IFRS disclosure

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International Financial Reporting Standards (IFRS) basis results

PRUDENTIAL PLC 2008 PRELIMINARY ANNOUNCEMENT

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED INCOME STATEMENT

	2008 £m	2007* £m
Gross premiums earned	**18,993**	18,359
Outward reinsurance premiums	**(204)**	(171)
Earned premiums, net of reinsurance	**18,789**	18,188
Investment return	**(30,202)**	12,225
Other income	**1,146**	2,457
Total revenue, net of reinsurance (note C)	**(10,267)**	32,870
Benefits and claims	**4,620**	(26,224)
Outward reinsurers' share of benefits and claims	**389**	(20)
Movement in unallocated surplus of with-profits funds	**5,815**	(541)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**10,824**	(26,785)
Acquisition costs and other operating expenditure	**(2,459)**	(4,859)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(172)**	(168)
Total charges, net of reinsurance (note C)	**8,193**	(31,812)
(Loss) profit before tax *(being tax attributable to shareholders' and policyholders' returns)*** (note C)	**(2,074)**	1,058
Tax credit attributable to policyholders' returns	**1,624**	5
(Loss) profit before tax attributable to shareholders (note D)	**(450)**	1,063
Tax credit (charge) (note G)	**1,683**	(349)
Less: tax credit attributable to policyholders' returns	**(1,624)**	(5)
Tax credit (charge) attributable to shareholders' (loss) profit (note G)	**59**	(354)
(Loss) profit from continuing operations after tax (note C)	**(391)**	709
Discontinued operations (net of tax) (note H)	**-**	241
(Loss) profit for the year	**(391)**	950
Attributable to:		
Equity holders of the Company	**(396)**	947
Minority interests	**5**	3
(Loss) profit for the year	**(391)**	950

Earnings per share (in pence)	**2008**	2007
Basic (based on 2,472m and 2,445m shares respectively):		
Based on (loss) profit from continuing operations attributable to the equity holders of the Company (note I)	**(16.0)p**	28.8p
Based on profit from discontinued operations attributable to the equity holders of the Company	**-**	9.9p
	(16.0)p	38.7p
Diluted (based on 2,473m and 2,448m shares respectively):		
Based on (loss) profit from continuing operations attributable to the equity holders of the Company	**(16.0)p**	28.8p
Based on profit from discontinued operations attributable to the equity holders of the Company	**-**	9.8p
	(16.0)p	38.6p

Dividends per share (in pence)	**2008**	2007
Dividends relating to reporting period:		
Interim dividend (2008 and 2007)	**5.99p**	5.70p
Final dividend (2008 and 2007) (note J)	**12.91p**	12.30p
Total	**18.90p**	18.00p
Dividends declared and paid in reporting period:		
Current year interim dividend	**5.99p**	5.70p
Final dividend for prior year	**12.30p**	11.72p
Total	**18.29p**	17.42p

* The Company has adopted the principles of IFRIC 14 in accounting for pension schemes. The adoption gives rise to consequential changes to the comparative results for 2007 (see note B and note Q).
** This measure is the formal (loss) profit before tax measure under IFRS but it is not the result attributable to shareholders.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2008							
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	**Shareholders' equity**	**Minority interests**	**Total equity**
	£m	£m	£m	£m	£m	**£m**	**£m**	**£m**
Reserves								
Loss for the year			(396)			**(396)**	**5**	**(391)**
Items recognised directly in equity:								
Exchange movements				631		**631**		**631**
Unrealised valuation movements on securities of US insurance operations classified as available-for-sale:								
Unrealised holding losses arising during the year					(3,197)	**(3,197)**		**(3,197)**
Less net losses included in the income statement on disposal and impairment					487	**487**		**487**
Total (note N)					(2,710)	**(2,710)**		**(2,710)**
Related change in amortisation of deferred income and acquisition costs (note E(ii)(b))					1,070	**1,070**		**1,070**
Related tax				119	569	**688**		**688**
Total items of income and expense recognised directly in equity				750	(1,071)	**(321)**		**(321)**
Total income and expense for the year			(396)	750	(1,071)	**(717)**	**5**	**(712)**
Dividends			(453)			**(453)**	**(2)**	**(455)**
Reserve movements in respect of share-based payments			18			**18**		**18**
Change in minority interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds							**(50)**	**(50)**
Share capital and share premium								
New share capital subscribed	2	168				**170**		**170**
Transfer to retained earnings in respect of shares issued in lieu of cash dividends		(156)	156					
Treasury shares								
Movement in own shares in respect of share-based payment plans			3			**3**		**3**
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS			(25)			**(25)**		**(25)**
Net increase (decrease) in equity	2	12	(697)	750	(1,071)	**(1,004)**	**(47)**	**(1,051)**
At beginning of year:								
As previously reported	123	1,828	4,440	(112)	(78)	**6,201**	**102**	**6,303**
Effect of adoption of principles of IFRIC 14 for accounting for pension schemes (note Q)			(139)			**(139)**		**(139)**
After adoption of IFRIC 14	123	1,828	4,301	(112)	(78)	**6,062**	**102**	**6,164**
At end of year	125	1,840	3,604	638	(1,149)	**5,058**	**55**	**5,113**

	2007								
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Hedging reserve	Shareholders' equity	Minority interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Reserves									
Profit for the year			947				947	3	950
Items recognised directly in equity:									
Exchange movements				11			11		11
Movement on cash flow hedges						(3)	(3)		(3)
Unrealised valuation movements on securities classified as available-for-sale of discontinued banking operations					(2)		(2)		(2)
Unrealised valuation movements on securities of US insurance operations classified as available-for-sale:									
Unrealised holding losses arising during the year					(231)		(231)		(231)
Less net gains included in the income statement on disposal and impairment					(13)		(13)		(13)
Total					(244)		(244)		(244)
Related change in amortisation of deferred income and acquisition costs (note E(ii)(b))					88		88		88
Related tax				2	53	1	56		56
Total items of income and expense recognised directly in equity				13	(105)	(2)	(94)		(94)
Total income and expense for the year			947	13	(105)	(2)	853	3	856
Dividends			(426)				(426)	(5)	(431)
Reserve movements in respect of share-based payments			18				18		18
Change in minority interests arising principally from purchase and sale of venture investment companies and property partnerships of the PAC with-profits fund and other consolidated investment funds								(28)	(28)
Share capital and share premium									
New share capital subscribed	1	181					182		182
Transfer to retained earnings in respect of shares issued in lieu of cash dividends		(175)	175						
Treasury shares									
Movement in own shares in respect of share-based payment plans			7				7		7
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS			4				4		4
Net increase (decrease) in equity	1	6	725	13	(105)	(2)	638	(30)	608
At beginning of year:									
As previously reported	122	1,822	3,640	(125)	27	2	5,488	132	5,620
Effect of adoption of principles of IFRIC 14 for accounting for pension schemes (note Q)			(64)				(64)		(64)
After adoption of IFRIC 14	122	1,822	3,576	(125)	27	2	5,424	132	5,556
At end of year	123	1,828	4,301	(112)	(78)	0	6,062	102	6,164

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED BALANCE SHEET

	2008 £m	2007* £m
Assets		
Intangible assets attributable to shareholders:		
Goodwill	**1,341**	1,341
Deferred acquisition costs and other intangible assets (note S)	**5,349**	2,836
	6,690	4,177
Intangible assets attributable to with-profits funds:		
In respect of acquired subsidiaries for venture fund and other investment purposes	**174**	192
Deferred acquisition costs and other intangible assets	**126**	19
	300	211
Total	**6,990**	4,388
Other non-investment and non-cash assets:		
Property, plant and equipment	**635**	1,012
Reinsurers' share of insurance contract liabilities	**1,240**	783
Deferred tax assets	**2,886**	951
Current tax recoverable	**657**	285
Accrued investment income	**2,513**	2,023
Other debtors	**1,232**	909
Total	**9,163**	5,963
Investments of long-term business and other operations:		
Investment properties	**11,992**	13,688
Investments accounted for using the equity method	**10**	12
Financial investments:		
Loans (note L)	**10,491**	7,924
Equity securities and portfolio holdings in unit trusts	**62,122**	86,157
Debt securities (note M)	**95,224**	83,984
Other investments	**6,301**	4,396
Deposits	**7,294**	7,889
Total	**193,434**	204,050
Held for sale assets	**-**	30
Cash and cash equivalents	**5,955**	4,951
Total assets (note K)	**215,542**	219,382

	2008 £m	2007* £m
Equity and liabilities		
Equity		
Shareholders' equity	**5,058**	6,062
Minority interests	**55**	102
Total equity	**5,113**	6,164
Liabilities		
Policyholder liabilities and unallocated surplus of with-profits funds:		
Insurance contract liabilities	**136,030**	132,776
Investment contract liabilities with discretionary participation features	**23,446**	29,550
Investment contract liabilities without discretionary participation features	**14,501**	14,032
Unallocated surplus of with-profits funds	**8,414**	13,959
Total	**182,391**	190,317
Core structural borrowings of shareholder-financed operations (note O):		
Subordinated debt	**1,987**	1,570
Other	**971**	922
Total	**2,958**	2,492
Other borrowings:		
Operational borrowings attributable to shareholder-financed operations (note P)	**1,977**	3,081
Borrowings attributable to with-profits funds (note P)	**1,308**	987
Other non-insurance liabilities:		
Obligations under funding, securities lending and sale and repurchase agreements	**5,572**	4,081
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**3,843**	3,556
Current tax liabilities	**842**	1,237
Deferred tax liabilities	**3,229**	3,402
Accruals and deferred income	**630**	599
Other creditors	**1,496**	1,020
Provisions	**461**	575
Derivative liabilities	**4,832**	1,080
Other liabilities	**890**	791
Total	**21,795**	16,341
Total liabilities	**210,429**	213,218
Total equity and liabilities (note K)	**215,542**	219,382

* The Company has adopted the principles of IFRIC 14 in accounting for pension schemes giving rise to consequential changes to the comparative results for 2007 (see notes B and Q).

CONSOLIDATED CASH FLOW STATEMENT

	2008 £m	2007* £m
Cash flows from operating activities		
(Loss) profit before tax from continuing operations *(being tax attributable to shareholders' and policyholders' returns)* (note (i) and C)	**(2,074)**	1,058
Profit before tax from discontinued operations (note H)	**-**	222
Total (Loss) profit before tax	**(2,074)**	1,280
Changes in operating assets and liabilities:		
Investments	**33,255**	(11,730)
Other non-investment and non-cash assets	**(1,659)**	(466)
Policyholder liabilities (including unallocated surplus)	**(26,987)**	11,845
Other liabilities (including operational borrowings)	**(631)**	902
Interest income and expense and dividend income included in profit before tax	**(4,989)**	(8,201)
Other non-cash items	**(74)**	(141)
Operating cash items:		
Interest receipts	**2,937**	5,541
Dividend receipts	**2,019**	2,732
Tax paid	**(653)**	(624)
Net cash flows from operating activities	**1,144**	1,138
Cash flows from investing activities		
Purchases of property, plant and equipment	**(240)**	(231)
Proceeds from disposal of property, plant and equipment	**11**	61
Acquisition of subsidiaries, net of cash balances (note (ii))	**-**	(77)
Disposal of Egg, net of cash balances (note (iii))	**-**	(538)
Disposal of other subsidiaries, net of cash balances (note (ii))	**-**	157
Deconsolidation of investment subsidiaries (note (iv))	**-**	(91)
Net cash flows from investing activities	**(229)**	(719)
Cash flows from financing activities		
Structural borrowings of the Group:		
Shareholder-financed operations (notes (v) and O):		
Redemption	**-**	(150)
Interest paid	**(167)**	(171)
With-profits operations (notes (vi) and P):		
Interest paid	**(9)**	(9)
Equity capital (note (vii)):		
Issues of ordinary share capital	**12**	6
Dividends paid	**(297)**	(255)
Net cash flows from financing activities	**(461)**	(579)
Net increase (decrease) in cash and cash equivalents	**454**	(160)
Cash and cash equivalents at beginning of year	**4,951**	5,071
Effect of exchange rate changes on cash and cash equivalents	**550**	40
Cash and cash equivalents at end of year (note (viii))	**5,955**	4,951

* The Company has adopted the principles of IFRIC 14 for pension schemes, giving rise to consequential changes to the 2007 comparative results. Note Q explains the effect of the change.

Notes

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

(ii) Acquisitions and disposals of subsidiaries for 2007 shown above include venture investments and other investment subsidiaries of the PAC with-profits fund.

(iii) The amount of £(538) million in respect of the disposal of Egg in 2007, net of cash balances shown above, represents the net sale proceeds of £527 million less cash and cash equivalents of £1,065 million held by Egg and transferred on disposal.

(iv) In November 2007, the Company sold its venture fund management subsidiary, PPM Capital. As a result of the arrangements attaching to the sale, it is no longer appropriate to consolidate the holdings managed by that company.

(v) Structural borrowings of shareholder-financed operations comprise core debt of the holding company and Jackson surplus notes. Core debt excludes borrowings to support short-term fixed income securities programmes and non-recourse borrowings of investment subsidiaries of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.

(vi) Structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.

(vii) Cash movements in respect of equity capital exclude scrip dividends.

(viii) Of the cash and cash equivalents amounts reported above, £165 million (2007: £394 million) are held centrally.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

NOTES ON THE STATUTORY IFRS BASIS RESULTS

A Basis of preparation and audit status

The statutory basis results included in this announcement have been extracted from the audited financial statements of the Group for the year ended 31 December 2008. These statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) as required by EU law (IAS Regulation EC1606/2002).

The auditors have reported on the 2008 statutory accounts. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2008 or 2007 but is derived from those accounts. Statutory accounts for 2007 have been delivered to the registrar of companies, and those for 2008 will be delivered in due course. The auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

B Significant accounting policies

The accounting policies applied by the Group in determining the IFRS basis results in this announcement are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2007, except for the effect of the adoption of the principles of IFRIC 14 "The limit on Defined Benefit Asset Minimum Funding Requirements and their Interaction" (see note Q).

In addition, the Group adopted the 'Reclassification of Financial Assets: Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures'. This amendment was issued in October 2008 and permits the reclassification of non-derivative financial assets into the 'loans and receivables' category under which assets are carried at amortised cost, if specific conditions are met. The Group has not made any such reclassification of financial assets as permitted by the amendments.

C Segment disclosure

	2008 £m	2007 £m
Revenue		
Insurance operations	**(10,798)**	31,555
Asset management	**664**	1,397
Unallocated corporate	**157**	186
Intra-group revenue eliminated on consolidation	**(290)**	(268)
Total revenue, net of reinsurance, per income statement (note (i))	**(10,267)**	32,870
Analysed as:		
Investment return (note (iii))	**(30,202)**	12,225
Other items	**19,935**	20,645
	(10,267)	32,870
Charges (before income tax attributable to policyholders and unallocated surplus of long-term insurance funds)		
Insurance operations, including post-tax transfers to unallocated surplus of with-profits funds	**8,980**	(30,533)
Asset management	**(524)**	(1,053)
Unallocated corporate	**(553)**	(494)
Intra-group charges eliminated on consolidation	**290**	268
Total charges, net of reinsurance, per income statement (note (i))	**8,193**	(31,812)
Segment results - revenue less charges (continuing operations)		
Insurance operations	**(1,818)**	1,022
Asset management	**140**	344
Unallocated corporate	**(396)**	(308)
(Loss) profit before tax (note (ii)) *(being tax attributable to shareholders' and policyholders' returns)*	**(2,074)**	1,058
Tax attributable to policyholders' returns	**1,624**	5
(Loss) profit before tax attributable to shareholders	**(450)**	1,063
Tax credit (charge) attributable to shareholders' (loss) profit	**59**	(354)
(Loss) profit from continuing operations after tax	**(391)**	709
Segment results - discontinued operations (net of tax)		
Banking (note H)	**-**	241
(Loss) profit for the year	**(391)**	950

(i) Total revenue for 2008 is negative £10,267 million whilst charges are a credit of £8,193 million. These abnormal features arise from the basis of preparation whereby revenue includes investment return, which is negative in 2008, and charges reflect the allocation, where appropriate, of investment return to policyholder benefits.

(ii) This measure is the formal (loss) profit before tax measure under IFRS but is not the results attributable to shareholders.

(iii) Investment return principally comprises:
- Interest and dividends;
- Realised and unrealised gains and losses on securities and derivatives classified as fair value through profit and loss under IAS 39; and
- Realised gains and losses, including impairment losses, on securities classified as available-for-sale under IAS 39.

D Supplementary analysis of (loss) profit from continuing operations before tax attributable to shareholders

Results analysis by business area	**2008 £m**	2007 £m
Asian operations		
Insurance operations (note E(i))	**321**	189
Asset management	**52**	72
Development expenses	**(26)**	(15)
Total	**347**	246
US operations		
Jackson (note E(ii))	**406**	444
Broker-dealer and asset management	**10**	13
Curian	**(3)**	(5)
Total	**413**	452
UK operations		
UK insurance operations:		
Long-term business (note E(iii))	**545**	524
General insurance commission (note (i))	**44**	4
Total	**589**	528
M&G	**286**	254
Total	**875**	782
Other income and expenditure		
Investment return and other income	**89**	86
Interest payable on core structural borrowings	**(172)**	(168)
Corporate expenditure:		
Group Head Office	**(130)**	(129)
Asia Regional Head Office	**(41)**	(38)
Charge for share-based payments for Prudential schemes (note (ii))	**(6)**	(11)
Total	**(260)**	(260)
Restructuring costs	**(28)**	(19)
Operating profit from continuing operations based on longer-term investment returns (note (iii))	**1,347**	1,201
Short-term fluctuations in investment returns on shareholder-backed business (note F)	**(1,783)**	(137)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(14)**	(1)
(Loss) profit from continuing operations before tax attributable to shareholders (note (iv))	**(450)**	1,063

Notes

(i) UK operations transferred its general insurance business to Churchill in 2002, with general insurance commission representing the net commission receivable for Prudential-branded general insurance products as part of this arrangement.

(ii) The charge for share-based payments for Prudential schemes is for the SAYE and Group performance-related schemes.

(iii) Basis of determining longer-term investment returns
The Group continues to use operating profit based on longer-term investment returns as a supplemental measure of its results. For the purposes of measuring operating profit, investment returns on shareholder-financed business are based on the expected longer-term rates of return. This reflects the particular features of long-term insurance business where assets and liabilities are held for the long-term and for which the accounting basis for insurance liabilities under current IFRS is not generally conducive to demonstrating trends in underlying performance for life businesses exclusive of changes in market conditions. In determining profit on this basis, the following key elements are applied to the results of the Group's shareholder-financed operations.

(a) Debt and equity securities
Longer-term investment returns comprise income and longer-term capital returns. For debt securities the longer-term capital returns comprise two elements. These are a risk margin reserve based charge for expected defaults, which is determined by reference to the credit quality of the portfolio, and amortisation of interest-related realised gains and losses to operating results based on longer-term investment returns to the date when sold bonds would have otherwise matured.

(b) Derivative value movements
Value movements for Jackson's equity-based derivatives and variable annuity product embedded derivatives are included in operating profits based on longer-term investment returns. The inclusion of these movements is so as to broadly match with the results on the Jackson variable annuity book that pertain to equity market movements.

Other derivative value movements are excluded from operating results based on longer-term investment returns. These derivatives are primarily held by Jackson as part of a broadly-based hedging programme for features of Jackson's bond portfolio (for which value movements are booked directly to shareholders' equity rather than income statement) and product liabilities (for which US GAAP accounting does not reflect the economic features being hedged).

These key elements are of most importance in determining the operating results based on longer-term investment returns of Jackson.

There are two exceptions to the basis described above for determining operating results based on longer-term investment returns. These are for:

— Unit-linked and US variable annuity business.

For such business the policyholder liabilities are directly reflective of the asset value movements. Accordingly all asset value movements are recorded in the operating results based on longer-term investment returns.

— Assets covering non-participating business liabilities that are interest rate sensitive.

For UK annuity business policyholder liabilities are determined by reference to current interest rates. The value movements of the assets covering liabilities are closely correlated with the related change in liabilities. Accordingly asset value movements are recorded within the operating results based on longer-term investment returns. Policyholder liabilities include a margin for asset defaults which, if they occur, are recorded as a component of short-term fluctuations in investment returns.

(c) Liabilities to policyholders and embedded derivatives for product guarantees
Under IFRS, the degree to which the carrying values of liabilities to policyholders are sensitive to current market conditions varies between territories depending upon the nature of the 'grandfathered' measurement basis. In general, in those instances where the liabilities are particularly sensitive to routine changes in market conditions, the accounting basis is such that the impact of market movements on the assets and liabilities are broadly equivalent in the income statement, and operating profit based on longer-term investments returns is not distorted. In these circumstances there is no need for the movement in the liability to be bifurcated between the element that relates to longer-term market conditions and short-term effects.

However, some types of business movements in liabilities do require bifurcation to ensure that at the net level (i.e. after allocated investment return and change for policyholder benefits) the operating result reflects longer-term market returns.

Examples where such bifurcation is necessary are:

(i) Asia

- *Vietnamese participating business*
  For the participating business in Vietnam the liabilities include policyholders' interest in investment appreciation and other surplus. Bonuses paid in a reporting period and accrued policyholder interest in investment appreciation and other surpluses primarily reflect the level of realised investment gains above contract specific hurdle levels. For this business operating profit based on longer-term investment returns includes the aggregate of longer-term returns on the relevant investments, a credit or charge equal to movements on the liability for the policyholders' interest in realised investment gains (net of any recovery of prior deficits on the participating pool), less amortisation over five years of current and prior movements on such credits or charges.

  The overall purpose of these adjustments is to ensure that investment returns included in operating results equal longer-term returns but that in any one reporting period movements on liabilities to policyholders caused by investment returns are substantially matched in the presentation of the supplementary analysis of profit before tax attributable to policyholders.

- *Non-participating business*
  Bifurcation for the effect of determining the movement in the carrying value of liabilities to be included in operating results based on longer-term investment returns, and the residual element for the effect of using year end rates in the balance sheet.

- *Guaranteed Minimum Death Benefit (GMDB) product features*
  For unhedged GMDB liabilities accounted for under IFRS using 'grandfathered' US GAAP, such as in the Japanese business, the change in carrying value is determined under SOP 03-01, which partially reflects changes in market conditions. Under the Company's supplementary basis of reporting the operating profit reflects the change in liability based on longer-term market conditions with the difference between the charge to the operating result and the movement reflected in the total result included in short-term fluctuations in investment returns.

(ii) US operations – Embedded derivatives for variable annuity guarantee features
Under IFRS, the Guaranteed Minimum Withdrawal Benefit (GMWB) and Guaranteed Minimum Income Benefit (GMIB) reinsurance are required to be fair valued as embedded derivatives. The movements in carrying values are affected by changes in the level of observed implied equity volatility and changes to the discount rate applied from period to period. For these embedded derivatives, as described in note E(ii)(a), the discount rate applied reflects AA corporate bond curve rates. For the purposes of determining

operating profit based on longer-term investment returns the charge for these features is determined using historical longer-term equity volatility levels and long-term average AA corporate bond rate curves. Further details are shown in note F.

(iii) UK shareholder-backed annuity business

With one exception, the operating result based on longer-term investment returns reflects the impact of all value movements on policyholder liabilities for annuity business in PRIL and the PAC non-profit sub-fund.

The exception is for the impact on credit risk provisioning of actual downgrades during the year. As this feature arises due to short-term market conditions the effect on the altered valuation rate of interest is included in the category of short-term fluctuations in investment returns as shown in note F.

The effects of other changes to credit risk provisioning including the introduction of the short-term allowance for credit risk described in note E(iii) are included in the operating result, as in the net effect of changes to the valuation rate of interest applied to portfolio rebalancing to align more closely with management benchmark.

(d) Fund management and other non-insurance businesses

For these businesses, where the business model is more conventional than that for life assurance, it is inappropriate to include returns in the operating result on the basis described above. Instead it is appropriate to generally include realised gains and losses (including impairments) in the operating result with unrealised gains and losses being included in short-term fluctuations. In some instances it may also be appropriate to amortise realised gains and losses on derivatives and other financial instruments to operating results over a time period that reflects the underlying substance of the arrangements.

(iv) The results for continuing operations shown above exclude those in respect of discontinued banking operations which were sold on 1 May 2007. Note H shows the composition of the contribution from discontinued operations.

E Key assumptions, estimates and bases used to measure insurance assets and liabilities

(i) Asian operations

(a) Changes in key assumptions

Effect of 2008 changes

For 2008, the result for Asian operations was reduced by the effect of a number of individually small assumption changes of, in aggregate, £21 million. There were no changes of assumptions that had a material impact on the 2007 results.

Taiwan interest rate assumption

For the Taiwanese life operation the profits attaching to legacy interest rate guaranteed products are particularly affected by the rates of return earned, and estimated to be earned on the assets held to cover liabilities and on future investment income and contract cash flows. Under IFRS, the insurance contract liabilities of the Taiwan business are determined on the US GAAP basis previously applied under UK GAAP. Under this basis, the policy liabilities are calculated on sets of assumptions, which are locked in at the point of policy inceptions, and a deferred acquisition cost is held in the balance sheet.

The adequacy of the insurance contract liabilities is tested by reference to best estimates of expected investment returns on policy cash flows and reinvestment income. The assumed earned rates are used to discount the future cash flows. For 2008 the projection assumes that the current bond yields at 31 December 2008 of 1.4 per cent trend towards 5.5 per cent at 31 December 2018. This compares to the 2007 results for which the projections assumed the then current bond yields of around 2.5 per cent would trend towards 5.5 per cent at 31 December 2013. Under the liability adequacy testing applied for IFRS the change of progression period has no effect on the carrying value of the deferred acquisition costs or liability to policyholders.

The liability adequacy test is more sensitive to changes in the expected long-term rate, further delays in the assumed progression period, or a combination thereof. However, as explained in note R, on 20 February 2009 the Company announced the intended transfer of the legacy agency book and agency force in Taiwan to China Life Insurance of Taiwan.

(b) Deferral and amortisation of acquisition costs

Under IFRS, the basis of accounting for insurance assets and liabilities reflects 'grandfathered' GAAP under the Modified Statutory Basis. In general, this requires the deferral and amortisation of acquisition costs in line with the emergence of margins. In 2008, the basis of deferral and amortisation has been adjusted for a number of territories to better reflect the MSB requirement as follows:

For the India life operation, reflecting the initial development stage of the business, acquisition costs had previously not been deferred. In 2008, £19 million deferral of acquisition costs, net of amortisation in the year, has been established.

For the Korea life business, the deferral of acquisition costs had previously followed the local regulatory basis as being an appropriate proxy for the MSB basis. The regulatory basis is subject to constraints in respect of assumptions for expense loadings, the amortisation period, and the DAC balance not being higher than the cash surrender value. This basis is no longer appropriate and on adjusting the basis £9 million of DAC has been established that reflects a revised estimate of the 1 January 2008 balance and a change of £26 million for current year acquisition costs (net of amortisation) for applying the more appropriate basis.

For Singapore, refinements have been made with a £21 million benefit (of which £7 million relates to the 1 January 2008 position) where the local risk based capital approach does not provide an appropriate basis of implicit allowance for acquisition costs for certain products.

In Hong Kong, adjustments have been made with a net overall effect of £10 million.

(ii) US operations

<u>(a) Measurement basis for embedded derivatives of variable annuity business</u>

There were no changes of assumptions that had a material effect on the Jackson results. However, there has been a significant change of estimation technique for two aspects of the basis of measuring 'embedded derivatives' for Guaranteed Minimum Withdrawal Benefit (GMWB) features of Jackson's variable annuity products and the reinsurance of the Guaranteed Minimum Income Benefit (GMIB). The two aspects are for the application of:

(i) Implied current equity volatility levels rather than historic long-term average levels, which had been applied previously, and

(ii) The reference basis for determining the rate of discount future cash flows in the projection of the effect of the guarantees. The change is to apply AA corporate bond rates based off appropriate Merrill Lynch indices, rather than LIBOR based swap rates that, in 2008, had become both anomalously low and distorted by comparison to US Treasury bond curve rates. In broad terms, corporate AA rates were approximately 400 basis points higher than the LIBOR based swap rates at the end of 2008. Similarly, at the beginning of 2008 corporate AA rates were approximately 100 basis points higher than the LIBOR based swap rate.

The effect of the change in respect of equity volatility is to increase the total loss for 2008 for Jackson by £126 million. The effect of the change for the reference basis for discounting is to reduce the total loss by £173 million.

<u>(b) Deferred acquisition costs</u>

- Income statement – amortisation for variable annuity business

Under IFRS 4, the Group applies US GAAP to the insurance assets and liabilities of Jackson. Under the US GAAP standard FAS 97, acquisition costs for Jackson's fixed and variable annuity business are deferred and then amortised in line with the expected emergence of margins. The amortisation profile is dependant on assumptions of which, for variable annuity business, the key assumption is the expected level of equity market returns. For 2008 and recent previous years a rate of 8.4 per cent has been applied using, as is industry practice, a mean reversion methodology.

The mean reversion methodology is applied with the objective of adjusting the amortisation of deferred acquisition costs that would otherwise be highly volatile for the fact that the expected level of future gross profits fluctuates for altered variable annuity asset values arising from changes in equity market levels at the end of each reporting period.

The mean reversion methodology achieves this objective by dynamic adjustment to the level of expectations of short-term future investment returns. Under the methodology the projected returns for the next five years are, for the purposes of determining the amortisation profile, set so that normally combined with the actual returns for the current and preceding two years the average rate of return is 8.4 per cent. The mean reversion methodology does, however, include a cap of 15 per cent per annum on the project return for each of the next five years. For 2008 this capping effect applied to restrict the projected returns below the rate of approximately 20 per cent per annum level that would have otherwise applied. Projected returns after the next five years are set at 8.4 per cent.

In 2008, US equity market indices fell by some 38.5 per cent. If there had been no mean reversion methodology in place there would have been an increased amortisation charge of approximately £250 million.

However, as noted above, the mean reversion methodology allows for a substantial, but not complete, recovery of the lost fund value. As a result, DAC amortisation, reflected in the 2008 results after incorporating the mean reversion, has instead increased by some £140 million, of which £40 million arises due to the capping feature.

- Statement of changes in equity – 'shadow DAC adjustments'

Consequent upon the negative unrealised valuation movement in 2008 of £(2,710) million (2007: £(244) million) there is a credit of £1,070 million (2007: £88 million) for altered 'shadow' DAC amortisation booked within the statement of changes in equity. These adjustments reflect the changes in the pattern of reported gross profits that would have happened if the assets had been sold crystallising the loss, and the proceeds reinvested at correspondingly higher curve yields.

In the event of further unrealised losses, this dynamic would be constrained under two circumstances. Firstly, the DAC asset would not be written up any further beyond the original deferred amount plus a provision for interest accrual on the asset. Secondly, and more generally, the write up of DAC would be constrained if not supported by expectations of future profitability.

(iii) UK insurance operations – annuity business

(a) Allowance for credit risk

For IFRS reporting, the results for UK shareholder-backed annuity business are particularly sensitive to the allowances made for credit risk. The allowance is reflected in the deduction from the valuation rate of interest for discounting projected future annuity payments to policyholders that would have otherwise applied. The valuation rate that is applied includes a liquidity premium that reflects the residual element of current bond spreads over swap rates after providing for the credit risk allowance.

The weighted components of the bond spread over swap rates for shareholder-backed fixed and linked annuity business for PRIL based on the asset mix at that date on the IFRS basis at 31 December 2008 are as follows:

2008	**Pillar I regulatory basis (bps)**	**Adjustment from regulatory to IFRS basis (bps)**	**IFRS (bps)**
Bond spread over swap rates (note (i))	**323**	**-**	**323**
Credit risk allowance			
Long-term expected defaults (note (ii))	**15**	**-**	**15**
Long-term credit risk premium (note (iii))	**11**	**-**	**11**
Short-term allowance for credit risk (note (iv))	**54**	**(25)**	**29**
Total credit risk allowance	**80**	**(25)**	**55**
Liquidity premium	**243**	**25**	**268**

By comparison, for 2007, the weighted components of the bond spread over swap rates for shareholder-backed fixed and linked annuity business for PRIL on the IFRS basis at 31 December 2007 based on the asset mix of the portfolio at that date were as follows:

2007	Pillar I regulatory basis (bps)	Adjustment from regulatory to IFRS basis (bps)	IFRS (bps)
Bond spread over swap rates (note (i))	76	-	76
Credit risk allowance			
Long-term expected defaults (note (ii))	13	-	13
Long-term credit risk premium (note (iii))	10	(3)	7
Short-term allowance for credit risk (note (iv))	10	(10)	-
Total credit risk allowance	33	(13)	20
Liquidity premium	43	13	56

Notes

(i) Bond spread over swap rates reflect market observed data to credit spreads.

(ii) Long-term expected defaults; this is derived by applying Moody's data from 1970 to 2004 uplifted by between 100 per cent (B) and 200 per cent (AAA) according to credit rating on the annuity asset portfolio. The credit rating assigned to each asset held is based on external credit rating and for this purpose the credit rating assigned to each asset held is the lowest credit rating published by Moody's, Standard and Poors and Fitch.

(iii) Long-term credit risk premium; this provides compensation against the risk of potential volatility in the level of defaults and is derived by applying the 95th percentile from Moody's data from 1970 to 2004 to the annuity asset portfolio.

(iv) During the second half of 2007, corporate bond spreads widened significantly and the methodology was reviewed to ensure that it still made appropriate allowance for credit risk. As a result of this review a short-term allowance for credit risk was established to allow for the concern that credit ratings applied by rating agencies to individual bonds might be over optimistic.

The short-term allowance for credit risk assumed in the Pillar I solvency valuation has been determined as 25 per cent of the increase in corporate bond spreads (as estimated from the movements in published corporate bond indices) since 31 December 2006.

The approach for IFRS, however, aims to establish liabilities that are closer to 'best estimate'. The very prudent Pillar I regulatory basis reflects the overriding objective of ensuring sufficient provisions and capital to ensure payments to policyholders can be made. In previous years long-term IFRS default assumptions where set mid-way between the EEV and Pillar I assumptions. At 31 December 2008, in light of the increase uncertainty surrounding future credit default experience, the IFRS long-term assumptions have been strengthened to bring them into line with the long-term Pillar I default assumptions. In addition a short-term allowance for credit risk has been established but at a lower level than allowed for in the Pillar I regulatory basis.

In total, for 2008, the effect of changes to the allowance for credit risk and the effect of portfolio rebalancing gives rise to a charge of £23 million. This amount comprises a charge of £413 million for additional credit risk allowance in line with the assumptions shown above for the portfolio as a whole. Partially offsetting this is a credit of £390 million for the effect of £2.8 billion of portfolio rebalancing to more closely align with management benchmark. The credit reflects the additional yield expected after allowing for additional credit risk arising from the rebalancing.

(b) Mortality assumptions and margins in the liabilities

Recent mortality experience has been in line with expectations and no change is therefore required to the overall strength of mortality assumptions at 31 December 2008. However, current mortality assumptions have been rebalanced across different categories of business so that they are more closely aligned to the actual experience of each product category. The overall effect of rebalancing the assumptions between different product groups is financially neutral.

The 2007 results for shareholder-backed annuity business were determined after making changes to mortality assumptions with a resulting charge of £276 million and releasing excess margins in the aggregate liabilities that had previously been set aside as an indirect extra allowance for longevity related risks of £310 million.

F Short-term fluctuations in investment returns on shareholder-backed business

	2008	2007
	£m	£m
Insurance operations:		
Asian (note (ii))	**(200)**	(71)
US (note (iii))	**(1,058)**	(18)
UK (note (iv))	**(212)**	(47)
Other operations (note (v))	**(313)**	(1)
Total (note (i))	**(1,783)**	(137)

Notes

(i) General

The short-term fluctuations in investment returns for 2008 primarily reflect temporary market value movements on the portfolio of investments held by the Group's shareholder-backed operations. Default losses were incurred during 2008 in respect of Lehman Brothers and Washington Mutual, with total losses (including losses on disposal) for these in respect of the Group's shareholder-backed business operations being £110 million and £91 million respectively of which the majority was incurred in Jackson. Excluding Lehman Brothers and Washington Mutual there was only one other default in 2008 which resulted in a loss of £5 million. There were no default losses in 2007.

(ii) Asian insurance operations

The fluctuations for Asian operations in 2008 primarily relate to £(81) million for Vietnam, reflecting a significant fall in the Vietnamese bond and equity markets, and £(65) million for Taiwan, which reflects the decrease in Taiwanese equity markets and a £(40) million reduction in the value of an investment in a CDO fund. For 2007, the £(71) million of short-term fluctuations primarily reflect value movements in Taiwan on the value of debt securities arising from increases in interest rates and a £30 million reduction in the value of an investment in a CDO fund, partially offset by the effects of strong equity market movements in Vietnam.

(iii) US insurance operations

The short-term fluctuations in investment returns for US insurance operations for the year comprise the following items:

	2008 £m	2007 £m
Short-term fluctuations relating to debt securities:		
Charges in the year		
Defaults	**(78)**	0
Losses on sales of impaired and deteriorating bonds	**(130)**	(51)
Bond write downs	**(419)**	(35)
Recoveries / reversals	**3**	8
	(624)	(78)
Less: Risk margin charge included in operating profit based on longer-term investment returns	**54**	48
	(570)	(30)
Interest related realised (losses) gains:		
Arising in the year	**(25)**	31
Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns	**(28)**	(37)
	(53)	(6)
Related change to amortisation of deferred acquisition costs	**88**	9
Total short-term fluctuation related to debt securities	**(535)**	(27)
Derivatives (other than equity related): market value movement (net of related change to amortisation of deferred acquisition costs) *	**(369)**	(19)
Equity type investments : actual less longer-term return (net of related change to amortisation of deferred acquisition costs)	**(69)**	42
Other items (net of related change to amortisation of deferred acquisition costs) **	**(85)**	(14)
Total	**(1,058)**	(18)

* The £369 million value movement is for freestanding derivatives held to manage the fixed annuity and other general account business. Under IAS 39, unless hedge accounting is applied value movements on derivatives are recognised in the income statement. Except in respect of variable annuity business, the value movements on derivatives held by Jackson are separately identified within short-term fluctuations in investment returns.

Derivative value movements in respect of variable annuity business are included within the operating profit based on longer-term investment returns to broadly match with the commercial effects to which the variable annuity derivative programme relates.

For the derivatives programme attaching to the fixed annuity and other general account business the Group has continued in its approach of not seeking to apply hedge accounting under IAS 39. This decision reflects the inherent constraints of IAS 39 for hedge accounting investments and life assurance assets and liabilities under 'grandfathered' US GAAP under IFRS 4.

** The £85 million charge for 2008 for other items shown above comprises £70 million for the difference between the charge for embedded derivatives included in the operating result and the charge to the total result and £15 million of other items. For embedded derivatives the operating result reflects the application of 10-year average AA corporate bond rate curves and a static historical equity volatility assumption. The total result reflects the application of year-end AA corporate bond rate curves and current equity volatility levels. Additional details are explained in note E(ii)(a).

In addition, for US insurance operations, included within the statement of changes in equity, is a net reduction (translated at the 2008 year-end exchange rate of 1.44) in the value of debt securities classified as available-for-sale of £2,710 million (2007: £244 million). This reduction reflects the effect of widened credit spreads and global credit concerns partially offset by the effect of reductions in US interest rates and a steepening yield curve. These temporary market value movements do not reflect defaults or impairments. Additional details on the movement in the value of the Jackson portfolio are included in note N.

(iv) UK insurance operations

The short-term fluctuations charge for UK insurance operations for 2008 of £212 million reflects £170 million for asset value movements, principally for shareholder-backed annuity business, and £42 million for the effect of credit downgrades on the calculation of liabilities for shareholder-backed annuity business in PRIL and the PAC non-profit sub-fund, as discussed in note E(iii)(a). The short-term fluctuations charge for 2007 arose mostly in PRIL. The fluctuations principally reflected the impact of widened credit spreads on the corporate bond securities backing the shareholders' equity of the business.

(v) Other

The charge of £313 million for short-term fluctuations for other operations arises from:

	2008 £m
Sale of investment in India mutual fund in May 2008 giving rise to a transfer to operating profit of £47m for the crystallised gain, and value reduction in the period, prior to sale, of £24m	(71)
Unrealised value movements on swaps held centrally to manage Group assets and liabilities	(38)
Unrealised value movements on Prudential Capital's bond portfolio	(190)
Unrealised value movements on a centrally held investment	(14)
	(313)

G Tax credit

The total tax credit of £1,683 million for 2008 (2007: charge of £349 million) comprises a credit of £1,758 million (2007: charge of £28 million) for UK tax and a charge of £75 million (2007: £321 million) for overseas tax. This tax credit comprises tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders. The tax credit attributable to shareholders of £59 million for 2008 (2007: charge of £354 million) comprises a credit of £95 million (2007: charge of £148 million) for UK tax and a charge of £36 million (2007: £206 million) for overseas tax.

A tax credit related to discontinued banking operations, which was all attributable to shareholders, amounted to £19 million in 2007.

In April 2008 the standard corporation tax rate for the UK changed from 30 per cent to 28 per cent. Deferred tax at the end of 2007 for UK operations had been provided at the new rate of 28 per cent on the basis that materially all of the temporary differences are expected to reverse once the new rate took effect. The effect on the deferred tax assets and liabilities at 31 December 2007 was £20 million.

H Discontinued operations

Discontinued operations for 2007 related entirely to UK banking operations following the sale on 1 May 2007 of Egg Banking plc to Citi.

The profit from discontinued operations of £241 million comprises an operating loss based on longer-term investment returns for the period of ownership of £68 million, a tax credit on the loss of £19 million and a profit on sale (both before and after tax) of £290 million.

I Supplementary analysis of earnings per share from continuing operations

Earnings per share (in pence)	**2008**	2007
From operating profit based on longer-term investment returns after related tax and minority interests	**42.5p**	33.3p
Adjustment from post-tax longer-term investment returns to post-tax actual investment returns (after related minority interests)	**(58.1)p**	(4.5)p
Adjustment for post-tax shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(0.4)p**	0.0p
Based on (loss) profit from continuing operations after tax and minority interests	**(16.0)p**	28.8p

J Dividend

A final dividend for 2008 of 12.91p per share was proposed by the directors on 18 March 2009. Subject to shareholder approval, the dividend will be paid on 22 May 2009 to shareholders on the register at the close of business on 14 April 2009. This dividend will absorb an estimated £322 million of shareholders' funds. A scrip dividend alternative will be offered to shareholders.

K Balance sheet analysis

(i) Group balance sheet - analysis by business unit

For an appreciation of the shareholder exposure to investment value movements it is necessary to distinguish the effects of fund structure and type of business for the Group's operations.

	Insurance operations			Total insurance operations	Asset management operations	Unallocated to a segment (central operations)	Intra-group eliminations	31 Dec 2008 Group total	31 Dec 2007 Group total
	UK	US	Asia						
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets									
Intangible assets attributable to shareholders):									
Goodwill	-	-	111	111	1,230			**1,341**	1,341
Deferred acquisition costs and other intangible assets	134	3,962	1,247	5,343	6			**5,349**	2,836
Total	134	3,962	1,358	5,454	1,236	-	-	**6,690**	4,177
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes	174	-	-	174	-			**174**	192
Deferred acquisition costs and other intangible assets	13	-	113	126	-	-		**126**	19
Total	187	-	113	300	-	-	-	**300**	211
Total	321	3,962	1,471	5,754	1,236	-	-	**6,990**	4,388
Deferred tax assets	513	1,969	101	2,583	160	143		**2,886**	951
Other non-investment and non-cash assets	4,962	1,819	1,416	8,197	135	3,553	(5,608)	**6,277**	5,012
Investment of long-term business and other operations:									
Investment properties	11,959	13	20	11,992	-	-		**11,992**	13,688
Investments accounted for using the equity method	-	-	-	-	-	10		**10**	12
Loans and receivables	1,902	5,121	1,705	8,728	1,763	-		**10,491**	7,924
Equity securities and portfolio holdings in unit trusts	38,880	15,142	8,077	62,099	23	-		**62,122**	86,157
Debt securities (see note M for analysis of credit quality)	58,871	24,249	11,113	94,233	991	-		**95,224**	83,984
Other investments	4,160	1,256	144	5,560	462	279		**6,301**	4,396
Deposits	6,090	390	750	7,230	64	-		**7,294**	7,889
Total Investments	121,862	46,171	21,809	189,842	3,303	289	-	**193,434**	204,050
Held-for-sale assets	-	-	-	-	-	-		**-**	30
Cash and cash equivalents	2,571	246	1,501	4,318	1,472	165		**5,955**	4,951
Total assets	**130,229**	**54,167**	**26,298**	**210,694**	**6,306**	**4,150**	**(5,608)**	**215,542**	**219,382**

Equity and liabilities									
Equity									
Shareholders' equity	1,655	1,698	2,167	5,520	1,642	(2,104)		**5,058**	6,062
Minority interests	47	-	7	54	1			**55**	102
Total equity	1,702	1,698	2,174	5,574	1,643	(2,104)	-	**5,113**	6,164
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Insurance contract liabilities	72,756	42,476	20,798	136,030	-	-		**136,030**	132,776
Investment contract liabilities with discretionary participation features	23,367	-	79	23,446	-	-		**23,446**	29,550
Investment contract liabilities without discretionary participation features	11,584	2,885	32	14,501	-	-		**14,501**	14,032
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds)	8,254	-	160	8,414	-	-		**8,414**	13,959
Total policyholder liabilities and unallocated surplus of with-profits funds	115,961	45,361	21,069	182,391	-	-	-	**182,391**	190,317
Core structural borrowings of shareholder-financed operations:									
Subordinated debt	-	-	-	-	-	1,987		**1,987**	1,570
Other	-	173	-	173	-	798		**971**	922
Total	-	173		173	-	2,785	-	**2,958**	2,492
Operational borrowings attributable to shareholder-financed operations	54	511	130	695	4	1,278		**1,977**	3,081
Borrowings attributable to with-profits funds	1,308	-	-	1,308	-	-		**1,308**	987
Deferred tax liabilities	1,421	1,337	441	3,199	11	19		**3,229**	3,402
Other non-insurance liabilities	9,783	5,087	2,484	17,354	4,648	2,172	(5,608)	**18,566**	12,939
Total liabilities	128,527	52,469	24,124	205,120	4,663	6,254	(5,608)	**210,429**	213,218
Total equity and liabilities	**130,229**	**54,167**	**26,298**	**210,694**	**6,306**	**4,150**	**(5,608)**	**215,542**	**219,382**

(ii) Group balance sheet - analysis by type of business

		Shareholder-backed						
	Participating funds	Unit-linked and variable annuity	Non-linked business	Asset management operations	Unallocated to a segment (central operations)	Intra-group eliminations	31 Dec 2008 Group total	31 Dec 2007 Group total
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Intangible assets attributable to shareholders:								
Goodwill	-	-	111	1,230	-	-	**1,341**	1,341
Deferred acquisition costs and other intangible assets	-	-	5,343	6	-	-	**5,349**	2,836
Total	-	-	5,454	1,236	-	-	**6,690**	4,177
Intangible assets attributable to with-profits funds:								
In respect of acquired subsidiaries for venture fund and other investment purposes	174	-	-	-			**174**	192
Deferred acquisition costs and other intangible assets	126	-	-	-	-	-	**126**	19
Total	300	-	-	-	-	-	**300**	211
Total	300	-	5,454	1,236	-	-	**6,990**	4,388
Deferred tax assets	279	-	2,304	160	143	-	**2,886**	951
Other non-investment and non-cash assets	3,095	579	4,523	135	3,553	(5,608)	**6,277**	5,012
Investment of long-term business and other operations:								
Investment properties	9,911	710	1,371	-	-	-	**11,992**	13,688
Investments accounted for using the equity method	-	-	-	-	10	-	**10**	12
Loans and receivables	2,154	113	6,461	1,763	-	-	**10,491**	7,924
Equity securities and portfolio holdings in unit trusts	31,821	29,211	1,067	23	-	-	**62,122**	86,157
Debt securities (see section M for analysis of credit quality)	42,965	6,298	44,970	991	-	-	**95,224**	83,984
Other investments	3,768	204	1,588	462	279	-	**6,301**	4,396
Deposits	4,828	903	1,499	64	-	-	**7,294**	7,889
Total Investments	95,447	37,439	56,956	3,303	289	-	**193,434**	204,050
Held-for-sale assets	-	-		-	-	-	**-**	30
Cash and cash equivalents	1,733	1,148	1,437	1,472	165	-	**5,955**	4,951
Total assets	**100,854**	**39,166**	**70,674**	**6,306**	**4,150**	**(5,608)**	**215,542**	**219,382**

Equity and liabilities								
Equity								
Shareholders' equity	-	-	5,520	1,642	(2,104)	-	**5,058**	6,062
Minority interests	47	-	7	1			**55**	102
Total equity	47	-	5,527	1,643	(2,104)	-	**5,113**	6,164
Liabilities								
Policyholder liabilities and unallocated surplus of with-profits funds:								
Insurance contract liabilities	58,310	27,799	49,921	-	-	-	**136,030**	132,776
Investment contract liabilities with discretionary participation features	23,446	-	-	-	-	-	**23,446**	29,550
Investment contract liabilities without discretionary participation features	32	10,277	4,192	-	-	-	**14,501**	14,032
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds)	8,414	-		-	-	-	**8,414**	13,959
Total policyholder liabilities and unallocated surplus of with-profits funds	90,202	38,076	54,113	-	-	-	**182,391**	190,317
Core structural borrowings of shareholder-financed operations:								
Subordinated debt	-	-	-	-	1,987	-	**1,987**	1,695
Other	-	-	173	-	798	-	**971**	797
Total	-	-	173	-	2,785	-	**2,958**	2,492
Operational borrowings attributable to shareholder-financed operations	-	-	695	4	1,278	-	**1,977**	3,081
Borrowings attributable to with-profits funds	1,308	-	-	-	-	-	**1,308**	987
Deferred tax liabilities	1,225	-	1,974	11	19	-	**3,229**	3,402
Other non-insurance liabilities	8,072	1,090	8,192	4,648	2,172	(5,608)	**18,566**	12,939
Total liabilities	100,807	39,166	65,147	4,663	6,254	(5,608)	**210,429**	213,218
Total equity and liabilities	**100,854**	**39,166**	**70,674**	**6,306**	**4,150**	**(5,608)**	**215,542**	**219,382**

L Loans portfolio

Loans are accounted for at amortised cost unless impaired. The amounts included in the balance sheet are analysed as follows:

	2008 £m	2007 £m
Insurance operations		
UK (note(i))	**1,902**	1,245
US (note (ii))	**5,121**	3,258
Asia (note (iii))	**1,705**	1,087
Asset management operations		
M&G (note (iv))	**1,763**	2,334
Total	**10,491**	7,924

Notes

(i) UK insurance operations

The loans of the Group's UK insurance operations of £1,902 million at 31 December 2008 (2007: £1,245 million) comprise mortgage loans of £701 million, policy loans of £29 million and other loans of £1,172 million (2007: £449 million, £35 million and £761 million respectively). The mortgage loans are collateralised by properties. Other loans are all commercial loans and comprise mainly syndicated loans held by the PAC with-profits fund.

(ii) US insurance operations

The loans of the Group's US insurance operations of £5,121 million at 31 December 2008 (2007: £3,258 million) comprise mortgage loans of £4,534 million and policy loans of £587 million (2007: £2,841 million and £417 million respectively). All of the mortgage loans are commercial mortgage loans which are collateralised by properties. The property types are mainly industrial, multi-family residential, suburban office, retail and hotel.

The US insurance operations' mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the risk of defaults associated with residential sub-prime mortgage loans.

The policy loans are fully secured by individual life insurance policies or annuity policies. These loans are accounted for at amortised cost, less any impairment.

(iii) Asian insurance operations

The loans of the Group's Asian insurance operations of £1,705 million at 31 December 2008 (2007: £1,087 million) comprise mortgage loans of £238 million, policy loans of £675 million and other loans of £792 million (2007: £132 million, £430 million and £525 million respectively). The mortgage and policy loans are secured by properties and life insurance policies respectively.

The majority of the other loans are commercial loans held by the Malaysian operation and which are all investment graded by two local rating agencies.

(iv) M&G

The M&G loans of £1,763 million relate to bridging loan finance managed by Prudential Capital. The bridging loan finance assets generally have no external credit ratings available, with internal ratings prepared by the Group's asset management operations as part of the risk management process rating £1,100 million BBB+ to BBB- and £663 million BB+ to BB-.

M Debt securities portfolio

Debt securities are accounted for at fair value. The amounts included in the balance sheet are analysed as follows, with further information relating to the credit quality of the Group's debt securities at 31 December 2008 provided in the notes below.

	2008 £m	2007 £m
Insurance operations		
UK (note(i))	**58,871**	57,180
US (note (ii))	**24,249**	19,002
Asia (note (iii))	**11,113**	6,920
Asset management operations (note (iv))	**991**	882
Total	**95,224**	83,984

Notes

In the tables below, Standard and Poor's (S&P) ratings have been used where available. For securities where S&P ratings are not available, those produced by Moody's and then Fitch have been used as an alternative.

(i) UK insurance operations

	PAC-with profits sub-fund				Other funds and subsidiaries		UK insurance operations	
	Scottish Amicable Insurance Fund £m	Excluding Prudential Annuities Limited £m	Prudential Annuities Limited £m	Total £m	Unit-linked assets and liabilities £m	Annuity and other long-term business £m	2008 Total £m	2007 Total £m
S&P – AAA	1,139	5,765	3,176	8,941	2,866	6,035	**18,981**	21,556
S&P – AA+ to AA-	318	1,817	1,389	3,206	423	2,065	**6,012**	6,173
S&P – A+ to A-	1,058	5,804	3,295	9,099	815	4,957	**15,929**	12,557
S&P – BBB+ to BBB-	789	3,875	919	4,794	210	1,620	**7,413**	5,409
S&P – Other	152	794	16	810	71	-	**1,033**	942
	3,456	18,055	8,795	26,850	4,385	14,677	**49,368**	46,637
Moody's – Aaa	111	344	89	433	9	128	**681**	1,021
Moody's – Aa1 to Aa3	66	353	255	608	-	159	**833**	587
Moody's – A1 to A3	43	222	232	454	-	181	**678**	944
Moody's – Baa1 to Baa3	35	146	138	284	-	135	**454**	490
Moody's – Other	4	136	12	148	-	10	**162**	410
	259	1,201	726	1,927	9	613	**2,808**	3,452
Fitch	34	181	188	369	-	157	**560**	682
Other	469	2,221	2,179	4,400	15	1,251	**6,135**	6,409
Total debt securities	4,218	21,658	11,888	33,546	4,409	16,698	**58,871**	57,180

Where no external ratings are available, internal ratings produced by the Group's asset management operation, which are prepared on the Company's assessment of a comparable basis to external ratings, are used where possible. Of the £6,135 million total debt securities held at 31 December 2008 (2007: £6,409 million) which are not externally rated, £2,325 million were internally rated AAA to A-, £3,149 million were internally rated BBB to B- and £661 million were unrated (2007: £2,972 million, £2,844 million and £593 million respectively). The majority of unrated debt security investments were held in SAIF and the PAC with-profits fund and relate to convertible debt and other investments which are not covered by ratings analysts nor have an internal rating attributed to them.

The change in ratings for annuity and other long-term business incorporates the effect of the portfolio rebalancing discussed in note E(iii)(a).

(ii) US insurance operations

	2008 £m	2007 £m
S&P – AAA	**5,321**	3,896
S&P – AA+ to AA-	**853**	1,187
S&P – A+ to A-	**5,244**	3,657
S&P – BBB+ to BBB-	**7,077**	5,415
S&P – Other	**1,321**	1,113
	19,816	15,268
Moody's – Aaa	**458**	549
Moody's – Aa1 to Aa3	**100**	118
Moody's – A1 to A3	**111**	47
Moody's – Baa1 to Baa3	**100**	79
Moody's – Other	**95**	78
	864	871
Fitch	**464**	380
Other*	**3,105**	2,483
Total debt securities	**24,249**	19,002

* The amounts within Other which are not rated by S&P, Moody or Fitch have the following National Association of Insurance Commissioners (NAIC) classifications:

	2008 £m	2007 £m
NAIC 1	**1,334**	1,079
NAIC 2	**1,650**	1,311
NAIC 3-6	**121**	93
	3,105	2,483

(iii) Asian insurance operations

	With-profits business	Unit-linked assets and liabilities	Other business	**2008 Total**	**2007 Total**
	£m	**£m**	**£m**	**£m**	**£m**
S&P – AAA	2,085	341	206	**2,632**	2,284
S&P – AA+ to AA-	997	303	2,446	**3,746**	1,994
S&P – A+ to A-	640	96	72	**808**	675
S&P – BBB+ to BBB-	198	184	520	**902**	193
S&P – Other	77	63	113	**253**	149
	3,997	987	3,357	**8,341**	5,295
Moody's – Aaa	382	54	58	**494**	201
Moody's – Aa1 to Aa3	77	20	11	**108**	45
Moody's – A1 to A3	80	287	31	**398**	28
Moody's – Baa1 to Baa3	50	6	4	**60**	19
Moody's – Other	8	39	3	**50**	58
	597	406	107	**1,110**	351
Fitch	7	30	4	**41**	0
Other	600	466	555	**1,621**	1,274
Total debt securities	5,201	1,889	4,023	**11,113**	6,920

The increase in holdings of debt securities for Asian insurance operations was principally due to exchange rate movements, a rise in the number of unit trusts and similar funds requiring consolidation and portfolio changes from equities to bonds.

Of the £555 million (2007: £598 million) of debt securities for other business which are not rated in the table above, £231 million (2007: £317 million) are in respected of government bonds, £221 million (2007: £83 million) corporate bonds rated as investment grade by local external ratings agencies and nil (2007: £71 million) structured deposits issued by banks which are themselves rated but where the specific deposits have not been.

(iv) Asset management operations

Total debt securities for asset management operations of £991 million (2007: £882 million), include £959 million (2007: £841 million) related to M&G's Prudential Capital operations which were all AAA to A- where S&P rated or Aaa by Moody's.

(v) Group exposure to holdings in asset-backed securities and monoline insurers

(a) Asset-backed securities

The Group's exposure to holdings in asset-backed securities, which comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), CDO funds and other asset-backed securities (ABS), at 31 December 2008 is as follows:

	2008 £m
Shareholder-backed operations:	
UK insurance operations (note (i))	1,075
US insurance operations (note (ii))	7,464
Asian insurance operations (note (iii))	15
Other operations (note (iv))	407
	8,961
With-profits operations:	
UK insurance operations (note (i))	4,977
Asian insurance operations (note (iii))	328
	5,305
Total	14,266

(i) UK insurance operations

The UK insurance operations' exposure to asset-backed securities at 31 December 2008 comprises:

	2008 £m
Shareholder-backed business (70% AAA, 19% AA)	1,075
With-profits operations (74% AAA, 10% AA)	4,977
Total	6,052

The UK insurance operations' exposure to asset-backed securities is mainly made up of exposure to AAA rated securities as shown in the table above.

All of the £1,075 million exposure of the shareholder-backed business relates to the UK market and primarily relates to investments held by PRIL. £2,721 million of the £4,977 million (2007: £5,565 million) exposure of the with-profits operations relates to exposure to the UK market while the remaining £2,256 million relates to exposure to the US market.

(ii) US insurance operations

US insurance operations' exposure to asset-backed securities at 31 December 2008 comprises:

	2008 £m
RMBS Sub-prime (91% AAA, 3% AA)	291
Alt-A (60% AAA, 15% AA)	646
Prime (87% AAA, 5% AA)	3,572
CMBS (85% AAA, 9% AA)	1,869
CDO funds (34% AAA, 14% AA)*, including £6m exposure to sub-prime	320
ABS (31% AAA, 16% AA), including £51m exposure to sub-prime	766
Total	7,464

* Including the Group's economic interest in Piedmont and other consolidated CDO funds.

(iii) Asian insurance operations

The Asian insurance operations' exposure to asset-backed securities is primarily held by the with-profits operations.

The £328 million asset-backed securities exposure of the Asian with-profit operations comprises:

	2008 £m
RMBS – all without sub-prime exposure	46
CMBS	88
CDO funds and ABS	194
Total	328

The £328 million includes £259 million held by investment funds consolidated under IFRS in recognition of the control arrangements for those funds and included an amount not owned by the Group with a corresponding liability of £32 million on the balance sheet for net asset value attributable to external unit-holders in respect of these funds, which are non-recourse to the Group. Of the £328 million, 70% are investment graded by Standard & Poor's.

(iv) Other operations

Other operations' exposure to asset-backed securities at 31 December 2008 is held by Prudential Capital and comprises:

	2008 £m
RMBS Prime (75% AAA, 10% AA)	106
CMBS (68% AAA, 20% AA)	230
CDO funds - all without sub-prime exposure (AAA)	38
ABS (92% AAA)	33
Total	407

(b) Direct holdings in monoline insurers

The Group has no significant exposure to direct holdings in monoline insurers at 31 December 2008.

N Debt securities of US insurance operations: Valuation basis, accounting presentation of gains and losses and securities in an unrealised loss position

(i) Valuation basis

Under IAS 39, unless categorised as 'held to maturity' debt securities are required to be fair valued. Where available, quoted market prices are used. However, where securities are in inactive markets, IAS 39 requires that valuation techniques be applied.

Jackson has previously utilised prices provided by a pricing service or has used various broker quotes to value debt securities. For most securities in the portfolio this practice has continued where the valuation basis reflects either quoted prices or fair values using valuation techniques of these providers that correspond to the requirements of IAS 39.

However, the current market dislocations have caused a reassessment of the valuation process for certain securities in inactive markets. In particular, beginning at the end of the third quarter of 2008, the external prices obtained for certain asset-backed securities were deemed to be inappropriate in the current market conditions.

For the valuations at 31 December 2008, Jackson has therefore utilised internal valuation models, provided by PPM America, to derive fair values of all non agency Residential Mortgage-backed Securities and Asset-backed Securities and certain Commercial Mortgage-backed securities. The use of internal valuation models has resulted in a fair value of these securities that was higher than those provided from pricing services and brokers of £760 million on a total amortised cost of £3.5 billion.

(ii) Accounting presentation of gains and losses

With the exception of debt securities of US insurance operations classified as 'available-for-sale' under IAS 39, unrealised value movements on the Group's investments are booked within the income statement. For with-profits operations, such value movements are reflected in changes to asset share liabilities to policyholders or the liability for unallocated surplus. For shareholder-backed operations, the unrealised value movements form part of the total return for the year booked in the profit before tax attributable to shareholders. Separately, as noted elsewhere and in note D in this announcement, and as applied previously, the Group provides a supplementary analysis of this profit distinguishing operating profit based on longer-term investment return and short-term fluctuations in investment returns.

However, for debt securities classified as 'available-for-sale', unless impaired, fair value movements are recorded as a movement in shareholder reserves direct to equity. Impairments are recorded in the income statement as shown in note F of this announcement. This classification is applied for most of the debt securities of the Group's US insurance operations.

(iii) 2008 movements in unrealised gains and losses

In general, the debt securities of the Group's US insurance operations are purchased with the intention and the ability to hold them for the longer-term. In 2008 there was a movement in the balance sheet value for these debt securities classified as available-for-sale from a net unrealised loss of £136 million to a net unrealised loss of £2,897 million. During 2008, US interest rates continued to fall and the yield curve further steepened. Offsetting the positive effect on bond values for these changes were adverse market price effects resulting from increasing credit spreads and global credit concerns. As a result of these factors, the gross unrealised gain in the balance sheet decreased from £303 million at 31 December 2007 to £281 million at 31 December 2008, while the gross unrealised loss increased from £439 million at 31 December 2007 to £3,178 million at 31 December 2008.

These features are included in the table shown below of the movements in the values of available-for-sale securities.

	31 Dec 2008	Changes in unrealised appreciation*	Foreign Exchange translation	**31 Dec 2007**
	£m	**£m**	**£m**	**£m**
Assets fair valued at below book value				
Book value	**20,600**			10,730
Unrealised loss	**(3,178)**	(2,572)	(167)	(439)
Fair value (as included in balance sheet)	**17,422**			10,291
Assets fair valued at or above book value				
Book value	**6,296**			8,041
Unrealised gain	**281**	(138)	116	303
Fair value (as included in balance sheet)	**6,577**			8,344
Total				
Book value	**26,896**			18,771
Net unrealised (loss) gains	**(2,897)**	(2,710)	(51)	(136)
Fair value (as included in balance sheet)**	**23,999**			18,635
Reflected as part of movement in shareholders' equity				
Movement in unrealised appreciation	**(2,710)**			
Exchange movements	**(51)**			
	(2,761)			

*Translated at the closing rate of $1.44 : £1
** Debt securities for US operations included in the balance sheet of £24,249 million, and as referred to in note M, comprise £23,999 million for securities classified as available-for-sale, as shown above, and £250 million for securities of consolidated investment funds classified as fair value through profit and loss.

Included within the movement in unrealised valuation losses for the debt securities of Jackson of £2,572 million was an amount of £134 million relating to the sub-prime and Alt-A securities for which the carrying values at 31 December 2008 are shown in the note below.

(iv) Securities in unrealised loss position

The following tables show some key attributes of those securities that are in an unrealised loss position at 31 December 2008.

(a) Fair value of securities as a percentage of book value

The unrealised losses in the Jackson balance sheet on unimpaired securities are £3,178 million (2007: £439 million) relating to assets with fair market value and book value of £17,422 million (2007: £10,291 million) and £20,600 million (2007: £10,730 million) respectively. The following table shows the fair value of the securities in a gross unrealised loss position for various percentages of book value:

	2008		2007	
	Fair value £m	**Unrealised loss £m**	Fair value £m	Unrealised loss £m
Between 90% and 100%	**8,757**	**(431)**	9,370	(274)
Between 80% and 90%	**4,581**	**(809)**	784	(122)
Below 80%	**4,084**	**(1,938)**	137	(43)
	17,422	**(3,178)**	10,291	(439)

Included within the table above, showing the fair value of securities in an unrealised loss position at 31 December 2008 as a percentage of book value, are amounts relating to sub-prime and Alt-A securities of:

	2008		2007	
	Fair value £m	**Unrealised loss £m**	Fair value £m	Unrealised loss £m
Between 90% and 100%	**479**	**(27)**	572	(24)
Between 80% and 90%	**120**	**(19)**	132	(22)
Below 80%	**192**	**(166)**	28	(10)
	791	**(212)**	732	(56)

(b) Aged analysis of unrealised losses for the periods indicated

The following table shows the age analysis of all the unrealised losses in the portfolio by reference to the length of time the securities have been in an unrealised loss position:

	2008			2007		
	Non investment grade £m	**Investment grade £m**	**Total £m**	Non investment grade £m	Investment grade £m	Total £m
Less than 6 months	**(108)**	**(362)**	**(470)**	(9)	(58)	(67)
6 months to 1 year	**(125)**	**(1,164)**	**(1,289)**	(21)	(115)	(136)
1 year to 2 years	**(154)**	**(622)**	**(776)**	(2)	(21)	(23)
2 years to 3 years	**(15)**	**(91)**	**(106)**	(34)	(140)	(174)
More than 3 years	**(61)**	**(476)**	**(537)**	(2)	(37)	(39)
	(463)	**(2,715)**	**(3,178)**	(68)	(371)	(439)

At 31 December 2008, the gross unrealised losses in the balance sheet for the sub-prime and Alt-A securities in an unrealised loss position were £212 million (2007: £56 million), as shown above in note (a). Of these losses £91 million (2007: £37 million) relate to securities that have been in an unrealised loss position for less than one year and £121 million (2007: £19 million) to securities that have been in an unrealised loss position for more than one year.

(c) Unrealised losses by maturity of security

	2008 £m	2007 £m
Less than 1 year	**(21)**	(1)
1 year to 5 years	**(537)**	(54)
5 years to 10 years	**(1,236)**	(164)
More than 10 years	**(395)**	(60)
Mortgage-backed and other debt securities	**(989)**	(160)
Total	**(3,178)**	(439)

O Net core structural borrowings of shareholder-financed operations

	2008 £m	2007 £m
Core structural borrowings of shareholder-financed operations:		
Perpetual subordinated capital securities (Innovative Tier 1*)	**1,059**	763
Subordinated notes (Lower Tier 2*)	**928**	807
Senior debt ***:		
2009	**249**	248
2023	**300**	300
2029	**249**	249
Holding company total	**2,785**	2,367
Jackson surplus notes (Lower Tier 2*)	**173**	125
Total (per consolidated balance sheet)	**2,958**	2,492
Less: Holding company** cash and short-term investments (recorded within the consolidated balance sheet)	**(1,165)**	(1,456)
Net core structural borrowings of shareholder-financed operations	**1,793**	1,036

* These debt classifications are consistent with the treatment of capital for regulatory purposes, as defined in the FSA handbook.
** Including central finance subsidiaries.
*** The senior debt ranks above subordinated debt in the event of liquidation.

P Other borrowings

	2008 £m	2007 £m
Operational borrowings attributable to shareholder-financed operations		
Borrowings in respect of short-term fixed income securities programmes	**1,278**	2,477
Non-recourse borrowings of US operations	**511**	591
Other borrowings	**188**	13
Total	**1,977**	3,081
Borrowings attributable to with-profits operations		
Non-recourse borrowings of consolidated investment funds	**1,161**	789
£100m 8.5%undated subordinated guaranteed bonds of the Scottish Amicable Insurance Fund	**100**	100
Other borrowings (predominantly obligations under finance leases)	**47**	98
Total	**1,308**	987

Q Adoption of the principles of IFRIC 14 for accounting for pension schemes

As mentioned in note B, the Group has adopted IFRIC 14 for pension schemes in 2008. IFRIC 14 gives guidance on assessing the limit in IAS 19 on the amount of surplus in a defined benefit pension scheme that can be recognised as an asset thereby providing reliable and more relevant information. The recognition of an asset is restricted to those that are demonstrably recoverable, either by refund or reduction in future contributions. It also addresses when a minimum funding requirement might give rise to a liability. The assessment of recoverability and any additional liability is made by reference to the terms of the Trust Deed of pension schemes and, unless substantively enacted or contractually agreed, with no account taken of potential changes to current funding arrangements.

This adoption of the principles of IFRIC 14 has had an effect on the Group's interest in the financial position of the Group's main UK defined benefit pension scheme, the Prudential Staff Pension Scheme (PSPS). The change relates solely to the accounting measurement of the Group's interest in the financial position of PSPS. Adoption of the principles of IFRIC 14 does not affect the Group's interest in the Group's other defined benefit pension schemes.

Under the terms of the Trust Deed, the Group has no unconditional right of refund to any surplus in PSPS. Also, the Group has no ability under the guidance in IFRIC 14 to anticipate a reduction in the level of future contributions for ongoing services from those currently being paid. In addition, the Group currently has a committed five-year deficit funding arrangement in place as agreed with the Trustees of PSPS following the last triennial valuation of PSPS as at 5 April 2005.

The asset and liabilities of PSPS are unaffected by the impact of the change in accounting policy. PSPS is managed on an economic basis for the longer-term benefit of its current and deferred pensioners and active members. The surplus in PSPS is available to absorb future adverse asset value movements and, if required, strengthening in mortality assumptions. The fluctuating nature of the surplus is demonstrated by the increase in the underlying gross surplus from £528 million at 31 December 2007 to £728 million at 31 December 2008.

The summary effect of the adoption of IFRIC 14

In respect of the position at 31 December 2008, the Group has not recognised the underlying PSPS pension surplus of £728 million (£615 million net of deferred tax), reflecting the difference between the market value of the scheme assets and the discounted value of the liabilities, which would have otherwise been recognised as an asset on its balance sheet under the previous policy. In addition, the Group has recognised a liability for deficit funding to 5 April 2010 of £65 million (£55 million net of deferred tax) in respect of PSPS. The amounts attributable to shareholders are £223 million (£160 million net of deferred tax) for the surplus not recognised as an asset and £20 million (£15 million net of deferred tax) for the additional liability for deficit funding. In total the impact on shareholders' equity at 31 December 2008 is a reduction of £175 million as shown below.

The 2007 comparative figures in these statutory basis results have been adjusted accordingly for the adoption of IFRIC 14.

The effect of the change on the consolidated income statement, earnings per share and consolidated balance sheet are as follows:

Consolidated Income Statement	**Adjustments incorporated in the results 2008 £m**	**Adjustments made to the previously published results 2007 £m**
	Increase (decrease) in profit	
Investment return	**47**	4
Benefit and claims and movement in unallocated surplus of with-profits funds	**66**	205
Other operating expenditure	**(173)**	(336)
(Loss) profit before tax (being tax attributable to shareholders' and the policyholders' returns)	**(60)**	(127)
Tax attributable to policyholders' returns	**11**	24
(Loss) profit before tax attributable to shareholders	**(49)**	(103)
Tax attributable to shareholders' (loss) profit	**13**	28
Loss from continuing operations after tax / loss for the year	**(36)**	(75)

Earnings per share	**Decrease in earning per share (in pence)**	
Basic and diluted based on (loss) profit from continuing operations attributable to equity holders of the company	**(1.5)p**	(3.1)p

Consolidated balance sheet	**Increase (decrease) in shareholders' equity**	
	£m	**£m**
Deferred tax assets	**10**	26
Other debtors	**(625)**	(388)
Policyholders liability – contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	**(103)**	(140)
Unallocated surplus of with-profits funds	**495**	392
Deferred tax liabilities	**113**	73
Provisions	**(65)**	(102)
Shareholders' equity	**(175)**	(139)

Effect on the Group's supplementary analysis of (loss) profit and movements in shareholders' equity:

	2008			2007		
	Previous basis £m	Effect of adoption of IFRIC 14 £m	Revised basis £m	As previously published £m	Effect of adoption of IFRIC 14 £m	After change £m
Operating profit based on longer-term investment returns	**1,371**	**(24)**	**1,347**	1,213	(12)	1,201
Short-term fluctuations in investment returns on shareholder-backed business	**(1,783)**	**–**	**(1,783)**	(137)	–	(137)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**11**	**(25)**	**(14)**	90	(91)	(1)
(Loss) profit before tax	**(401)**	**(49)**	**(450)**	1,166	(103)	1,063
Tax	**46**	**13**	**59**	(382)	28	(354)
(Loss) profit after tax	**(355)**	**(36)**	**(391)**	784	(75)	709
Profits from discontinued operations	**–**	**–**	**–**	241	–	241
Less minority interests	**(5)**	**–**	**(5)**	(3)	–	(3)
(Loss) profit for the year	**(360)**	**(36)**	**(396)**	1,022	(75)	947
Other movements in reserves	**(608)**	**–**	**(608)**	(309)	–	(309)
Shareholders' equity at the beginning of the year	**6,201**	**(139)**	**6,062**	5,488	(64)	5,424
Shareholders' equity at the end of the year	**5,233**	**(175)**	**5,058**	6,201	(139)	6,062

R Intended sale of legacy agency book and agency force in Taiwan to China Life Insurance of Taiwan

On 20 February 2009, the Company announced that it had entered into an agreement to sell the assets and liabilities of its agency distribution business and its agency force in Taiwan to China Life Insurance Company Ltd of Taiwan for the nominal sum of NT$1 subject to regulatory approval. In addition, the Company will invest £45 million to purchase a 9.95 per cent stake in China Life through a share placement. The business to be transferred represents 94 per cent of Prudential's' in-force liabilities in Taiwan and includes Prudential's legacy interest rate guaranteed products with IFRS basis gross assets at 31 December 2008 of £4.5 billion.

After taking account of IFRS shareholders' funds of the business at 31 December 2008 and restructuring and other costs the Group's IFRS shareholders' funds are expected to decrease by approximately £595 million. In addition, on completion, there will be a net increase in the Company's Insurance Group's Directive surplus of approximately £800 million.

The movement in shareholders' IFRS equity for the total Taiwan life business for 2008 comprised:

	£m
Operating profit based on longer-term investment returns	60
Short-term fluctuations in investment returns	(65)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(3)
Loss before tax	(8)
Total tax	(8)
Loss for the financial year	(16)
Minority interests	0
Investments by Parent Company (note (ii))	93
Exchange and other reserve movements	111
Net movement	188
Equity brought forward at 1 January 2008	289
Equity carried forward at 31 December 2008 (note(i))	477

(i) The carrying value of the IFRS equity reflects the application of 'grandfathered' US GAAP under IFRS 4. This does not, and is not designed to include the cost of holding economic capital, to support the legacy interest rate guaranteed products as recognised for reporting under the Company's supplementary reporting basis under European Embedded Value principles.
(ii) Comprising £66 million for solvency capital and £27 million for business development.

S Deferred acquisition costs and other intangible assets attributable to shareholders.

Significant costs are incurred in connection with acquiring new insurance business. Except for acquisition costs of with-profits contracts of the UK regulated with-profits funds, which are accounted for under the realistic FSA regime, these costs, which vary with, and are primarily related to, the production of new business, are capitalised and amortised against margins in future revenues on the related insurance policies. The recoverability of the asset is measured and the asset is deemed impaired if the projected future margins are less than the carrying value of the asset. To the extent that the future margins differ from those anticipated, then an adjustment to the carrying value of the deferred acquisition cost asset will be necessary.

The deferral and amortisation of acquisition costs is of most relevance to the Group's results for shareholder-financed long-term business of Jackson and Asian operations. The majority of the UK shareholder-backed business are for individual and group annuity business where the incidence of acquisition costs is negligible.

In the case of Jackson for term business, acquisition costs are deferred and amortised in line with expected premiums. For annuity business, acquisition costs are deferred and amortised in line with expected gross profits on the relevant contracts. For interest-sensitive business, the key assumption is the long-term spread between the earned rate and the rate credited to policyholders, which is based on the annual spread analysis. In addition, expected gross profits depend on mortality assumptions, assumed unit costs and terminations other than deaths (including the related charges), all of which are based on a combination of actual experience of Jackson, industry experience and future expectations. A detailed analysis of actual experience is measured by internally developed mortality studies.

Variable annuity contracts written by Jackson may provide for guaranteed minimum death, income, or withdrawal benefit features. In general terms, liabilities for these benefits are accounted for under US GAAP by using estimates of future benefits and fees under best estimate assumptions. For variable annuity business the key assumption is the expected long-term level of equity market returns, which for 2008 and 2007 was 8.4 per cent per annum (net of fund management fees) determined using a mean reversion methodology. Under the mean reversion methodology, projected returns over the next five years are flexed (subject to capping) so that, combined with the actual rates of return for the current and the previous two years the 8.4 per cent rate is maintained. The projected rates of return are capped at no more than 15 per cent for each of the next five years. Further details are explained in note E(ii)(b).

These returns affect the level of future expected profits through their effects on the fee income with consequential impact on the amortisation of deferred acquisition costs as described below and the required level of provision for guaranteed minimum death benefit claims.

For traditional life insurance contracts, provisions for future policy benefits are determined under SFAS 60 using the net level premium method and assumptions as of the issue date as to mortality, interest, policy lapses and expenses plus provisions for adverse deviation.

Except to the extent of mortality experience, which primarily affects profits through variations in claim payments and the guaranteed minimum death benefit reserves, the profits of Jackson are relatively insensitive to changes in insurance risk.

The deferred acquisition costs and other intangible assets attributable to shareholders comprise:

	2008 £m	2007 £m
Deferred acquisition costs relating to insurance and investment management contracts	**5,205**	2,757
Present value of acquired in-force business and distribution rights	**144**	79
	5,349	2,836
Arising in:		
UK insurance operations	**134**	157
US insurance operations	**3,962**	1,928
Asia insurance operations	**1,247**	745
Asset management operations	**6**	6
	5,349	2,836

The movement in the year comprises:

	2008 £m	2007 £m
Balance at 1 January	**2,836**	2,497
Additions	**959**	717
Amortisation to income statement	**(551)**	(424)
Exchange differences	**1,035**	(42)
Change in shadow DAC (note E(ii)(b))	**1,070**	88
Balance at 31 December	**5,349**	2,836

T Group Investments and other supplementary information

As for 2007 year-end reporting, the Company has published documents alongside the Company's preliminary announcement for the year ended 31 December 2008, entitled 'Group Investments – IFRS disclosures from the 2008 Annual Report' and 'supplementary information'. These documents include detailed analysis and explanation of the information contained the Group's financial statements for the year ended 31 December 2008 on the Group's investments and some additional unaudited information. The documents have been posted to the Company's website address at www.prudential.co.uk

Unaudited Supplementary Information

IFRS basis results - Analysis of life insurance pre-tax IFRS operating profit by driver

Notes

	2008 £m			
	Asia	**US**	**UK**	**Total**
Investment spread	**38**	**550**	**143**	**731**
Asset management fees	**53**	**292**	**57**	**402**
Net expense margin	**(59)**	**(192)**	**(114)**	**(365)**
DAC amortisation (Jackson only)	**-**	**(450)**	**-**	**(450)**
Net insurance margin	**259**	**122**	**(12)**	**369**
With-profits business	**30**	**0**	**395**	**425**
Other	**-**	**84**	**76**	**160**
Total	**321**	**406**	**545**	**1,272**

	2007 £m			
	Asia	US	UK	Total
Investment spread	36	533	219	788
Asset management fees	38	266	60	364
Net expense margin	(102)	(186)	(138)	(426)
DAC amortisation (Jackson only)		(286)		(286)
Net insurance margin	191	122	9	322
With-profits business	26	0	394	420
Other	-	(5)	(20)	(25)
Total	189	444	524	1,157

a) This schedule classifies the Group's pre-tax operating earnings from long-term insurance operations into the underlying drivers of those profits, using four broad categories:

i) Investment spread and asset management fees - This represents profits driven by investment performance, being asset management fees that vary with the size of the underlying policyholder funds net of investment management expenses and profits derived from spread, being the difference between investment income (or premium income in the case of the UK annuities new business) and amounts credited to policyholder accounts. The table above separately identifies net spread income from net fee income.

ii) Net expense margin - represents expenses charged to the profit and loss account (excluding those borne by the with-profits fund and those products where earnings are purely protection driven) including amounts relating to movements in deferred acquisition costs, net of any fees or premium loadings related to expenses. Jackson DAC amortisation (net of hedging effects), which is intended to be part of the expense margin, has been separately highlighted in the table above.

iii) Insurance margin - profits derived from the insurance risks of mortality, morbidity and persistency including fees earned on variable annuity guarantees.

iv) With-profits business - shareholders' transfer from the with-profits fund in the period.

b) Other represents a mixture of other income and expenses that are not directly allocated to the underlying drivers, including non-recurring items.

c) It has been assumed that operating assumption changes should be included within insurance margin unless another category is more suitable. In 2008 the only item included outside of insurance margin was the operating assumption changes for shareholder annuity business in the UK which was principally driven by changes to the credit default reserving methodology and hence was included within investment spread. No such allocations were made in 2007.

Analysis of Group pre-tax IFRS operating profit by driver (includes life, asset management and corporate expenses)

IFRS Operating profit

	2008	2007
	£m	£m
Investment spread	**731**	788
Asset management fees	**747**	698
Net expense margin	**(365)**	(426)
DAC amortisation (Jackson only)	**(450)**	(286)
Net Insurance margin	**369**	322
With-profits business	**425**	420
Other	**204**	(21)
Corporate expenses	**(314)**	(294)
Total	**1,347**	**1,201**

An analysis of Group pre-tax IFRS operating profit has also been provided and is based on the long-term insurance operations table above with the following additions:

i) The results of Group asset management operations have been included within asset management fees.

ii) UK GI commission of £44 million (2007: £4 million) has been included within the other income line.

iii) Corporate expenses consist of other operating income and expenditure, UK restructuring costs and development costs.

Breakdown of Invested Assets for the Group in £bn

	Total Group	PAR Funds	Policy Holders	Shareholders
Debt securities	95.2	43.0	6.3	45.9
Equity	62.1	31.8	29.2	1.1
Property Investments	12	9.9	0.7	1.4
Commercial mortgage loans (i)	5.5	0.2	0	5.3
Other Loans	5	2	0.1	2.9
Deposits	7.3	4.8	0.9	1.6
Other Investments	6.3	3.8	0.2	2.3
Total	193.4	95.5	37.4	60.5

Note

(i) Total commercial mortgage loans includes US portfolio of £4.5bn

Shareholder Exposure to Banking sector

Of the £45.9bn total shareholder debt securities, approximately £6bn is exposed to the banking sector. Exposure to Tier 1 hybrid debt amounts to £824 million (UK £366m, US£200m and Other £258m). Of the UK £366m key Tier 1 exposures to UK Banks are Barclays £64m, HSBC £50m, Lloyds Group £91m, RBS £5m and Other £156m.

US Commercial Mortgage Loan portfolio – £4.5bn
Breakdown by Property Type –

	%
Industrial	29.5
Multi-Family	21.2
Office	20.6
Retail	17
Hotels	9.9
Other	1.8
	100

Note:
The US commercial mortgage loan portfolio consists of collateralised commercial mortgage loans, the average loan size is £7.5m. The original portfolio is underwritten with an estimated average loan to value of 73%, being the current estimate, which provides significant cushion to withstand substantial declines in value.

Corporate Debt Portfolio
The Corporate Debt Portfolio of £16.5 billion is composed of 7% AAA and AA, 34% A, BBB 51% and BB and below 8%.