brokers decline. Our business has continued to focus on developing a high-quality proprietary distribution channel which saw active agents increase by 9 per cent in 2012.

Malaysia

		AER		CER	
	2012 £m	2011 £m	Change %	2011 £m	Change %
APE sales	218	223	(2)	224	(3)

The latest statistics released by the Malaysian Life Insurance Association show that the industry grew by 2.2 per cent during 2012 in terms of weighted premiums relative to 2011 reflecting general concerns about the economic outlook. Prudential remains the market leader in Malaysia with a highly productive agency force and growing bank distribution.

Our focus in 2012 on health and protection rather than lower margin, higher premium volume savings related top ups has boosted the mix of these products to around 60 per cent and improved our profitability, at the expense of top line growth. We have continued to expand in the Takaful sector where we remain market leader.

Singapore

		AER		CER	
	2012 £m	2011 £m	Change %	2011 £m	Change %
APE sales	301	235	28	239	26

The Singapore market continues to perform strongly with the Life Insurance Association having announced that industry APE grew by 8 per cent during 2012 with regular premiums growing even more strongly at 18 per cent.

Prudential's APE was £301 million up 28 per cent on prior year. Bancassurance was an important driver of growth where we now have a number of partners including UOB, SCB, Maybank and Singpost, enabling us to access a broad range of customers. Our agency channel continues to be one of Singapore's most productive, and according to the latest available market statistics, we lead the market in terms of regular premium new business generated per agent[1].

Taiwan

		AER		CER	
	2012 £m	2011 £m	Change %	2011 £m	Change %
APE sales	156	148	5	149	5

Taiwan is mainly focused on bank distribution through our partnership with E.Sun Commercial Bank and SCB, supplemented by direct marketing and worksite marketing activities which are growing fast. APE was depressed by our decision not to compete in the market with products we consider to be uneconomic.

Others – Philippines, Thailand and Vietnam

		AER		CER	
	2012 £m	2011 £m	Change %	2011 £m	Change %
APE sales	127	99	28	99	28

In Vietnam, we saw a very strong recovery during the fourth quarter with new business APE up 23 per cent over prior year, to deliver an overall 7 per cent increase for the year. In Thailand, we saw growth of 37 per cent driven by our bancassurance capabilities. The Philippines delivered growth of 50 per cent, reflecting increased agency activity and the success of partnership distribution.

Barry Stowe
Chief Executive
Prudential Corporation Asia

Note
1 Source: Life Insurance Association of Singapore.

United States: build on strength

The US is the world's largest retirement savings market, with large cohorts of the 78 million baby-boomers[1] reaching retirement age each year, creating significant demand for retirement income products. Our strategy in the US is to take advantage of this profitable growth opportunity.

4m
customers

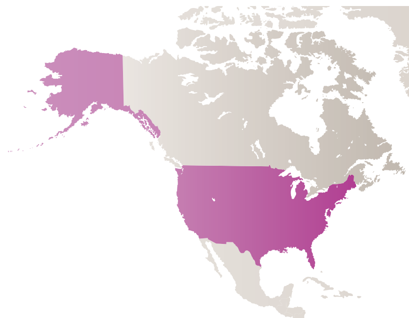
Note
1 Source: US Census Bureau.

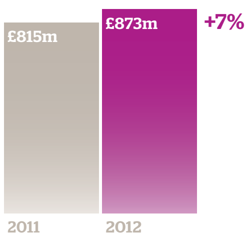
Insurance operations continued

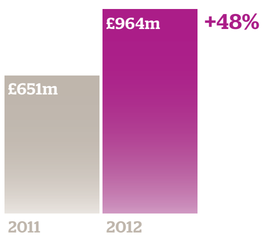
United States: build on strength

'Jackson's strategy remains focused on providing value to its customers and driving shareholder value while operating within a conservative risk management framework. This approach has enabled us to successfully navigate the significant macroeconomic and financial market challenges of the last five years and ensured a continuation of our strong performance in 2012.'

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







2013 financial objective

- Deliver £260 million of net cash remittance to the Group*

Financial performance

	AER			CER	
	2012 £m	2011 £m	Change %	2011 £m	Change %
APE sales	1,462	1,275	15	1,290	13
New business profit	873	815	7	825	6
Total IFRS operating profit[note]	964	651	48	659	46
Total EEV operating profit	1,610	1,431	13	1,448	11

Note
Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note A5 of the IFRS financial statements.

*The net remittance objective for Jackson was increased from £200 million to £260 million to reflect the positive impact of the acquisition of REALIC.

Market overview

The United States is the world's largest retirement savings market. Each year, many of the 78 million 'baby- boomers' 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[1].

This demographic transition constitutes a significant opportunity for those companies that are able to provide the 'baby-boomers' with long-term retirement solutions. Jackson takes a selective approach to this opportunity by leveraging its distinctive distribution capabilities and asset liability management expertise to offer prudently priced annuity products.

Despite the challenges faced by the global economy, US equity markets delivered strong gains in 2012. The S&P 500 index increased by 13.4 per cent over the course of the year and market volatility declined notably from the levels experienced in 2011. Interest rates remained historically low with the 10-year treasury rate ending below 180 basis points at year end, while corporate spreads tightened considerably from 2011 year end levels.

The competitive environment continues to favour 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 from this flight to quality and heightened risk aversion.

Business performance

Jackson's strategy remains focused on providing value to its customers and driving shareholder value while operating within a conservative risk management framework. This approach has enabled us to successfully navigate the significant macroeconomic and financial market challenges of the last five years and ensured a continuation of our strong performance in 2012.

In 2012, Jackson delivered APE retail sales of £1,424 million, an increase of 14 per cent over 2011. With the addition of a modest level of institutional sales, total APE sales increased by 15 per cent to £1,462 million. These strong sales levels helped to drive annuity net flows higher to £8.8 billion during 2012, a 19 per cent increase over 2011. Although we do not target volume or market share, our ranking climbed to second in variable annuity sales in the US through the third quarter of 2012 (latest information available), while market share increased to 14.0 per cent from 11.4 per cent for the full year 2011[2].

In March 2012, we launched a new variable annuity product, Elite Access, which has no guaranteed benefits and provides tax efficient access to alternative investments. The rollout of this new product has received a positive reaction from distributors, with close to 100 per cent of them signing up to distribute this product. Single premium sales in the period since launch were £849 million. We are optimistic about the future of Elite Access and will continue to drive product innovation as a way of both meeting the needs of our customers and driving shareholder value.

Notes

1 Source: US Census Bureau.

2 Sources: Morningstar Annuity Research Center (MARC) Third Quarter 2012 Sales Report© and Fourth Quarter 2011 Sales Report©. © Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

Insurance operations continued

United States: build on strength

Jackson continues to be one of the most efficient operators within the US life insurance market. The ratio of statutory general expenses to average assets improved slightly to 41 basis points in 2012 versus 42 basis points in 2011. This efficiency has been delivered while maintaining world class standards of customer service for our customers. In 2012, Jackson was rated as a 'World Class' service provider by the Service Quality Measurement Group for the seventh consecutive year.

On 4 September 2012, Jackson completed the acquisition of SRLC America Holding Corp (SRLC) from Swiss Re for a consideration of £370 million which is subject to finalisation of completion procedures. SRLC was the US holding company of REALIC. The acquisition helps diversify Jackson's sources of earnings by increasing the amount of income generated from underwriting activities. The transaction is expected to add an additional £100 million to Jackson's IFRS pre-tax profits in the first year, representing stand-alone earnings from REALIC of approximately £115 million, less £15 million of income foregone on the assets sold to finance the transaction. In the four month period since completion, REALIC contributed £67 million to Jackson's IFRS operating profit while having only a modest impact on statutory capital.

Financial performance

Jackson's IFRS pre-tax operating profit in 2012 was 48 per cent higher at £964 million (2011: £651 million)[1]. This result reflects the strong underlying growth in fee income, and lower deferred acquisition cost (DAC) amortisation. The result also includes four months of REALIC operating profit.

At 31 December 2012, Jackson held £49 billion in separate account assets, compared to £38 billion in 2011. The increase in separate account assets primarily reflects the impact of positive net flows. This resulted in variable annuity separate account fee income of £875 million in 2012, up 29 per cent over the £680 million achieved in 2011.

With corporate spreads tightening during 2012 and continued low levels of absolute interest rates, total spread income, including the expected return on shareholders' assets, was lower at £757 million, compared to £813 million in the previous year.

Product acquisition costs during 2012 increased slightly compared to 2011, despite the growth in sales as a greater proportion of distributors are opting for asset-based commission. Following the introduction of new DAC guidance in 2012, which was applied retrospectively, acquisition costs are no longer fully deferrable, resulting in IFRS new business strain of £174 million in 2012, compared to £156 million in 2011.

DAC amortisation of £356 million decreased in 2012, compared to £506 million in 2011. This decrease is primarily a result of the negative prior year impact of the reversal of the benefit received in 2008 from the mean reversion formula. Partially offsetting this decrease was higher amortisation due to the higher earnings base in 2012.

Administration expenses increased to £537 million in 2012 compared to £412 million in 2011, with the increase due primarily to higher asset-based commissions paid on the larger 2012 separate account balance, which is classified as an administration expense. This increase was also attributable to larger home office staff due to the growing in-force book, the acquisition of REALIC, and certain non-recurring expenditures.

Jackson continues to actively manage its investment portfolio to mitigate investment risk. Net realised gains on debt securities amounted to £47 million in 2012 compared to gains of £106 million in 2011. This includes a realised loss net of recoveries of £10 million (2011: gains of £10 million) on credit-related sales of impaired bonds. Write-downs on debt securities were £37 million (2011: £62 million). Interest related gains during the period totalled £94 million (2011: £158 million), primarily due to sales of corporate debt.

Note

1 Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note A5 of the IFRS financial statements.

The net unrealised gain position has improved from £2,057 million at 31 December 2011 to £2,807 million at 31 December 2012 due to the decline in the US Treasury rates and tighter spreads. Gross unrealised losses improved from £246 million at 31 December 2011 to £178 million at 31 December 2012.

Jackson delivered total APE sales of £1,462 million, a 15 per cent increase over 2011. Jackson has achieved these sales levels, while maintaining its pricing discipline, as it continued to write new business at aggregate internal rates of return in excess of 20 per cent.

Variable annuity APE sales of £1,245 million were 14 per cent higher than in 2011. Expressed in local currency most of the increase was accounted for by APE sales of Elite Access, which totalled US$135 million. Excluding the contribution of Elite Access variable annuity APE sales of US$1,837 million were 5 per cent higher than those achieved in 2011 of US$1,749 million. In the course of the year and particularly in the second half of 2012, Jackson implemented various product initiatives to continue to balance value, volume, capital and balance sheet strength.

Fixed annuity APE sales of £58 million were 23 per cent higher than the level of sales in 2011. Jackson ranked seventh in sales of traditional deferred fixed annuities through the third quarter of 2012, with a market share of 3.6 per cent, compared to thirteenth with a 2.1 per cent market share for the full year 2011[1].

Fixed index annuity APE sales of £109 million in 2012 increased 17 per cent from 2011. Jackson ranked eighth in sales of fixed index annuities through the third quarter of 2012, with a market share of 4.9 per cent, up from a market share of 4.6 per cent in the full year 2011[2].

Total EEV basis operating profit for the long-term business in 2012 was £1,610 million, compared to £1,431 million in 2011 reflecting increases in both new and in-force business profits. Jackson's new business profit increased by 7 per cent to £873 million, reflecting active management of sales volumes and mix, higher charges and lower levels of guarantees offered. These actions counteracted the adverse effect of lower long-term yields and tighter spreads. Higher in-force profit was driven largely by higher unwind of discount, due to growth in the underlying book, and larger positive contributions from operating experience variances and assumption changes.

In 2012, Jackson's life in-force book generated £755 million of underlying free surplus (2011: £748 million) reflecting an increase due to the growth in the business and higher operating variances offset by the impact of low interest rates. Some £281 million was reinvested to write new business (2011: £202 million). The increase in capital consumption was driven by the significant decrease in interest rates which in turn caused a large drop in the valuation rate used to set reserves, resulting in higher strain compared to 2011. Notwithstanding this effect, the fast payback nature of the products, which in 2012 averaged two years across the portfolio (2011: one year) means that returns remain extremely attractive.

Jackson's RBC level at the end of 2012 was 423 per cent which compares to 429 per cent at the end of 2011. In 2012, capital formation was strong reflecting both the good operating performance, the modest level of impairments and other market value related net gains. This strong capital formation enabled Jackson to remit £249 million to Group and complete the acquisition of REALIC, while supporting its balance sheet growth and growing total adjusted capital from year end 2011 levels.

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

Notes

1 Sources: LIMRA U.S. Individual Annuities Sales Survey. Third Quarter 2012 and Fourth Quarter 2011.

2 Sources: AnnuitySpecs.com's Indexed Sales & Market Report, Third Quarter 2012 and Fourth Quarter 2011: Copyright © 2012, AnnuitySpecs.com. All rights reserved.

United Kingdom: focus

London Eye conceived and designed by Marks Barfield Architects

In the UK, Prudential has adopted a focused strategy and competes selectively to help Britain's ageing population convert their accumulated wealth into retirement income. We have a clear focus on writing profitable new business while generating cash sustainably and preserving our capital. We concentrate on areas in which we have a clear competitive advantage, namely individual annuities and with-profits products, where we continue to be market leaders.

7m
customers

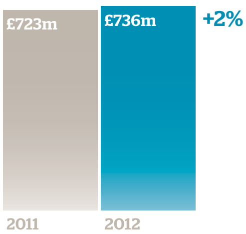
Insurance operations continued

United Kingdom: focus

'Our ability to deliver value to our customers and the resulting market franchise allowed us to achieve higher new business profitability in 2012, as well as increasing cash generation and preserving our strong capital position, despite the challenging economic environment and competitive conditions that prevailed in the UK marketplace.'

Rob Devey
Chief Executive
Prudential UK and Europe

Total IFRS operating profit



2013 financial objective

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

Financial performance

	AER			CER	
	2012 £m	2011 £m	Change %	2011 £m	Change %
APE sales	836	746	12	746	12
New business profit	313	260	20	260	20
Total IFRS operating profit	736	723	2	723	2
Total EEV operating profit	899	893	1	893	1

Market overview

The life and pensions market in the UK is mature and highly regulated. Significant regulatory change occurred in 2012 with the implementation of the conclusions of the Retail Distribution Review (RDR), auto-enrolment for company pension schemes and gender neutral pricing.

These new regulations represent major changes to the way business is conducted in a number of areas of the markets in which we operate in the UK, and impact not only insurance and investments providers, but also distributors and consumers. It is inevitable that regulatory change of this scale and scope creates a period of uncertainty before the shape of the new long-term competitive landscape becomes evident.

The UK market is also characterised by an ageing population and a concentration of wealth in the 50+ age group, many of whom have built up substantial pension funds in employer-sponsored schemes. These customers require help to convert their wealth into sustainable lifetime income. For the next generation of savers, the responsibility for retirement provision has shifted substantially away from government and employers towards the individual. These customers are typically under-funded for retirement and helping them accumulate saving constitutes a significant opportunity for long-term savings and retirement income providers, at a time when the ability of the state to intervene is significantly diminished.

Prudential UK's longevity experience, multi-asset investment capabilities, long-standing trusted brand and financial strength mean that we are favourably positioned to help consumers translate their accumulated wealth into dependable retirement income through our range of market leading with-profits and annuity products.

We do so by focusing on those areas of the market where we are able to bring superior value to our customers and where we enjoy a competitive advantage. The performance of our with-profits fund in 2012 has allowed us to declare bonuses which mean that our policyholders should see year-on-year increases of between 3.5 per cent and 6.5 per cent in accumulating with-profits policy values and our total bonus payments are expected to top £2.0 billion in 2013.

Our ability to deliver value to our customers and the resulting market franchise allowed us to achieve higher new business profitability in 2012, as well as increasing cash generation and preserving our strong capital position, despite the challenging economic environment and competitive conditions that prevailed in the UK marketplace.

Business performance

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

Total APE sales for 2012 were £836 million (2011: £746 million) of which sales of individual annuities of APE £241 million were 35 per cent higher than in 2011.

Annuity sales from internal vestings of £146 million were 20 per cent higher than 2011, due to a combination of several factors – a higher number of customers retiring, higher average fund values and increased client contact activity. Sales of external annuities of APE £95 million were 67 per cent higher in 2012 reflecting an increase in demand for our with-profits Income Choice Annuity which offers customers income security with the potential for income growth.

Insurance operations continued

United Kingdom: focus

Onshore bonds sales of APE £228 million were up 28 per cent on 2011, including with-profits bond sales of APE £214 million, which increased by 34 per cent. Our PruFund range made up 75 per cent of with-profits bond sales, with 35 per cent higher sales than in 2011. PruFund continues to be popular with consumers, providing smoothed returns and a range of optional guarantees, which offer a degree of security against potential market falls in a post-crisis environment where investors have become much more risk-averse. Although the demand for guarantees remains high, the increase in PruFund sales is based entirely on the non-guaranteed version of the product, which is attractive to those customers who are prepared to accept some risk to their capital but still want to benefit from the smoothing offered by a with-profit product.

The RDR, one of a number of current reforms to the UK regulatory framework, was implemented on 31 December 2012. It means that financial advisers can no longer be paid commissions for recommending investment products. This is likely to lead to some short-term disruption in the market as consumers adjust to paying fees for advice and adviser firms adapt their business models for the new rules. We have seen an increase in sales of with-profit bonds in 2012 and, while we have prepared our business for the post-RDR regulatory environment, we expect this transition phase to have a negative impact on our sales of investment bonds in 2013.

Corporate pensions sales of APE £189 million were 19 per cent lower than the previous year. Sales in 2011 were particularly high due to new defined contribution members joining our schemes following closure of a number of defined benefit schemes operated by existing clients. We continue to focus on securing new members and incremental business from our current portfolio of corporate pensions customers rather than acquiring new corporate pensions schemes where market pricing is currently unattractive. Prudential UK remains the largest provider of additional voluntary contribution plans within the public sector, where we now provide schemes for 68 of the 99 public sector authorities in the UK.

Sales of other products, principally individual pensions, PruProtect, PruHealth and offshore bonds of £137 million were 12 per cent higher than in 2011. Individual pensions APE sales (including income drawdown) of £80 million were 11 per cent higher, reflecting increased demand for our Flexible Retirement Plan among advisers and their clients.

In the wholesale market, we aim to continue our selective participation approach to bulk and back-book buyouts using our financial strength, superior investment track record, annuitant mortality risk assessment and servicing capabilities. In line with this opportunistic approach, two bulk annuity buy-in insurance agreements were signed in 2012 totalling APE £41 million (2011: single deal APE £33 million). We will continue to maintain our focus on value and only participate in transactions that meet our return on capital and payback requirements.

Our direct advice service, Prudential Financial Planning (PFP), was launched in December 2011 and grew to 129 advisers in 2012, generating APE sales of £21 million. PFP offers a complete financial planning service, focused primarily on our existing direct customer base. The response from our customers has been very encouraging and we intend to continue to grow this channel to 200 advisers by the end of 2013.

The combined financial strength and investment performance track record of Prudential's UK With-Profits Fund continues to provide a key source of non-price differentiation in a competitive market. Our with-profits customers benefit from the security of Prudential's large inherited estate, which was valued at £7 billion at the year end, and provides a high degree of protection against adverse market movements. The Fund continues to provide customers with solid returns and to outperform the FTSE All-Share Index over medium to long-term horizons. Over the last 15 years, the Fund has delivered a cumulative investment return of 184.3 per cent on investments covering policyholder liabilities. This compares favourably with other with-profits funds and the FTSE All-Share Index total return of 106.5 per cent over the same period, and, by offering customers a smoothed return, helps provide protection from the full impact of volatile market conditions. This performance shows that investing in a strong with-profits fund can produce good returns for cautious investors, in spite of the combined pressures of volatile market conditions and UK interest rates remaining at historically low levels.

Retention and management of our customer base of approximately seven million remains a key focus for the business. We aim to maintain loyalty by continuing to improve our service year-on-year for both customers and intermediaries. Prudential UK's focus on continuing to deliver excellent customer service was recognised at the 2012 Financial Adviser Service Awards, where we retained our two 5-Star ratings in the Life & Pensions and Investment categories.

Financial performance

Total APE sales of £836 million were 12 per cent higher than 2011, principally due to increased sales of individual annuities and with-profits bonds, partly offset by lower sales of corporate pensions. Retail APE sales of £795 million were up 12 per cent on the previous year (2011: £712 million). Although the lower level of interest rates in 2012 had a negative impact on retail new business profitability, this was more than offset by the positive mix effect from growth in higher margin products such as individual annuities and with-profits bonds.

New business profit increased by 20 per cent to £313 million (2011: £260 million), including bulk annuity transactions. Retail new business profit at £274 million was 19 per cent above 2011 (2011: £231 million), primarily driven by increased volumes in higher margin product areas.

IFRS life operating profit was higher than in 2011 at £736 million (2011: £723 million), with £272 million (2011: £293 million) from with-profits and the balance from shareholder-backed business. Commission received on Prudential-branded General Insurance products contributed £33 million to IFRS operating profit in 2012, £7 million lower than in 2011 as the book of business originally transferred to Churchill in 2002 is, as expected, decreasing in size.

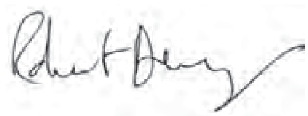
At half year 2010 we announced that the business had achieved its cost savings target of £195 million per annum. At the end of 2010, an additional series of initiatives to reduce costs by a further £75 million per annum by the end of 2013 was announced. By 31 December 2012 these additional annual cost savings of £75 million per annum had also been achieved, one year earlier than planned.

EEV total operating profit of £899 million was 1 per cent higher than in 2011, reflecting higher new business profits, partly offset by lower in-force profits which were impacted by the lower level of interest rates in the period. EEV profit also included a contribution of £87 million from a change in the long-term tax rate assumption (including future tax rate changes which take effect in April 2013) from 25 per cent to 23 per cent, compared with £79 million from the 2 per cent tax rate reduction in 2011.

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. For shareholder-backed business written in 2012, the weighted average post-tax internal rate of return (IRR) on the shareholder capital allocated to new business was in excess of 20 per cent and the undiscounted payback period on that new business was three years.

Operating free surplus generated from the long-term in-force business in the UK amounted to £507 million (2011: £503 million). Of this total, £45 million (2011: £54 million) was reinvested in writing shareholder-backed business at attractive average IRRs.

During 2012 Prudential UK remitted cash of £313 million to the Group (2011: £297 million), comprising £216 million (2011: £223 million) from the annual with-profits transfer to shareholders and £97 million (2011: £74 million) from the shareholder-backed business. The business expects 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.



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