PRUDENTIAL PLC
Form 20-F
May 15, 2008

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As filed with the Securities and Exchange Commission on May 15, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR (G) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-15040

PRUDENTIAL PUBLIC LIMITED COMPANY

(Exact Name of Registrant as Specified in its Charter)

England and Wales
(Jurisdiction of Incorporation)

Laurence Pountney Hill,
London EC4R 0HH, England
(Address of Principal Executive Offices)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing 2 Ordinary Shares, 5 pence par value each	New York Stock Exchange
Ordinary Shares, 5 pence par value each	New York Stock Exchange*

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

The number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2007 was:

2,470,017,240 Ordinary Shares, 5 pence par value each

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes X No ____

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ____ No X

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer X Accelerated filer ____ Non-accelerated filer ____

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ___ International Financial Reporting Standards as issued by the International Accounting Standards Board _X_ Other ___

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ____ Item 18 ____

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ____ No _X_

*

Not for trading, but only in connection with the registration of American Depositary Shares.

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Item 3. Key Information

SELECTED HISTORICAL FINANCIAL INFORMATION OF PRUDENTIAL

The following table sets forth Prudential's selected consolidated financial data for the periods indicated. Certain data is derived from Prudential's audited consolidated financial statements prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (collectively "IFRS"). Were the Group to apply International Financial Reporting Standards as adopted by the European Union ("EU") as opposed to those issued by the International Accounting Standards Board ("IASB"), no additional adjustments would be required. This table is only a summary and should be read in conjunction with Prudential's consolidated financial statements and the related notes included elsewhere in this document, together with Item 5, "Operating and Financial Review and Prospects".

The following table presents the income statement and balance sheet data for and as at the years ended December 31, 2004 to 2007, as presented in accordance with IFRS, and has been derived from Prudential's consolidated financial statements, audited by KPMG Audit Plc:

	Year Ended December 31,				
	2007(1)	**2007**	**2006***	**2005***	**2004***
	(In $ Millions)		**(In £ Millions)**		
Income statement data					
Gross premium earned	**36,430**	**18,359**	16,157	15,225	16,408
Outward reinsurance premiums	**(339)**	**(171)**	(171)	(197)	(256)
Earned premiums, net of reinsurance	**36,091**	**18,188**	15,986	15,028	16,152
Investment income	**24,250**	**12,221**	17,128	23,120	14,848
Other income	**4,875**	**2,457**	1,917	1,862	1,766
Total revenue, net of reinsurance	**65,216**	**32,866**	35,031	40,010	32,766
Benefits and claims and movement in unallocated surplus of with-profits funds	**(53,556)**	**(26,990)**	(28,421)	(33,100)	(26,593)
Acquisition costs and other operating expenditure	**(8,975)**	**(4,523)**	(4,212)	(4,514)	(4,519)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(333)**	**(168)**	(177)	(175)	(154)
Goodwill impairment charge				(120)	
Total charges	**(62,864)**	**(31,681)**	(32,810)	(37,909)	(31,266)
Profit before tax(2)	**2,352**	**1,185**	2,221	2,101	1,500
Tax attributable to policyholders' returns	**(38)**	**(19)**	(849)	(1,147)	(711)
Profit before tax attributable to shareholders	**2,314**	**1,166**	1,372	954	789
Tax attributable to shareholders' profits	**(758)**	**(382)**	(392)	(242)	(215)
Profit from continuing operations after tax	**1,556**	**784**	980	712	574

	Year Ended December 31,				
Discontinued operations (net of tax)(3)	**478**	**241**	(105)	48	(58)
Profit for the year	**2,034**	**1,025**	875	760	516

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	As of and for the year ended December 31,				
	2007(1)	**2007**	**2006**	**2005**	**2004**
	(In $ Millions, Except Share Information)	**(In £ Millions, Except Share Information)**			
Balance sheet data					
Total assets	**436,038**	**219,744**	216,520	207,436	180,006
Total policyholder liabilities and unallocated surplus of with-profits funds	**378,146**	**190,569**	178,587	170,315	145,211
Core structural borrowings of shareholder financed operations	**4,945**	**2,492**	3,063	3,190	3,248
Total equity	**12,507**	**6,303**	5,620	5,366	4,626
Based on profit for the year attributable to the equity holders of the Company:					
Basic earnings per share	**82.94¢**	**41.8p**	36.2p	31.6p	24.4p
Diluted earnings per share	**82.75¢**	**41.7p**	36.2p	31.6p	24.4p
Dividend per share declared and paid in reporting period(6)	**34.57¢**	**17.42p**	16.44p	15.95p	15.48p
Equivalent cents per share(7)		**34.70¢**	30.74¢	29.61¢	28.36¢
Market price at end of period	**1,413¢**	**712p**	699.5p	550p	453p
Weighted average number of shares (in millions)		**2,445**	2,413	2,365	2,121
Other data					
New business from continuing operations:					
Single premium sales(5)	**29,699**	**14,967**	14,027	12,848	11,427
New regular premium sales(4)(5)	**2,732**	**1,377**	1,067	853	703
Gross investment product contributions	**106,674**	**53,759**	33,894	26,373	25,108
Funds under management	**529,808**	**267,000**	251,000	234,000	197,000

*

The presentation of the comparative results have been adjusted to reclassify Egg Banking plc ("Egg") as discontinued operations as further described in note 3 below.

(1)

Amounts stated in US dollars have been translated from pounds sterling at the rate of $1.9843 per £1.00 (the noon buying rate in New York City on December 31, 2007).

(2)

Profit before tax represents income net of post-tax transfers to unallocated surplus of with-profits funds, before tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders' profits.

(3)

Discontinued operations predominantly relate to UK banking operations following the sale on May 1, 2007, of Egg to Citibank Overseas Investment Corporation, a subsidiary of Citigroup Inc ("Citi"). See note J of the notes to Prudential's consolidated financial statements.

(4)

New regular premium sales are reported on an annualized basis, which represents a full year of installments in respect of regular premiums irrespective of the actual payments made during the year.

(5)

The new business premiums in the table shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not, and not intended to be, reflective of premium income recorded in the IFRS income statement.

New business premiums for regular premium products are shown on an annualized basis. Department of Work and Pensions ("DWP") rebate business is classified as single recurrent business. Internal vesting business is classified as new business where the contracts include an open market option.

The details shown above for new business include contributions for contracts that are classified under IFRS 4 "Insurance Contracts" as not containing significant insurance risk. These products are described as investment contracts or other financial instruments under IFRS. Contracts included in this category are primarily certain unit-linked and similar contracts written in UK insurance operations and Guaranteed Investment Contracts and similar funding agreements written in US operations.

Investment products included in the table for funds under management above are unit trust, mutual funds and similar types of retail fund management arrangements. These are unrelated to insurance products that are classified as "investment contracts" under IFRS 4, as described in the preceding paragraph, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business. US investment products are no longer included in the table above as they are assets under administration rather than funds under management.

The table above includes the transfer of 62,000 with-profits annuity policies from Equitable Life on December 31, 2007, with assets of approximately £1.7 billion.

The tables above include a bulk annuity transaction with the Scottish Amicable Insurance Fund ("SAIF") with a premium of £560 million in June 2006. The transaction reflects the arrangement entered into for the reinsurance of non-profit immediate pension annuity liabilities of SAIF to Prudential Retirement Income Limited ("PRIL"), a shareholder-owned subsidiary of the Group. SAIF is a closed ring-fenced sub-fund of the Prudential Assurance Company Limited ("PAC") long-term fund established by a Court approved

Scheme of Arrangement in October 1997, which is solely for the benefit of SAIF policyholders. Shareholders have no interest in the profits of this fund, although they are entitled to investment management fees on this business. The inclusion of the transaction between SAIF and PRIL as new business in the tables reflects the transfer from SAIF to Prudential shareholders' funds of longevity risk, the requirement to set aside supporting capital, and entitlement to surpluses arising on this block of business from the reinsurance arrangement. For Group reporting purposes the amounts recorded by SAIF and PRIL for the premium are eliminated on consolidation.

(6)

Under IFRS, dividends declared after the balance sheet date in respect of the prior reporting period are treated as a non-adjusting event. The appropriation reflected in the statement of changes in equity, therefore, includes the final dividend in respect of the prior year. Parent company dividends relating to the reporting period were an interim dividend of 5.70p per share in 2007 (2006: 5.42p, 2005; 5.30p) and a final dividend of 12.30p per share in 2007 (2006:11.72p, 2005: 11.02p).

(7)

The dividends have been translated into US dollars at the noon buying rate on the date each payment was made.

Dividend Data

Under UK company law, Prudential may pay dividends only if "distributable profits" of the holding company are available for that purpose. "Distributable profits" are accumulated, realized profits not previously distributed or capitalized less accumulated, realized losses not previously written off, on the applicable GAAP basis. Even if distributable profits are available, under UK law Prudential may pay dividends only if the amount of its net assets is not less than the aggregate of its called-up share capital and undistributable reserves (such as, for example, the share premium account) and the payment of the dividend does not reduce the amount of its net assets to less than that aggregate. For further information about the holding company refer to Schedule II. The financial information in Schedule II has been prepared under UK GAAP reflecting the legal basis of preparation of the Company's separate financial statements as distinct from the IFRS basis that applies to the Company's consolidated financial statements.

As a holding company, Prudential is dependent upon dividends and interest from its subsidiaries to pay cash dividends. Many of its insurance subsidiaries are subject to regulations that restrict the amount of dividends that they can pay to Prudential. These restrictions are discussed in more detail in Item 4, "Information on the Company Supervision and Regulation of Prudential UK Supervision and Regulation Regulation of Insurance Business Distribution of Profits and With-profits Business" and Item 4, " Information on the Company Supervision and Regulation of Prudential US Supervision and Regulation General".

Historically, Prudential has declared an interim and a final dividend for each year (with the final dividend being paid in the year following the year to which it relates). Subject to the restrictions referred to above, Prudential's directors have the discretion to determine whether to pay a dividend and the amount of any such dividend but must take into account the Company's financial position.

The following table shows certain information regarding the dividends per share that Prudential declared for the periods indicated in pence sterling and converted into US dollars at the noon buying rate in effect on each payment date. Interim dividends for a specific year now generally have a record date in August and a payment date in September of that year, and final dividends now generally have a record date in the following April and a payment date in the following May. The comparative figures for 2003 have been restated to take account of Prudential's rights offering in 2004. The restatement factor used for this period is 0.9614 based on a theoretical ex-rights price of 405.71 pence divided by the closing share price on the final day Prudential's shares traded cum-rights of 422.00 pence.

Year	Interim Dividend	Interim Dividend	Final Dividend	Final Dividend
	(pence)	(US Dollars)	(pence)	(US Dollars)
2003	5.09	0.0863	10.29	0.1867

Year	Interim Dividend	Interim Dividend	Final Dividend	Final Dividend
2004	5.19	0.0952	10.65	0.1950
2005	5.30	0.0942	11.02	0.2046
2006	5.42	0.1028	11.72	0.2317
2007	5.70	0.1153	12.30	

A final dividend for 2007 of 12.30 pence per share was approved by the shareholders at the Annual General Meeting held on May 15, 2008. The interim dividend for 2007 was 5.70 pence per share. The total dividend for the year, including the interim dividend and the final dividend, amounts to 18.00 pence per share compared with 17.14 pence per share for 2006, an increase of five per cent. The total cost of dividends in respect of 2007 was £444 million. Dividend cover is calculated as operating profit based on longer-term investment returns after tax on an IFRS basis, divided by the current year total dividend. The full dividend for 2007 is covered 1.9 times by post-tax IFRS operating profit based on longer-term investment returns from continuing operations as discussed in Item 5. This compares with dividend cover of 1.8, 1.8 and 1.3 for the years 2006, 2005 and 2004 respectively in which IFRS basis results are available. The board will focus on delivering a growing dividend, which will continue to be determined after taking into account the Group's financial flexibility and opportunities to invest in areas of the business offering attractive returns. The Board believes that in the medium term a dividend cover of around two times is appropriate.

Exchange Rate Information

Prudential publishes its consolidated financial statements in pounds sterling. References in this document to "US dollars", "US$", "$" or "¢" are to US currency, references to "pounds sterling", "£", "pounds", "pence" or "p" are to UK currency (there are 100 pence to each pound) and references to "Euro" or "€" are to the Euro. The following table sets forth for each year the average of the noon buying rates on the last business day of each month of that year, as certified for customs purposes by the Federal Reserve Bank of New York, for pounds sterling expressed in US dollars per pound sterling for each of the five most recent fiscal years. Prudential has not used these rates to prepare its consolidated financial statements.

Year ended December 31,	Average rate
2003	1.65
2004	1.84
2005	1.82
2006	1.86
2007	2.01

The following table sets forth the high and low noon buying rates for pounds sterling expressed in US dollars per pound sterling for each of the previous six months:

	High	Low
November 2007	2.11	2.05
December 2007	2.07	1.98
January 2008	1.99	1.95
February 2008	1.99	1.94
March 2008	2.03	1.98
April 2008	2.00	1.96

On May 13, 2008, the noon buying rate was £1.00 = $1.95.

RISK FACTORS

A number of factors (risk factors) affect Prudential's operating results, financial condition and trading price. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The information given is as of the date of this report, is not updated, and any forward-looking statements are made subject to the reservations specified below under "Forward-Looking Statements".

Prudential's businesses are inherently subject to market fluctuations and general economic conditions.

Prudential's businesses are inherently subject to market fluctuations and general economic conditions. In the United Kingdom, this is because a significant part of Prudential's shareholders' profit is related to bonuses for policyholders declared on its with-profits products, which are broadly based on historic and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns.

In the United States, fluctuations in interest rates can affect results from Jackson National Life Insurance Company ("Jackson"), which has a significant spread-based business and where the majority of investments are in fixed-income securities. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. Jackson also writes a significant amount of variable annuities that offer capital or income protection guarantees. Any cost of the guarantees that remain unhedged will affect the Company's results.

For some non unit-linked products, in particular those written in some of the Group's Asian operations, it may not be possible to hold assets which will provide cash flows to exactly match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets such as Taiwan where regulated surrender values are set by regulators with reference to the interest rate environment prevailing at time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. This residual asset/liability mismatch risk can be managed but not eliminated. Where interest rates in these markets remain lower than interest rates used to calculate surrender values over a sustained period this could have an adverse impact on the Group's reported profit.

In all markets in which Prudential operates, its businesses are susceptible to general economic conditions and changes in investment returns, which can also change the level of demand for Prudential's products. Past uncertain trends in international economic and investment climates which have adversely affected Prudential's business and profitability could be repeated. This adverse effect would be felt principally through reduced investment returns and higher credit defaults. In addition, falling investment returns could impair its ability to write significant volumes of new business. Prudential in the normal course of business enters into a variety of transactions, including derivative transactions with counterparties. Failure of any of these counterparties, particularly in conditions of major market disruption, to discharge their obligations, or where adequate collateral is not in place, could have an adverse impact on Prudential's results.

Prudential is subject to the risk of exchange rate fluctuations owing to the geographical diversity of its businesses.

Due to the geographical diversity of Prudential's businesses, it is subject to the risk of exchange rate fluctuations. Prudential's international operations in the United States and Asia, which represent a significant proportion of operating profit and shareholders' funds, generally write policies and invest in assets denominated in local currency. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential's consolidated financial statements upon translation of results into pounds sterling. The currency exposure relating to the translation of reported earnings is not separately managed. Consequently, this could impact on the Group's gearing ratios (defined as debt over debt plus shareholders' funds). The impact of gains or losses on currency translations is recorded as a component within the statement of changes in equity.

Prudential conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates.

Changes in government policy, legislation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates, which in some circumstances may be applied retrospectively, may adversely affect Prudential's product range, distribution channels, capital requirements and, consequently, reported results and financing requirements. For instance, regulators in jurisdictions in which Prudential operates may change the level of capital required to be held by individual businesses. Also these changes could include possible changes in the regulatory framework for pension arrangements and policies, the regulation of selling practices and solvency requirements. In the United Kingdom several proposed and potential regulatory changes could have significant effect on the types of products Prudential provides to its customers and intermediaries and how those products are priced, distributed and sold. These include the Financial Services Authority's ("FSA"s) Treating Customers Fairly initiative, the FSA's review of retail distribution, the proposed regulatory change affecting the pensions market and the implementation of the new European Union ("EU") solvency framework for insurers ("Solvency II") which should be implemented by member states during 2012.

The current EU Insurance Groups Directive ("IGD") requires European financial services groups to demonstrate net aggregate surplus capital in excess of solvency requirements at the Group level in respect of shareholder-owned entities. The test is a continuous requirement, so that Prudential needs to maintain a somewhat higher amount of regulatory capital at the Group level than otherwise necessary in respect of some of its individual businesses to accommodate, for example, short-term movements in global foreign exchange rates, interest rates, deterioration in credit quality and equity markets. In addition, changes in the local regulatory environment of countries where this is deemed equivalent to the EU could affect the calculation of the Group's solvency position. The application of Solvency II requirements to international groups is still unclear and there is a risk of inconsistent application in different member states which may place Prudential at a competitive disadvantage to other European and non-European financial services groups.

Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise where Prudential, along with other companies, may be required to make additional material contributions.

The Group's accounts are prepared in accordance with current international financial reporting standards applicable to the insurance industry. The International Accounting Standards Board ("IASB") introduced a framework that it described as Phase I that permitted insurers to continue to use the statutory basis of accounting that existed in their jurisdictions prior to January 2005. The IASB has published proposals in its Phase II discussion paper that would introduce significant changes to the statutory reporting of insurance entities that prepare accounts according to international financial reporting standards. It is uncertain whether and how the proposals in the discussion paper will become definitive international financial reporting standards and when such changes might take effect.

European Embedded Value ("EEV") basis results are published as supplementary information for Prudential's announcements to the UK Listing Authority and in its UK Annual Report. The EEV basis is a value based reporting method for Prudential's long-term business which is used by market analysts and which underpins a significant part of the key performance indicators used by the Company's management for both internal and external reporting purposes. The Chief Financial Officers' ("CFO") Forum will be publishing principles and guidance for calculating embedded value results on a market-consistent basis. Prudential intends to adopt the market-consistent approach in 2008. This will result in a restatement of reported EEV results and change the reporting basis of future results reported in the UK.

The resolution of several issues affecting the financial services industry could have a negative impact on Prudential's reported results or on its reputation or on its relations with current and potential customers.

Prudential is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the United Kingdom and internationally. This could be a review of business sold in the past under previously acceptable market practices at the time such as the requirement in the United Kingdom to provide redress to certain past purchasers of pension and mortgage endowment policies, changes to the tax regime affecting products and regulatory reviews on products sold and industry practices, including in the latter case businesses it has closed.

Regulators particularly, but not exclusively, in the United States and the United Kingdom are moving towards a regime based on principles-based regulation which brings an element of uncertainty. These regulators are increasingly interested in the approach that product providers use to select third-party distributors. In some case product providers can be held responsible for the deficiencies of third-party distributors.

In the United States, federal and state regulators have focused on, and continue to devote substantial attention to, the mutual fund, fixed index and variable annuity and insurance product industries. This includes new regulations in respect of the suitability of broker-dealers' sales of certain products. As a result of publicity relating to widespread perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms.

In Asia, regulatory regimes are developing at different speeds, driven by a combination of global factors and local considerations. There is a risk that new requirements are retrospectively applied to sales made prior to their introduction.

Litigation and disputes may adversely affect Prudential's profitability and financial condition.

Prudential is, and may be in the future, subject to legal actions and disputes in the ordinary course of its insurance, investment management and other business operations. These legal actions and disputes may relate to aspects of Prudential's businesses and operations that are specific to Prudential, or that are common to companies that operate in Prudential's markets. Legal actions and disputes may arise under contracts, regulations or from a course of conduct taken by Prudential, and may be class actions. Although Prudential believes that it has adequately reserved in all material aspects for the costs of litigation and regulatory matters, no assurance can be provided that such reserves are sufficient. Given the large or indeterminate amounts of damages sometimes sought, and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome could, from time to time, have an adverse effect on Prudential's results of operation or cash flows.

Prudential's businesses are conducted in highly competitive environments with developing demographic trends and Prudential's continued profitability depends on its management's ability to respond to these pressures and trends.

The markets for financial services in the United Kingdom, United States and Asia are highly competitive, with several factors affecting Prudential's ability to sell its products and its continued profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance, historical bonus levels, developing demographic trends and customer appetite for certain savings products. In some of its markets Prudential faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates or claims-paying ratios. Further, heightened competition for talented and skilled employees with local experience, particularly in Asia, may limit the Group's potential to grow its business as quickly as planned.

Within the United Kingdom, Prudential's principal competitors in the life insurance market include many of the major retail financial services companies including, in particular, Aviva, Legal & General, HBOS and Standard Life.

Jackson's competitors in the United States include major stock and mutual insurance companies, mutual fund organizations, banks and other financial services companies such as AIG, AXA, Hartford, Lincoln National, MetLife and TIAA-CREF.

In Asia, the Group's main regional competitors are international financial companies, including AIG, Allianz, AXA, ING and Manulife, as well as a number of local companies with a significant market presence in certain countries.

Prudential believes competition will intensify across all regions in response to consumer demand, technological advances, the impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures.

Downgrades in Prudential's financial strength and credit ratings could significantly impact its competitive position and hurt its relationships with creditors or trading counterparties.

Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in most of Prudential's products, and as a result its competitiveness. Changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition. Downgrades in Prudential's ratings could have an adverse effect on its ability to market products and retain current policyholders. In addition, the interest rates Prudential pays on its borrowings are affected by its debt credit ratings, which are in place to measure Prudential's ability to meet its contractual obligations. Prudential believes the credit rating downgrades it experienced in 2002 and 2003, together with the rest of the United Kingdom insurance industry, and in 2006 by Standard & Poor's to bring Prudential into line with the standard rating agency notching between operating subsidiary financial strength rating and the credit rating for other European insurance holding companies, have not to date had a discernible impact on the performance of its business.

Prudential's long-term senior debt is rated as A2 (stable outlook) by Moody's, A+ (stable outlook) by Standard & Poor's and AA- (stable outlook) by Fitch.

Prudential's short-term debt is rated as P-1 by Moody's, A-1 by Standard & Poor's and F1+ by Fitch.

Prudential Assurance Company's (PAC's) financial strength is rated Aa1 (negative outlook) by Moody's, AA+ (stable outlook) by Standard & Poor's and AA+ (stable outlook) by Fitch.

Adverse experience in the operational risks inherent in Prudential's business could have a negative impact on its results of operations.

Operational risks are present in all of Prudential's businesses, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events. Prudential's business is dependent on processing a large number of complex transactions across numerous and diverse products, and is subject to a number of different legal and regulatory regimes. In addition, Prudential outsources several operations, including in the United Kingdom a significant part of its back office and customer-facing functions as well as a number of IT functions. In turn, Prudential is reliant upon the operational processing performance of its outsourcing partners.

Further, because of the long-term nature of much of Prudential's business, accurate records have to be maintained for significant periods. Prudential's systems and processes incorporate controls which are designed to manage and mitigate the operational risks associated with its activities. For example, any weakness in the administration systems or actuarial reserving processes could have an impact on its results of operations during the effective period. Prudential has not experienced or identified any operational risks in its systems or processes during 2007, which caused, or which have subsequently caused, or are expected to cause, a significant negative impact on its results of operations.

Adverse experience against the assumptions used in pricing products and reporting business results could significantly affect Prudential's results of operations.

Prudential needs to make assumptions about a number of factors in determining the pricing of its products and for reporting the results of its long-term business operations. For example, the assumption that Prudential makes about future expected levels of mortality is particularly relevant for its United Kingdom annuity business. In exchange for a premium equal to the capital value of their accumulated pension fund, pension annuity policyholders receive a guaranteed payment, usually monthly, for as long as they are alive. Prudential conducts rigorous research into longevity risk, using data from its substantial annuitant portfolio. As part of its pension annuity pricing and reserving policy, Prudential United Kingdom assumes that current rates of mortality continuously improve over time at levels based on adjusted data from the Continuous Mortality Investigations ("CMI") medium cohort table projections (as published by the Institute and Faculty of Actuaries). If mortality improvement rates significantly exceed the improvement assumed, Prudential's results of operations could be adversely affected.

A further example is the assumption that Prudential makes about future expected levels of the rates of early termination of products by its customers (persistency). This is particularly relevant to its lines of business other than its United Kingdom annuity business. Prudential's persistency assumptions reflect recent past experience for each relevant line of business. Any expected deterioration in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly lower than assumed (that is, policy termination rates are significantly higher than assumed), Prudential's results of operations could be adversely affected.

In common with other industry participants, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity trends, policy surrender rates, investment performance, unit cost of administration and new business acquisition expense.

As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments.

Prudential's insurance and investment management operations are generally conducted through direct and indirect subsidiaries. As a holding company, Prudential's principal sources of funds are dividends from subsidiaries, shareholder-backed funds, the shareholder transfer from Prudential's long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper. Certain of the subsidiaries are regulated and therefore have restrictions that can limit the payment of dividends, which in some circumstances could limit the Group's ability to pay dividends to shareholders.

Prudential operates in a number of markets through joint ventures and other arrangements with third parties. These arrangements involve certain risks that Prudential does not face with respect to its consolidated subsidiaries.

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures. Prudential's ability to exercise management control over its joint venture operations and its investment in them depends on the terms of the joint venture agreements, in particular, the allocation of control among, and continued co-operation between, the joint venture participants. Prudential may also face financial or other exposure in the event that any of its joint venture partners fails to meet its obligations under the joint venture or encounters financial difficulty. In addition, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not controlled by Prudential and is dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements could affect Prudential's results of operations.

FORWARD-LOOKING STATEMENTS

This annual report may contain certain forward-looking statements with respect to certain of Prudential's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements containing the words "believes", "intends", "expects", "plans", "seeks" and "anticipates", and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Prudential's control including among other things, economic and business conditions in the countries in which Prudential operates, market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, the impact of competition, inflation, and deflation; experience in particular with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; and the impact of legal actions and disputes, together with other factors discussed in "Risk Factors". This may for example result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. As a result, Prudential's actual future financial condition, performance and results may differ materially from the plans, goals, and expectations set forth in Prudential's forward-looking statements.

In particular, the following are forward-looking in nature:

- certain statements in Item 4, "Information on the Company" with regard to strategy and management objectives, trends in market shares, prices, market standing and product volumes and the effects of changes or prospective changes in regulation, and

- certain statements in Item 5, "Operating and Financial Review and Prospects" with regard to trends in results, prices, volumes, operations, margins, overall market trends, risk management and exchange rates and with regard to the effects of changes or prospective changes in regulation.

Prudential may also make or disclose written and/or oral forward-looking statements in reports filed or furnished to the US Securities and Exchange Commission, Prudential's annual report and accounts to shareholders, proxy statements, offering circulars, registration statements and prospectuses, press releases and other written materials and in oral statements made by directors, officers or employees of Prudential to third parties, including financial analysts. Prudential undertakes no obligation to update any of the forward-looking statements contained in this annual report or any other forward-looking statements it may make.

EEV BASIS AND NEW BUSINESS RESULTS

In addition to IFRS basis results, the Group's filings with the UK Listing Authority and Group Annual Reports include reporting by Key Performance Indicators ("KPIs"). These include results prepared in accordance with the European Embedded Value ("EEV") Principles and Guidance issued by the Chief Financial Officers' ("CFO") Forum of European Insurance Companies, and New Business measures.

The EEV basis is a value based method of reporting in that it reflects the change in the value of in-force long-term business over the accounting period. This value is called the shareholders' funds on the EEV basis which, at a given point in time, is the value of future cash flows expected to arise from the current book of long-term insurance business plus the net worth (based on statutory solvency capital (or economic capital where higher) and unencumbered capital) of the company. EEV basis results are published semi-annually by the company in the UK Market.

New Business results are published quarterly and are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts are not, and are not intended to be, reflective of premium income recorded in the IFRS income statement.

The Company's KPIs also include IFRS basis operating profit based on longer-term investment returns as explained in Item 5.

Item 4. Information on the Company

BUSINESS OF PRUDENTIAL

Overview

Prudential is a leading international financial services group, providing retail financial services in the markets in which it operates, primarily the United Kingdom, the United States and Asia. At December 31, 2007, Prudential was one of the 30 largest public companies in the United Kingdom in terms of market capitalization on the London Stock Exchange. Prudential is not affiliated with Prudential Financial, Inc. or its subsidiary, The Prudential Insurance Company of America.

Prudential has been writing life insurance policies in the United Kingdom for over 150 years and has had one of the largest long-term funds in the United Kingdom for over a century. Prudential expanded its business into British Commonwealth countries, including Singapore and Malaysia, in the 1920s and 1930s. In 1986, Prudential acquired Jackson National Life Insurance Company ("Jackson"), a US insurance company writing life and fixed annuity business. A group strategy review in the early 1990s identified significant opportunities for Prudential in the Asian life sector and Prudential Corporation Asia was established in 1994 to develop a material and profitable Asian business. In 1999, Prudential acquired M&G, a leading UK fund manager. In June 2000, Prudential completed its listing on the New York Stock Exchange.

Prudential Corporation Asia is the leading European-based life insurer in Asia in terms of market coverage and number of top three positions in markets(1), with operations in 13 Asian countries. Prudential Corporation Asia offers a mix of life insurance with accident and health options, mutual funds and selected personal lines property and casualty insurance with the product range tailored to suit the individual country markets. Its insurance products are distributed mainly through an agency sales-force and complementary bancassurance agreements while the majority of mutual funds are sold through banks and brokers. Its life insurance operations in China and India are conducted through joint ventures in which it holds 49 per cent and 26 per cent, respectively. In addition, in India, Prudential holds 49 per cent of a fund management joint venture with ICICI, in China it has a 50 per cent stake in a funds management joint venture with CITIC, which is called CITIC-Prudential, and in Hong Kong, it holds a 36 per cent stake in a joint venture with Bank of China International for MPF and mutual funds.

At December 31, 2007, Prudential Corporation Asia:

- had operations in 13 countries and was Europe's leading life insurer in Asia in terms of market coverage and number of top 3 market positions;
- was the region's second largest manager of retail funds (excluding Japan), where retail includes unit trusts, mutual funds and similar types of fund;
- had over 410,000 tied agents and multiple third party distribution agreements; and
- over twelve million life insurance policies in force.

In the United States, Prudential offers a range of products through Jackson, including fixed, fixed index and variable annuities; life insurance; guaranteed investment contracts; and funding agreements. Prudential distributes these products through independent insurance agents; securities broker-dealers; registered investment advisors; a small captive agency channel, consisting of approximately 100 life insurance agents; and banks, credit unions and other financial institutions. Prudential also offers fee-based separately managed accounts and investment products through Curian Capital, LLC, which is Jackson's registered investment advisor channel, established in 2003.

At December 31, 2007, in the United States, Jackson was:

- the seventeenth largest life insurance company in terms of General Account assets(2);
- the tenth largest provider of individual traditional fixed deferred annuities in terms of sales(3),
- the eighth largest provider of fixed index annuities in terms of sales(4);
- the twelfth largest provider of variable annuities in terms of sales(5); and
- rated A1 (stable outlook) by Moody's, AA (stable outlook) by Standard & Poor's and AA (stable outlook) by Fitch in terms of financial strength rating. The ratings from Standard & Poor's and Fitch represent the third highest ratings and the rating from Moody's represents the fifth highest rating out of their respective rating categories.

In the United Kingdom, Prudential offers a range of retail financial products and services, including long-term insurance and asset accumulation and retirement income products (life insurance, pensions and pension annuities), retail investment and unit trust products, and fund management services. Prudential primarily distributes these products through financial advisors, partnership agreements with banks and other financial institutions, and direct marketing, by telephone, mail, internet and face to face advisors.

At December 31, 2007, in the United Kingdom, Prudential was:

- the proprietor of one of the largest long-term funds of investment assets supporting long-term insurance products (the Prudential Assurance Company long-term fund)(6);
- a market leader in the corporate pensions market providing solutions to over 20 per cent of the FTSE 350 companies;
- the fourth largest United Kingdom asset manager(7); and

rated as Aa1 by Moody's, AA+ by Standard and Poor's and AA by Fitch for financial strength of the Prudential Assurance Company. Moody's placed the Prudential Assurance Company on negative outlook on May 16, 2007. All other ratings are with a stable outlook. The ratings from Moody's, Standard & Poor's and Fitch for the Prudential Assurance Company represent the second highest ratings in their respective rating categories.

(1) Source: Prudential analysis of latest externally available new business market statistics

(2)
Source: Statutory financial data per National Underwriter Insurance Data Services from Highline Data, rankings as of 9/30/07, latest rankings available

(3)
Source: LIMRA. Quarterly rankings and market share are year-to-date figures. Fixed includes FIA sales. Traditional Fixed is traditional individual deferred fixed annuities and does not include FIA, immediate or structured settlements

(4)
Source: The Advantage Compendium

(5)
Source: VARDS

(6)
Source: Company return to FSA

(7)
Source: Watson Wyatt

Group Strategy Overview

Prudential's objective

Prudential's overriding objective is to generate sustainable value for its shareholders by combining a clear focus on delivering profitable growth in the short term, with sound strategic positioning to capture long term growth opportunities.

Prudential's strategic focus

Prudential's strategy is centered on the global retirement opportunity, where it believes it has the assets and capabilities to capture a disproportionate share of this growing profit pool over the coming years.

Prudential's key markets

Geographically, Prudential will focus on expanding its existing franchises in Asia, the United States and the United Kingdom, where it already holds strong and often market-leading positions.

Prudential's assets and capabilities

Within these markets, Prudential intends to continue to leverage its brands, its product innovation skills and its investment management and risk management expertise to develop and deliver solutions that meet the changing needs of customers throughout their pre- and post- retirement years, and it will look to further strengthen its powerful distribution networks to enable it to bring those products to market successfully.

Prudential will use its local knowledge to try and ensure it tailors solutions to local market needs, while at the same time, continuing to leverage the benefits of the Group as a whole in terms of greater capital efficiency, greater risk appetite and operational synergies.

Driving Growth

Asia

Prudential's strategy in Asia is to continue to build quality, multi-channel distribution that delivers customer-centric and profitable products in segments that have the potential for sustained growth, with an increasing emphasis on retirement solutions.

United States

The United States is the largest retirement savings market in the world, and Jackson's strategy is to leverage its product innovation skills, relationship-based distribution model and low cost infrastructure to capture a growing and profitable share of this market.

United Kingdom

Prudential UK's strategy is to concentrate on those areas of the retirement savings and income markets where it can generate attractive returns, capitalizing on its longevity experience, multi-asset management capabilities, brand and financial strength.

M&G

M&G's strategy is to focus on delivering superior investment performance and maximizing risk-adjusted returns for its retail, wholesale and internal clients.

2007 Priorities

A summary of the 2007 priorities and the level of achievement in respect of these for the year is detailed in the table below:

2007 Summary Priorities	2007 Summary Achievements
Group	
Improve Group holding company cash flow[1] and maintain robust capital position	Operating cash flow improved and Prudential is on target to be operating cash flow positive in 2008.
Deliver growing dividend, targeting two- times cover over time	The full year dividend is up five per cent with 1.9 times cover
Share expertise and innovation across the Group	Prudential continues to share expertise across borders. For example, it has drawn on Jackson's experience to offer variable annuity products in Asia.
Asia	
At least double 2005 EEV new business profits by 2009[2]	Prudential anticipates that, based on current levels of performance and trends, that this target will be met a year early.
Expand distribution and improve productivity	Agent numbers grew by 125,000 to 410,000, and agency sales were up 44 per cent. Agent productivity increased, including improvements of 67 per cent in Vietnam and 21 per cent in Singapore.
Continue product innovation with focus on retirement and wealth	Prudential launched the "What's your number?" retirement campaign in six Asian Markets, and new health products in Singapore, India and Hong Kong.
United States	
Continue to enhance and expand the existing product offering	Prudential introduced six guaranteed living benefits and a further 20 investment options to its variable annuity product.
Continue to take profitable share of variable annuities	Prudential's variable annuity market share grew to 5.1 per cent, up from 4.6 per cent in 2006[3].
Increase share of US retail asset management market	Prudential launched a range of retail mutual fund products. Curian increased assets under management by 42 per cent in 2007.

United Kingdom

Build retirement income business	Prudential wrote one in four of the UK's individual annuities and grew its lifetime mortgage business to a 14 per cent market share[(4)].
Focus on profitable retirement savings and wholesale opportunities	Prudential has withdrawn from unprofitable product areas and developed a factory gate proposition aimed at distribution partners with good persistency. Prudential completed the £1.7 billion Equitable Life transaction.
Deliver targeted cost savings	By the end of 2007, £115 million of the cost saving target of £195 million had been delivered and plans are in place to deliver the additional £80 million.
Consider reattribution of the inherited estate	Prudential nominated a Policyholder Advocate. A decision whether to proceed will be made in the first half of 2008.

Asset Management

Maintain strong investment performance	45 per cent of M&G's retail mutual funds delivered top quartile performance. 86 per cent of segregated institutional mandates met or exceeded their benchmarks.
Develop product range	New funds were launched in five Asian markets, the US and the UK.
Expand distribution reach	M&G increased its distribution reach in Europe, and Prudential's Asian business broadened its multi-channel distribution network across the region.

(1) Holding company cash flow is the increase or decrease in cash and short-term investments of the holding company and related finance subsidiaries during the reporting period.

(2) EEV new business profits are the present pre-tax value of future shareholder cash flows from new business, less a deduction for the cost of locked-in (encumbered) capital and the impact of the time value of options and guarantees as prepared in accordance with the EEV Principles and Guidance issued by the CFO Forum of European Insurance Companies and reported in the UK. See "Item 3 Key Information EEV Basis and New Business Results".

(3) Source: Morning Star Research Center

(4) Source: SHIP

2008 Priorities

Group

Prudential's overriding objective for 2008 remains that of continuing to create value for its shareholders by fully exploiting the power of its retirement-led strategy and continuing to expand the excellent businesses that it has in place today. On a business unit basis Prudential aims to focus on the following priorities in 2008:

Life insurance

In Asia:

- Expand the agency force and continue to improve productivity
- Maximize the potential from non-agency distribution and add new partners
- Further develop direct marketing channels and up-sell and cross-sell
- Increased focus on retirement services and health products

In the US:

- Continue to innovate around its key variable annuity product
- Enhance its world-class operating platform
- Expand retail distribution
- Selectively participate in the institutional market

In the UK:

- Build on its strengths in the retirement market and risk products
- Migrate to factory gate cautiously managed asset accumulation products
- Deliver on the cost reduction program including the outsource program
- Selectively participate in the institutional market
- Determine whether it is in the best interest of policyholders and shareholders to pursue a reattribution of the inherited estate

Asset management

- Maintain superior investment performance for both internal and external funds
- Extend third party retail and institutional businesses

Summary

In 2007, Prudential's operating performance was strong, building on the positive momentum established in 2005 and 2006.

The combination of Prudential's retirement-led strategy, a clear focus on generating profitable growth and excellence in the delivery of its plans is driving shorter-term performance and also placing the Group in a strong position from which to outperform in the longer-term.

Prudential believes that the retirement market offers significant long-term sustainable growth opportunities as a significant demographic wave transitions out of the work-force and into retirement. The Prudential Group has a strong presence in this sector based on its financial strength, its investment and risk management skills, its brands and its product and distribution expertise.

There is significant volatility and nervousness in markets and it is likely that there will be a period of less attractive economic growth trends in the US and in the UK than it has seen in recent years. Notwithstanding this, Prudential believes that its strategy and its business model are very robust and are well placed to continue to deliver sustainable value.

In Asia, the fundamentals underpinning economic growth remain powerful and Prudential's businesses are very well placed to benefit. Prudential believes it is currently on track to deliver in 2008, one year earlier than previously stated, on its target of at least doubling 2005 EEV basis new business profit by 2009.

In the US, Prudential believes it is well positioned to continue its record of out performance and that its value driven strategy in the UK is on track.

In the UK Prudential has already de-emphasized those products which it believes might have been more sensitive to market conditions.

Prudential's asset management businesses, although more directly influenced by market movements, are well placed to capitalize on their strong market positions and investment performance to deliver net flows and profit growth.

Prudential believes that overall the prospects for the Group in 2008 remain positive and that over the longer-term the demographic, economic and social factors driving its business are likely to continue and it is ideally positioned to capture a greater share of that growth.

Company Address and Agent

Prudential plc is a public limited company incorporated on November 1, 1978, and organized under the laws of England and Wales. Prudential's registered office is Laurence Pountney Hill, London EC4R 0HH, England (telephone: +44 20 7220 7588). Prudential's agent in the United States is Jackson National Life Insurance Company, located at 1 Corporate Way, Lansing, Michigan 48951, United States of America.

Significant Subsidiaries

The table below sets forth Prudential's significant subsidiaries.

Name of Company	Percentage Owned(1)	Country of Incorporation
The Prudential Assurance Company Limited	100%	England and Wales
Prudential Annuities Limited(2)	100%	England and Wales
Prudential Retirement Income Limited(2)	100%	Scotland
M&G Investment Management Limited(2)	100%	England and Wales
Jackson National Life Insurance Company(2)	100%	United States
Prudential Assurance Company Singapore (Pte) Limited(2)	100%	Singapore
PCA Life Assurance Company Limited(2)	99%	Taiwan

(1) Percentage of equity owned by Prudential directly or indirectly. The percentage of voting power held is the same as the percentage owned. Each subsidiary has one class of ordinary shares and operates mainly in its country of incorporation, except for Prudential Retirement Income Limited which operates mainly in England and Wales.

(2) Owned by a subsidiary of Prudential.

Asian Business

Asia's life insurance markets are very attractive with large scale and high growth rates supported by economic growth, favorable demographics and market liberalizations. However, there are some formidable barriers to successful entry, including entrenched incumbents, the pace of change and nature of regulations, mandatory domestic partners in some markets and a shortage of experienced staff. Acquisition opportunities, particularly of scale businesses, are limited and in North Asian markets are likely to involve back books that currently experience negative spread and hence require material provisions under European regulatory capital requirements.

Prudential's strategy in Asia is to build quality, multi-channel distribution that delivers customer centric and profitable products in segments with the potential for sustained growth. By necessity, the approach to each market varies, but all operations are unified under the Prudential icon and common brand values. Prudential believes that, as its track history demonstrates, it has the ability to leverage learning and expertise from within the region and the wider Group to accelerate the development of unique opportunities as they arise in each market.

The ability to execute the strategy is highly dependent on the strength and depth of the management talent pool in the region and consequently Prudential invests in continually strengthening and developing its teams. The operating model empowers local management teams with a regional team overseeing control functions such as risk management and providing strategic guidance and technical support in areas such as distribution optimization and product design.

Asia remains a very attractive region for growth opportunities due to its high levels of economic activity translating into higher levels of personal wealth, greater disposable incomes, a comparatively higher propensity to save and a growing appetite for good quality protection and savings products. Traditionally older people have relied on their children to provide for them, but within just one generation this is expected to be far less common. Within this environment, ageing demographics are also beginning to drive increased household savings rates and an emerging need for healthcare and retirement solutions.

Asian governments generally have little appetite to increase the provision of state funded retirement benefits and healthcare and are actively encouraging the development of a strong, dynamic private sector to meet people's growing need for financial solutions.

Life Insurance

Prudential has a market leading platform with a top three market share position, in terms of new business APE, in seven of its twelve markets (Source: Prudential analysis of latest externally available new business market statistics). Prudential has a unique position in Vietnam with a market leading life insurance business and well respected brand. To further leverage this platform, Prudential launched a consumer finance company in September 2007. Prudential has the leading private sector life insurance joint ventures in China and India. Prudential Corporation Asia's high proportion of profitable, regular premium business combined with sound operational management means cash flows can be predicted with some certainty. As previously announced the business had net positive remittances of surplus cash back to the Group in 2007.

Distribution

Agency is the predominant distribution channel in Asia and for Prudential, the agency force again generated 70 per cent of new business volumes in 2007. Success in agency distribution requires building and maintaining meaningful scale in terms of agent numbers whilst also providing the infrastructure to manage agent training and skills development to drive agency productivity. Prudential's agency priority depends on the stage of development of each individual market and Prudential's operation within it. For example in India, Prudential's joint venture with ICICI has been rapidly expanding, with the addition of 593 new branches during the year to give a total of 1,065 and correspondingly average agent numbers in 2007 increased by 123 per cent and at 31 December there were 277,000 agents.

Similarly in China, although the rate of geographic expansion is slower as each new city requires separate regulatory approvals the emphasis is also on expanding the agency channel; average numbers were up 38 per cent and at December 31 there were 20,500 agents. In markets where Prudential has sufficient agency scale, the emphasis is on helping those agents become more productive through intensified training and sales management support. Agent productivity, in terms of average APE per agent, increased by 67 per cent in Vietnam and 21 per cent in Singapore during 2007.

Prudential has a large partnership distribution network in Asia. During 2007, Prudential extended its agreements with Standard Chartered Bank to include Taiwan where it will exclusively provide bancassurance products in their newly acquired HsinChu International Bank with its 83 branches and 2.4 million customers. In Korea regulation states that a bank can only source a maximum of 25 per cent of its total insurance sales from any one insurer, and with Prudential's sales through existing bank partners regularly reaching their maximum shares adding new banks is a priority. In 2007 Prudential secured two major new banks, Industrial Bank of Korea and Kookmin Bank. Prudential's regional bancassurance relationship with Citibank also grew strongly with new business APE generated of £23 million being 12 per cent of total bank distribution for 2007.

Although still small, new business from direct marketing grew by 58 per cent over 2006 with Thailand performing well and recording growth of 55 per cent. The regional Direct Marketing team has been strengthened and work is now underway on exploring further opportunities.

Products

The life insurance products offered by Prudential Corporation Asia include a range of with-profits (participating) and non-participating term, whole life endowment and unit-linked policies. Prudential also offers health, disablement, critical illness and accident cover to supplement its core life products. Prudential's business in Asia is focused on regular premium products that provide both savings and protection benefits. In 2007, the new business profit mix was 63 per cent unit-linked, 15 per cent non-linked and 22 per cent accident and health products. At the end of 2007 Prudential Corporation Asia offered unit-linked products in 10 of the 12 countries in Asia in which it operates.

Unit-linked products combine savings with protection and the cash value of the policy depends on the value of the underlying unitized funds. Participating products provide savings with protection where the basic sum assured can be enhanced by a profit share (or bonus) from the underlying fund as determined at the discretion of the insurer. Non-participating products offer savings with protection where the benefits are guaranteed or determined by a set of defined market related parameters. Accident and health products provide mortality or morbidity benefits and include health, disablement, critical illness and accident covers. Accident and health products are commonly offered as supplements to main life policies but can also be sold separately.

The profits from participating policies are shared between the policyholder and insurer (typically in a 90:10 ratio) in the same way as with-profits business in the United Kingdom as detailed in " UK Business UK Products and profitability" below. Under unit-linked products the profits that arise from managing the policy, its investments and the insurance risk accrue entirely to shareholders, with investment gains accruing to the policyholder within the underlying unitized fund. The profits from accident and health and non-participating products consist of any surplus remaining after paying policy benefits.

In 2007 Prudential continued to broaden its range of products. This included a new Takaful range in Indonesia, launched in September 2007, and a new variable annuity product in Taiwan.

Systematic cross-sell campaigns were launched across the region, contacting more than 2 million of our existing customers. These included the initiation of a regular up-sell in Hong Kong through the indexation of policy benefits initiatives to capture maturity proceeds in Singapore and a targeted offer of guaranteed increases in protection benefits in Malaysia.

In Asia, there are very material opportunities arising in the provision of healthcare solutions. Prudential successfully piloted new supplemental health products in Singapore, India and Hong Kong during the year, selling over 125,000 new policies.

Helping people address their financial needs for retirement is also a major growth opportunity and whilst Prudential already has a number of products designed to support the accumulation phase of a retirement fund, work is now underway on drawdown options and supporting related protection and health products. Prudential has already begun positioning itself as a provider of retirement solutions through the roll out of the successful 'What's your number?' campaigns in six countries which encourages people to think about what resources they are likely to need to finance their retirement aspirations.

New Business Premiums

In 2007, total sales of insurance products were £2,944 million, up 53 per cent from 2006 (£1,921 million). Of this amount, regular premium insurance sales were up 32 per cent to £1,124 million and single premium insurance sales increased 70 per cent to £1,820 million.

The following table shows Prudential's Asian life insurance new business premiums by territory for the periods indicated. In this table "Other Countries" includes Thailand, the Philippines and Vietnam.

	2007	**2006**
	£m	**£m**
Singapore	**660**	429
Hong Kong	**618**	458
Malaysia	**119**	76
Taiwan	**350**	231
Japan	**144**	75
Korea	**420**	311
China	**112**	63
Indonesia	**227**	102
India (Group's 26% interest in joint venture with ICICI)	**203**	125
Other countries	**91**	51
Total	**2,944**	1,921

Subsequent to September 29, 2007, and following the change in management stipulated in the original agreement, CITIC-Prudential Life Insurance Company Ltd ("CITIC-Prudential"), the Group's life operation in China, has been accounted for as a joint venture. Prior to this date CITIC-Prudential was consolidated as a subsidiary undertaking. The totals above include 100 per cent of total premiums for CITIC-Prudential up to September 29, 2007 and 50 per cent thereafter, being Prudential's share after this date.

Asset Management

Prudential Asset Management ("PAM") (formerly PPM Asia) is Prudential Corporation Asia's fund management division responsible for managing Prudential Corporation Asia's life and third party institutional funds including the Prudential group's investments in the Asia-Pacific region. PAM has offices in Singapore, Hong Kong and Tokyo.

Prudential's asset management business in Asia supports the Life Business, and has established itself as an increasingly material retail business in its own right. Today it has retail operations in ten markets and Prudential believes it has more top five market share positions than many other foreign fund managers in the region.

The mutual fund industry continues to diversify its investments, with expectations being for a significant increase in net flows over the coming years. Bank distribution continues to dominate in most markets in Asia, with Prudential having established strong relationships with both regional and local banks and placing great emphasis on providing good service.

Distribution

A key achievement in 2007 was the expansion of regional distribution relationships with Citi and HSBC. The Asian asset management business also signed a global partnership agreement with HSBC Private Banking and is now part of the Credit Suisse Fundslab platform.

Prudential launched a retail mutual fund business in Hong Kong in October 2007. Since launch six distribution relationships have been signed, including banks, financial advisers and an on-line portal.

Products

Prudential offers mutual fund investment products in India, Taiwan, Japan, Singapore, Malaysia, Hong Kong, Korea, Vietnam and China, allowing customers to participate in debt, equity and money market investments. It is also licensed in United Arab Emirates. Prudential Corporation Asia earns a fee based on assets under management.

Fund innovation is essential in maintaining sales levels and distribution agreements and during 2007 Prudential's operations launched 71 new funds, with two of the larger being India funds for Japan; the India Equity Fund and the India Infrastructure Fund. Of the other new funds the China Dragon A Share Equity Fund in Korea reached its regulatory cap in two weeks and the Asia Pacific REIT in Taiwan has also reached its regulatory cap.

Greater deregulation and higher allocations by sovereign wealth and other institutional investors in foreign investments is driving the growth of offshore funds in the market and Prudential is also developing its institutional asset management business in Asia, winning mandates of £0.5 billion during 2007.

The United Arab Emirates operation also made good progress with 13 distribution agreements signed since launch a year ago and with funds under management of £397 million.

In August 2007, Prudential increased its stake in CITIC Prudential Fund Management, its joint venture with CITIC Group in China from 33 per cent to 49 per cent following approval from regulators. This joint venture launched its first Qualified Foreign Institutional Investor fund in Korea in May 2007 and hit its £100 million quota.

Prudential Corporation Asia makes transaction charges (initial and surrender depending on the type of fund and the length of the investment) and also makes a service charge based on assets under management. The charges vary by country and fund with money market style funds generally having the lowest charges and equity funds the highest.

Net Flows and Funds Under Management

The Asian fund management business had £37 billion of funds under management as at December 31, 2007, of which £17.4 billion related to retail funds under management in operations in India, Taiwan, Japan, Korea, Malaysia, Singapore, Vietnam, China, Hong Kong and Dubai. Prudential's asset management business achieved record net inflows for 2007 of £3 billion, up 17 per cent on 2006. The growth in net flows was primarily driven by strong performance in India, Taiwan and Japan.

US Business

Prudential conducts its US insurance operations through Jackson National Life Insurance Company and its subsidiaries, including Curian Capital, LLC, a registered investment advisor. The US operations also include PPM America, Prudential's US internal and institutional fund manager, and Prudential's US broker-dealer operations (National Planning Corporation, SII Investments, Inc., IFC Holdings, Inc. and Investment Centers of America, Inc.). At December 31, 2007, Prudential's US operations had approximately three million policies and contracts in effect and PPM America managed approximately £39 billion of assets. In 2007, total new business premiums were £6,534 million.

US Market Overview

The United States is the largest retirement savings market in the world and continues to grow rapidly. By mid-2007, total retirement assets in the US exceeded $17.4 trillion, up from $16.5 trillion at the end of 2006 (Source: Investment Company Institute). As 78 million baby boomers (Source: US Census Bureau) move into retirement age, these assets are expected to shift from asset accumulation to income distribution. Currently, $1.6 trillion of assets are generating retirement income. This amount is estimated to grow to $7.3 trillion by 2017 (Source: Financial Research Corporation).

Despite these favourable demographics, US life insurers face challenges from both within and outside the industry. The industry remains highly fragmented, with the top 15 annuity companies sharing only 74 per cent of the total market share in 2007 (source: LIMRA). Competition is intensifying through aggressive price competition. Life insurers also find themselves competing with other financial services providers, particularly mutual fund companies and banks, for a share of US retirement savings assets.

During 2007, the S&P index increased 3.5 per cent (2006: 13.6 per cent), and the US equity markets experienced significant volatility during the second half of the year. The S&P index increased 6 per cent through June 2007, yet ended the year 2.5 per cent lower than in June and 5.7 per cent lower than at the end of October. This volatility and concerns about the US economy are expected to increase investors' interest in guarantees on products with equity-based returns.

In addition, for much of 2007, the yield curve was flat and credit spreads were relatively low, resulting in a difficult environment for the sale of profitably priced fixed annuities. During the second half of 2007, the yield began to normalise and credit spreads began to widen, ending closer to normalised historical levels. The market for fixed annuities was further complicated during the year by artificially high deposit rates offered by banks to attract assets.

Jackson National Life Insurance Company

Jackson is a leading provider of retirement income and savings solutions in the mass and mass-affluent segments of the US market, primarily to those planning for retirement or in retirement already. It offers tools that help people plan for their retirement, and manufactures products with specialized features and guarantees to meet customers' needs. By seeking to add value to both the representatives who sell Jackson products, and to their customers, Jackson has built a strong position in the US retirement savings and income market with the fastest-growing variable annuity franchise measured by new sales growth from 2001 to 2007 (source: MARC) and top-10 sales rankings in fixed index annuities and individual traditional deferred fixed annuities (source: LIMRA).

Jackson's primary focus is manufacturing profitable, capital-efficient products, such as variable annuities, and marketing these products to advice-based channels through its relationship-based distribution model. In developing new product offerings, Jackson leverages a low-cost, flexible technology platform to manufacture innovative, customisable products that can be brought to the market quickly.

Jackson markets its retail products primarily through advice-based distribution channels, including independent agents, independent broker-dealer firms, regional broker-dealers, banks and registered investment advisors. Jackson also markets life insurance and fixed annuity products through its captive insurance agency, which is concentrated in the southeastern United States.

During 2007 significant progress was made against the business priorities which included:

- Continued enhancement and expansion of the existing product offering;
- Continue to take profitable share of variable annuities market;
- Increased penetration of existing distribution channels; and
- Increase share of the US retail asset management market.

Jackson continues to base its success in the evolving US market on industry leading distribution and product innovation coupled with sound evaluation of product economics. Jackson's long-term goals include the continued expansion of its share of the US annuities and retail asset management markets, which it plans to achieve by leveraging its relationship-based distribution advantage in the advice-based channels. Growth in Jackson's share of the US annuities market will be largely contingent upon continued enhancement and expansion of the existing product offering, increased penetration of existing distribution channels and entry into new distribution channels, as well as opportunistic acquisition activity.

Innovation in product design and speed to market continue to be key drivers of Jackson's competitiveness in the variable annuity market. Jackson believes that high quality, cost-effective technology has allowed Jackson to offer a comprehensive product portfolio that can be customized to meet the needs of individual customers. Products are offered on an unbundled basis, allowing customers to select those benefits that meet their unique financial needs and pay only for those benefits that they truly need. This advantage, coupled with distribution through advice-based channels, facilitates Jackson's ability to effectively meet individuals' long-term retirement savings and income needs. Jackson believes that leveraging this advantage is a more sustainable long-term strategy than price competition and, as a result, does not intend to sacrifice product economics for a short-term increase in market share.

Jackson supports its network of independent agents and advisors with award-winning customer service and marketing support. In 2007, the Service Quality Measurement Group rewarded Jackson with its third World Class Customer Satisfaction Award. Jackson's marketing campaigns continue to win awards for achievement in graphic design, editorial content and overall communications excellence.

Through organizational flexibility and excellence in execution, coupled with product innovation, a successful distribution model and a strong service offering, Jackson increased its share of the US variable annuity market to 5.1 per cent for full-year 2007 (source: ARC), up from 4.6 per cent for the full-year 2006.

Jackson continues to expand its product portfolio, adding a variety of new features during 2007. The company enhanced its variable annuity portfolio by adding 20 new underlying investment options, four new guaranteed minimum withdrawal benefits, one new guaranteed minimum income benefit and its first guaranteed minimum accumulation benefit.

In 2007, Jackson also introduced a line of retail mutual funds and launched two new fixed index annuity products that offer new index options and multiple crediting methods. These additions provide even more product choices to advisors and create more opportunities to capture a larger portion of the US retirement market.

Jackson continues to seek bolt-on acquisitions that will complement its long-term organic growth strategy. Transactions will need to meet or exceed Jackson's targeted rate of return and will likely be in the life insurance channel, which provides stable future cash flows. Depending on the opportunities that become available, Jackson may consider utilizing securitization financing for these bolt-on transactions.

National Planning Holdings ("NPH"), Jackson's affiliated independent broker-dealer network, is comprised of four broker-dealer firms, including INVEST Financial Corporation, Investment Centers of America, National Planning Corporation, and SII Investments. NPH continues to grow through significant recruiting efforts. By leveraging its high-quality, state-of-the-art technology, NPH provides its advisors with the tools they need to operate their practices more efficiently. Through its relationship with NPH, Jackson continues to benefit from an important retail distribution outlet, in addition to receiving valuable insight into the needs of financial advisors and their clients. NPH increased sales of Jackson's enhanced product offering and the overall distribution of the network during the year. NPH also introduced several operational enhancements, which increased the efficiency of its production processes. In addition, NPH executed a focused recruitment initiative to expand the total assets under management and the representative base of INVEST Financial Corporation.

Curian Capital ("Curian"), Jackson's registered investment advisor, provides innovative fee-based separately managed accounts and investment products to advisors through a sophisticated technology platform. Curian expands Jackson's access to advisors and provides a complement to Jackson's core annuity product lines. During 2007, Curian implemented its Simplified Proposal Process, which allows financial professionals to generate proposals in a matter of minutes, while maintaining the flexibility and customization that make separately managed accounts an attractive alternative to traditional investment vehicles. Curian also expanded its wholesaling force during the year in an effort to accelerate growth.

Products

The following table shows total new business premiums in the United States by product line and distribution channel for the periods indicated. Total new business premiums include deposits for investment contracts with limited or no life contingencies.

	Year Ended December 31,	
	2007	**2006**
	£m	**£m**
By Product		
Annuities		
Fixed annuities		
Interest-sensitive	**481**	638
Fixed index	**447**	554
Immediate	**91**	50
Variable annuities	**4,554**	3,819
Total	**5,573**	5,061
Life insurance	**26**	25
Institutional products		
GICs, funding agreements and Federal Home Loan Bank of Indianapolis (FHLBI) advances	**408**	458
Medium term note funding agreements	**527**	437
Total	**935**	895
Total	**6,534**	5,981
By Distribution Channel		
Independent agents	**623**	701
Bank	**812**	784
Broker-dealer	**4,153**	3,593
Captive agents	**10**	8
Institutional products department	**936**	895

	Year Ended December 31,	
Total	**6,534**	5,981

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Annuities

Fixed Annuities

Interest-sensitive Annuities

In 2007, interest-sensitive fixed annuities accounted for 7 per cent of total new business premiums and 25 per cent of policyholder liabilities of the US operations interest-sensitive fixed annuities are products which allow for tax-deferred accumulation of funds, with flexible payout options. Interest-sensitive fixed annuities are used for asset accumulation in retirement planning and for providing income in retirement, and offer flexible payout options. The contract holder pays Jackson a premium, which is credited to the contract holder's account. Periodically, interest is credited to the contract holder's account and administrative charges are deducted, as appropriate. Jackson may reset the interest rate on each contract anniversary, subject to a guaranteed minimum, in line with state regulations. When the annuity matures, Jackson either pays the contract holder the amount in the contract holder account or begins making payments to the contract holder in the form of an immediate annuity product. This latter product is similar to a UK annuity in payment.

Fixed annuity policies are subject to early surrender charges for the first six to nine years of the contract. In addition, the contract may be subject to a market value adjustment at the time of surrender. During the surrender charge period, the contract holder may cancel the contract for the surrender value.

Jackson's profits on fixed annuities arise primarily from the spread between the return it earns on investments and the interest credited to the contract holder's account (net of any surrender charges or market value adjustment) less expenses.

Jackson's fixed annuities continue to be a profitable book of business, benefiting from favorable spread income in recent years. However, the fixed annuity portfolio could be impacted by the continued low interest rate environment as lower crediting rates could result in increased surrenders and lower sales as customers seek alternative investment opportunities. However, if customers become more risk averse to equity-based returns due to recent market volatility, fixed annuities could be viewed as an attractive alternative to variable annuities.

Fixed Index Annuities

Fixed index annuities accounted for 7 per cent of total new business premiums in 2007 and 7 per cent of policyholder liabilities of the US operations. Fixed index annuities (formerly referred to as equity-indexed annuities) are similar to fixed annuities in that the contract holder pays Jackson a premium, which is credited to the contract holder's account and periodically, interest is credited to the contract holder's account and administrative charges are deducted, as appropriate. Jackson guarantees an annual minimum interest rate, although actual interest credited may be higher and is linked to an equity index over its indexed option period.

Jackson's profit arises from the investment income earned and the fees charged on the contract, less the expenses incurred, which include the costs of the guarantees, and the interest credited to the contract. Fixed index annuities are subject to early surrender charges for the first five to 12 years of the contract. During the surrender charge period, the contract holder may cancel the contract for the surrender value.

Fixed index annuities continue to be a profitable product, benefiting from favorable spread and the effective management of equity risk. The fixed index book provides a natural offsetting equity exposure to the guarantees issued in conjunction with Jackson's variable annuity products, which allows for an efficient hedging of the net equity exposure.

Immediate Annuities

In 2007, immediate annuities accounted for 1 per cent of total new business premiums and 2 per cent of policyholder liabilities of the US operations. Immediate annuities guarantee a series of payments beginning within a year of purchase and continuing over either a fixed period of years and/or the life of the policyholder. If the term is for the life of the policyholder, then Jackson's primary risk is mortality risk. This product is generally used to provide a guaranteed amount of income for policyholders and is used both in planning for retirement and in retirement itself. The implicit interest rate on these products is based on the market conditions that exist at the time the policy is issued and is guaranteed for the term of the annuity.

Variable Annuities

In 2007, variable annuities accounted for 70 per cent of total new business premiums and 45 per cent of policyholder liabilities of the US operations. Variable annuities are tax-advantaged deferred annuities where the rate of return depends upon the performance of the underlying portfolio, similar in principle to UK unit-linked products. They are also used for asset accumulation in retirement planning and to provide income in retirement.

The contract holder can allocate the premiums between a variety of variable sub-accounts with a choice of fund managers and/or guaranteed fixed-rate options. The contract holder's premiums allocated to the variable accounts are held apart from Jackson's general account assets, in a separate account, which is analogous to a unit-linked fund. The value of the portion of the separate account allocated to variable sub-accounts fluctuates with the underlying investments. Variable annuity policies are subject to early surrender charges for the first four to seven years of the contract. During the surrender charge period, the contract holder may cancel the contract for the surrender value. Jackson offers one variable annuity that has no surrender charges.

Jackson offers a choice of guaranteed benefit options within its variable annuity product portfolio, which customers can elect and pay for. These include the guaranteed minimum death benefit ("GMDB"), which guarantees that, upon death of the annuitant, the contract holder or beneficiary receives a minimum value regardless of past market performance. These guaranteed death benefits might be expressed as the return of original premium, the highest past anniversary value of the contract, or as the original premium accumulated at a fixed rate of interest. In addition, there are three other types of guarantees: guaranteed minimum withdrawal benefits ("GMWB"), guaranteed minimum accumulation benefits ("GMAB") and guaranteed minimum income benefits ("GMIB"). GMWBs provide a guaranteed return of the principal invested by allowing for periodic withdrawals that are limited to a maximum percentage of the initial premium. One version of the GMWBs provides for a minimum annual withdrawal amount that is guaranteed for the contract holder's life without annuitization. GMABs generally provide a guarantee for a return of a certain amount of principal after a specified period. GMIBs provide for a minimum level of benefits upon annuitization regardless of the value of the investments underlying the contract at the time of annuitization. The GMIB is reinsured.

As the investment return on the separate account assets is attributed directly to the contract holders, Jackson's profit arises from the fees charged on the contracts, less the expenses incurred, which include the costs of guarantees.

In addition to being a profitable book of business in its own right, the variable annuity book also provides an opportunity to utilize the offsetting equity risk among various lines of business to manage Jackson's equity exposure in a cost effective fashion. Jackson believes that the internal management of equity risk coupled with the utilization of external derivative instruments where necessary, continues to provide a cost-effective method of managing equity exposure.

Profits in the variable annuity book of business will continue to be subject to the impact of market movements both on sales and allocations to the variable accounts and the effects of the economic hedging program. While Jackson hedges its risk on an economic basis, the nature and duration of the hedging instruments, which are recorded at fair value through the income statement, will fluctuate and produce some accounting volatility. Jackson continues to believe that, on a long-term economic basis, the equity exposure remains well managed.

Life Insurance

Reflecting the competitive life insurance market place and the overall trend towards asset accumulation products, Jackson's life insurance products accounted for only 0.4 per cent of the total new business premiums and 9 per cent of policyholder liabilities of the US operations in 2007. Jackson sells several types of life insurance, including term life, universal life and variable universal life. Term life provides protection for a defined period of time and a benefit that is payable to a designated beneficiary upon death of the insured. Universal life provides permanent individual life insurance for the life of the insured and includes a savings element. Variable universal life is a life insurance policy that combines death benefit protection and the important tax advantages of life insurance with the long-term growth potential of professionally managed investments. Jackson's life insurance book has also delivered consistent profitability, driven primarily by positive mortality and persistency experience.

Institutional Products

Institutional products consist of guaranteed investment contracts ("GICs"), funding agreements, including agreements issued in connection with participation in the Federal Home Loan Bank of Indianapolis ("FHLBI") program, and medium term note funding agreements. In 2007, institutional products accounted for 14 per cent of total new business premiums and 12 per cent of policyholder liabilities of US operations. The GICs are marketed by the institutional products department to defined contribution pension and profit-sharing retirement plans. Funding agreements are marketed to institutional investors, including corporate cash accounts and securities lending funds, as well as money market funds, and are issued to the FHLBI in connection with its program. Three types of institutional products are offered:

- Traditional GICs;
- Funding agreements; and
- Medium term note funding agreements.

Traditional Guaranteed Investment Contracts

Under a traditional GIC, the policyholder makes a lump sum deposit. Interest is paid on the deposited funds, usually on a quarterly basis. The interest rate paid is fixed and is established when the contract is issued.

Traditional GICs have a specified term, usually two to three years, and typically provide for phased payouts. Jackson tailors the scheduled payouts to meet the liquidity needs of the particular retirement plan. If deposited funds are withdrawn earlier than scheduled, an adjustment is made that approximates a market value adjustment.

Jackson sells GICs to retirement plans, in particular 401(k) plans. The traditional GIC market is extremely competitive. This is due in part to competition from synthetic GICs, which Jackson does not sell.

Funding Agreements

Under a funding agreement, the policyholder either makes a lump-sum deposit or makes specified periodic deposits. Jackson agrees to pay a rate of interest, which may be fixed but which is usually a floating short-term interest rate linked to an external index. Interest is paid quarterly to the policyholder.

The average term for the funding agreements is one to two years. At the end of the specified term, policyholders may re-deposit the principal in another funding agreement. Jackson makes its profit on the spread between the yield on its investment and the interest rate credited to policyholders.

Typically, brokerage accounts and money market mutual funds are required to invest a portion of their funds in cash or cash equivalents to ensure sufficient liquidity to meet their customers' requirements. The funding agreements permit termination by the policyholder on 7 to 90 days notice, and thus qualify as cash equivalents for the clients' purposes. Funding agreements terminable by the policyholder with less than 90 days notice account for less than 0.3 per cent of Jackson's total policyholder reserves.

In 2005, Jackson became a member of the FHLBI. Membership allows Jackson access to advances from FHLBI that are collateralized by mortgage related assets in Jackson's investment portfolio. These advances are in the form of funding agreements issued to FHLBI. In 2007, the total premiums generated from advances from the FHLBI were $800 million.

Medium Term Note Funding Agreements

Jackson has also established European and global medium-term note programs. The notes offered may be denominated in any currency with a fixed or floating interest rate. Notes are issued to institutional investors by a special purpose vehicle and are secured by funding agreements issued by Jackson.

Distribution and Marketing

Jackson distributes products in all 50 states of the United States and in the District of Columbia, although not all products are available in all states. Operations in the state of New York are conducted through a New York insurance subsidiary.

Jackson focuses on independent distribution systems and it supports its network of independent agents and advisors with education and training programs.

Independent Agents and Broker-Dealers

Jackson's subsidiary, Jackson National Life Distributors, LLC ("JNLD"), is the primary marketing and distribution organization for annuities and life insurance products. The insurance and fixed annuity products are distributed through independent agents located throughout the United States. These approximately 20,000 appointed insurance agents or brokers, who also may represent other companies, are supported by four regional marketing divisions. JNLD generally deals directly with writing agents and brokers thereby eliminating intermediaries, such as general agents. This distribution channel has enabled it to generate significant volumes of business on a low, variable cost basis. Jackson is responsible for providing agents with product information and sales materials.

JNLD's wholesalers meet directly with broker-dealers and financial planners and are supported by an extensive internal sales staff. There are more than 700 active selling agreements with regional and independent broker-dealer organizations throughout the United States, which provides Jackson access to more than 74,000 appointed agents.

Jackson is responsible for providing training for its broker-dealer partners and providing them with product information and sales materials.

Banks, Credit Unions and Other Financial Institutions

Jackson's Institutional Marketing Group distributes annuity and life insurance products through banks, credit unions and other financial institutions and through third-party marketing organizations that serve these institutions. Jackson is a leading provider of annuities offered through banks and credit unions and can access more than 17,000 financial institution representatives through existing relationships with banks and credit unions. Jackson has established distribution relationships with medium-sized regional banks, which it believes are unlikely to develop their own insurance product capability.

Independent Broker-Dealers

Jackson's retail distribution is managed by Prudential's independent broker-dealer network, NPH, which is made up of four firms, National Planning Corporation, SII Investments, Inc., INVEST Financial Corporation and Investment Centers of America, Inc. NPH had approximately 3,000 registered representatives at the end of 2007.

Registered Investment Advisor

Commencing operation in early 2003, Curian Capital, LLC (Jackson's registered investment advisor channel) provides innovative fee-based separately managed accounts and investment products to advisors through a sophisticated technology platform.

The registered investment advisor industry began as a service offered to very high net worth investment clients, focusing on platforms rather than specific products, and providing institutional-quality management, custom portfolios and tax services. The industry has evolved to offer personalized investment advice, very high quality money management, good returns and reasonable costs to a broader range of clients.

Institutional Products Department

Jackson markets its institutional products through its institutional products department. It has direct contacts with banks, municipalities, asset management firms and direct plan sponsors. Institutional products are distributed and marketed through intermediaries to these groups.

Captive Agency

In connection with the acquisition of Life of Georgia in 2005, Jackson established the JNL Southeast Agency ("JNLSA"), the Company's first captive agency since 1970. JNLSA, with approximately 100 life insurance agents, was formed to help retain the Life of Georgia book of business and to create a new distribution channel for Jackson's life insurance products.

Factors Affecting Pricing of Products and Asset Liability Management

Jackson prices products based on assumptions about future mortality, investment yields, expenses and persistency. Pricing is influenced by its objectives for return on capital and by competition. Although Jackson includes a profit margin in the price of its products, the variation between the assumptions and actual experience can result in the products being more or less profitable than it was assumed they would be. This variation can be significant.

Jackson designs its interest-sensitive products and conducts its investment operations to closely match the duration of the assets in its investment portfolio with the annuity, term life, whole life, universal life and guaranteed investment contract product obligations. Jackson seeks to achieve a target spread between what it earns on its assets and what it pays on its liabilities by investing principally in fixed-rate securities and in options and futures to hedge equity-related movements in the value of its products.

Jackson segregates its investment portfolio for certain investment management purposes and as part of its overall investment strategy into four portfolios: fixed annuities without market value adjustment, fixed annuities with market value adjustment, fixed index annuities and institutional liabilities. The portfolios backing fixed annuities with and without market value adjustments and the fixed index annuities have similar characteristics and differ primarily in duration. The portfolio backing the institutional liabilities has its own mix of investments that meet more limited duration tolerances. Consequently, the institutional portfolio is managed to permit less interest rate sensitivity and has limited exposure to mortgage-backed securities. At December 31, 2007, 10 per cent of the institutional portfolio was invested in residential mortgage-backed securities.

The fixed-rate products may incorporate surrender charges, market value adjustments, two-tiered interest rate structures or other limitations relating to when policies can be surrendered for cash, in order to encourage persistency. At December 31, 2007, 73 per cent of Jackson's fixed annuity reserves had surrender penalties or other withdrawal restrictions. Substantially all of the institutional portfolio had withdrawal restrictions or market value adjustment provisions.

Fixed index annuities issued by Jackson also include an equity component that is hedged using equity options and futures contracts issued on the corresponding exchange. The equity component of these annuities constitutes an embedded derivative under IAS 39, "Financial Instruments: Recognition and Measurement" that is carried at fair value, as are other derivative instruments.

Guaranteed benefits issued by Jackson in conjunction with the sales of variable annuity contracts expose Jackson to equity risk as the benefits generally become payable when equity markets decline below the guaranteed amount. Certain of these benefits are carried at fair value under IAS 39 with changes in fair value recorded in income. Jackson hedges the tail risk associated with the equity exposure using equity options and futures contracts, which are also carried at fair value under IAS 39. As Jackson has not explicitly hedged its fair value risk and certain benefits have mortality risk and are therefore precluded from being carried at fair value, the income statement includes a timing mismatch due to changes in fair value.

Reserves

Except for certain non-insurance deposit type accounts and as allowed under IFRS, Jackson uses reserves established on a US GAAP basis as the basis for consolidation into Prudential's IFRS accounts.

For the fixed and variable annuity contracts and institutional products, the reserve is the policyholder's account value. For the immediate annuities, reserves are determined as the present value of future policy benefits. Mortality assumptions are based on the 1983a Individual Annuitant Mortality Table and the Annuity 2000 Mortality Table for newer issues. Interest rate assumptions currently range from 2.0 per cent to 9.0 per cent.

For the traditional term life contracts, reserves for future policy benefits are determined using the net level premium method and assumptions as to mortality, interest, policy persistency and expenses. Mortality assumptions are generally from 25 per cent to 160 per cent of the 1975-1980 Basic Select and Ultimate tables, depending on underwriting classification and policy duration. Interest rate assumptions range from 4.0 per cent to 8.0 per cent. Persistency and expense assumptions are based on Jackson's experience.

For the interest-sensitive and single premium life contracts, reserves approximate the policyholder's account value.

Reinsurance

Jackson reinsures portions of the coverage provided by its life insurance products with other insurance companies under agreements of indemnity reinsurance. Reinsurance assumed from other companies is not material.

Indemnity reinsurance agreements are intended to limit a life insurer's maximum loss on a large or unusually hazardous risk or to obtain a greater diversification of risk for the life insurer. Indemnity reinsurance does not discharge the original insurer's primary liability to the insured. Jackson's reinsured business is ceded to numerous reinsurers and the amount of business ceded to any one reinsurer is not material. Typically, the reinsurers have an AM Best Co rating of A or higher.

Jackson limits the amount of risk it retains on new policies. Currently, the maximum risk that is retained on new policies is $2.0 million. Jackson is not a party to any risk reinsurance arrangement with any reinsurer pursuant to which the amount of reserves on reinsurance ceded to such reinsurer equals more than 1 per cent of total policy reserves.

Beginning in late 1995, Jackson entered into reinsurance agreements to cede 80 per cent of its new level premium term life insurance business written in the United States to take advantage of competitive pricing in the reinsurance markets. Beginning January 1, 1999, it began to cede 90 per cent of new writings of level premium term products. Jackson intends to continue to cede a significant proportion of new term life insurance business for as long as pricing in the reinsurance markets remains favorable.

Effective from December 31, 2002, Jackson cedes the guaranteed minimum death benefit coverage associated with certain variable annuities issued prior to December 31, 2002 to an affiliate, Prudential Atlantic Reinsurance Company ("PARC"), Dublin, Ireland. PARC is consolidated into the Group's financial statements.

Jackson cedes the guaranteed minimum income benefit on variable annuities to an unaffiliated reinsurer.

Policy Administration

Jackson provides a high level of administrative support for both new and existing policyholders. Jackson's ability to implement new products quickly and provide customer service is supported by integrated computer systems that issue and administer complex life insurance and annuity contracts. Jackson continues to develop its life insurance administration and underwriting systems and its fixed and variable annuity administration systems to enhance the service capabilities for both new and existing policies.

PPM America

PPM America is Prudential's US fund management operation, with offices in Chicago and New York. Its primary focus is to manage funds for Jackson and therefore the majority of funds under management are fixed interest in nature. PPM America has also launched a number of institutional high yield and special investment vehicles to leverage their fund management capabilities into new areas. PPM America also serves as investment advisor for certain mutual funds, several private investment funds and structured finance vehicles, and the US equity and fixed income portion of portfolios of certain affiliates within Prudential.

UK Business

Introduction

As at December 31, 2007, Prudential's UK business was structured into two business units, each focusing on its respective target customer markets. Prudential's UK business units are UK Insurance Operations and M&G.

The following discussion describes:

- the UK retail financial services market;
- Prudential's UK business units, products and distribution channels;
- Prudential's reinsurance arrangements and reserving practice; and
- shareholders' participation in Prudential's long-term insurance business.

In 2007, Prudential's UK business generated new business insurance premiums of £6,866 million and gross investment inflows of £14,745 million. As of December 31, 2007, M&G had over £167 billion funds under management. See " M&G" below for an analysis and description of this asset manager and its funds under management.

UK Retail Financial Services Business Overview

In 2007, Prudential UK continued its strategy of selectively competing in areas of the retirement savings and income markets where it believes it can generate attractive returns.

The UK business remains focused on maximizing value from the opportunity afforded by the fast growing need for retirement solutions. With an ageing population and the concentration of UK wealth in the mass affluent and high net worth sectors, the retirement and near-retirement population is expected to represent the fastest growing segments of the market over the next 10 years. Low savings rates and high levels of consumer debt, combined with a shift in responsibility for providing income during retirement from Government and employers towards individuals, have resulted in individuals being inadequately provided for during increasingly long periods of retirement. These consumers will, Prudential believes, have a need for high quality financial advice and service and are increasingly seeking guarantees and longevity protection from their financial products.

Prudential UK has a unique combination of competitive advantages, including its significant longevity experience, multi-asset management capabilities and its brand and financial strength. These put it in a strong position to pursue its value driven strategy in its two principal businesses: Retail and Wholesale.

Prudential UK's Retail business is focusing on savings and income for those customers nearing or in retirement. Its retirement income business aims to continue to drive profitable growth in its core annuities operation and grow its presence in the equity release market. The significant 25-year pipeline of internal vestings annuity business from maturing individual and corporate pensions policies is enhanced by strategic partnerships with third parties, where Prudential UK is the recommended annuity provider for customers vesting their pension at retirement. This scale enables its selective value-based participation in the external vestings market. Annuities remain core drivers of the sales and profit derived by Prudential UK, which now has approximately 1.5 million annuities in payment.

Prudential UK remains a market leader in the with-profits market. These products offer a medium to long-term, medium risk investment with exposure to a diverse range of assets that is particularly important to many customers against the backdrop of market uncertainty.

In the Retail accumulation business, Prudential UK continues to be a market leader in the corporate pensions market where it is a provider to over 20 per cent of FTSE 350 companies and the largest

provider of pension schemes to the UK public sector. Prudential now administers corporate pensions for over 600,000 members.

In addition, the Retail business has used its brand and strength with Discovery to build branded distribution in Health and Protection, further using the joint venture to access Discovery's Vitality concept and lifestyle protection capabilities.

Prudential UK's strategy in the Wholesale market is to participate selectively in bulk annuity and back-book buy-outs, where Prudential UK is well placed to win business based on its financial strength, superior track record, market leading investment capability as well as its extensive annuitant mortality risk assessment capabilities. The Wholesale business, which has been in operation for over 10 years and has already written more than 400 bulk buy-outs, has a strong track record in the risk management of pension schemes for corporate clients and insurers wishing to reduce or eliminate their investment or longevity liabilities. Prudential UK intends to maintain a strict focus on value, only participating in transactions that generate an acceptable rate of return.

Current year initiatives

Prudential UK's key priorities in 2007 were:

- Maintaining leadership position in individual annuities;
- Building share of the equity release market;
- Growing the volume of products that utilize Prudential's multi-asset management expertise;
- Deepening relationships with chosen distributors including the introduction of customer-agreed remuneration across some product lines;
- Realigning cost base to the selective business strategy; and
- Delivering wholesale transactions with attractive rates of return.

During 2007, Prudential UK maintained its market leadership in individual annuities, where it has continued to create value by maintaining high retention rates. This has been augmented by partnership deals with insurers such as Zurich, Royal London and Save and Prosper. Prudential UK also announced a new partnership with Barclays, where Prudential will be the preferred supplier of conventional annuity products to their retail customers in the UK.

The agreement announced in 2007 with Capita to outsource a large proportion of Prudential's in-force and new business policy administration is another important milestone for the UK business. This agreement is expected to deliver £60 million per annum of savings to Prudential UK, and is an important element in achieving its total cost savings target of £195 million. The contract is expected to result in approximately 3,000 employees transferring to Capita and help the UK deliver its long-term cost savings strategy by removing fixed costs from the business and achieving significant operating efficiencies. This should provide a significant reduction in long-term expense risk by providing certainty on per-policy costs as the number of policies in the mature life and pensions book decreases over the coming years. Unit costs per policy are expected to reduce by over 30 per cent by 2011.

Within the UK, as part of its continuing aim to maintain a cost effective platform for growth, Prudential has committed to realizing substantial annualized pre tax cost savings of £195 million savings per annum by 2010. By the end of 2007 £115 million of the cost saving target had been delivered. The remaining £80 million per annum, including the £60 million generated from the Capita contract, is expected to be delivered by the end of 2010.

In December, Prudential completed the transfer of Equitable Life's portfolio of in-force with-profits annuities. This book covers approximately 62,000 policies with assets of approximately £1.74 billion.

This deal grows Prudential's with-profits business and creates value for both Equitable Life policyholders and Prudential's shareholders and policyholders.

UK Products and Profitability

In common with other UK long-term insurance companies, Prudential's products are structured as either with-profits (or participating) products, or non-participating (including unit linked) products. Depending upon the structure, the level of shareholders' interest in the value of policies and the related profit or loss varies.

With-profits policies are supported by a with-profits sub-fund and can be single premium (for example, Prudence Bond) or regular premium (for example, certain corporate pension products). Prudential's primary with-profits sub-fund is part of Prudential Assurance Company's ("PAC") long-term fund. The return to shareholders on virtually all with-profits products is in the form of a statutory transfer to PAC shareholders' funds which is analogous to a dividend from PAC's long-term fund and is dependent upon the bonuses credited or declared on policies in that year. Prudential's with-profits policyholders currently receive 90 per cent of the distribution from the main with-profits sub-fund as bonus additions to their policies and shareholders receive 10 per cent as a statutory transfer.

The profits from almost all of Prudential's new non-participating business accrue solely to shareholders. Such business is written in the non-profit sub-fund within PAC's long-term fund, or in various shareholder owned direct or indirect subsidiaries, the most significant of which is Prudential Retirement Income Limited ("PRIL"), which also writes all new immediate annuities arising from vesting deferred annuity policies in the with-profits sub-fund of PAC. There is a substantial volume of in-force non-participating business in PAC's with-profits sub-fund and that fund's wholly owned subsidiary Prudential Annuities Limited ("PAL"), which is closed to new business; profits from this business accrue to the with-profits sub-fund.

The defined charge participating sub-fund ("DCPSF") forms part of the Company's long-term fund and comprises the accumulated investment content of premiums paid in respect of the defined charge participating with-profits business issued in France, the defined charge participating with-profits business reassured into the Company from Prudential International Assurance plc and Canada Life (Europe) Assurance Ltd and the with-profits annuity business transferred to the Company from the Equitable Life Assurance Society on December 31, 2007. All profits in this fund accrue to policyholders in the DCPSF.

Products

The traditional life insurance product offered by UK life insurance companies was a long-term savings product with a life insurance component. The life insurance element conferred tax advantages that distinguished the traditional life insurance products offered in the United Kingdom from the savings products offered by banks, building societies and unit trust companies. The gradual reduction of these tax advantages and increasing sales of single premium life products have resulted in the distinction between life insurance and other long-term savings products becoming less important. Pension products remain tax-advantaged within certain limits.

Prudential expects demand for private personal pension and savings products to increase over the medium to long term, in part reflecting a change in the UK government's approach to social security that has encouraged long-term savings through tax advantages, but also in reaction to the growing realization that state provided pensions are unlikely to provide sufficient retirement income. An ageing population is focusing on asset accumulation and other retirement products to supplement their state benefits, while younger generations are focusing on pension and long-term savings products as well as health and income protection cover.

Distribution

Retail financial services and products are distributed face to face, through branches, tied agents, company sales forces and financial advisors, or directly by mail, telephone and over the internet. Tied agents are exclusive agents who represent only one insurer and must offer customers the products most suitable to their needs, but only from the range of products offered by that insurer. In recent years the high costs of company sales forces and tied agency networks, combined with customers perceiving a lack of choice, have meant that sales forces and tied agents have lost significant market share to financial advisors, with the result that many insurers, including Prudential, have chosen to close these tied agents and direct sales force networks. With the aim of meeting the perceived demand for face to face advice when purchasing equity release products, Prudential established a face to face sales team for its life time mortgage product in late 2006. There are currently 40 advisors, with plans to hire more if demand increases.

Direct and e-commerce distribution methods are generally lower-cost than other methods but have not been conducive to providing financial advice to the consumer to date. Accordingly, products distributed directly are generally more straightforward and have lower, often fee-based, charges.

Previously, IFAs were required by the UK polarization laws to provide "best advice" to customers, considering all of the products available in the market and the customer's particular circumstances, and were legally responsible for their own advice. In contrast, company sales forces could only sell the products of the company they were employed by, but nevertheless had to provide "best advice" in light of the customer's particular circumstances. A company had legal responsibility for the advice its sales force provided and the conduct of its tied agents.

The FSA announced a relaxation of the polarization rules in March 2001 with respect to stakeholder pension schemes and direct offer financial promotions for packaged products (which include life policies other than pure protection policies, pensions, regulated collective investment schemes and investment trust savings schemes). As a result of these changes, tied sales forces and appointed representatives of product provider firms are now free to market stakeholder pensions manufactured by any other company.

The FSA, following a consultation process, implemented new "depolarization" rules at the end of 2004. Advisors now have the choice of being "single tied" as before, or multi-tied advising on the products of a limited range of providers, or equivalent to an IFA where they offer products from the "whole of market" as now, but they also have to offer a "fee alternative", a fee-based charging structure as an alternative to commission. Prudential worked with major financial advisor groups to design and build multi tie propositions and has been appointed to a number of multi-tie panels of these major financial advisor groups.

The FSA is conducting a review of the retail distribution marketplace. Prudential welcomes the publication of the FSA's Retail Distribution Review ("RDR") discussion papers, which outline a number of potential changes designed to encourage greater levels of transparency, professionalism and sustainability, with the prime aim of increasing consumers' access to savings and their understanding of the value of advice. Prudential is encouraged that the concept of consumer agreed remuneration has been included as part of the Review and believes that this is an excellent opportunity to put in place a framework that will better align the interests of consumers, advisers and providers.

As of December 31, 2007, Prudential UK Insurance Operations distributes its products through the following channels:

Direct and Partnerships

The direct distribution channel is primarily charged with increasing revenue from existing Prudential customers and by seeking new customers. Direct distribution channels include the telephone, internet and face to face advisors and focuses on annuities, investments, protection, health products and lifetime mortgages. Partnerships focuses on developing strong relationships with banks, retail brands and other distributors. Partnerships also seeks to help Prudential's distribution partners in their distribution and product development strategies. Prudential now has a range of providers including Barclays, Royal London Mutual, Zurich Financial Services, Openwork, Save and Prosper, National Australia Bank & St James Place. Prudential also has a partnership with Boots through its PruHealth joint venture.

Wholesale

In December 2007, Prudential completed the transfer of Equitable Life's portfolio of in-force with-profits annuities. This book covers approximately 62,000 policies with assets of approximately £1.74 billion. The completion of this transaction increased Prudential's with-profits business and is expected to create value for both Equitable Life policyholders and Prudential's shareholders and policyholders.

In 2006 Prudential UK completed two significant back book transactions. In January 2006 it reached agreement with Royal London to acquire the portfolio of in-payment pension annuities that had been written primarily under the Royal London brand, but which also included some annuities that had been written under the Refuge Assurance brand. The transaction generated premium income of approximately £660m. In June 2006, PAC agreed to reinsure the non-profit immediate annuity portfolio of the Scottish Amicable Insurance Fund ("SAIF") to PRIL. SAIF is a closed sub-fund established by a court-approved Scheme of Arrangement in September 1997, in which Prudential shareholders have no economic interest. It contains a large proportion of the business originally written by the Scottish Amicable Life Assurance Society that was acquired by PAC in September 1997. The reinsurance premium for this transaction was approximately £560m.

Intermediaries

In the second half of 2006, Prudential began a transformation program within its Intermediated Distribution area which it believes will create a significant advantage in the market through its methods of distribution and the skills of its people. Key developments that the program introduced to enhance their sales process through the use of management information are a new segmentation model based on value and a regional account focus to get closer to the external market.

UK Business Units

Long-term Products

Prudential's long-term products in the United Kingdom consist of life insurance, pension products and pensions annuities. The following table shows Prudential's UK Insurance Operations new business insurance and investment premiums by product line for the periods indicated. New business premiums include deposits for policies with limited or no life contingencies.

	Year Ended December 31,	
	2007	**2006**
	(in £ millions)	
Life insurance		
With-profits	**406**	250
Unit-linked	**899**	1,765
Total life insurance	**1,305**	2,015
Pensions		
With-profits individual	**29**	34
Unit-linked individual	**80**	93
Department of Work and Pensions rebates	**143**	161
Corporate	**680**	745
Total pensions	**932**	1,033
Pension annuities and other retirement products		
Fixed	**1,742**	2,439
Retail Price Index	**659**	1,338
With-profits	**2,228**	367
Total pension annuities	**4,629**	4,144
Total new business premiums	**6,866**	7,192

Life Insurance Products

Prudential's UK life insurance products are predominantly medium to long-term savings products with life cover attached, and also include pure protection (term) products. The main savings products Prudential offers are investment bonds.

Savings Products Investment Bonds

Prudential offers customers a choice through a range of investment funds to meet different risk and reward objectives. Prudential launched the Flexible Investment Plan ("FIP") in November 2003. Through this plan, its customers have the option to invest in the With-Profits fund or in a range of unit linked investment funds. Advisors can build an individual portfolio and asset allocation model to accurately match a client's risk / reward profile. FIP also gives financial advisors the opportunity to choose from different external fund management groups and the flexibility to make changes to portfolio and asset allocation over time. In 2007, sales of the unit-linked option of FIP were £223 million.

The Prudence Bond, a single premium, unitized with-profits policy with no fixed term, is one of the United Kingdom's leading investment bond products in terms of with-profits market share In September 2004, Prudential launched the next generation with-profits investment bond, entitled PruFund. A replacement for Prudence Bond it is designed to provide increased transparency and smoothed investment returns to the customer. In 2007, total new business premiums attributable to PruFund were £188 million. Sales of Prudential's offshore bonds, the International Prudence Bond and International Prudential Portfolio Bond, were £430 million in 2007.

With-profits products aim to provide capital growth over the medium to long-term, and access to a range of investment sectors without the costs and risks associated with direct investment into these sectors. Capital growth for the policyholder on with-profits bonds apart from PruFund is achieved by the addition of reversionary or regular bonuses, which are credited to the bond on a daily basis from

investment returns achieved within Prudential Assurance's long-term with-profits fund, off-set by charges and expenses incurred in the fund. A final bonus may also be added when the bond is surrendered. PruFund delivers growth through a published expected growth rate, updated quarterly, and a transparent formulaic smoothing mechanism. In contrast the capital return on unit-linked bonds directly reflects the movement in the value of the assets underlying those funds. When funds invested in Prudential Assurance's long-term with-profits fund are either fully or partially withdrawn, Prudential may apply a market value adjustment to the amount paid out.

In a relatively volatile investment market there has been a marked increase in demand for cautious managed solutions providing enhanced returns. In February 2007, Prudential UK launched the Cautious Managed Growth Fund and the Managed Defensive Fund, using Prudential's strengths in investment expertise and its disciplined approach to asset allocation. These funds have the potential to offer a better longer-term return than a bank or building society account and allow the customer to access real returns with lower volatility. These funds are available across the full tax wrapper suite, including onshore and offshore bonds, individual pensions and mutual funds.

Prudential launched the Prudential Investment Plan ("PIP"), an investment bond with customer agreed remuneration, in August 2007. PIP includes a selected range of investment solutions, offering both with-profits and unit-linked options, including the recently launched Cautious Managed Growth and Managed Defensive Funds, which utilize Prudential's core asset allocation expertise. These two funds have generated strong relative and absolute investment returns since they were launched and are available across the full tax wrapper suite, including onshore and offshore bonds, individual pensions and mutual funds.

During 2007, Prudential UK introduced customer-agreed remuneration across some of its other product lines. Under this model, financial advisors agree their remuneration directly with the customer and not with the product provider and in doing so make commission structures far more transparent. This is in line with Prudential UK's focus on building strong long-term relationships with advisors as well as offering market-leading retirement solutions.

Life Protection

In October 2004 Prudential launched PruHealth, a UK healthcare product that links health and fitness to the cost of medical insurance. PruHealth premium income is not reported as long-term new business sales. Support for PruHealth is strong in both the intermediaries channel and the direct to consumer channel. The product has been developed through a joint venture with Discovery of South Africa.

PruHealth continued to grow strongly with gross written premiums of £64 million in 2007, up 80 per cent on 2006. This business continues to progress and now insures 142,000 people, reflecting an emphasis on individual and SME (small-and-medium-enterprise) business, success in introducing new distribution deals, a focus on high quality corporate schemes and a strong renewal rate among individual customers. Tied regional broker networks have recently been established to enhance our distribution coverage.

Prudential also underwrites life protection for companies providing loans to their customers. Sales in 2006 were £687 million mostly generated through Prudential's partnership agreements with Lloyds TSB and Alliance and Leicester. Sales in 2007 were £21million, mainly because the partnership deals with Lloyds TSB and Alliance and Leicester had ceased.

Prudential UK and its South African joint venture partner, Discovery, launched PruProtect in September 2007. This is an innovative new protection insurance product offering customers life cover, income protection and severity-based serious illness cover.

Pension Products

Prudential provides both individual and corporate pension products. In 2007, new business premiums totaled £109 million for individual pensions and £680 million for corporate pensions. Pension products are tax-advantaged long-term savings products that comply with rules established by the UK Inland Revenue and are designed to supplement state-provided pensions. These rules require that, upon retirement, maturity benefits are used to purchase pension annuities by policyholder election at retirement or at least by the age of 75, although they do permit a portion to be taken as a tax-free lump sum. Prior to retirement, these products typically have minimal mortality risk to Prudential and are primarily considered investment products. An exception is where a guaranteed annuity option has been offered on the product, with an element of risk to Prudential both in underlying mortality and investment assumptions.

Prudential ceased marketing Guaranteed Annuity Options ("GAOs") in 1987, but for a minority of corporate pension schemes GAOs still apply for new members. Current liabilities for this type of business make up less than 1 per cent of the with-profits sub-fund.

Many of the pension products Prudential offers are with-profits products or offer the option to have all or part of the contributions allocated to a with-profits fund. Where funds invested in the with-profits fund are withdrawn prior to the pension date specified by the policyholder, Prudential may apply a market value adjustment to the amount paid out. The remaining pension products are non-participating products, which include unit-linked products.

Individual Pensions

Prudential's individual pension range offers unit-linked and unitized with-profits products.

In 2001, Prudential introduced products that meet the criteria of the UK government's stakeholder pension program. The stakeholder pension is intended for individuals earning enough to be able to afford to make contributions to a pension but who are not currently doing so. The introduction of stakeholder pensions has had implications for, among other things, how Prudential designs, administers, charges for and distributes pension products. The most significant requirements involve capped charges and a low minimum contribution which must be accepted by the provider. The government has capped charges at 1.5 per cent per annum of the policyholder account balance for stakeholder pensions for the first ten years, decreasing to 1 per cent thereafter, which is below the charges on personal pension products previously offered by the UK pensions industry.

Department of Work and Pensions Rebates ("DWP Rebate")

Prudential also provides individual personal pension products through the DWP Rebate arrangement. Under this arrangement, individuals may elect to contract out of the UK's State Second Pension (referred to as S2P) which was previously known as State Earnings Related Pension Scheme, administered by the UK Department of Work and Pensions. If an individual elects to contract out, then he or she will designate a pension provider, such as Prudential. Premiums on products sold in this manner are paid through "rebates" from the Department of Work and Pensions, which represent the amount that would be otherwise paid into S2P. Rebate amounts are invested to provide benefits to the individual. Premiums from Department of Work and Pensions rebates are typically reported in the first quarter of each year.

Corporate Pensions

There are two categories of corporate pension products: defined benefit and defined contribution. Prudential has an established defined benefit plan client base covering the small to medium-sized employer market. Prudential's defined contribution client base ranges from small-unlisted companies to some of the largest companies in the United Kingdom as well as a number of clients in the public sector (in particular the Additional Voluntary Contribution Sector). Additional Voluntary Contribution plans enable employees to make additional pension contributions, either regularly or as a lump sum, to supplement their occupational pension plans.

Defined benefit plans and products continue to dominate the corporate pensions market in terms of funds under management. In recent years, however, most new plans established have been defined contribution products. In addition, there is an increasing trend among companies to close the defined benefit plans to new members or to convert existing schemes from defined benefit to defined contribution in order to stabilize or reduce potential pension liabilities.

Prudential offers group unit linked policies and with-profits policies to the corporate pensions market. Prudential's defined contribution products are Additional Voluntary Contribution plans, Group Money Purchase Plans, Group Personal Pension plans, Group Stakeholder Pension plans and Executive Pension plans.

Prudential also has a Company Pension Transfer Plan (or Bulk S32), designed to accept benefits from both defined benefit and defined contribution pension schemes which are winding-up (cease to exist or being replaced by a new type of scheme).

Pension Annuities and other retirement products

Prudential offers individual conventional immediate annuities that are either fixed or retail price indexed (referred to as RPI), where annuity payments are guaranteed from the outset, or with-profits annuities, where annuity payments are variable dependent on the investment performance of underlying assets. A total of £2,830 million of individual annuities were sold in 2007. Of this total, £1,399 million were sold to existing Prudential customers with maturing pension policies. The other £1,431 million were sold to new customers, typically individuals with a pension maturing with another provider who chose Prudential to provide their annuity. Prudential also offers bulk annuities, whereby it manages the assets and accepts the liabilities, of a company pension scheme, usually when it is being wound up by the employer. Due to the nature of the product, the volume of Prudential's bulk annuity sales is unpredictable as it depends on the decision of scheme trustees. In 2007, Prudential sold £1,799 million of bulk annuities.

Prudential's immediate annuity products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump-sum capital payment. No surrender value is available under any of these products. The primary risks to Prudential from immediate annuity products, therefore, are mortality improvements and credit risk.

Conventional Annuities

Prudential's conventional annuities include level (non-increasing), fixed increase and retail price index ("RPI") annuities. Prudential's fixed increase annuities incorporate automatic increases in annuity payments by fixed amounts over the policyholder's life. The RPI annuities provide for a regular annuity payment to which an additional amount is added periodically based on the increase in the UK Retail Prices Index. In 2007, sales of RPI annuities were £659 million (including £11 million of bulk annuities). In 2007, sales of level and fixed increase annuities amounted to £1,742 million (including £43 million of bulk annuities and £28 million of unit-linked Flexible Retirement Income Account products ("FRIA")).

With-profits Annuities

Prudential is one of only a few companies in the United Kingdom in the with-profits annuities market. In 2007, Prudential's premiums for this business were £2,228 million, including £1,745 million from the transfer of Equitable Life's portfolio of in-force with-profits annuities. Prudential's with-profits annuities combine the income features of annuity products with the investment smoothing features of with-profits products and enable policyholders to obtain equity-type returns over time. Policyholders select an "anticipated bonus" from the specific range Prudential offers for the particular product. The value of the annuity payment each year depends upon the anticipated bonus rate selected by the policyholder when the product is purchased and the bonuses Prudential declares each year during the term of the product. If bonus rates fall below the anticipated rate, then the annuity income falls.

Capitalizing on the need for inflation protection in retirement, Prudential has an 87 per cent market share of the with-profits annuity market as of December 31, 2007 (source: ABI). Early in 2007 Prudential made a number of product enhancements including the facility to accept Protected Rights monies, which was a first in the with-profit annuity market.

Income drawdown

In the fourth quarter of 2007, Prudential UK launched an income drawdown product. This product helps customers manage their pension through the various stages of retirement, and offers flexibility whilst providing potential for growth through investment. Together with the Flexible Lifetime Annuity this gives Prudential a full range of retirement income solutions.

Flexible Retirement Income Account

FRIA offers customers a flexible retirement solution and consists of two separate products. The Flexible Income Drawdown Plan ("FIDP") offers wide investment choice, income flexibility and options on death, including the repayment of the remaining fund as a lump sum. Under the current rules for approval of pension schemes, customers can use this draw-down product to provide retirement income up to age 75. These rules require customers to purchase annuities with any remaining pension funds at age 75. The Flexible Lifetime Annuity ("FLA") offers similar investment choice and income flexibility to FIDP but no lump sum death benefits. Prudential sold £31 million of the FRIA products in 2007.

Lifetime mortgage

Investing in property has been an increasingly important component for many people saving for their retirement. However this has left many retirees income poor but asset rich. In October 2005, Prudential launched Prudential Property Value Release Plan, a lifetime mortgage product which gives customers greater flexibility and control over the timing of when they draw down funds, thereby reducing total interest charges over the lifetime of the loan. It has been well received by advisors and customers. Gross advances in 2007 were £156 million, representing a 14 per cent share of the lifetime mortgage market (Source: SHIP). In 2006 a face to face sales team was established to offer direct advice of the life time mortgage product, with the aim of meeting perceived customer demand for face to face sales in this market. In the third quarter of 2007 a number of product enhancements were introduced, including an inheritance guarantee and a new lump sum product. Prudential expects the overall market size to grow and aims to further grow its market share.

Reinsurance

In view of the size and spread of Prudential Assurance's long-term insurance fund, there is little need for reinsurance to protect this business. Some limited reinsurance is maintained and treaties relating to critical illness, permanent health insurance, term insurance and certain unit linked products are in place.

Reserves

In the United Kingdom, a life insurance company's reserve and other requirements are determined by its Board, with advice from its Actuarial Function Holder, subject to minimum reserve requirements.

These minimum reserve requirements are established by the rules and guidance of the Financial Services Authority ("FSA").

The reserves are published in annual returns to the FSA. In practice, similar provisions are included in the life insurance company's statutory accounts with limited adjustments. The Actuarial Function Holder must pay due regard to the fair treatment of policyholders in making recommendations to the company's board. The Actuarial Function Holder is required to report directly to the FSA any serious concerns regarding the company's ability to treat its customers fairly.

Prudential's regulatory reserving for with-profits products as required by UK regulation, takes into account annual bonuses/annual interest credited to policyholders because these are "attached" to the policies and are guaranteed. Realistic reserves are also calculated for with-profits products under UK regulation. These include an allowance for final bonuses based on the asset share or a prospective valuation of the policies and the cost of guarantees, smoothing and enhancements.

Prudential reserves for unit-linked products on the basis of the value of the unit fund and additional reserves are held for expenses and mortality where this is required by the contract design.

As well as the reserves, the company's assets must also cover other capital requirements set out in the FSA Prudential Sourcebook. These comprise a with-profits insurance capital component, which is a measure of the difference in the surplus assets on regulatory and realistic bases; a resilience capital requirement for entities other than PAC, which makes prudent allowance for potential future adverse movements in investment values; and the long-term insurance capital requirement, which must be held by all European Union insurance companies. See "Financial Strength of Prudential Assurance's Long-term Fund" for further information on solvency and "Realistic Financial Strength Reporting" for further information on realistic reporting.

Financial Strength of Prudential Assurance's Long-term Fund

The PAC's long-term fund remains very strong. On a realistic valuation basis, with liabilities recorded on a market consistent basis, the free assets are valued at approximately £8.7 billion at December 31, 2007, before a deduction for the risk capital margin.

PAC at December 31, 2007 was rated Aa1 (negative outlook) by Moody's, AA+ (stable outlook) by Standard & Poor's, and AA+ (stable outlook) by Fitch.

The table below shows the change in the investment mix of Prudential's main with-profits fund:

	2007 %	**2006 %**
UK equities	**35**	36
International equities	**17**	17
Property	**14**	15
Bonds	**27**	25
Cash and other asset classes	**7**	7
Total	**100**	100

The with-profits sub-fund delivered a pre-tax investment return of 7.2 per cent in 2007, and over the last five years the fund has achieved a total return of 91 per cent against 94.6 per cent for the FTSE 100 total return and 104.6 per cent for the FTSE All-Share (Total Return) index (figures are to December 31, 2007, before tax and charges). Much of this excellent investment performance was achieved through the active asset allocation of the fund. As part of its asset allocation process, Prudential UK constantly evaluates prospects for different markets and asset classes. During the year PAC's long Term Fund reduced its exposure to property and increased the quality of its corporate bond portfolio. The fund includes the assets of the Equitable Life with-profit annuity business, transferred during the year, which were almost entirely fixed interest corporate bonds.

Realistic Financial Strength Reporting

In accordance with the FSA Prudential Sourcebook, PAC has to demonstrate solvency on a "realistic' valuation basis as well as the regulatory basis. In the aggregate, the basis has the effect of placing a value on the liabilities of UK with-profits contracts that reflects the amounts expected to be paid based on the current value of investments held by the with-profits funds and current circumstances.

This basis makes companies' financial health more transparent to policyholders, intermediaries and regulators alike, and enables more informed choices to be made by policyholders. The PAC long-term with-profits sub-fund is very strong with the inherited estate (free assets) measured on a realistic basis, valued at approximately £8.7 billion at the year end before deducting for the risk capital margin.

Shareholders' Interests in Prudential's Long-term Insurance Business

In common with other UK long-term insurance companies, Prudential's products are structured as either with-profits products or non-participating (including unit-linked) products. For statutory and management purposes, Prudential Assurance's long-term fund consists of a number of sub-funds in which shareholders and policyholders have varying interests.

With-profits Products

With-profits products provide an equity-type return to policyholders through bonuses that are "smoothed". There are two types of bonuses: "annual" and "final". Annual bonuses, often referred to as reversionary bonuses, are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular product. Unlike annual bonuses, final bonuses are only guaranteed until the next bonus declaration. Final bonuses are only credited on a product's maturity or surrender or on the death of the policyholder. Final bonuses can represent a substantial portion of the ultimate return to policyholders.

With-profits policies are supported by a with-profits fund. Prudential's primary with-profits fund is part of Prudential Assurance's long-term fund. With-profits products provide benefits that are generally either the value of the premiums paid, less charges and fees and with the addition of declared bonuses, or the guaranteed death benefit with the addition of declared bonuses. Smoothing of investment returns is an important feature of with-profits products. It is designed to reduce the impact of fluctuations in investment return from year to year and is accomplished predominantly through the level of final bonuses declared.

The return to Prudential's shareholders in respect of with-profits business Prudential writes is an amount equal to up to one-ninth of the value of the bonuses Prudential credits or declares to policyholders in that year. Prudential has a large block of in-force with-profits business with varying maturity dates that generates a relatively stable stream of shareholder profits from year to year.

Prudential Assurance's board of directors, with the advice of its Actuarial Function Holder and its With-Profits Actuary determines the amount of annual and final bonuses to be declared each year on each group of contracts.

When determining policy payouts, including final bonuses, Prudential follows an actuarial practice of considering "asset shares" for specimen policies. Asset shares broadly reflect the value of premiums paid in respect of a policy accumulated at the investment return on the assets Prudential notionally attributes to the policy. In calculating asset shares, Prudential takes into account the following items:

- the cost of mortality risk and other guarantees (where applicable),
- the effect of taxation,
- management expenses, charges and commissions,
- the proportion of the amount determined to be distributable to shareholders, and
- the surplus arising from surrenders, non-participating business included in the with-profits fund and other miscellaneous sources.

However, Prudential does not take into account the surplus assets of the long-term fund, or their investment return, in calculating asset shares. Asset shares are used in the determination of final bonuses together with treating customers fairly, the need to smooth claim values and payments from year to year and competitive considerations.

Prudential is required by UK law and regulation to consider the fair treatment of its customers in setting bonus levels. The concept of treating customers fairly is established by statute but is not defined. In practice, it provides one of the guiding principles for decision-making in respect of with-profits products.

The overall return to policyholders is an important competitive measure for attracting new business. The ability to declare competitive bonuses depends, in part, on the financial strength of Prudential Assurance's long-term fund, enabling it to maintain high levels of investment in equities and real estate, if it wishes to do so. Equities and real estate have historically over the long-term provided a return in excess of fixed interest securities.

In 2007, Prudential declared a total surplus of £2,901 million from PAC's primary with-profits sub-fund, of which £2,612 million was added to with-profits policies and £289 million was distributed to shareholders. This includes annual bonus rates of 3.25 per cent per annum for the Prudence Bond and 3.25 per cent per annum for personal pensions. In 2006, Prudential declared a total surplus of £2,693 million from Prudential Assurance's primary with-profits sub-fund, of which £2,424 million was added to with-profits policies and £269 million was distributed to shareholders. This includes annual bonus rates of 3.25 per cent for the Prudence Bond and 3.25 per cent for personal pensions.

The closed Scottish Amicable Insurance Fund ("SAIF") declared total bonuses in 2007 of £676 million compared to £599 million in 2006. Shareholders have no interest in profits from the SAIF fund, although they are entitled to the investment management fees paid by this business. For greater detail on the SAIF fund, see " The SAIF Sub-fund and Accounts" below.

Surplus Assets in PAC's Long-term With-profits Fund

The assets of the main with-profits fund within the long-term fund of PAC comprise the amounts that PAC expects to pay out to meet its obligations to existing policyholders and an additional amount used as working capital. The amount payable over time to policyholders from the with-profits fund is equal to the policyholders' accumulated asset shares plus any additional payments that may be required by way of smoothing or to meet guarantees. The balance of the assets of the with-profits fund is called the 'inherited estate' and has accumulated over many years from various sources.

The inherited estate represents the major part of the working capital of PAC's long-term insurance fund. This enables PAC to support with-profits business by providing the benefits associated with smoothing and guarantees, by providing investment flexibility for the fund's assets, by meeting the regulatory capital requirements that demonstrate solvency and by absorbing the costs of significant events or fundamental changes in its long-term business without affecting the bonus and investment policies. The size of the inherited estate fluctuates from year to year depending on the investment return and the extent to which it has been required to meet smoothing costs, guarantees and other events.

PAC believes that it would be beneficial if there were greater clarity as to the status of the inherited estate. As a result, PAC has announced that it has begun a process to determine whether it can achieve that clarity through a reattribution of the inherited estate. As part of this process an independent Policyholder Advocate has been nominated to represent policyholders' interests should a decision be made to proceed. This nomination does not mean that a reattribution will occur.

Given the size of the Group's with-profits business any proposal is likely to be time consuming and complex to implement and is likely to involve a payment to policyholders from shareholders' funds. If a reattribution is completed the inherited estate will continue to provide working capital for the long-term insurance fund.

Depletion of Surplus Assets and Shareholders' Contingencies

As a proprietary insurance company, Prudential Assurance is liable to meet its obligations to policyholders even if the assets of the long-term funds are insufficient to do so. The assets, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers (the excess assets) in the long-term funds, represented by the unallocated surplus of with-profits funds could be materially depleted over time by, for example, a significant or sustained equity market downturn, costs of significant fundamental strategic change or a material increase in mis-selling provisions. In the unlikely circumstance that the depletion of the excess assets within the long-term fund was such that the Group's ability to treat its customers fairly was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the long-term funds to provide financial support.

In 1998, Prudential stated that deducting personal pensions mis-selling costs from the inherited estate of the With-Profits Sub-Fund would not impact the Company's bonus or investment policy. The Company gave an assurance that if this unlikely event were to occur, it would make available support to the fund from shareholder resources for as long as the situation continued, so as to ensure that policyholders were not disadvantaged.

The assurance was designed to protect both existing policyholders at the date it was announced, and policyholders who subsequently purchased policies while the pension mis-selling review was continuing. The mis-selling review was completed on June 30, 2002 and consequently the assurance has not applied to new business issued since January 1, 2004. New business in this context consists of new policies, new members to existing pension schemes plus regular and single premium top-ups, transfers and switches to existing arrangements. The assurance will continue to apply to any policy in force as at December 31, 2003, both for premiums paid before January 1, 2004 and for subsequent regular premiums (including future fixed, retail price index or salary related increases and Department for Work and Pensions rebates).

The maximum amount of capital support available under the terms of the assurance for policies in-force at December 31, 2003 will reduce over time as Prudential pays claims on the policies covered by it.

The bonus and investment policy for each type of with-profits policy is the same irrespective of whether or not the assurance applies. Hence removal of the assurance for new business has had no impact on policyholder returns and this is expected to continue for the foreseeable future.

The SAIF Sub-fund and Accounts

The SAIF sub-fund is a ring-fenced sub-fund of PAC's long-term fund and was formed following the acquisition of the mutual Scottish Amicable Life Assurance Society in 1997. No new business may be written in SAIF, although regular premiums are still being paid on policies in-force at the time of the acquisition and "top-ups" are permitted on these policies.

This fund is solely for the benefit of those Scottish Amicable Life Assurance Society policyholders whose policies were transferred to SAIF. Shareholders have no interest in the profits of this fund, although they are entitled to the investment management fees paid on this business. The brand name and rights to profit on new business were transferred to a new Prudential subsidiary, Scottish Amicable Life plc, which operated for the benefit of shareholders.

At the time of the acquisition, PAC's long-term fund made payments of £276 million to the SAIF sub-fund for the unit-linked life business and non-participating life business and the future profits from unitized with-profits life business. PAC also agreed to set up a memorandum account of £1.3 billion that is considered in determining SAIF's investment policy. The SAIF sub-fund pays an annual charge to the other part of PAC's long-term fund in respect of this memorandum account.

PAC's long-term fund made a further payment of £185 million to qualifying Scottish Amicable Life Assurance Society policyholders for the use of the Scottish Amicable brand and future expense synergies. This payment will be recovered by the long-term fund by means of a combination of a service agreement and a license fee agreement with Craigforth Services Limited (now renamed Prudential UK Services Limited), a shareholder-owned service company set up at the time of the acquisition.

In addition to the payments described above, shareholders paid £415 million to qualifying Scottish Amicable Life Assurance Society policyholders, representing goodwill, and £70 million for certain Scottish Amicable Life Assurance Society strategic investments.

The adoption on January 1, 2005 of realistic reporting of liabilities in SAIF has had the effect of including the surplus assets over declared bonuses in liabilities rather than as unallocated surplus.

With the exception of certain guaranteed annuity products, referred to below, the majority of SAIF with-profits policies do not guarantee minimum rates of return to policyholders. Should the assets of SAIF be inadequate to meet the guaranteed benefit obligations to the policyholders of SAIF, the PAC long-term fund would be liable to cover any such deficiency. Due to the quality and diversity of the assets in SAIF and the ability of SAIF to revise guaranteed benefits in the event of an asset shortfall, the directors believe that the probability of either the PAC's long-term fund or Prudential's shareholders' funds having to contribute to SAIF is remote.

Non-participating Business

The majority of Prudential-branded non-participating business is written in the non-profit sub-fund of PAC's long-term fund or in subsidiaries owned by Prudential. Since mid-2004, Prudential has written all of its new non-profit annuity business through Prudential Retirement Income limited ("PRIL"), from which the profits are attributed solely to shareholders. Prior to that time, certain non-profit annuity business was written through Prudential Annuities Limited ("PAL"), which is wholly owned by PAC's with-profits fund. The profits on this business are attributable to the fund and not to shareholders, although indirectly shareholders get one ninth of additional amounts paid to policyholders through the declaration of bonuses.

The unit-linked business written by PAC and Prudential International Assurance is written with capital provided by shareholders.

Guaranteed Annuities

PAC used to sell guaranteed annuity products in the United Kingdom and held a provision of £45 million at December 31, 2007, within the main with-profits fund to honor guarantees on these products. The Company's main exposure to guaranteed annuities in the United Kingdom is through the SAIF and a provision of £563 million was held in SAIF at December 31, 2007, to honor the guarantees. As SAIF is a separate sub-fund of the Company's long-term business fund, this provision has no impact on shareholders.

M&G

M&G is Prudential's fund management business in the United Kingdom and continental Europe and comprises retail, institutional and internal fund management activities. Its key metrics of performance are profits, net sales and investment performance.

Fund Management

M&G is an investment-led business with a demonstrable focus on performance delivery and aims to offer attractive products in a variety of macro-economic environments. M&G aims to deliver superior investment performance and maximize risk-adjusted returns for its retail, wholesale and internal clients. External funds under management account for nearly a third of M&G's total funds under management and it is this higher-margin external business that drives profitability and cash generation for the Group.

M&G's retail strategy is based on obtaining maximum value from a single manufacturing function through a multi-channel, multi-geography distribution approach. Over the last five years, M&G's retail business has expanded beyond the UK into the major European markets, the Middle East, South America and Asia. By operating through multiple channels, M&G's retail business is well placed to profit from current trends away from direct selling towards intermediation, and the growth of on-line fund platforms and third-party product wrappers.

M&G's wholesale strategy centres on leveraging the skills developed primarily for internal funds to create higher margin products for external clients. In recent years, this strategy has consolidated M&G's position at the forefront of the leveraged finance, structured credit and infrastructure investment markets. The same strategy is now being applied to develop the more traditional pooled and segregated fixed income areas of M&G's wholesale business.

M&G has significant scale in all major asset classes: M&G believes it is one of the largest active managers in the UK stock market, one of the largest bond investors in the UK and one of the UK's largest property investors. In addition, M&G has profitable businesses in a number of specialist areas such as leveraged loans, structured credit, infrastructure finance and macro investment.

Key initiatives and performance

Delivering fund performance remains critical and is a key determinant of success for an asset management business. M&G has continued to deliver market-leading investment performance in 2007 with impressive results. M&G's retail funds have performed strongly, with 45 per cent delivering top-quartile performance over three years.

Overall, the demand for asset management products in M&G's distribution markets continued to grow strongly in 2007 driven, in part, by the same retirement-related demographic trends that are creating opportunities for the Group as a whole.

With a diversified business across different asset classes and across retail and wholesale markets, both in the UK and internationally, Prudential believes that M&G remains well positioned for a variety of macro-economic and market conditions.

The way that clients purchase asset management products continued to evolve during 2007. The retail asset management sector benefited from the increasing shift by retail investors towards more transparent investment products, such as unit trusts, and M&G's range of market leading funds has positioned it well to benefit from this trend. M&G extended its range of innovative new funds during 2007 with the launch of the M&G Cautious Multi Asset Fund and M&G Global Convertibles Fund.

European cross-border distribution of retail funds has accelerated and the trend in favor of 'Open Architecture' in both the UK and Europe continues to open up significant bank and life company distribution opportunities. Parallel to this, distribution of mutual funds has become increasingly intermediated and has been accompanied by the rise of professional buyers who demand higher levels of service and investment information, areas in which M&G has considerable expertise. M&G has continued to expand its geographic coverage in Europe with the first full year of operations in Spain and the launch of M&G's funds in France in October 2007, which has given M&G access to Europe's largest mutual fund market.

Wholesale markets are demanding increasingly sophisticated and tailored products and there is a continued shift from balanced to specialist mandates. Prudential believes these trends, plus the increased role of fixed income within portfolios, continue to play to the strength and scale of M&G's wholesale business. In 2007, M&G launched three new funds aimed at the institutional and pensions markets the M&G Alpha Opportunities Fund, M&G Secured Property Income Fund and the M&G Secured Debt Fund. All of these funds offer innovative alternatives to traditional fixed income assets and leverage off M&G's expertise and scale in both property and private finance.

M&G's infrastructure investment business has grown from inception in 2005 to manage £471 million (2007 year end fair value) in its principal fund, Infracapital. The business contributed £7 million to M&G profits in 2007.

M&G's global macro investment business was established in 2005 and has grown to £1.5 billion in external funds under management as at the end of 2007. It contributed £11 million in profits to M&G in 2007, including performance related fees.

In order to support its retail and wholesale strategy, M&G places a high priority on the recruitment, development and retention of top-quality staff. In a highly competitive market for the best talent, this entails providing an inclusive and supportive environment as well as offering appropriate levels of compensation. At the same time, M&G has a policy of prudent cost control, aimed at ensuring that top-line growth is translated into enhanced operational gearing. During 2007 turnover of staff remained in line with industry averages at 10 per cent and the company spent £2 million on training and development programs.

M&G's retail business performed well in 2007, with gross fund inflows up 29 per cent to £8.7 billion compared to the previous year. Net fund inflows of £2.7 billion were down 12 per cent relative to 2006, but represent a solid result in light of the more challenging sales environment that was seen in the second half of 2007. Fourth quarter retail net inflows remained healthy at £0.3 billion against this backdrop. While increased volatility and uncertainty in markets have had an effect on retail investor confidence, M&G believes that it remains well positioned in its retail markets with strong fund performance, a strong brand and a well-developed UK and international distribution network.

Gross fund inflows into M&G's wholesale businesses, were £6.1 billion in 2007, a decrease of 11 per cent on last year. Net fund inflows of £2.2 billion were down 25 per cent compared to 2006, in the main due to reorganization of mandates in the third quarter by some large segregated fixed income clients. Higher margin product lines, such as infrastructure finance, leveraged loans, collateralized debt obligations (CDOs) and M&G Absolute Return Business, grew strongly in 2007 with gross fund inflows up 30 per cent and net inflows up 38 per cent during the year. These higher margin wholesale business lines boosted fourth quarter net inflows to over £1 billion, producing a more profitable sales mix for M&G's third party business.

The following table shows funds managed by M&G at the dates indicated.

	At December 31,	
	2007	2006
	(In £ Billions)	
Retail fund management	**22**	19
Institutional fund management	**29**	26
Internal fund management	**116**	119
Total	**167**	164

Prudential Capital

Prudential Capital (re-branded from Prudential Finance in 2007) manages Prudential's balance sheet for profit through leveraging Prudential's market position. The business has three strategic objectives: to operate a first class wholesale and capital markets interface; to realize profitable proprietary opportunities within a tightly controlled risk framework; and to provide professional treasury services to Prudential. Prudential Capital generates revenue by structuring transactions, providing bridging finance, and operating a securities lending and cash management business for Prudential and its clients.

The business has continued to grow in terms of investment, infrastructure and personnel in a controlled way while maintaining the dynamism and flexibility that it requires to identify and realize opportunities for profit. Prudential Capital is committed to working closer with other Group business units to deliver opportunities and to improve value creation for the Group. Prudential Capital is also taking a more holistic view on hedging strategy, liquidity and capital management for the Group.

Egg

On May 1, 2007, Prudential completed the sale of Egg Banking plc to Citi for a consideration, net of transaction expenses, of £527m.

Group Risk Framework

Philosophy, principles and objectives

Philosophy

As a provider of financial services, including insurance, the Group's business is the managed acceptance of risk. Prudential believes that effective risk management capabilities are a key competitive advantage. A strategic risk, capital and value management framework and risk management culture has been developed to enhance the Group's embedded and franchise value.

Principles

Risk is defined as the uncertainty that Prudential faces in successfully implementing its strategies and objectives. This includes all internal or external events, acts or omissions that have the potential to threaten the success and survival of Prudential.

The control procedures and systems established within the Group are designed to manage, rather than eliminate, the risk of failure to meet business objectives. They can only provide reasonable and not

absolute assurance against material misstatement or loss, and focus on aligning the levels of risk-taking with the achievement of business objectives.

The Group's policy is to proactively identify, assess, control, and monitor risk. This forms an essential element of delivering the Group's performance ambition. In so doing, Prudential aims to only retain material risks where this is consistent with Prudential's risk appetite framework, i.e.:

- The retention of the risk contributes to value creation.
- The Group is able to withstand the impact of an adverse outcome.
- The Group has the necessary capabilities, expertise, processes and controls to manage the risk.

Objectives

The Group aims to achieve the following five objectives through its risk and capital management policies:

a

Framework: Design, implement and maintain a consistent risk management framework and policies spanning: economic, regulatory and rating agency capital management; risk appetite; and risk-adjusted profitability (RAP).

b

Monitoring: Establish a 'no surprises' risk management culture by identifying the risk landscape, assessing and monitoring risk exposures and understanding change drivers.

c

Control: Implement risk mitigation strategies and remedial actions where exposures are deemed 'inappropriate' and manage the response to extreme events.

d

Communication: Communicate the Group risk, capital and profitability position to internal and external stakeholders and rating agencies.

e

Culture: Foster a risk management culture, providing quality assurance and facilitating the sharing of best practice risk measurement and management across the Group and industry.

Categorisation model

A common set of risk principles and terminology is used across the Group, which allows meaningful comparisons to be made between different business units. Risks are broadly categorized as shown below.

Risk categorisation

Category	Risk type	Definition
Financial risks	Market risk	The risk that arises from adverse changes in the value of, or income from, assets and changes in interest rates or exchange rates.
	Credit risk	The risk of loss if another party fails to perform its obligations, or fails to perform them in a timely fashion.
	Insurance risk	The inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. This includes adverse mortality, morbidity and persistency experience.
	Liquidity risk	The risk that a business, though solvent on a balance sheet basis, either does not have the financial resources to meet its obligations as they fall due or can secure them only at excessive cost.
Non-financial risks	Operational risk	The risk of direct or indirect loss resulting from inadequate or failed internal processes, people or systems, or from external events. This includes legal and regulatory compliance risk.
	Business environment risk	Exposure to forces in the external environment that could significantly change the fundamentals that drive the business's overall objectives and strategy.
	Strategic risk	Ineffective, inefficient or inadequate senior management processes for the development and implementation of business strategy in relation to the business environment and the Group's capabilities.

Governance

The Group's internal control processes are detailed in the Group Governance Manual. This is supported by the Group Risk Framework, which provides an overview of the Group-wide philosophy and approach to risk management. For joint ventures where the Group does not control management, the business unit party to the arrangement must satisfy itself that suitable governance and risk management arrangements are in place to protect the Group's interests and comply with the Group's requirements in respect of any operations it performs in support of the joint venture's activities.

Prudential's risk governance framework requires that all of the Group's businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Group. The risk governance framework is based on the concept of 'three lines of defense': risk management, risk oversight and independent assurance.

Risk management

Primary responsibility for strategy, performance management and risk control lies with the Prudential plc Board of directors (the Board), the Group Chief Executive and the chief executives of each business unit. Additionally, the Board has delegated responsibility to the Approvals Committee to approve actions which could significantly change the risk profile of any business, capital commitments and divestments within defined materiality thresholds, and certain legal matters involving trademarks, contracts, material guarantees and specific interactions with third parties.

Where appropriate, more detailed policies and procedures have been developed at Group and/or business unit levels. These include Group-wide mandatory policies on certain operational risks, including: health, safety, fraud, money laundering, bribery, business continuity, information security and operational security. Additional guidelines are provided for some aspects of actuarial and finance activity.

Board: The Board has overall responsibility for the system of internal control and risk management. It approves the overall framework for managing the risks faced by the Group and provides strategic direction on the amount and type of risk that the Group is prepared to accept.

Group executive management: The Group Chief Executive has overall responsibility for the risks facing the Group. The Group Chief Executive recommends to the Board the amount and type of risk that the Group is prepared to accept, and recommends risk management strategies as well as an overall framework for managing the risks faced by the Group with support from the Group Executive Committee, Chief Financial Officer and Group level risk committees. The Group Chief Executive provides regular updates to the Board on the risk position and risk policy.

Business unit management: Business unit chief executives are accountable for the implementation and operation of appropriate business unit risk frameworks and for ensuring compliance with the policy and minimum standards set by the Group. Business units must establish suitable governance structures that are based on the concept of 'three lines of defense', tailored as appropriate to the scale and complexity of the business unit. As the first line of defense, business unit management is responsible for identifying and managing business unit risks and providing regular risk reporting to the Group.

Risk oversight

Risk management oversight is provided by Group-level risk committees, the Chief Financial Officer and the Group Risk function, working with counterparts in the business units and other Group Head Office ("GHO") oversight functions.

Group-level risk committees

Group Asset Liability Committee ("*Group ALCo"*): The Group ALCo is responsible for oversight of financial risks (market, credit, liquidity and insurance risks) across the Group. It is chaired by the Chief Financial Officer and its membership includes senior business unit and Group executives (chief actuaries, principal asset liability management officers and chief investment officers) who are involved in the management of the aforementioned risks. Group ALCo meetings are held on a monthly basis.

Balance Sheet and Capital Management Committee ("*BSCMC"*): The BSCMC is responsible for managing the balance sheets of Prudential plc and oversight of the Prudential Capital business unit. It is chaired by the Chief Financial Officer and its membership includes senior representatives from GHO, M&G and Prudential Capital. BSCMC meetings are held on a monthly basis.

Group Operational Risk Committee ("*GORC"*): The GORC is responsible for the oversight of non-financial risks (operational, business environment and strategic risks) across the Group. Responsibilities include monitoring operational risk and related policies and processes as they are applied throughout the Group. It is chaired by the Chief Financial Officer and its membership includes senior representatives of the Group and business unit risk functions. GORC meetings are held on a quarterly basis.

Group Risk

Group Risk's mandate is to establish and embed a strategic risk, capital and value management framework and risk management culture, consistent with Prudential's risk appetite, that protects and enhances the Group's embedded and franchise value.

Group Risk is responsible for the continued enhancement and evolution of the Group Risk Framework; provides functional leadership to the business units for the oversight of risk management across the Group; and acts as secretariat to the Group ALCo and GORC.

Group Risk also has certain finance and actuarial responsibilities related to Group regulatory and rating agency capital requirements, development of actuarial and financial reporting requirements and the RAP value management framework.

Independent assurance

Group Audit Committee: The Group Audit Committee provides independent assurance to the Board on the effectiveness of the Group's system of internal controls and risk management. The Group Audit Committee reviews the Group's risk management framework, and regular risk reports. The Group Audit Committee is supported by Group-wide Internal Audit.

Group-wide Internal Audit ("*GwIA"*): The GwIA function independently assures the effective operation of the Group's risk management framework. This involves the validation of methodology application, policy compliance and control adequacy. The GwIA Director reports all audit- related matters to the Group Audit Committee (and business unit audit committees where appropriate) and reports for management purposes (but not audit-related matters) to the Group Chief Executive.

Risk appetite

The Group risk appetite framework sets out the Group's overall tolerance to risk exposures, approach to risk and return optimization and management of risk. The Board and Group Executive Committee have set up Group-level risk appetite statements concerning the key risk exposures faced by the Group. The Group risk appetite statements set out the Group's risk tolerance, or risk appetite, to 'shocks' to the key financial risk exposures (market, credit and insurance risk).

Limits

Aggregate risk limits are defined in terms of earnings volatility and capital requirements as follows:

a

Earnings volatility: The objectives of the limits are to ensure that (a) the volatility of earnings is consistent with stakeholder expectations; (b) the Group has adequate earnings (and cash flows) to service debt and expected dividends; and (c) that earnings (and cash flows) are managed properly across geographies and are consistent with the Group's funding strategies. The two measures used are EEV basis operating profit and IFRS basis operating profit.

b

Capital requirements: The objectives of the limits are to ensure that (a) the Group is economically solvent; (b) the Group achieves its desired target rating to meet its business objectives; (c) supervisory intervention is avoided; (d) any potential capital strains are identified; and (e) accessible capital is available to meet business objectives. The two measures used are EU Insurance Groups Directive ("IGD") capital requirements and economic capital requirements.

Business units must establish suitable market, credit, underwriting and liquidity limits that maintain financial risk exposures within the defined risk appetite.

In addition to business unit operational limits on credit risk, counterparty risk limits are also set at the Group level. Limits on total Group-wide exposures to a single counterparty are specified for different credit rating 'buckets'. Actual exposures are monitored against these limits on a quarterly basis.

Usage by business units

Risk appetite is part of the annual business planning cycle. The risk profile of the Group is monitored against the agreed limits throughout the year by Group Risk. Using submissions from business units, Group Risk calculates the Group's position (allowing for diversification effects between business units) relative to the limits implied by the risk appetite statements.

In order to determine its risk position, each business unit calculates the impacts (on earnings and capital measures) of a shock to market, credit, insurance and operational risk exposures.

A two-tier approach is used to apply the limits at business unit level. Firstly, indicative business unit risk limits are calculated; these ensure that, if each business unit keeps within its limits, the Group risk position would be within the Group limits. Secondly, the impact on the risk position is considered as part of Group Risk's scrutiny of large transactions or departures from plan proposed by individual business units.

Any potential breaches of the risk limits implied by a business unit plan will necessitate a dialogue process between GHO and the business units. Group limits may not be breached if, for example, limits in other business units are not fully utilized, or the diversification effect at Group level of a particular risk with other business units means that the Group limit is not breached. Ultimately, authorization to breach Group limits would require Group Executive Committee approval.

Risk management process

Risk mitigation

The Group expects active management of its actual risk profile against its tolerance of risk. Primary responsibility for identifying and implementing controls and mitigation strategies rests with the business units. Group Risk provides oversight and advice.

Risk registers are maintained that include details of the controls and mitigating actions being employed for identified risks. The effectiveness of controls and progress with actions are routinely assessed. Any mitigation strategies involving large transactions (e.g. a material derivative transaction) would be subject to scrutiny at Group level before implementation.

Prudential employs a range of risk mitigation strategies aimed at reducing the impact of a variety of risks. Key mitigation strategies include: adjustment of asset portfolios to reduce investment risks (such as duration mismatches or overweight counterparty exposures); use of derivatives to hedge market risks; reinsurance programmes to limit insurance risk; and corporate insurance programmes to limit impact of operational risks. Revisions to business plans (such as reassessment of bonus rates on participating business and scaling back of target new business volumes) may also be used as a mitigating strategy.

Contingency plans are in place for a range of operational risk scenarios, including incident management and business continuity plans. As a contingency plan for liquidity risk, the Group has arranged access to committed revolving credit facilities and committed securities lending facilities.

Asset liability management

Prudential manages its assets and liabilities locally, in accordance with local regulatory requirements and reflecting the different types of liabilities of each business unit. Stochastic asset-liability modeling is carried out locally by the business units to perform dynamic solvency testing and assess economic capital requirements. Reserve adequacy testing under a range of scenarios is also carried out, including scenarios prescribed by local regulatory bodies.

The investment strategy for assets held to back liabilities is set locally by business units, taking into account the nature, term and currency of the liabilities, and any local regulatory requirements. The main principles are as follows:

- For liabilities that are sensitive to interest rate movements (in particular, UK non-profit annuities and Jackson fixed annuities), cash flow analysis is used to construct a portfolio of fixed income securities whose value changes in line with the value of liabilities when interest rates change;

- For participating business (in particular, the UK with-profits fund), stochastic asset-liability modeling is used to derive a strategic asset allocation and policyholder bonus strategy that (based on the model assumptions) will optimize policyholder and shareholder returns, while maintaining financial strength. The bonus strategy on participating business is an integral part of the asset-liability management approach for participating business; and

- For unit-linked business, the assets held to cover policyholder unit accounts are invested as per the stated investment strategy or benchmark index given in the product marketing literature. Assets in respect of non-unit reserves (e.g. sterling reserves) are invested in fixed income securities (using a cash flow matching analysis).

Derivative hedging strategies are also used on a controlled basis across the Group to manage exposure to market risks. Surplus assets held centrally are predominantly invested in short-term fixed income securities. The Group's central treasury function actively manages the surplus assets to maximize returns, subject to maintaining an acceptable degree of liquidity.

Risk reporting

Group Risk and other GHO oversight functions have individually defined and publicized frameworks, escalation criteria and processes for the timely reporting of risks and incidents by business units. As appropriate, these risks and incidents are escalated to the various Group-level oversight and risk committees and the Board.

Internal business unit routine reporting requirements vary according to the nature of the business. Each business unit is responsible for ensuring that its risk reporting framework meets both the needs of the business unit (for example reporting to the business unit risk and audit committees) and the minimum standards set by the Group (for example, to meet Group-level reporting requirements).

Business units review their risks as part of the annual preparation of their business plans, and review opportunities and risks to business objectives regularly with Group executive management. Group Risk reviews, and reports to Group executive management on, the impact of large transactions or divergences from business plan.

The Group Executive Committee and Board are provided with regular updates on the Group's economic capital position, overall position against risk limits and RAP. They also receive the annual financial condition reports prepared by the Group's insurance operations.

Economic capital

Economic capital provides a realistic and consistent view of Prudential's capital requirements across the Group, allowing for diversification benefits. Economic capital provides valuable insights into the risk profile of the Group and is an integral part of the Group's risk management framework.

The Group distinguishes between two distinct types of 'economic capital' approaches:

- *Group economic capital:* Prudential's Group economic capital is calculated using an integrated model of Group-wide risk, capturing dependencies and diversification benefits between different business units and risk categories. The capital requirement is determined based on a multi-year projection, thus taking into account the long-term nature of Prudential's liabilities. The Group economic capital position is calculated using the Group Solvency Model (GSM) an integrated stochastic asset-liability model of the Group economic solvency position. Projected economic scenarios in the GSM are generated using a stochastic economic scenario generator that captures the correlations between different asset classes and geographies.

One-year Value at Risk Capita ("1yr VaR Capital"): 1yr VaR Capital is defined as the capital required to withstand a maximum loss over a time period of one year, consistent with a confidence level of 99.5 per cent. This measure was developed internally as part of Prudential's RAP approach to risk/return optimization within the Group risk appetite framework. This measure captures the risk arising from individual risk types, and generally allows for diversification by using a correlation matrix approach. The methodology is continually being developed and improved. In addition to its risk management applications, the 1yr VaR Capital framework is used for Individual Capital Assessments in the UK and anticipated to form the basis of Prudential's capital modeling for future regulatory reporting developments, such as Solvency II.

These measures provide a consistent basis for comparing the risk profiles and capital requirements of different business units. The Group economic capital position and risk profile is reported to the Board annually, with more frequent updates on an ad hoc basis. Group Risk is responsible for developing and maintaining the economic capital models, and for calculating the Group economic capital position.

Methodology

Prudential's internal Group economic capital requirement is defined as the minimum amount of capital that the Group needs to hold in order to remain economically solvent over a 25-year horizon, given a target probability of insolvency appropriate for AA-rated debt. The target confidence level is based on historic default rates for AA-rated debt, and varies over the time horizon of the projection. The economic capital requirement is calculated for in-force liabilities only, excluding the impact of future new business and dividend distribution.

For the purposes of calculating Group economic capital, Group 'economic solvency' is defined as the position where both: (a) the capital balance of the parent company is positive, and (b) all business units are solvent on the applicable local regulatory basis. This definition of solvency allows the Group's capital position to be assessed on an economic basis while taking into account the actual regulatory constraints at the business unit level.

Results

Prudential has previously published in its UK Annual Report details of its economic capital position as of December 31, 2006. Prudential's internal review and analysis process for the position as of December 31, 2007 has not yet been completed.

As at December 31, 2006, the Group economic capital requirement was £1.6 billion, compared to available capital resources of £4.5 billion. The Group economic capital requirement quoted is after allowance for diversification benefits between risk types and business units, and inclusive of the local regulatory capital requirements at the business unit level. The economic capital requirement is calculated for in-force liabilities only, excluding the impact of future new business and dividend distributions.

The Group position at the end of 2006 shows a surplus position of £2.8 billion, representing an improvement of £0.5 billion from last year. Most of this improvement comes from the sale of Egg, which has reduced the Group's exposure to credit risk. Note that the economic capital surplus quoted above excludes any surplus in respect of the Group's participating with-profits funds. For Group economic capital, it is assumed that any free assets in participating funds are ring-fenced to support the relevant fund (and excluded from the Group's economic surplus). Any capital injections required by participating funds (on top of the ring-fenced free assets) are captured in the Group economic capital requirement calculation. For year end 2006, none of the Group's participating funds required additional economic capital on top of the ring-fenced free assets.

The largest risk exposure continues to be credit risk, which reflects the relative size of the exposure in Jackson and Prudential UK. However, credit risk has reduced due to the sale of Egg and Jackson's maturing fixed annuity business. The market risk exposure mainly reflects equity risk in Jackson and interest rate risk in Taiwan. An increasingly significant component of the underwriting risk is attributable to longevity risk, which has increased due to the growth in annuity business being written in the UK shareholder fund.

Scenario testing

The impact of a range of deterministic 'shock' scenarios is tested using the Group economic capital model. The purpose is to assess the resilience of the Group's economic solvency position to a range of key threat scenarios.

Scenarios tested include economic capital scenarios relating to stable, falling and rising interest rates, as well as scenarios relating to high oil prices, lower consumption and US dollar depreciation. In addition, scenarios proposed by the FSA's Financial Risk Outlook are tested. These scenarios have included a credit and house price crisis, global risks reappraisal, and a pandemic.

The impact of each scenario was tested by analyzing the projected Group cash flow balances over 25 years, assuming in the model that the initial capital held by the Group is zero and the initial capital held in each business unit is equal to the local regulatory capital requirement. The results of the analysis showed that the projected net cash flow balance to the Group remains positive in all future years under each scenario tested.

Business unit local economic capital

Business units must also monitor their own economic capital requirements locally on a 'stand alone' basis (without allowance for diversification effects with the rest of the Group). The business unit economic capital assessments allow management to put the local regulatory capital requirements into an economic context. These assessments must be reported annually, and included in the business unit financial condition reports.

Market risk

Market risk is the risk that arises from adverse changes in the value of, or income from, assets and changes in interest rates or exchange rates. Prudential's businesses are inherently subject to market fluctuations and general economic conditions.

In the UK, this is because a significant part of Prudential's shareholders' profit is related to bonuses for policyholders declared on its with-profits products, which are broadly based on historic and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns.

In the US, fluctuations in interest rates can affect results from Jackson, which has a significant spread-based business and where the majority of investments are in fixed-income securities. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. Jackson also writes a significant amount of variable annuities that offer capital or income protection guarantees. Any cost of the guarantees that remain unhedged will affect the Company's results.

For some non-linked investment products, in particular those written in some of the Group's Asian operations, it may not be possible to hold assets which will provide cash flows to exactly match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets, such as Taiwan, where regulated surrender values are set with reference to the interest rate environment prevailing at time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. This residual asset-liability mismatch risk can be managed but not eliminated. Where interest rates for these markets remain lower than those implied by surrender values over a sustained period this could have an adverse impact on the Group's reported profit.

For each of the major components of market risk, described in more detail below, Prudential has put in place policies and procedures to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite.

Foreign exchange risk

Prudential currently operates in the UK, the US, 13 countries in Asia and Europe. Due to the geographical diversity of Prudential's businesses, it is subject to the risk of exchange rate fluctuations. Prudential's international operations in the US and Asia, which represent a significant proportion of operating profit and shareholders' funds, generally write policies and invest in assets denominated in local currency. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential's consolidated financial statements upon translation of results into pounds sterling. The currency exposure relating to the translation of reported earnings is not separately managed. Consequently, this could impact on the Group's gearing ratios (defined as debt over debt plus shareholders' funds). The impact of gains or losses on currency translations is recorded as a component within the statement of changes in equity.

Prudential does not generally seek to hedge foreign currency revenues, as these are substantially retained locally to support the growth of the Group's business and meet local regulatory and market requirements. However, where foreign surplus is deemed to be supporting UK capital or shareholders' interests this exposure is hedged if it is deemed optimal from an economic perspective. Currency borrowings and derivatives are used to manage exposures within the limits that have been set.

Interest rate risk

Interest rate risk arises primarily from Prudential's investments in long-term debt and fixed income securities. Interest rate risk also exists in policies that carry investment guarantees on early surrender or at maturity, where claim values can become higher than the value of backing assets when interest rates rise or fall.

The Group manages this risk by adopting close asset-liability matching criteria, to minimize the impact of mismatches between the value of assets and liabilities from interest rate movements. Interest rate risk is also controlled through the use of a variety of derivative instruments, including futures, options and swaps, in order to hedge against unfavorable market movements in interest rates inherent in the underlying assets and liabilities. The impact of exposure to sustained low interest rates is regularly monitored.

Equity risk

The Group is subject to equity price risk due to daily changes in the market values of its equity securities portfolio. The Group's shareholders are exposed to both direct equity shareholdings in its shareholder assets, and indirectly to the impact arising from changes in the value of equities held in policyholders' funds from which management charges or a share of performance are taken, as well as from its interest in the free estate of long-term funds.

At a business unit level, equity price risk is actively managed through the use of derivative instruments, including futures and options, in order to mitigate anticipated unfavorable market movements where this lies outside the risk appetite of the fund concerned. Business units actively model the performance of equities through the use of stochastic models, in particular to understand the impact of equity performance on guarantees, options and bonus rates.

In particular, Jackson actively hedges its exposure to the guarantees arising from its variable annuity business. Where possible, Jackson will seek to find offsetting exposures across its asset and liability portfolios and to conduct its hedging activities on a macro basis, and relies on option-based strategies to address extreme risks. Although the macro approach and the hedging of extreme events are not consistent with the way certain accounting methods test for effectiveness, Prudential believes that the efficiency of execution and the need to hedge on an economic basis outweighs the need to avoid any short-term accounting volatility.

The Group does not have material holdings of unquoted equity securities. In addition, local asset admissibility regulations require that business units hold diversified portfolios of assets, thereby reducing exposure to individual equities.

Credit risk

Credit risk is the risk of loss if another party fails to meet its obligations, or fails to perform them in a timely manner. Credit risk is Prudential's most significant financial risk, and it is actively monitored by business units via business unit investment committees and ALCos.

In addition to business unit operational limits on credit risk (requiring business units to implement local credit risk policies), Prudential's management of credit risk includes monitoring exposures at Group level. Large individual counterparty exposures are aggregated and monitored on a quarterly basis against centrally-set red zone, amber zone and green zone limits. This active monitoring of counterparty exposures, on a consolidated Group level, is undertaken by the Group ALCo.

Financial assets are graded according to current credit ratings issued by the rating agencies. Financial assets are classified within the range of AAA to D ratings, with AAA being the highest possible rating. Typically, around 95 per cent of the Group's assets are rated within the investment grade category (BBB- and higher). The level of financial assets which fall outside the range of the ratings is also monitored on an ongoing basis, and this tends to be less than one per cent of shareholder assets at any given point in time.

Insurance risk

Insurance risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. This includes adverse mortality, morbidity and persistency experience.

Prudential needs to make assumptions about a number of factors in determining the pricing of its products and for reporting the results of its long-term business operations. In common with other industry participants, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity trends, voluntary discontinuance rates, investment performance, unit cost of administration and new business acquisition expenses.

For example, the assumption that Prudential makes about future expected levels of mortality is particularly relevant for its UK annuity business where, in exchange for their accumulated pension fund, pension annuity policyholders receive a guaranteed payment, for as long as they live. Prudential conducts rigorous research into longevity risk using data from its substantial annuitant portfolio. As part of its pension annuity pricing and reserving policy, Prudential UK assumes that current rates of mortality continuously improve over time at levels based on adjusted data from the Continuous Mortality

Investigations (CMI) medium cohort table projections as published by the Institute and Faculty of Actuaries.

Prudential's voluntary discontinuance (persistency) assumptions reflect recent past experience for each relevant line of business, and any expectations of future persistency. Where appropriate, allowance is also made for the relationship, which is either assumed or historically observed, between persistency and investment returns and the resulting additional risk is allowed for.

Liquidity risk

Liquidity risk is the risk that a business, though solvent on a balance sheet basis, either does not have the financial resources to meet its obligations as they fall due or can secure the resources only at excessive cost.

Business units have their own liquidity policies, which also depend on the maturity of the business, and the available assets in the markets. For Prudential UK, liquidity risk is managed through holding assets at the greater of a specified percentage of total funds managed or a specified multiple of the average peak daily cash flow over the last 12 months. For Jackson, modeling is performed on how quickly their different liabilities could be called, and how quickly they could also liquidate their assets, ensuring that at 30 days, 90 days and one year the cash available exceeds potential obligations.

For Prudential Group, there is a committed corporate credit facility for liquidity.

Non-financial risk

Prudential's Group Risk Framework also covers non-financial risks operational risk, business environment risk and strategic risk. Prudential processes a large number of complex transactions across numerous and diverse products, and is subject to a number of different legal and regulatory regimes. Prudential outsources several operations, including certain UK processing and IT functions, and is thus reliant upon the operational processing performance of its outsourcing partners.

Business units are responsible for the management of the non-financial risks associated with their business. They conduct a formal self-assessment of material operational risks and assess their impact and likelihood. Business units also identify controls available to mitigate the impact and/or likelihood of the identified risk. The quality of the control's design is also assessed.

Quantitative analysis is carried out for operational risks with material and potential direct losses (i.e. excluding opportunity costs and lost revenue). For each risk, the analysis describes the possible manifestations of the risk and the controls against it in each business unit and, on this basis, frequency and severity parameters are assigned to each risk. The effect of operational risk on the Group as a whole is analyzed by aggregating the individual risks using a Group operational risk capital model, allowing for the correlations and diversification effects between different risk types and business units.

Investments

General

The overall financial strength of the Prudential group and the results, both current and future, of the insurance business are in part dependent upon the quality and performance of the various investment portfolios in the United Kingdom, the United States and Asia.

Prudential's Total Investments

The following table shows Prudential's insurance and non-insurance investments at December 31, 2007. In addition, at December 31, 2007 Prudential had £62.5 billion of external mutual funds under management. Assets held to cover linked liabilities relate to unit-linked and variable annuity products. In this table, investments are valued as set out in note A4 of the Prudential's consolidated financial statements.

	At December 31, 2007								
	UK Insurance £m	US Insurance £m	Asia Insurance £m	Total Insurance £m	Asset Mgmt(a) £m	Other £m	Total £m	Less: assets to cover linked liabilities and external unit holders(b) £m	Group excluding assets to cover linked liabilities and external unit holders £m
Investment properties	**13,666**	**8**	**14**	**13,688**	**0**	**0**	**13,688**	**(1,030)**	**12,658**
Investments accounted for using the equity method	**0**	**0**	**0**	**0**	**0**	**12**	**12**	**0**	**12**
Financial investments:									
Loans	**1,245**	**3,258**	**1,087**	**5,590**	**2,334**	**0**	**7,924**	**(37)**	**7,887**
Equity securities	**60,829**	**15,507**	**9,804**	**86,140**	**17**	**0**	**86,157**	**(31,705)**	**54,452**
Debt securities	**57,180**	**19,002**	**6,920**	**83,102**	**882**	**0**	**83,984**	**(8,870)**	**75,114**
Other investments	**3,391**	**762**	**42**	**4,195**	**155**	**46**	**4,396**	**(121)**	**4,275**
Deposits	**7,228**	**258**	**377**	**7,863**	**26**	**0**	**7,889**	**(1,536)**	**6,353**
Total financial investments	**129,873**	**38,787**	**18,230**	**186,890**	**3,414**	**46**	**190,350**	**(42,269)**	**148,081**
Total investments	**143,539**	**38,795**	**18,244**	**200,578**	**3,414**	**58**	**204,050**	**(43,299)**	**160,751**

At December 31, 2007

(a) Investments held by asset management operations are further split in note E2 of the notes to Prudential's consolidated financial statements.

(b) Assets to cover external unit holders relate to assets attributable to unit holders of consolidated unit trusts and similar funds for which an equivalent liability is held in the balance sheet.

The disclosure below has been provided on a consistent basis as that included in previous Form 20-F submissions, with analysis focusing on the investments attributable to shareholders and consequently excluding those held to cover linked liabilities or attributable to unit holders of consolidated unit trusts and similar funds.

In addition to the detail provided below further analysis is included in the consolidated financial statements, with the adoption in 2007 of IFRS 7 "Financial Instruments: Disclosures" together with the provision of voluntary detail further enhancing the disclosure provided in previous years. The further analysis is included in notes D2(b), D2(i), D3(b), D3(i), D4 (a), D4 (h), E2, G1 and G2 to Prudential's consolidated financial statements.

Prudential's Investment Yields

The following table shows the income from the investments of Prudential's operations by asset category for the periods indicated. This table does not include investment income from assets held to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds. Yields have been calculated using the average of opening and closing balances for the appropriate asset.

	Year Ended December 31,					
	Yield	2007 Amount	Yield	2006 Amount	Yield	2005 Amount
		£m		£m		£m
Investment properties						
Net investment income	**4.9%**	**611**	5.7%	686	6.4%	768
Net realized investment gains (losses)	**1.2%**	**147**	6.3%	761	6.2%	753
Net unrealized investment gains (losses)	**(5.8)%**	**(723)**	4.2%	504	5.0%	600
Ending assets		**12,658**		12,258		11,832
Investments accounted for using the equity method						
Net investment income	**0%**	**0**	0%	0	0%	0
Net realized investment gains (losses)	**0%**	**0**	0%	0	0%	0
Net unrealized investment gains (losses)	**0%**	**0**	0%	0	0%	0
Ending assets		**12**		0		0
Loans						
Net investment income	**6.4%**	**425**	6.9%	386	6.4%	339
Net realized investment gains (losses)	**0.7%**	**47**	(0.1)%	(3)	(0.2)%	(10)
Net unrealized investment gains (losses)	**0%**	**0**	0%	0	0%	0
Ending assets		**7,887**		5,362		5,810
Equity securities						
Net investment income	**4.5%**	**2,388**	6.5%	3,373	6.1%	2,731
Net realized investment gains	**8.7%**	**4,633**	6.8%	3,546	4.8%	2,177
Net unrealized investment gains (losses)	**(3.0)%**	**(1,589)**	4.4%	2,302	14.7%	6,609
Ending assets		**54,452**		52,475		51,281
Debt securities						
Net investment income	**5.9%**	**4,335**	6.8%	4,832	6.1%	4,255
Net realized investment gains (losses)	**0%**	**(18)**	0.2%	170	0.4%	287
Net unrealized investment gains (losses)	**(1.5)%**	**(1,129)**	(3.5)%	(2,539)	2.6%	1,779
Ending assets		**75,114**		71,239		71,841
Other investments						
Net investment income	**2.5%**	**119**	2.9%	129	3.7%	112
Net realized investment gains	**6.4%**	**306**	0.4%	18	1.6%	49
Net unrealized investment gains (losses)	**14.4%**	**687**	7.5%	333	12.9%	395
Ending assets		**4,275**		5,240		3,625
Deposits						
Net investment income	**5.5%**	**365**	4.5%	305	5.1%	297
Net realized investment gains	**0%**	**0**	0%	0	0%	0
Net unrealized investment gains (losses)	**0%**	**0**	0%	0	0%	0
Ending assets		**6,353**		7,020		6,510
Total						
Net investment income	**5.2%**	**8,243**	6.4%	9,711	6.1%	8,502
Net realized investment gains	**3.3%**	**5,115**	3.0%	4,492	2.3%	3,256

	Year Ended December 31,					
Net unrealized investment gains (losses)	**(1.8)%**	**(2,754)**	0.4%	600	6.7%	9,388
Ending assets		**160,751**		153,594		150,899

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Prudential's Insurance Investment Strategy and Objectives

Prudential's insurance investments support a range of businesses operating in many geographic areas. Each of the operations formulates a strategy, based on the nature of its underlying liabilities, its level of capital and its local regulatory requirements.

Internal funds under management

Prudential manages 87 per cent of its group funds principally through its fund management businesses, M&G in the United Kingdom, together with PPM America in the United States and Prudential Asset Management in Singapore, Hong Kong and Japan. The remaining 13 per cent of the group's funds mainly relate to assets held to back unit-linked, unit trust and variable annuity liabilities.

In each of the operations, local management analyzes the liabilities and determines asset allocation, benchmarks and permitted deviations from these benchmarks appropriate for its operation. These benchmarks and permitted deviations are agreed with internal fund managers, who are responsible for implementing the specific investment strategy through their local fund management operations.

Investments Relating to UK Insurance Business

Strategy

In the United Kingdom, Prudential tailors its investment strategy for long-term business, other than unit-linked business, to match the type of product a portfolio supports. The primary distinction is between with-profits portfolios and non-participating portfolios, which include the majority of annuity portfolios. Generally, the objective is to maximize returns while maintaining investment quality and asset security and adhering to the appropriate government regulations.

With-profits contracts are long-term contracts with minimal guaranteed amounts. Accordingly, the with-profits fund investment strategy emphasizes a well-diversified equity portfolio (containing some international equities), real estate (predominantly in the United Kingdom), UK and international fixed income securities and cash.

For Prudential's UK pension annuities business and other non-participating business the objective is to maximize profits while ensuring stability by closely matching the cash flows of assets and liabilities. To achieve this matching, the strategy is to invest in fixed income securities of appropriate maturity dates.

For Prudential's unit-linked business, the primary objective is to maximize investment returns subject to following an investment policy consistent with the representations Prudential has made to its unit-linked product policyholders.

Investments

The following table summarizes the total investments of the UK insurance business at December 31, 2007.

	At December 31, 2007					
	SAIF	**PAC**	**Other**	**Total**	**Less: assets to cover linked liabilities and external unit holders**	**Total excluding assets to cover linked liabilities and external unit holders**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Investment properties	**1,230**	**10,682**	**1,754**	**13,666**	**(1,030)**	**12,636**
Financial investments:						
Loans	**184**	**762**	**299**	**1,245**	**0**	**1,245**
Equity securities	**6,946**	**41,108**	**12,775**	**60,829**	**(12,374)**	**48,455**
Debt securities	**4,595**	**33,458**	**19,127**	**57,180**	**(6,114)**	**51,066**
Other investments	**244**	**2,658**	**489**	**3,391**	**(115)**	**3,276**
Deposits	**466**	**4,334**	**2,428**	**7,228**	**(1,418)**	**5,810**
Total financial investments	**12,435**	**82,320**	**35,118**	**129,873**	**(20,021)**	**109,852**
Total investments	**13,665**	**93,002**	**36,872**	**143,539**	**(21,051)**	**122,488**

The following table shows additional analysis of the investments relating to Prudential's UK insurance business, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, at December 31, 2007. The "Other" column includes investments relating to solvency capital of unit-linked funds and investments relating to non-life long-term business.

	At December 31, 2007					
	With-Profits	Shareholder-backed Annuities	SAIF	Other	Total	Total %
	£m	£m	£m	£m	£m	
Investment properties	10,682	724	1,230	0	12,636	10.3
Financial investments:						
Loans:						
Mortgage loans	156	37	0	256	449	
Policy loans	22	0	12	0	34	
Other loans	584	6	172	0	762	
Total loans and receivables	762	43	184	256	1,245	1.0
Equity securities:						
United Kingdom:						
Listed	26,561	17	4,653	2	31,233	
Unlisted	203	90	5	0	298	
Total United Kingdom	26,764	107	4,658	2	31,531	25.7
International:						
United States	2,341	0	340	0	2,681	
Europe (excluding the United Kingdom)	5,345	0	769	0	6,114	
Japan	1,202	0	209	0	1,411	
Pacific (excluding Japan)	3,660	0	631	7	4,298	
Other	2,081	0	339	0	2,420	
Total international	14,629	0	2,288	7	16,924	13.8
Total equity securities	41,393	107	6,946	9	48,455	39.5
Debt securities:						
UK government	2,216	892	116	79	3,303	
US government	192	46	44	1	283	
Other	30,687	12,235	4,435	123	47,480	
Total debt securities	33,095	13,173	4,595	203	51,066	41.7
Other investments:						
Participation in investment pools	1,064	0	173	125	1,362	
Other financial investments	1,205	0	0	156	1,361	
Derivative asset	389	90	71	3	553	
Total other investments	2,658	90	244	284	3,276	2.8
Deposits	4,334	828	466	182	5,810	4.7
Total investments	92,924	14,965	13,665	934	122,488	100.0

	At December 31, 2007

Equity Securities

Prudential's UK insurance operations, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, had £48,455 million invested in equities at December 31, 2007. Most of these equities support Prudential Assurance's with-profits fund and the SAIF fund, both of which are managed using the same general investment strategy. The following table shows the geographic spread of this equity portfolio by market value in accordance with the policies described in note A4 of the notes to the consolidated financial statements.

	At December 31, 2007	
	Market Value	%
	£m	
United Kingdom	31,531	65.1
United States	2,681	5.5
Europe (excluding United Kingdom)	6,114	12.6
Japan	1,411	2.9
Pacific (excluding Japan)	4,298	8.9
Other	2,420	5.0
Total	48,455	100.0

The UK equity holdings are well diversified and broadly mirror the FTSE All-Share share index. Prudential held equities in 476 UK companies at December 31, 2007. The ten largest holdings in UK equities at December 31, 2007 amounted to £14,068 million, accounting for 44.6 per cent of the total UK equity holdings of £31,531 million supporting the UK insurance operations. The following table shows the market value of the ten largest holdings in UK equities at December 31, 2007.

	At December 31, 2007	
	Market Value	%
	£m	
BP.	3,057	9.7
Vodafone Group	1,936	6.1
HSBC Holdings	1,807	5.7
Royal Dutch Shell	1,493	4.7
GlaxoSmithKline	1,477	4.7
Rio Tinto	1,166	3.7
Barclays	822	2.6
The Royal Bank of Scotland Group	809	2.6
Anglo American	774	2.5
British American Tobacco	727	2.3
Total	14,068	44.6

All industry sectors are represented in Prudential's equity portfolio. At December 31, 2007, within the £31,531 million in UK equities supporting the UK insurance operations, Prudential had £22,004 million, or 69.9 per cent of the holdings invested in ten industries. The following table shows the primary industry concentrations based on market value of the portfolio of UK equities relating to the UK insurance business at December 31, 2007.

	At December 31, 2007	
	Market Value	%
	£m	
Banks	5,318	16.9
Oil and Gas Producers	4,951	15.7
Pharmaceuticals and Biotech	2,718	8.6
Mining	2,104	6.7
Mobile Telecommunications	2,004	6.4
Travel and Leisure	1,165	3.7
Media	1,155	3.7
Real Estate	1,048	3.3
Support Services	778	2.5
Life Insurance	763	2.4
Total	22,004	69.9

Debt Securities

At December 31, 2007, of the debt securities held by the UK insurance operations, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, 92.9 per cent were issued by corporations and overseas governments other than the US, 6.5 per cent were issued or guaranteed by the UK government and 0.6 per cent were issued or guaranteed by the US government. These guarantees relate only to payment and, accordingly, do not provide protection against fluctuations in market price that may occur during the term of the fixed income securities.

The following table shows the market value of the debt securities portfolio by maturity at December 31, 2007, in accordance with the policies described in note A4 to the consolidated financial statements.

	At December 31, 2007	
	Market Value	%
	£m	
Securities maturing:		
Within one year	735	1.4
Over one year and up to five years	7,648	15.0
Over five years and up to ten years	9,992	19.6
Over ten years and up to fifteen years	8,098	15.9
Over fifteen years	24,593	48.1
Total debt securities	51,066	100.0

The following table shows debt securities by rating:

	At December 31, 2007	
	Market Value	%
	£m	
S&P AAA	17,921	35.1
S&P AA+ to AA-	5,413	10.6
S&P A+ to A-	11,373	22.3
S&P BBB+ to BBB-	5,089	10.0
S&P Other	927	1.8
	40,723	79.8
Moody's Aaa	999	2.0
Moody's Aa1 to Aa3	578	1.1
Moody's A1 to A3	925	1.8
Moody's Baa1 to Baa3	476	0.9
Moody's Other	410	0.8
	3,388	6.6
Fitch	665	1.3
Other	6,290	12.3
Total debt securities	51,066	100.0

Real Estate

At December 31, 2007, Prudential's UK insurance operations, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, had £12,636 million of investments in real estate. The following table shows the real estate portfolio by type of investment. The real estate investments are shown at market value in accordance with the policies described in note A4 of the consolidated financial statements.

	At December 31, 2007	
	Market Value	%
	£m	
Office buildings	5,959	47.2
Shopping centers/commercial	3,999	31.6
Retail warehouses/industrial	2,025	16.0
Development	0	0.0
Other	653	5.2
Total	12,636	100.0

Approximately 53.4 per cent of the UK held real estate investment is located in London and Southeast England (Buckinghamshire, Berkshire, East and West Sussex, Hampshire, Isle of Wight, Kent, Oxfordshire and Surrey) with 34.7 per cent located throughout the rest of the United Kingdom and the remaining 11.9 per cent located overseas.

Investments Relating to Prudential's US Insurance Business

Strategy

The investment strategy of the US Operations, for business other than the variable annuity business, is to maintain a diversified and largely investment grade debt securities portfolio that maintains a desired investment spread between the yield on the portfolio assets and the rate credited on policyholder liabilities. Interest rate scenario testing is continually used to monitor the effect of changes in interest yields on cash flows, the present value of future profits and interest rate spreads.

The investment portfolio of the US Operations consists primarily of debt securities, although the portfolio also contains investments in mortgage loans, policy loans, common and preferred stocks, derivative instruments, cash and short-term investments and miscellaneous other investments.

Investments

The following table shows total investments relating to the US insurance business at December 31, 2007.

	At December 31, 2007		
	Variable annuity separate account assets	Fixed annuity, GIC and other business	Total
	£m	£m	£m
Investment properties	0	8	8
Financial investments:			
Loans	0	3,258	3,258
Equity securities	15,027	480	15,507
Debt securities	0	19,002	19,002
Other investments	0	762	762
Deposits	0	258	258
Total financial investments	15,027	23,760	38,787
Total investments	15,027	23,768	38,795

The following table further analyzes the insurance investments of the US Operations, excluding the separate account investments supporting the variable annuity business, at December 31, 2007.

	December 31, 2007	
	£m	**%**
Non-institutional		
Investment properties	**8**	**0.0**
Loans	**2,755**	**11.6**
Equity securities	**429**	**1.8**
Corporate securities and commercial loans	**10,345**	**43.5**
Residential mortgage-backed securities	**2,533**	**10.7**
Commercial mortgage-backed securities	**1,179**	**5.0**
Other debt securities	**954**	**4.0**
Total debt securities	**15,011**	**63.2**
Other investments	**643**	**2.7**
Deposits	**258**	**1.1**
Total non-institutional	**19,104**	**80.4**
Institutional		
Investment properties	**0**	**0.0**
Loans	**503**	**2.1**
Equity securities	**51**	**0.2**
Corporate securities and commercial loans	**2,613**	**11.0**
Residential mortgage-backed securities	**406**	**1.7**
Commercial mortgage-backed securities	**353**	**1.5**
Other debt securities	**619**	**2.6**
Total debt securities	**3,991**	**16.8**
Other investments	**119**	**0.5**
Deposits	**0**	**0.0**
Total institutional	**4,664**	**19.6**
Total		
Investment properties	**8**	**0.0**
Loans	**3,258**	**13.7**
Equity securities	**480**	**2.0**
Corporate securities and commercial loans	**12,958**	**54.5**
Residential mortgage-backed securities	**2,939**	**12.4**
Commercial mortgage-backed securities	**1,532**	**6.5**
Other debt securities	**1,573**	**6.6**
Total debt securities	**19,002**	**80.0**
Other investments	**762**	**3.2**
Deposits	**258**	**1.1**
Total	**23,768**	**100.0**

Under IFRS, debt securities are shown at fair value and loans are at amortized cost. Equity securities and investment properties are shown at fair value. The fair value of unlisted securities is estimated by Jackson using independent pricing services or analytically determined values.

Debt Securities

Corporate Securities and Commercial Loans

At December 31, 2007, the US Operations had £12,958 million of corporate securities and commercial loans, representing 54.5 per cent of US insurance total investments. Of the £12,958 million, £10,345 million consisted of debt securities that are publicly traded or trade under Rule 144A under the Securities Act of 1933, as amended ("Rule 144A") and £2,613 million consisted of investments in non-Rule 144A privately placed fixed income securities.

For statutory reporting in the United States, debt securities are classified into six quality categories specified by the Securities Valuation Office of the National Association of Insurance Commissioners ("NAIC"). The categories range from Class 1 (the highest) to Class 6 (the lowest). Performing securities are designated Classes 1-5. Securities in or near default are designated Class 6. Securities designated as Class 3, 4, 5 and 6 are non-investment grade securities. Generally, securities rated AAA to A by nationally recognized statistical ratings organizations are Class 1, BBB in Class 2, BB in Class 3 and B and below in Classes 4 through 6. If a designation is not currently available from the NAIC, Jackson's investment advisor, PPM America, provided the designation for the purposes of the disclosure contained herein.

The following table shows the credit quality of the portfolio of publicly traded and Rule 144A fixed income securities at December 31, 2007.

	At December 31, 2007	
	Book Value	%
	£m	
NAIC Designation		
1	4,338	41.9
2	5,194	50.3
3	542	5.2
4	231	2.2
5	40	0.4
6		
Total	10,345	100.0

The following table shows the credit quality of the non-Rule 144A private placement portfolio at December 31, 2007.

	At December 31, 2007	
	Book Value	%
	£m	
NAIC Designation		
1	1,011	38.7
2	1,351	51.7
3	206	7.9
4	45	1.7
5		
6		
Total	2,613	100.0

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Residential Mortgage-Backed Securities

At December 31, 2007, the US insurance operations had £2,939 million of residential mortgage-backed securities, representing 12.4 per cent of US insurance total investments. At December 31, 2007, 86.5 per cent of the US insurance Operations' residential mortgage-backed securities were rated AAA or the equivalent by a nationally recognized statistical ratings organization (these include Standard & Poor's, Moody's and Fitch) and 99.8 per cent were rated NAIC 1.

The primary investment risk associated with residential mortgage-backed securities is that a change in the interest rate environment or other economic conditions could cause payment of the underlying obligations to be made more slowly or more quickly than was anticipated at the time of their purchase. If interest rates decline, then this risk is called "pre-payment risk" and the underlying obligations will generally be repaid more quickly when the yields on reinvestment alternatives are lower. Alternatively, if interest rates rise, the risk is called "extension risk" and the underlying obligations will generally be repaid more slowly when reinvestment alternatives offer higher returns. Residential mortgage-backed securities offer additional yield to compensate for these risks. The US Operations can manage pre-payment risk, in part, by reducing crediting rates on its products.

Commercial Mortgage-Backed Securities

At December 31, 2007, the US Operations had £1,532 million of commercial mortgage-backed securities, representing 6.5 per cent of US insurance total investments. 88.2 per cent of this total was rated AAA or the equivalent by a nationally recognized statistical ratings organization (these include Standard & Poor's, Moody's and Fitch) and 95.4 per cent was rated investment grade. Due to the structures of the underlying commercial mortgages, these securities do not present the same pre-payment or extension risk as residential mortgage-backed securities.

Other Debt Securities

At December 31, 2007, the US Operations had £1,573 million of other debt securities, representing 6.6 per cent of US insurance total investments.

Loans

Loans totaled £3,258 million, representing 13.7 per cent of US insurance total investments at December 31, 2007. Of the total, £2,841 million related to commercial mortgage loans and £417 million to policy loans.

Commercial Mortgage Loans

Commercial mortgage loans represented 11.9 per cent of US insurance total investments at December 31, 2007. This total included 529 first mortgage loans with an average loan balance of approximately £5.2 million, collateralized by properties located in the United States and Canada.

Jackson has addressed the risk of these investments by building a portfolio that is diverse both in geographic distribution and property type, emphasizing four main institutional property types: multi-family residential, retail, suburban office and warehouse/distribution facilities.

As of December 31, 2007, approximately 27.6 per cent of the portfolio was industrial, 23.2 per cent multi-family residential, 21.8 per cent suburban office, 18.3 per cent retail, 7.6 per cent hotel and 1.5 per cent other. Approximately 14.2 per cent of the portfolio is collateralized by properties in California, 8.7 per cent by properties in Arizona, 7.7 per cent by properties in Illinois and 7.5 per cent by properties in Texas. No other state represents more than 6.1 per cent.

Commercial mortgages generally involve more credit risk than residential mortgages due to several factors, including larger loan size, general and local economic conditions, local real estate conditions and the credit quality of the underlying tenants for the properties. Jackson's investment policy and strict underwriting standards are designed to reduce these risks while maintaining attractive yields. In contrast to residential mortgage loans, commercial mortgage loans have minimal or no pre-payment and extension risk.

Policy Loans

Policy loans represented 1.8 per cent of US insurance total investments at December 31, 2007. Policy loans are fully secured by individual life insurance policies or annuity policies and are contractual arrangements made under the policy.

Equity Securities

Equity securities supporting US insurance operations, excluding separate account investments, totaled £480 million at December 31, 2007.

Other

Other financial investments of £762 million, representing 3.2 per cent of US insurance total investments at December 31, 2007, were made up of £327 million of limited partnership interests, derivative assets of £390 million and £45 million of other miscellaneous investments.

The largest investment in the limited partnerships category is a £65 million interest in the PPM America Private Equity Fund. The remainder of this category consists of diversified investments in 164 other partnerships managed by independent money managers that generally invest in various equity and fixed income loans and securities.

Investments Relating to Asian Insurance Business

Prudential's Asian insurance operations' investments, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, largely support the business of Prudential's Singapore, Hong Kong, Malaysia, Japan and Taiwan operations.

The following table shows Prudential Corporation Asia's investments at December 31, 2007. In this table, investments are valued in accordance with the policies described in note A4 to the consolidated financial statements.

	At December 31, 2007						
	With-profits business	Unit-linked assets	Other	Total	Less: assets to cover linked liabilities and external unit holders	Total excluding assets to cover linked liabilities and external unit holders	%
	£m	£m	£m	£m	£m	£m	
Investment properties	0	0	14	14	0	14	0.1
Financial investments:							
Loans	560	37	490	1,087	(37)	1,050	9.5
Equity securities	4,472	4,728	604	9,804	(4,304)	5,500	49.9
Debt securities	2,329	1,901	2,690	6,920	(2,756)	4,164	37.8
Other investments	13	6	23	42	(6)	36	0.3
Deposits	44	118	215	377	(118)	259	2.4
Total financial investments	7,418	6,790	4,022	18,230	(7,221)	11,009	99.9
Total investments	7,418	6,790	4,036	18,244	(7,221)	11,023	100.0

Prudential manages interest rate risk in Asia by matching liabilities with fixed interest assets of the same duration to the extent possible. Asian fixed interest markets however generally have a relatively short bond issue term, which makes complete matching challenging. A large proportion of the Hong Kong liabilities are denominated in US dollars and Prudential holds US fixed interest securities to back these liabilities.

Debt Securities

The following table shows rating categorization of the debt security investments of Prudential Corporation Asia's long-term insurance fund, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, at December 31, 2007.

	At December 31, 2007	
	Market Value	**%**
	£m	
S&P AAA	**1,324**	**31.8**
S&P AA+ to AA-	**1,702**	**40.9**
S&P A+ to A-	**210**	**5.0**
S&P BBB+ to BBB-	**34**	**0.8**
S&P Other	**93**	**2.2**
	3,363	**80.7**
Moody's Aaa	**0**	**0**
Moody's Aa1 to Aa3	**24**	**0.6**
Moody's A1 to A3	**1**	**0**
Moody's Baa1 to Baa3	**8**	**0.2**
Moody's Other	**58**	**1.4**
	91	**2.2**
Fitch	**0**	**0**
Other	**710**	**17.1**
Total debt securities	**4,164**	**100.0**

Equity Securities

The following table shows a geographic analysis of equity security investments of Prudential Corporation Asia's long-term insurance fund, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, at December 31, 2007.

	At December 31, 2007	
	Market Value	**%**
	£m	
Hong Kong	**3,250**	**59.1**
Singapore	**1,773**	**32.2**
Taiwan	**174**	**3.2**
Vietnam	**141**	**2.6**
Malaysia	**93**	**1.7**
Other	**69**	**1.2**

	At December 31, 2007	
Total	**5,500**	**100.0**

Description of Property   Corporate Property

As at December 31, 2007, Prudential's UK based businesses occupied approximately 27 properties in the United Kingdom, Europe and Mumbai. These properties are primarily offices with some ancillary storage or warehouse facilities. Prudential's headquarters are located in London. Of the remainder, the most significant are offices in London, Reading, and Chelmsford in England, Stirling in Scotland and Mumbai in India. The property in Stirling is held on a freehold basis, and is leased by the business from Prudential Assurance's long-term fund. The rest of the properties occupied by Prudential's UK based businesses, both in the UK and in Mumbai, are held on long-term leaseholds. The leasehold properties range in size from 2,000 to 270,000 square feet. Overall, the UK, Europe & Mumbai occupied property portfolio totals approximately 1,000,000 square feet.

In addition to these properties, the Prudential group owns the freehold of a sports facility in Reading for the benefit of staff.

The Prudential group also holds approximately 50 other leasehold properties in the United Kingdom. This surplus accommodation is spread geographically across the United Kingdom and totals approximately 450,000 square feet.

In the United States, Prudential owns Jackson's executive and principal administrative office located in Michigan. Prudential also leases premises in Michigan, Colorado, California, Illinois, New York, New Jersey, Georgia, Florida, Wisconsin, Texas, Massachusetts, Connecticut, New Hampshire, Pennsylvania, Virginia, Indiana and North Dakota for certain of its operations. Prudential holds 30 operating leases with respect to office space, throughout the United States. In the United States, Prudential owns and leases a total of approximately 866,242 square feet of property.

In Asia, Prudential owns or leases properties principally in Hong Kong, Singapore, Malaysia, Indonesia, Thailand, Philippines, China (JV), Taiwan, Japan, Vietnam, India (JV) and Korea. Within these countries, Prudential holds one office on a freehold (owned) basis, and 1,781operating leases in respect of office space, totalling approximately 7,600,000 square feet of property. In addition, Prudential is planning to lease approximately 450,000 square feet of additional property in 2008 to support expansion plans throughout the region.

Prudential believes that its facilities are adequate for its present needs in all material respects.

Competition

General

There are significant other participants in each of the financial service markets in which Prudential operates. Its competitors include both mutual and stock financial companies. In addition, regulatory and other developments in many of Prudential's markets have obscured traditional financial service industry lines and opened the market to new competitors and increased competition. In some of Prudential's markets, other companies may have greater financial resources, allowing them to benefit from economies of scale, and may have stronger brands than Prudential does in that market.

The principal competitive factors affecting the sale of Prudential's products in its chosen markets are:

- price and yields offered,
- financial strength and ratings,
- commission levels, charges and other expenses,
- range of product lines and product quality,
- brand strength, including reputation and quality of service,
- distribution channels,
- investment management performance, and
- historical bonus levels.

An important competitive factor is the ratings Prudential receives in some of its target markets, most notably in the United States, from recognized rating organizations. The intermediaries with whom Prudential works, including financial advisors, tied agents, brokers, wholesalers and financial institutions consider ratings as one factor in determining from which provider to purchase financial products.

Prudential Assurance Company is currently rated Aa1 (negative outlook) by Moody's, AA+ (stable outlook) by Standard & Poor's, and AA+ (stable outlook) by Fitch. The ratings from Moody's, Standard & Poor's, and Fitch represent the second highest ratings of their respective rating categories.

Jackson is currently rated A1 (stable outlook) by Moody's, AA (stable outlook) by Standard & Poor's and AA (stable outlook) by Fitch. The ratings from Moody's represent the fifth highest rating category and the ratings from Standard & Poor's and Fitch represent the third highest rating category respectively.

Prudential offers different products in its different markets of the United Kingdom, the United States and Asia and, accordingly, faces different competitors and different types of competition in these markets. In all of the markets in which Prudential operates its products are not unique and, accordingly, it faces competition from market participants who manufacture a varying range of similar and identical products.

Asia

Competition in the Asian markets in which Prudential operates is mainly focused on distribution, with particular emphasis on the size and competency of the agency sales force. Within Asia, Prudential is second to AIG in terms of penetration and overall life market share across the region. Other main regional competitors are Allianz, ING and Manulife. While there are large local participants in individual markets, for example, Great Eastern Life in Singapore and Malaysia, Nippon Life in Japan, Cathay Life in Taiwan, and LIC in India, none of these has pan-regional businesses. Regional players are typically of North American or European origin.

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In addition, Prudential competes with the above as well as smaller competitors for talented and skilled employees with local experience, which are in particular demand in Asia. See Item 3 "Key Information-Risk Factors".

In the regional mutual fund market, in terms of market presence and position, Prudential ranks alongside leading international participants such as Templeton and Fidelity.

United States

Jackson's competitors in the United States include major stock and mutual insurance companies, mutual fund organizations, banks and other financial services companies. National banks, in particular, may become more significant competitors in the future for insurers who sell annuities, as a result of recent legislation, court decisions and regulatory actions. Jackson's principal life insurance company competitors in the United States include AXA Financial Inc., Hartford Life Inc., Lincoln National, AIG, ING, MetLife, Prudential Financial and TIAA-CREF.

Jackson does not have a significant career agency sales force to distribute its annuity products in the United States and, consequently, competes for distributors such as banks, broker-dealers and independent agents.

United Kingdom

Prudential's principal competitors include many of the major stock and mutual retail financial services and fund management companies operating in the United Kingdom. These companies include Aviva, Legal & General, Standard Life, Friends Provident, Lloyds TSB, HBOS, Aegon, AXA, Zurich Financial Services, Fidelity, Invesco, Jupiter, Threadneedle and Schroders. Prudential competes with other providers of financial products to be included on financial advisors panels of preferred providers.

In the United Kingdom, the level of bonuses on Prudential's with-profits products is an important competitive measure for attracting new business through financial advisors. The ability to declare competitive bonuses depends, in part, on a company's financial strength, which enables it to adopt an investment approach with a higher weighting in equities and real estate and allows it to smooth the fluctuations in investment performance upon which bonuses are based.

M&G's principal competitors are the main fund management companies operating in the United Kingdom and Europe. These companies include Fidelity, Invesco Perpetual, Jupiter, Threadneedle, New Star, Artemis, Schroders, Morley, Legal and General, Friends Provident, Aegon, AXA and Zurich Financial Services.

Intellectual Property

Prudential does not operate in the United States under the Prudential name and there have been long-standing arrangements between it and Prudential Financial, Inc. and its subsidiary, the Prudential insurance Company of America, relating to their respective uses of the Prudential name. Prudential and Prudential Financial, Inc. entered into a new trade mark co-existence agreement in 2004, under which it was agreed the Prudential Financial Inc would have the right to use the Prudential name in the Americas and certain parts of the Caribbean, Japan, Korea and Taiwan and Prudential would have the right to use the name everywhere else in the world although third parties have rights to name in certain countries.

Legal Proceedings

Prudential Group

Prudential and its subsidiaries are involved in litigation arising in the normal course of business. While an adverse ruling in any individual case may not in itself be material to Prudential, if applied across all similar cases, the potential liabilities may be more significant. Although the outcome of such matters cannot be predicted with certainty, management believes that the ultimate outcome of such litigation will not have a material adverse effect on the group's financial condition, results of operations or cash flows.

Jackson

Jackson is involved as a defendant in class action litigation substantially similar to class action litigation pending against many life insurance companies that allege misconduct in the sale and administration of insurance products. Jackson generally accrues a liability for legal contingencies with respect to pending litigation once management determines that the contingency is probable and estimable. Accordingly, Jackson on April 30, 2008 had recorded an accrual of $35.0 million for class action litigation. Management, based on developments to date, believes that the ultimate disposition of the litigation is not likely to have a material impact on Jackson's financial condition or results of operations.

Sources

Throughout this annual report, Prudential describes the position and ranking of its overall business and individual business units in various industry and geographic markets. The sources for such descriptions come from a variety of conventional sources generally accepted as relevant business indicators by members of the financial services industry. These sources include information available from the Association of British Insurers, the UK Department of Trade and Industry, Association of Unit Trusts and Investment Funds, Investment Management Association, Neilsen Net Ratings, Moody's, Standard & Poor's, Fitch, UBS, Life Insurance Marketing and Research Association, the Variable Annuity Research Data Service, referred to as VARDS, LIMRA International, Townsend and Schupp, The Advantage Group, the Life Insurance Association of Singapore, the Hong Kong Federation of Insurers, Life Insurance Association of Malaysia, Life Insurance Association of Taiwan and the Taiwanese Securities Investment Trust Consulting Association.

SUPERVISION AND REGULATION OF PRUDENTIAL

Prudential's principal insurance and investment operations are in the United Kingdom, the United States and Asia. Accordingly, it is subject to applicable United Kingdom, United States and Asian insurance and other financial services regulation which is discussed below.

UK Supervision and Regulation

The Financial Services and Markets Act 2000

Prudential's insurance and investment businesses in the United Kingdom are regulated by the FSA, the statutory regulator granted powers under the Financial Services and Markets Act 2000 (the "2000 Act"). In addition, those businesses are subject to various United Kingdom laws (for example, the Data Protection Act 1998 in relation to the processing of customer data) some of which require the relevant Prudential entity to be licensed or registered.

Risk-Based Regulation

The FSA employs a risk-based regulatory approach to supervision under the 2000 Act pursuant to which each regulated firm's risk is assessed using a risk assessment methodology known as ARROW. This is a high-level review aimed at assessing the significance of a particular risk posing a threat to the FSA's statutory objectives under the 2000 Act. These objectives relate to market confidence, public awareness, consumer protection and the reduction of financial crime.

The ARROW framework, supported by a 'close and continuous' relationship, is the core of the FSA's risk-based approach to regulation. Using this process, the FSA will consider the particular risks a firm might pose to its statutory objectives by assessing the impact and probability of particular risks materializing.

Overview of 2000 Act Regulatory Regime

Single Regulator

The FSA is the single regulator for all authorized persons with respect to regulated activities in the financial services sector. In this regard, the FSA is authorized to make rules and issue guidance in relation to a wide sphere of activity encompassing the governance of a firm, the way it conducts its business and the prudential supervision of firms.

Permission to carry on "Regulated Activities"

Under the 2000 Act, no person may carry on or purport to carry on a regulated activity by way of business in the United Kingdom unless he is an authorized person or is an exempt person. A firm which is authorized by the FSA to carry on regulated activities becomes an authorized person for the purposes of the 2000 Act. "Regulated activities" are currently prescribed in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (as amended) and include insurance and investment business, as well as certain other activities such as establishing, operating and winding up stakeholder pension schemes, the mediation of general insurance and certain mortgage mediation and lending activities.

Authorization Procedure

In granting an application for authorization by a firm, the FSA may delineate the scope of, and include such restrictions on, the grant of permission as it deems appropriate. In granting or varying the terms of a firm's permissions, the FSA must ensure that the firm meets certain threshold conditions, which, among other things, require the firm to have adequate resources for the carrying on of its business, and to be a fit and proper person, having regard to all the circumstances.

Once authorized, and in addition to continuing to meet the threshold conditions to authorization, firms are obliged to comply with the FSA Principles for Businesses, which are high level principles for conducting financial services business in the United Kingdom. These include the maintenance of adequate systems and controls, treating customers fairly and communicating with customers in a manner that is clear, fair and not misleading.

Moreover, the 2000 Act obliges firms to secure the FSA's prior approval of the appointment of individuals performing certain important functions within a firm or on its behalf with respect to the carrying on of regulated activities (approved persons).

Principles for Businesses

A key feature of the FSA regime is the existence of 11 "Principles for Businesses", by which all firms are expected to abide. These cover key areas such as firms' relationship with the FSA and the need to act with integrity as well as to treat customers fairly.

The FSA has expressed the intention to move away from a detailed rules-based regime in favor of a more principle based approach to regulation, much of which would be directed by the Principles for Businesses mentioned above. While firms may welcome this, they are also likely to face greater uncertainty as what would be deemed to be "compliant' under such a regime and this is a concern in the industry.

Application of 2000 Act Regulatory Regime to Prudential

Each of Prudential's principal UK insurance and investment businesses is subject to regulation and supervision by the FSA in the carrying on of its regulated activities. The following discussion considers, in turn, the main features of the 2000 Act regime applicable to Prudential's insurance and investment businesses in the United Kingdom.

Regulation Applicable to Prudential's Insurance and Investment Businesses

Supervision of Management and Change of Control of Authorized Firms

The FSA closely supervises the management of authorized firms through the approved persons regime, under which any appointment of persons who hold positions of significant influence within an authorized firm must be pre-approved by the FSA.

The FSA also regulates the acquisition and increase of control over authorized firms. Under the 2000 Act, any person proposing to acquire control of or increase control over an authorized firm must first obtain the consent of the FSA. In considering whether to grant or withhold its approval to the acquisition of control, the FSA must be satisfied both that the acquirer is a fit and proper person and that the interests of consumers would not be threatened by his acquisition of or increase in control.

"Control" for these purposes includes a shareholding of 10% or more in an authorized firm or its parent undertaking. In order to determine whether a person or a group of persons is a "controller" for the purposes of the 2000 Act, the holdings (shares or voting rights) of the person and his "associates", if any, are aggregated. A person will be treated as increasing his control over an authorized firm, and therefore requiring further approval from the FSA, if the level of his shareholding in the authorized firm or, as the case may be, its parent undertaking, increases by any threshold step. The threshold steps occur at 20 per cent, 33 per cent and 50 per cent.

Intervention and Enforcement

The FSA has extensive powers to investigate and intervene in the affairs of an authorized firm. The 2000 Act imposes on the FSA statutory obligations to monitor compliance with the requirements imposed by, and to enforce the provisions of, the 2000 Act, related secondary legislation and the rules made thereunder.

The FSA's enforcement powers, which may be exercised against both authorized firms and approved persons, include public censure, imposition of unlimited fines and, in serious cases, the variation or revocation of permission to carry on regulated activities or of an approved person's approved status. In addition, the FSA may vary or revoke an authorized firm's permission if it is desirable to protect the interests of consumers or potential consumers, or if the firm has not engaged in regulated activity for 12 months, or if it is failing to meet the threshold conditions for authorization. The FSA has further powers to obtain injunctions against authorized persons and to impose or seek restitution orders where persons have suffered loss. Once the FSA has made a decision to take enforcement action against an authorized or approved person (other than in the case of an application to the court for an injunction or restitution order), the person affected may refer the matter to the Financial Services and Markets Tribunal. Breaches of certain FSA rules by an authorized firm may also give a private person who suffers loss as a result of the breach a right of action against the authorized firm for damages.

In addition to its ability to apply sanctions for market abuse, the FSA has the power to prosecute criminal offences arising under the 2000 Act and insider dealing under Part V of the Criminal Justice Act 1993 and breaches of money laundering regulations. The FSA has indicated that it is prepared to prosecute more cases in the criminal courts where appropriate.

The FSA, although not a creditor, may seek administration orders under the Insolvency Act 1986 (as amended), present a petition for the winding-up of an authorized firm or have standing to be heard in the voluntary winding-up of an authorized firm. It should be noted that insurers carrying on long-term insurance business cannot voluntarily be wound up without the consent of the FSA.

FSA Conduct of Business Rules

The FSA's Conduct of Business Rules apply to every authorized firm carrying on regulated activities and regulate the day-to-day conduct of business standards to be observed by authorized persons in carrying on regulated activities.

The FSA updated its Conduct of Business rules on November 1, 2007 in response to the adoption in the EU of the Markets in Financial Instruments Directive ("MiFID"). The new Conduct of Business rules incorporate the requirements of MiFID which relate to investment business, and now place greater reliance on principles and higher-level rules.

The scope and range of obligations imposed on an authorized firm under the Conduct of Business Rules varies according to the scope of its business and the range of its clients. Generally speaking, however, the obligations imposed on an authorized firm by the Conduct of Business Rules will include the need to classify its clients according to their level of sophistication, provide them with information about the firm, meet certain standards of product disclosure, ensure that promotional material which it produces is clear, fair and not misleading, assess suitability when advising on certain products, manage conflicts of interest, report appropriately to its clients and provide certain protections in relation to client assets.

Treating Customers Fairly

The FSA's Treating Customers Fairly initiative ("TCF") is an important example of its principles-based approach to regulation. This initiative is based upon Principle 6 of the FSA's Principles for Businesses (that a firm must pay due regard to the interests of its customers and treat them fairly). The FSA has defined six outcomes it is seeking from this initiative. These are that:

- Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture;
- Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly;
- Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale;
- Where consumers receive advice, the advice is suitable and takes account of their circumstances;
- Consumers are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect; and
- Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

Although the FSA has, with the exception of rules relating to with-profits policyholders, refrained from making detailed rules on how to comply with TCF, it has published a number of case studies providing an indication of its expectations of authorized firms in the areas of product development, complaint handling, financial promotions and systems and controls. In addition, the FSA set two new deadlines for firms authorized firms were expected by March 31, 2008 to have appropriate management information or measures in place to test whether or not they are treating their customers fairly; and by December 31, 2008 firms must be able to demonstrate they are consistently treating customers fairly.

Prudential Supervision

As set out above, in order to maintain authorized status under the 2000 Act, a firm must continue to satisfy the threshold conditions, which, among other things, require the firm to have adequate resources for the carrying on of its business. The FSA has published detailed rules relating to the maintenance of minimum levels of regulatory capital for insurance and investment businesses in the Prudential Standards section of its Handbook.

The FSA's regulatory capital rules for insurers and investment firms are primarily contained in the FSA's General Prudential Sourcebook, Prudential Sourcebook for Banks, Building Societies and Investment Firms and Prudential Sourcebook for Insurers. Although it has been the intention in recent years of the FSA to move towards a unified prudential regime for firms which it authorizes, the FSA has been obliged to revise this approach and its rules to accommodate developments at an international level, including EU legislation relating to the regulatory capital requirements for investment firms and financial groups.

The Financial Ombudsman Service

Authorized firms must have appropriate complaints handling procedures. However, once these procedures have been exhausted, qualifying complainants may turn to the Financial Ombudsman Service which is intended to provide speedy, informal and cost effective dispute resolution of complaints made against authorized firms by individuals and small-business customers. The Ombudsman is empowered to order firms to pay fair compensation for loss and damage and may order a firm to take such steps as it determines to be just and appropriate to remedy a complaint.

The Financial Services Compensation Scheme ("FSCS")

The FSCS is intended to compensate individuals and small businesses for claims against an authorized firm where the authorized firm is unable or unlikely to be able to meet those claims (generally, when it is insolvent or has gone out of business). The scheme is divided into three sub-schemes of banking, insurance and investment business, reflecting the different kinds of business undertaken by authorized firms. The scheme is funded by contributions from industry participants referable to the particular sub-schemes so as to minimize cross-subsidy between authorized persons whose businesses are not similar. In the event of a failure of a market participant, Prudential could be required to make contributions to compensate investors. In November 2007, the FSA confirmed its intention to introduce a new model of funding, under which the first tranche of compensation costs emerging from a particular group of firms is borne by that group alone, while costs above a specified threshold are shared out more widely. The new FSCS funding model came into force on April 1, 2008.

Regulation of Insurance Business

Effecting and carrying out contracts of insurance as principal are regulated activities for the purposes of the 2000 Act, and the carrying on of such regulated activities is referred to as insurance business. Some of Prudential's subsidiaries, including The Prudential Assurance Company Limited, Prudential Annuities Limited, Prudential Retirement Income Limited, Prudential Pensions Limited, Prudential Holborn Life Limited and Prudential (AN) Limited carry on insurance business in the United Kingdom with the permission of the FSA and are regulated by the FSA under the 2000 Act.

Conduct of business requirements for insurance business

The Conduct of Business rules issued by the FSA apply differing requirements to the sale of general and long term insurance contracts. Authorized firms which advise and sell to private customers packaged products such as life insurance policies are subject to detailed conduct of business obligations relating to product disclosure, assessment of suitability, the range and scope of the advice which the firm provides, and fee and remuneration arrangements.

The FSA launched a Retail Distribution Review in 2006 with the specific aim of improving the retail investment market. In June 2007 it set out its initial proposals on how to address the causes of problems which emerge in this market. There are expected to be further consultations and developments to improve the efficiency of the distribution of retail investment products.

Capital rules for insurers

The FSA's rules which govern the prudential regulation of insurers are found in the Prudential Sourcebook for Insurers, the General Prudential Sourcebook and the Interim Prudential Sourcebook for Insurers. Overall, the requirements of the General Prudential Sourcebook are intended to align the capital adequacy requirements for insurance businesses more closely with those of banking and investment firms and building societies, for example, by addressing tiers of capital, rather than looking at net admissible assets.

The FSA's rules now require an insurer to prepare and submit to the FSA its own assessment of its capital requirements, known as an individual capital assessment ("ICA"), based on the risks it faces. The FSA will use the ICA in order to form its own view of a firm's capital requirements and if it disagrees with the ICA it will issue individual capital guidance ("ICG") which it can impose as a requirement.

The rules also require that insurance companies maintain assets sufficient to meet the relevant capital requirement at all times in respect of both any long-term insurance and general insurance undertaken by the insurance company, the calculation of which requirement in any particular case being dependent on the type and amount of insurance business a company writes. The method of calculation of the capital requirement is set out in the General Prudential Sourcebook and the level of an insurer's capital resources is also determined in accordance with the rules set out in that Sourcebook. Failure to maintain the required capital resources requirement is one of the grounds on which wide powers of intervention conferred upon the FSA may be exercised.

Under the rules in the General Prudential Sourcebook, an insurer must hold capital resources equal at least to the Minimum Capital Requirement (the "MCR"). Insurers with with-profits liabilities of more than £500 million must hold capital equal to the higher of MCR and the Enhanced Capital Requirement (the "ECR"). The ECR is intended to provide a more risk responsive and "realistic" measure of a with-profits insurer's capital requirements, whereas the MCR is broadly speaking equivalent to the previous required minimum margin under the Interim Prudential Sourcebook for Insurers and satisfies the minimum EU standards.

Determination of the ECR involves the comparison of two separate measurements of the firm's financial resources requirements, which the FSA refers to as the "twin peaks" approach. The term twin peaks is meant to reflect the fact that capital is determined by reference to the higher of the two bases for calculating liabilities (regulatory or realistic). The regulatory basis reflects strict contractual liabilities whereas the realistic one includes more discretionary but expected benefits, including those required to treat customers fairly.

Long-term business assets and liabilities those assets and liabilities relating to, broadly, life and health insurance policies must be segregated from the assets and liabilities attributable to non-life insurance business or to shareholders. Separate accounting and other records must be maintained and a separate fund must be established to hold all receipts of long-term business.

The extent to which long-term fund assets may be used for purposes other than long-term business is restricted by the rules in the Prudential Sourcebook for Insurers. Only the "established surplus" the excess of assets over liabilities in the long-term fund, as determined by an actuarial investigation may be transferred so as to be available for other purposes. Restrictions also apply to the payment of dividends by the insurance company, as described below. The rules in the Prudential Sourcebook for Insurers require, in addition to the capital requirements referred to below, the maintenance of sufficient assets in the separate long term insurance fund to cover the actuarially determined value of the insurance liabilities.

Actuarial functions

The rules in the FSA's Supervision Manual require that every insurance company that carries on long-term business must appoint one or more actuaries to perform the "actuarial function" in respect of all classes of its long-term insurance business and, if it has any with-profits business, the "with-profits actuary function" in respect of all classes of that with-profits business.

The actuary performing the "actuarial function" must prepare an annual report for the company's directors quantifying the company's long-term liabilities attributable to the insurance company's long-term insurance business, determining the value of any excess over those liabilities of the assets representing the long-term insurance fund and where any rights of long-term policyholders to participate in profits relate to particular parts of such a fund, a valuation of any excess of assets over liabilities in respect of each of those parts.

The actuary performing the "with-profits actuary function" must advise the firm's management, at the level of seniority that is reasonably appropriate, on key aspects of the discretion to be exercised affecting those classes of the with-profits business of the firm in respect of which he has been appointed. He must also, at least once a year report to the firm's governing body on key aspects (including those aspects of the firm's application of its Principles and Practices of Financial Management ("PPFM") on which the advice described has been given) of the discretion exercised in respect of the period covered by his report affecting those classes of with-profits business of the firm.

Distribution of Profits and With-profits Business

The Interim Prudential Sourcebook for Insurers provides that, once an allocation of surplus in a with-profits fund has been made to policyholders, no transfer of assets representing any part of a subsequent surplus can be made, to shareholders or otherwise, unless either the "relevant minimum" (as defined in the Interim Prudential Sourcebook for Insurers) of the surplus has been allocated to policyholders or a statutory notification procedure has been followed. Calculation of the relevant minimum is based upon the percentage of the relevant surplus previously allocated to eligible policyholders.

There has been considerable public debate regarding the rights and legitimate expectations of with-profits policyholders to assets forming part of an insurance company's surplus, particularly where such assets do not derive from the payment of current policyholders' premiums but are rather "inherited" from previous generations of policyholders or from other entities. In December 2007 the FSA published guidance on the reattribution of a firm's inherited estate. The Treasury Committee of the House of Commons announced in February 2008 an inquiry into the inherited estate held by life assurance companies' with-profits endowment funds.

The FSA has also mandated that firms carrying on with-profits business must:

- define and make publicly available the PPFM applied in their management of with-profits funds,
- ensure their governance arrangements offer assurance that they have managed their funds in line with the PPFM they have established and published,

produce annual reports for with-profits policyholders on how they have complied with this obligation, including how they have addressed any competing or conflicting rights, interests or expectations of policyholders and, if applicable, shareholders,

comply with (i) modified regulatory reporting requirements designed to achieve the FSA's objective of making directors and senior management more explicitly responsible for setting up technical provisions and other decisions taken on actuarial advice and (ii) new audit requirements for liabilities, and

comply with consequential changes to certification in the insurance returns.

Since April 1, 2004, firms carrying on with-profits business have been required to produce PPFM and to make them publicly available. From the same date, firms have also been required to have in place the relevant governance arrangements and reporting procedures to with-profits policyholders.

Treating Customers Fairly and with-profits business

One of the areas of focus of the FSA's TCF initiative has been with-profit business. The FSA has issued specific rules on this area in relation to with-profits policyholders, which address, among other things, the costs charged to a with-profits fund by the firm managing the fund; penalties and charges levied on policyholders who surrender their policies early, the need for funds to be managed with the objective of ensuring that maturity payouts fall within a target range set for the fund; and the provision of information to with-profits policyholders or potential policyholders in a format that they can more readily understand through the introduction of "Consumer Friendly Principles and Practices of Financial Management" ("CFPPFMs").

In addition, life insurers writing with-profits business must provide information to with-profits policyholders within 28 working days of a decision to close a fund to new business or of the appointment of a policyholder advocate to protect the interest of policyholders should a firm decide to make a reattribution of its inherited estate.

Reporting Requirements

The main financial reporting rules for insurers are contained in the Interim Prudential Sourcebook for Insurers. Insurance companies must file a number of items with the FSA, including their audited annual accounts and balance sheets and life insurers annual reports from the actuary performing the actuarial function.

Transfer of Insurance Business

Before any transfer of insurance business may take place, the 2000 Act requires a scheme of transfer to be prepared and approved by the High Court.

Winding-Up Rules

The general insolvency laws applicable to UK companies are modified in certain respects in relation to insurance companies. Since the introduction of the Financial Services and Markets Act 2000 (Administration Orders Relating to Insurers) Order 2002 (the "2002 Order"), which came into force in May 2002, insurance companies in the United Kingdom have become subject to the administration procedures contained in Part II of the Insolvency Act 1986 (which previously did not apply). These administration procedures have, however, also been slightly modified by the 2002 Order in relation to, for example, the power of an administrator to make any payments due to a creditor.

Additionally, in the United Kingdom, all FSA authorized insurance companies, except for pure reinsurers, are subject to the Insurers (Reorganization and Winding-up) Regulations 2004, which came into force in February 2004.

These Regulations provide, among other things, that direct insurance claims will have priority over the claims of other unsecured creditors (with the exception of preferred creditors), including reinsurance creditors, on a winding-up by the court or a creditors' voluntary winding up of the insurance company. Furthermore, instead of making a winding-up order when an insurance company has been proved unable to pay its debts, a UK court may, under Section 377 of the 2000 Act, reduce the amount of one or more of the insurance company's contracts on terms and subject to conditions (if any) which the court considers fit. Where an insurance company is in financial difficulties but not in liquidation, the Financial Services Compensation Scheme may take measures for securing the transfer of all or part of the business to another insurance company.

Section 376 of the 2000 Act provides further insolvency protection to policyholders of insurance companies effecting or carrying out contracts of long-term insurance. Unless the court orders otherwise, a liquidator must carry on the insurer's business so far as it consists of carrying out the insurer's contracts of long-term insurance with a view to it being transferred as a going concern to a person who may lawfully carry out those contracts. In carrying on the business, the liquidator may agree to the variation of any contracts of insurance in existence when the winding-up order is made, but must not effect any new contracts of insurance.

EU Directives on groups

Prudential is subject to the capital adequacy requirements of the Insurance Groups Directive ("IGD") as implemented in the FSA's rules. The IGD pertains to groups whose activities are primarily concentrated in the insurance sector, and applies for Prudential from December 2007, following the sale of Egg Banking during 2007. Prior to this, Prudential was required to meet the requirements of the Financial Conglomerates Directive ("FCD") as implemented in the FSA rules, as Prudential was classified as an insurance conglomerate.

Prudential's move during 2007 from being treated as an insurance conglomerate to being treated as an insurance group under the FSA rules did not have a significant impact on the Group, as the FSA's prudential requirements pertaining to insurance groups are very similar to those applying to insurance conglomerates.

Due to the geographically diverse nature of Prudential's operations, the application of these requirements to Prudential is complex. In particular, for many of our Asian operations, the assets, liabilities and capital requirements have to be recalculated based on FSA regulations as if the companies were directly subject to FSA regulation.

New EU Solvency Framework

The European Commission is continuing to develop a new prudential framework for insurance companies, 'the Solvency II project' that will update the existing life, non-life, re-insurance and insurance groups directives. The main aim of this framework is to ensure the financial stability of the insurance industry and protect policyholders through establishing solvency requirements better matched to the true risks of the business. Like Basel 2, the new approach is expected to be based on the concept of three pillars minimum capital requirements, supervisory review of firms' assessments of risk and enhanced disclosure requirements. However, the scope is wider than Basel 2 and will cover valuations, the treatment of insurance groups, the definition of capital and the overall level of capital requirements.

A key aspect of Solvency II is the focus on a supervisory review at the level of the individual legal entity. Insurers will be encouraged to improve their risk management processes and will be allowed to make use of internal value-at-risk models to calculate capital charges for market risks.

The European Commission ("EC") published a proposal for a Directive setting out high-level principles on July 10, 2007 and an amended proposal was published on February 26, 2008. These principles will be supplemented by implementing measures that will be adopted by the EC and transposed into national law by EU Member States. These implementing measures are then expected to come into force around 2012.

Other EU Measures

On November 16, 2005, the Council and the European Parliament adopted Directive 2005/68/EC on reinsurance (the "Reinsurance Directive"), which Member States were obliged to transpose into national law by December 10, 2007. The Reinsurance Directive requires all reinsurance undertakings to seek authorization in their home Member State. Once they have obtained authorization, they will be free to conduct business in other EEA states. In the UK, where reinsurance is already fully regulated, the FSA has made the necessary changes to its rules to implement the Reinsurance Directive.

Regulation of Investment Business

Certain of Prudential's subsidiaries are authorized by the FSA to carry on investment business. These entities are subject to regulation and supervision by the FSA and must comply with the FSA conduct of business and prudential rules made under the 2000 Act.

Conduct of business requirements for investment businesses and the Markets in Financial Instruments Directive ("MiFID")

MiFID, unlike its predecessor legislation, the Investment Services Directive, sets out detailed and specific requirements in relation to organizational and conduct of business matters for investment firms and regulated markets. In particular, MiFID and its implementing measures make specific provision in relation to, among other things, organizational requirements, outsourcing, customer classification, conflicts of interest, best execution, client order handling and suitability and appropriateness, and investment research and financial analysis, pre- and post trade transparency obligations, transaction reporting and substantial changes to the responsibility for the supervision of cross border investment services.

As noted above, changes to the FSA's Conduct of Business rules came into effect on November 1, 2007 in accordance with the requirements of MiFID.

Capital requirements for investment businesses

The FSA's capital requirements for investment businesses are also contained in the Prudential Standards section of its Handbook, primarily in the General Prudential Sourcebook and the Prudential Sourcebook for Banks, Building Societies and Investment firms. These rules implement the requirements of European Union legislation relating to the prudential supervision of investment firms, including the Capital Adequacy Directive (Directive 93/6/EEC), as re-cast by the Capital Requirements Directive (Directive 2006/49/EC).

US Supervision of M&G Investment Management

One of Prudential's UK subsidiaries, M&G Investment Management Limited, is also regulated by the United States' Securities and Exchange Commission so that it can act as investment advisor to a US mutual fund.

US Supervision and Regulation

General

Prudential conducts its US insurance activities through Jackson, a stock life insurance company licensed to transact its insurance business in, and subject to regulation and supervision by, the District of Columbia, the Cayman Islands and 49 of the 50 states; Jackson operates a subsidiary, Jackson National Life Insurance Company of New York, in the state of New York. The extent of such regulation varies, but most jurisdictions have laws and regulations governing the financial aspects of insurance companies, including standards of solvency, reserves, reinsurance and capital adequacy and the business conduct of insurance companies. In addition, statutes and regulations usually require the licensing of insurers and their agents and the approval of policy forms and related materials. These statutes and regulations in Jackson's state of domicile, which is Michigan, also regulate the investment activities of insurers.

Insurance regulatory authorities in the jurisdictions in which Jackson does business require it to file detailed quarterly and annual financial statements, and these authorities have the right to examine its operations and accounts. In addition, Jackson is generally subject to federal and state laws and regulations that affect the conduct of its business. New York and Michigan require their state insurance authorities to conduct an examination of an insurer under their jurisdiction at least once every five years. The New York insurance authorities completed an examination of Jackson National Life of New York in 2007 for the exam period of January 1, 2003 through December 31, 2005. The final report of examination did not include any material findings. Michigan insurance authorities completed a routine examination of Jackson in 2006 for the period January 1, 2001 through December 31, 2004. The final report of examination did not include any material findings.

Jackson's ability to pay shareholder dividends is limited under Michigan insurance law. The Commissioner of the Michigan Office of Financial and Insurance Regulation (the "Michigan Insurance Commissioner") may limit, or not permit, the payment of shareholder dividends if the Michigan Insurance Commissioner determines that an insurer's surplus, as regards policyholders, is not reasonable in relation to its outstanding liabilities and is not adequate to meet its financial needs as required by Michigan insurance law. Jackson must report any shareholder dividends to the Michigan Insurance Commissioner before they can be paid. In the case of an extraordinary shareholder dividend or distribution, an insurer may not pay the dividend or distribution until 30 days after the Michigan Insurance Commissioner has received notice of the declaration and has not disapproved, or has approved, the payment within that period. For this purpose, an extraordinary dividend or distribution means any dividend or distribution of cash or other property where the fair market value, together with that of other dividends or distributions that an insurer made within the preceding twelve months, exceeds the greater of 10 per cent of the insurer's surplus, as regards policyholders as of December 31 of the immediately preceding year, or the net gain from operations of the insurer, not including realized capital gains, for the prior year. In 2005, 2006 and 2007, Jackson paid shareholder dividends of $410.8 million, $209.10 million, and $246.0 million, respectively. The dividends paid included extraordinary dividends, approved by the Michigan Insurance Commissioner, of $260.8 million in 2005 to fund the purchase of Life of Georgia.

State regulators also require prior notice or regulatory approval of changes in control of an insurer or its holding company and of certain material transactions with affiliates. Under New York and Michigan insurance laws and regulations, no person, corporation or other entity may acquire control of an insurance company or a controlling interest in any parent company of an insurance company, unless that person, corporation or entity has obtained the prior approval of the regulator for the acquisition. For the purpose of each of New York and Michigan law, any person acquiring, directly or indirectly, 10 per cent or more of the voting securities of an insurance company is presumed to have acquired "control" of the company. To obtain approval of any change in control, the proposed acquiror must file an application with the New York Superintendent of Insurance or the Michigan Insurance Commissioner, as appropriate.

This application requires the proposed acquiror to disclose, among other information, its background, financial condition, the financial condition of its affiliates, the source and amount of funds by which it will effect the acquisition, the criteria used in determining the nature and amount of consideration to be paid for the acquisition, proposed changes in the management and operations of the insurance company and other related matters.

Guaranty Associations and Similar Arrangements

Each of the 50 states of the United States, the District of Columbia and the Commonwealth of Puerto Rico have laws requiring insurance companies doing business within their jurisdictions to participate in various types of guaranty associations or other similar arrangements. These associations and arrangements provide certain levels of protection to policyholders from losses under insurance policies issued by insurance companies that become impaired or insolvent. Typically, these associations levy assessments, up to prescribed limits, on member insurers on a basis that is related to the member insurer's proportionate share of the business in the relevant jurisdiction of all member insurers in the lines of business in which the impaired or insolvent insurer is engaged. Some jurisdictions permit member insurers to recover assessments that they paid through full or partial premium tax offsets, usually over a period of years. Prudential estimated its reserve for future guarantee fund assessments for Jackson to be £8.9 million ($17.7 million) at December 31, 2007. Prudential believes this reserve to be adequate for all anticipated payments for known insolvencies.

Asset Valuation Reserve

State regulators generally require that insurers establish an asset valuation reserve that consists of two components: a "default component" to provide for future credit-related losses on fixed income investments and an "equity component" to provide for losses on all types of equity investments. The asset valuation reserve establishes statutory reserves for fixed maturity securities, equity securities, mortgage loans, equity real estate and other invested assets. The reserve is designed to provide for a normalized level of future defaults based on the credit rating of each individual investment. The level of reserves is based on both the type of investment and its rating. Contributions to the reserve may result in a slower growth in surplus or a reduction of Jackson's unassigned surplus, which, in turn, may reduce funds available for shareholder distributions. The extent of the impact of the asset valuation reserve on Jackson's statutory surplus depends in part on the future composition of the investment portfolio.

Interest Maintenance Reserve

State regulators generally require that insurers establish an interest maintenance reserve to defer non-credit-related realized capital gains and losses, net of taxes, on fixed income investments (primarily bonds and mortgage loans) which are amortized into net income over the estimated remaining periods to maturity of the investments sold and to defer material gains or losses, net of taxes, resulting from market value adjustments on policies and contracts backed by assets carried at book value. The extent of the impact of the interest maintenance reserve on earnings and surplus depends on the amount of future interest-rate related realized capital gains and losses on fixed maturity investments and deferred gains or losses resulting from market value adjustments on policies and contracts backed by assets that are valued at book value.

The National Association of Insurance Commissioners Ratios

On the basis of statutory financial statements that insurers file with state insurance regulators, the National Association of Insurance Commissioners annually calculates twelve financial ratios to assist state regulators in monitoring the financial condition of insurance companies. A usual range of results for each ratio is used as a benchmark and departure from the usual range on four or more of the ratios can lead to inquiries from individual state insurance departments. In 2007, all of Jackson's ratios fell within the usual range.

Policy and Contract Reserve Sufficiency Analysis

State insurance laws require life insurance companies to conduct annually an analysis of the sufficiency of its life and annuity reserves. A qualified actuary must submit an opinion that states that the reserves, when considered in the light of the assets that an insurance company holds with respect to such reserves, make good and sufficient provision for the associated contractual obligations and related expenses of the insurance company. If a qualified actuary cannot provide such an opinion, then the insurance company must set up additional reserves by moving funds from surplus. The 2007 opinion has been submitted to the Michigan Office of Financial and Insurance Services without any qualifications.

Jackson's Capital and Surplus

Michigan insurance law requires Jackson, as a domestic stock life insurance company, to maintain at least $7,500,000 in unimpaired capital and surplus. In addition, insurance companies are required to have sufficient capital and surplus to be safe, reliable and entitled to public confidence.

As a licensed insurer in the District of Columbia and every state but New York, where it operates through a subsidiary, Jackson is subject to the supervision of the regulators of each jurisdiction. In connection with the continual licensing of Jackson, regulators have discretionary authority to limit or prohibit the new issuance of business to policyholders when, in their judgment, the regulators determine that such insurer is not maintaining minimum surplus or capital or if the further transaction of business will be hazardous to policyholders.

Risk-based Capital

The National Association of Insurance Commissioners has developed risk-based capital standards for life insurance companies as well as a model act for state legislatures to enact. The model act requires that life insurance companies report on a formula-based, risk-based capital standard that they calculate by applying factors to various asset, premium and reserve items. The formula takes into account the risk characteristics of a company, including asset risk, insurance risk, interest rate risk and business risk. The National Association of Insurance Commissioners designed the formula as an early warning tool to identify potentially inadequately capitalized companies for purposes of initiating regulatory action. The National Association of Insurance Commissioners intended the formula as a regulatory tool only and did not intend it as a means to rank insurers generally. The model act imposes broad confidentiality requirements on those engaged in the insurance business (including insurers, agents, brokers and others) and on state insurance departments as to the use and publication of risk-based capital data.

Any state adopting the model act gives the state insurance commissioner explicit regulatory authority to require various actions by, or take various actions against, insurance companies whose adjusted capital does not meet minimum risk-based capital standards. The Michigan Insurance Commissioner takes into account the National Association of Insurance Commissioners' risk-based capital standards to determine adequate compliance with Michigan insurance law.

Effective December 31, 2005, the National Association of Insurance Commissioners implemented new requirements, referred to as C-3 Phase II, for calculating risk based capital in connection with variable annuity products with death and living benefit guarantees. These changes did not have a material effect on Jackson, and at December 31, 2007, the Company's total adjusted capital under the National Association of Insurance Commissioners' definition substantially exceeded Michigan standards.

Regulation of Investments

Jackson is subject to state laws and regulations that require diversification of its investment portfolio, limit the amount of investments in certain investment categories such as below investment grade fixed income securities, common stock, real estate and foreign securities and forbid certain other types of investments altogether. Jackson's failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated by the Michigan Insurance Commissioner as non-admitted assets for purposes of measuring surplus and, in some instances, the Michigan Insurance Commissioner could require divestiture of non-qualifying investments.

USA Patriot Act

The USA Patriot Act, enacted in 2001, includes numerous provisions designed to fight international money laundering and to block terrorist access to the US financial system. The US Treasury Department has issued a number of regulations implementing the Patriot Act that apply certain of its requirements to financial institutions including broker dealers and insurance companies. Among other things, the regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. Jackson has established policies and procedures to ensure compliance with the Patriot Act's provisions and the Treasury Department regulations.

Securities Laws

Jackson, certain of its affiliates and certain policies and contracts that Jackson offers are subject to various levels of regulation under the federal securities laws that the US Securities and Exchange Commission (the "SEC") administers.

The primary intent of these laws and regulations is to protect investors in the securities markets and generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the conduct of business for failure to comply with such laws and regulations. Jackson may also be subject to similar laws and regulations in the states in which it provides investment advisory services, offers the products described above or conducts other securities-related activities.

Jackson National Asset Management, LLC is registered with the SEC as an investment adviser pursuant to the Investment Advisers Act of 1940, as amended ("Investment Advisers Act"). Jackson National Asset Management, LLC is registered as a transfer agent pursuant to the Securities Exchange Act of 1934, as amended ("Securities Exchange Act"). The investment companies (mutual funds) for which Jackson National Asset Management, LLC serves as an investment adviser are subject to SEC registration and regulation pursuant to the Securities Act of 1933, as amended ("Securities Act"), and the Investment Company Act of 1940, as amended ("Investment Company Act"). In addition, each variable annuity and variable life product sponsored by Jackson is subject to SEC registration and regulation pursuant to the Securities Act and the Investment Company Act, and applicable state insurance and securities laws. Each variable annuity and variable life product are organized as separate accounts that are unit investment trusts.

Curian Capital, LLC is registered with the SEC pursuant to the Investment Advisors Act and is also registered or notice filed in all applicable states.

Curian Clearing, LLC is registered as a broker-dealer with the SEC pursuant to the Securities Exchange Act, and is registered as a broker-dealer in all applicable states. In addition, Curian

Clearing, LLC is a member firm of the Financial Industry Regulatory Authority (the "FINRA") which was founded in 2007 following the merger of the NASD with the self-regulatory functions of the New York Stock Exchange ("NYSE").

Jackson National Life Distributors, LLC is registered as a broker-dealer with the SEC pursuant to the Securities Exchange Act, and is registered as a broker-dealer in all applicable states. In addition, Jackson National Life Distributors, LLC is a member firm of the FINRA.

National Planning Holdings, Inc. ("NPH") owns four retail broker dealers, being SII Investments, Inc., National Planning Corporation, Investment Centers of America, Inc., and IFC Holdings, Inc. (which does business under the name INVEST Financial Corporation). These entities are registered as broker-dealers, investment advisers, and insurance agencies (or affiliated with insurance agencies), and are licensed and qualified to transact business pursuant to their respective registration and/or membership with the SEC, the FINRA, the Municipal Securities Rulemaking Board, applicable state securities and insurance authorities, and all other applicable jurisdictional authorities.

Prudential also conducts US investment management activities through PPM America, Inc., which is registered with the SEC as an investment adviser or sub-advisor under the Investment Advisers Act. PPM America, Inc. serves as the investment adviser to Jackson and other US, UK and Asian entities affiliated with Prudential, other institutional clients such as CDOs or similar structured vehicles and private investment funds (in which PPM affiliates such as Prudential UK entities and Jackson are investors), US mutual funds and other foreign pooled investment vehicles primarily sponsored by affiliated entities, UK based unit trusts or OEICs, a SICAV and similar vehicles sponsored by affiliates, a model manager program sponsored by an affiliated entity, unaffiliated US and foreign institutional accounts, as well as a limited number of trusts of individuals and their family members. Currently, a limited number of PPM America, Inc.'s clients are unaffiliated or have underlying investors who are unaffiliated institutions, trusts or individuals. The US mutual funds for which PPM America, Inc. serves as investment adviser or sub-adviser are subject to regulation under the Securities Act and the Investment Company Act, and other similar vehicles organized outside of the US may be subject to regulation under applicable local law.

PPM America, Inc. and certain of its subsidiaries are subject to various levels of regulation under the federal securities laws that the SEC administers as well as state securities laws. In connection with providing investment advisory services to certain of its clients, PPM America, Inc. may also be subject to regulation under applicable foreign laws.

To the extent that PPM America, Inc. manages assets of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 ("ERISA"), or the Internal Revenue Code, it may be subject to certain restrictions imposed by ERISA and taxes imposed by the Internal Revenue Code. Such restrictions are summarized in " Employee Benefit Plan Compliance" in this section below. The US Department of Labor ("Department of Labor") and the US Internal Revenue Service have interpretive and enforcement authority over the applicable provisions of ERISA and the Internal Revenue Code.

Employee Benefit Plan Compliance

Jackson issues certain types of general account stable value products, such as GICs and funding agreements, to employee benefit plans and to investment vehicles that pool the investments of such plans. Many of these plans are retirement plans that are subject to the fiduciary standards of ERISA and that are tax-qualified under the Internal Revenue Code. As such, Jackson may be subject to certain restrictions imposed by ERISA and taxes imposed by the Internal Revenue Code. These restrictions include:

- the requirement under ERISA that fiduciaries must perform their duties solely in the interests of ERISA plan participants and beneficiaries, the requirements under ERISA that fiduciaries may not engage in "conflict of interest" transactions, and

the requirements under ERISA that a fiduciary may not cause a covered plan to engage in certain "prohibited transactions" with certain persons who provide services to the plan or are affiliated with the plan sponsor or a plan service provider.

In general, the Internal Revenue Code imposes taxes on persons involved in certain of the transactions described above.

The Department of Labor and the Internal Revenue Service have interpretive and enforcement authority over the applicable provisions of ERISA and the Internal Revenue Code.

In the instance where an insurer issues a guaranteed benefit policy to a plan, ERISA provides that the insurer need not become a fiduciary with respect to the plan solely as a result of the issuance of the policy. Under Section 401 of ERISA, a guaranteed benefit policy means an insurance policy to the extent such policy provides for benefits the amount of which the insurer guarantees.

In 1993, in John Hancock Mutual Life Insurance Company v. Harris Trust & Savings Bank, the US Supreme Court held that a portion of the funds held under a certain type of general account annuity contract did not constitute a "guaranteed benefit policy" within the meaning of ERISA, a holding which potentially exposes insurers with similar types of contracts to the application of ERISA's fiduciary and prohibited transaction provisions in connection with the management of assets in their general accounts.

Although no assurances can be given, Jackson believes that none of its contracts are of the type to which the holding in Harris Trust would be applicable. Moreover, the Department of Labor has issued PTE 95-60, which generally exempts external, unaffiliated investment transactions from ERISA's prohibited transaction provisions. If the Harris Trust holding is applied to its contracts, Jackson would be subject to ERISA's fiduciary and prohibited transaction provisions described above.

Financial Services Regulatory and Legislative Issues

Proposals to change the laws and regulations governing the financial services industry are frequently introduced in the US Congress, in the state legislatures and before the various regulatory agencies. The likelihood and timing of any proposals or legislation and the impact they might have on Jackson and its subsidiaries cannot be determined at this time.

State legislatures and/or state insurance regulatory authorities frequently enact laws and/or regulations that significantly affect insurers supervised by such authorities. Although the US federal government does not directly regulate the insurance business, federal initiatives may also have an impact on the insurance industry.

The US President has in the past proposed to increase the taxes levied against the insurance industry to increase the federal budget revenues. The industry has been very successful in resisting these proposals on the grounds that an increase in taxes on insurance companies or insurance policies would have a negative affect on US citizens saving for their retirement. The insurance industry is very vigilant in monitoring these proposals and taking action to oppose them, as well as to support proposals that would provide more favorable tax treatment for certain annuity products.

In 2007 legislation was signed into law that will increase the state tax assessed on insurance company premiums. The rate that life insurance companies pay on their premiums under the new law is 1.25%, up from 1.0735%. To offset some of the net increase, the legislature included a credit against compensation paid to workers in Michigan. Annuity premiums were unaffected by the change in law.

A coalition of national insurance and banking organizations has supported the introduction of US federal legislation that would allow insurance companies to obtain a federal charter as a regulatory alternative to a state charter. A coalition of insurers has been formed that is opposed to the so-called optional federal charter. Prudential cannot predict whether any federal (or state) legislative initiative to change the nature or scope of the regulation of the insurance industry will be enacted into law.

Federal and state regulators have focused on the mutual fund and variable annuity and insurance product industries including the broker-dealer system. As a result of publicity relating to widespread perceptions of industry abuses, including fraudulent and anticompetitive practices among insurance brokers and mutual funds, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms. It is difficult to predict at this time whether changes resulting from industry investigations and/or new laws and regulations will affect Prudential's insurance or investment management businesses, and, if so, to what degree.

Asian Supervision and Regulation

Regulation of Insurance Business

Prudential's businesses in Asia are subject to all relevant local regulatory and supervisory schemes. These laws and regulations vary from country to country, but the regulators typically grant (or revoke) licenses and therefore control the ability to operate a business.

The industry regulations are usually widely drawn and will include provisions governing both financial matters and the way business is conducted in general. Examples include the registration of agents, the approval of products, asset allocation, minimum capital and the basis for calculating the company's solvency and reserves and the valuation of policyholder liabilities. Regulatory authorities may also regulate affiliations with other financial institutions, shareholder structures and the injection of capital and payment of dividends. Financial statements and other returns are filed with the regulators. The regulators may also conduct physical inspections of the operations from time to time.

A number of jurisdictions across Asia require insurance companies to participate in policyholder protection schemes (i.e., contribute to a fund to support policyholders in the event of an insurance company failing).

To date Prudential Corporation Asia has had no regulatory issues giving rise to a material impact on its results.

For Prudential Corporation Asia's more significant insurance operations the details of the regulatory regimes are as follows:

Hong Kong

The Insurance Companies Ordinance ("ICO") empowers a Commissioner of Insurance to establish an office for the administration of the industry including approvals for a company to conduct insurance business. The Office of the Commissioner of Insurance ("OCI") acts as the supervisory arm.

The Hong Kong branch of The Prudential Assurance Company Ltd is authorized to carry on both long-term business and general business under a composite license. The branch is also regulated by the Hong Kong Securities and Futures Commission ("SFC") for its operations of Investment Linked products.

Currently, the government is researching into the possibility of making the OCI an independent governing body.

Japan

The Financial Services Agency of Japan ("JFSA") regulates insurance companies and other financial institutions. The Insurance Business Division of the JFSA specifically undertakes the supervision of insurance companies. The fundamental principles of insurance regulation are set out in the Insurance Business Law. PCA Life Japan is licensed by and registered with the JFSA as a life insurance company.

After many false starts, the government finally lifted all restrictions on insurance product sales by banks in Dec 2007. The biggest impact is expected to be in the health/medical insurance market about a quarter of the overall individual insurance market which had previously been closed to sales by banks. PCA Life Japan sees this change as very positive and a potentially large opportunity.

For the first time in a century, insurance laws under the Commercial Code of Japan are under deliberation as a response to the increasingly diverse needs of today's society. A revised bill is expected to be submitted to the ordinary session of the Diet in 2008. Recent deregulatory measures in the Insurance Business Law and the privatization programme of the Japan Post group companies, which includes a huge life insurance company, have been spurs to competition in the Japanese insurance industry.

Korea

The Ministry of Finance and Economy of Korea set the insurance law after consultation with the Financial Supervisory Commission ("FSC"). The FSC's responsibilities include regulation of the insurance industry but it delegates to the Financial Supervisory Services ("FSS") work such as supervision, examination and direct contact with insurance companies. The detailed rules under the supervisory regulation are prepared by FSS. PCA Life Korea is licensed by and registered with the FSC as a life insurance company. Currently, the country does not permit a company to operate both life and non-life insurance at the same time.

The Republic of Korea operates a civil law system, with the FSC prescribing many detailed regulations for insurers to comply. In the past, the FSC has also been very interventionist in setting and enforcing rules on the insurance industry. However, the style of regulation has been gradually changing along with the trend of liberalization of financial services. This is most pronounced with the regulator focusing on the deregulation in asset management and product design activities. Furthermore, the FSS is setting an aggressive insurance supervisory agenda that would strengthen supervision while promoting deregulation. The regulator is moving towards risk-based supervision focusing on various risks of insurers' operations. As part of the shift to risk-based supervision, the FSS is building up the Risk Assessment and Application System ("RAAS") to assess insurers' risks as well as to support the development of the Risk-Based Capital solvency requirement.

Both the Insurance Law and Insurance Regulations are silent on the entity's responsibilities for the suitability of products. There is no explicit requirement for an insurer to consider the suitability of the product for the potential customer. Nevertheless, the FSS does operate a Consultation Team and a Dispute Settlement Office in the Customer Protection Centre to resolve and prevent customer complaints and disputes relating to insurance companies.

Korea currently allows many different forms of channels for distributing life insurance products including brokers, agents, telemarketing, direct mailing, bancassurance and mass media television selling. After allowing insurers to sell savings-type insurance policies, such as annuities, through banks in August 2003, the government planned to allow banks to sell a wider array of policies beginning in April 2008. However, following strong opposition from insurers, the government has suspended the implementation of this plan. Consequently there is now a difference of opinion in South Korea between insurers and banks over the expansion of bancassurance.

The Financial Supervisory Commission was renamed the Financial Services Commission in 2008 in an effort to reform the FSC with the objective of enhancing efficiency and making it more responsive. As part of the change, some of the finance ministry's policy-making powers were transferred to the new FSC. A new Chairman of the Commission, Jun Kwang-woo, was also chosen to head the regulator. Immediately after taking office, Jun told the industry that a wide range of de-regulation initiatives were being considered. His comment was consistent with the newly elected President Lee on his plan to reduce the number of business-related rules and regulations in an effort to attract greater inflow of foreign investment.

Taiwan

The Financial Supervisory Commission ("FSC") is responsible for regulating the entire financial services sector. The FSC's responsibilities include supervision, examination and investigation. The Insurance Bureau ("IB") of the FSC is responsible for the insurance sector. Currently, a composite licenses to sell both life and non-life insurance are not granted and PCA Life Taiwan is licensed for life insurance business only.

Taiwanese laws are based on a civil code model and each competent authority is given powers to develop and issue regulation on specific topics or issues. Many of the current insurance regulations were revised in 2001 when the new risk-based requirement was introduced. Similar to many Asian countries, the provisions of insurance regulations tend to be prescriptive.

In 2005, FSC introduced new regulations related to internal control and risk management. The regulation assigned to the Board of Directors the ultimate responsibility for internal control systems and insurers were required to maintain and satisfy specific documentation and reporting requirements related to the area.

FSC promulgated the guidance notes related to foreign currency denominated traditional life business. Insurers must satisfy several requirements related to disciplinary performance, risk-based capital, risk management controls, and complaints efficiency in order to qualify. At this stage, only life insurance and annuity products denominated in US dollars are permitted. Prior approval from the Central Bank and IB will be required and the underlying foreign portfolio is also subject to the 45% foreign investment limit as per the Insurance Act.

Generally, the Insurance Law and Regulations focus mainly on administrative supervision of insurance operations rather than conduct of business. An exception is the regulations introduced in 2004 for investment-linked insurance, where specific requirements such as the obligation by insurers to disclose to prospective customer the costs of the product and the risks involved were introduced. In addition, a new proposal is currently being drafted by a working group of the Life Insurance Association ("LIA"). It is a proposal related to the "Self-Discipline Regulations on Sales of Investment Type Products ("ITP"). The proposal will require insurers to set up "Know Your Customers" operating principles and to perform needs analysis in identifying risk appetite and financial objectives of policy applicants. Other requirements would include establishing risk classes for structured notes products, sample testing of new business to determine appropriateness of sales process and policy suitability, and conducting regular inspection to avoid the use of inappropriate sale materials.

China

The body responsible for regulation of the insurance sector is the China Insurance Regulatory Commission ("CIRC") established in 1998. CIRC reports directly to the State Council. The main laws and regulations that govern the CITIC-Prudential joint venture in China are the Insurance Law of the People's Republic of China (enacted in 1995) and the Regulation on the Administration of Foreign-funded Insurance Companies (enacted in 2001).

CIRC is authorized to conduct administration, supervision and regulation of the Chinese insurance market, and to ensure that the insurance industry operates in a stable manner in compliance with the law. It drafts relevant laws and regulations regarding insurance supervision, examines and approves the establishment of insurance companies and their branches and supervises market conduct. CIRC has local offices in all the provinces and selected direct administrative cities and regions across the country. One of the key responsibilities of the local offices is to set and administer implementation rules and guidelines in the application of the laws and regulations introduced by CIRC. The local offices will also regulate many aspects of the insurance companies' activities within the locations for which they are responsible, including but not limited to business, sales and agent conducts, sales licensing practices, approving new sales offices and assessing minor administrative penalties.

CIRC has focused specific attention on the area of risk prevention. Accordingly, it has identified five lines of defense against risks, namely internal management and control systems, supervision of solvency adequacy, on-site inspection, fund management regulation and insurance security fund. These are expected to form the basis of an ongoing programme of regulatory development.

During 2006 and 2007, CIRC introduced additional rules and guidelines in an effort to strengthen the areas of internal management and control systems, as well as corporate governance related matters. New requirements include the filing of an annual internal control report, setting up of risk management and compliance functions, and the need to qualify and obtain approval for the appointment of Directors and selected management personnel.

China promulgated a new Anti-Money Laundering ("AML") Law applicable to all financial institutions in November 2006. The People's Bank of China ("PBOC") was entrusted with the responsibility and authority for regulating all AML activities in China. PBOC also introduced several additional AML measures between Nov 06 to Jun 07 to provide specific rules and guidelines in the application of the AML Law. The areas covered would include customer identification, reporting of large volume and other suspicious transactions, record keeping and reporting of suspicious transactions involving terrorism financing.

India

Insurance is subject to federal regulation in India. The primary legislation is the Insurance Act, 1938, and the Insurance Regulatory & Development Authority Act, 1999. The Insurance Regulatory & Development Authority ("IRDA") is the key regulator for Prudential Indian JV, ICICI Prudential Life Assurance.

The IRDA's duties include issue of certificates of registration to insurance companies, and it has a mandate to protect the interests of the policy holders. Regulatory direction is currently focusing on consumer disclosure and sales practices. A number of regulations also encourage the sale of insurance to customers in rural parts of India.

Singapore

The Monetary Authority of Singapore ("MAS") is responsible for insurance company regulation and supervision. In order to sell insurance in Singapore, companies need to be licensed by the MAS. Prudential Assurance Company Singapore is registered and licensed to manufacture and sell both life and general insurance business.

The MAS also has responsibility for supervising compliance with anti-money laundering ("AML") provisions, though suspicious transactions must be notified to the Commercial Affairs Department, an enforcement agency of the Singapore Police Force. In 2007, new regulations were introduced to further strengthen the AML requirements.

Another relevant regulatory authority for the business is the Central Provident Fund ("CPF") Board. The CPF is a social security savings scheme jointly supported by employees, employers and the Government. CPF members are employees and self-employed persons in Singapore with the CPF Board acting as the trustee. The CPF Board regulates the life insurers in the operation of various CPF schemes including the CPF Investment Scheme where CPF monies are used by policyholders to purchase insurance policies such as annuities and investment-linked policies.

The MAS is empowered under the Insurance Act to make regulations for the sector and it also issues Notices, Circulars and Guidelines. In practice, MAS and CPF Board have very detailed legislation frameworks to govern the insurance companies and the distribution of insurance products in Singapore. Despite the detailed requirements, an examination of the Notices suggests MAS in many respects do in fact focus on outcomes rather than processes.

The RBC framework was introduced in recent years to better reflect the relevant risks being faced by insurance companies. The framework introduces changes in the valuation methodology for assets and liabilities, fine-tunes the operations of life insurance funds, establishes new capital requirement rules, updates the role of actuaries, and introduces a new set of statutory reporting standards. An insurer has to notify the MAS when it has failed or is likely to fail to comply with the mandated RBC indicators or when a financial resources warning event has occurred or is likely to occur.

MAS have also issued Notices that covers the market conduct standards for life insurers including such areas as appointing and training Representatives, maximum tier in agency structure, loans and advances, disciplinary action, disclosure, sales process and replacement of life polices. In addition, the MAS have recently published a consultation paper entitled "Guidelines on Fair Dealing Board and Senior Management Responsibility for delivering Fair Dealing Outcomes to Consumers". The proposed approach is similar to that of the UK FSA Treating Customers Fairly (TCF) Principle.

Malaysia

In Malaysia, Bank Negara ("BN") is the regulatory body responsible for supervising and regulating the conduct of financial services including insurance business. All insurance companies must be licensed with the Ministry of Finance. In addition, they are required to be a member of the Life Insurance Association of Malaysia and/or Persatuan Insurans Am Malaysia (for general insurers). Prudential Assurance Malaysia Berhad has a license for both life and general insurance business.

Although BN is committed to migration towards a "disclosure-based" regime, there are still "prescriptive" requirements from the past which remain. For example, pre-approval from the bank is required for some actions which in the UK are matters for management decision. These include such matters as opening new branches, entering into outsourcing contracts, and introducing new annuity certain and investment-linked products.

With the objective of promoting greater transparency in the sale of insurance products, BN has issued guidelines on the minimum disclosure requirements to be observed by insurers and their intermediaries in their interaction with prospective policy owners. The guidelines specify the minimum information that must be disclosed to a prospective policy owner at the point of sale to enable them to make informed decisions, which includes, details of types of cover offered, benefits, restrictions, and exclusions of the policy as well as any significant conditions, warranties and obligations which the policy owner must meet.

BN has formulated a framework on proper advice practices for life insurance business to ensure that intermediaries make greater effort to effectively evaluate the insurance requirements of consumers. The guidelines under the framework set the minimum standards for proper advice as well as structured process for selling life insurance products. They also require the intermediaries to obtain sufficient information on prospective policy owners before rendering appropriate advice on the suitability of a particular insurance product.

In an effort to further reform the regulation on insurers and better reflect the risks being faced by each entity, the risk-based capital framework is to be implemented by no later than January 1, 2009.

Indonesia

The insurance industry is regulated by the Insurance Bureau of the Ministry of Finance. Prudential Life Assurance is duly authorized for insurance business.

The local Life Insurance Association ("AAJI") acts as a conduit between insurers and the MOF in terms of the development of new regulations.

Takaful

In addition to gaining the first overseas insurer's Takaful License in Malaysia (a Prudential joint venture with Bank Simpanan Nasional known as Prudential BSN Takaful Berhad), Prudential is also launching a Takaful insurance business in Saudi Arabia later this year. Sheriah compliant products are now also being sold in Indonesia.

Others

Prudential also have life insurance operations in the Philippines Pru Life Insurance Corporation of UK regulated by the Insurance Commission; Vietnam Prudential Vietnam Assurance Private Limited regulated by the Ministry of Finance; Thailand Prudential Life Assurance (Thailand) Public Company Limited regulated by the Office of Insurance Commissioner. In late 2007 Prudential also opened a separate consumer finance business in Vietnam authorized by the State Bank of Vietnam.

Regulation of Funds Business

Prudential conducts its fund business through subsidiaries or joint ventures in the following countries in Asia: The People's Republic of China, Dubai (Dubai International Financial Centre), Hong Kong Special Administrative Region, Republic of India, Japan, Republic of Korea, Malaysia, Republic of Singapore, Taiwan, Republic of China and Socialist Republic of Vietnam. All operations are authorized and licensed by the relevant authorities.

Hong Kong

Prudential Asset Management (Hong Kong) Limited ("PAMHK"), incorporated in Hong Kong, is an ultimately wholly owned subsidiary of Prudential plc. PAMHK is licensed with the Hong Kong Securities and Futures Commission ("HKSFC"), a Hong Kong regulator and is authorized to carry out Type 1 (Dealing in Securities), Type 4 (Advising on Securities) and Type 9 (Asset Management) regulated activities in Hong Kong.

BOCI-Prudential Asset Management Limited ("BOCIP"), incorporated in Hong Kong, is a joint venture between Prudential and BOCI Asset Management Limited. BOCIP is licensed with the HKSFC, and is authorized to carry out Type 1, Type 4, Type 5 (Advising on Futures Contracts), Type 6 (Advising on Corporate Finance) and Type 9 regulated activities in Hong Kong. BOCIP offers a comprehensive range of investment products, including Hong Kong Mandatory Provident Fund ("MPF") scheme, pension funds, retail unit trusts, institutional mandates and other advisory funds. It also offers private investors and institutional clients investment portfolios and charity fund management services. As one of the pioneers in the asset management industry in Hong Kong, BOCIP launched a series of capital guaranteed funds linked to various underlying indices or basket of stocks with varying currencies and maturities.

Securities and Futures Ordinance ("SFO") and other subsidiary legislations are the laws in Hong Kong relating to financial services which govern the fund management companies. HKSFC is the statutory body responsible for the administration of this Ordinance and these related subsidiary legislations and rules.

Recent regulatory trends

On January 31, 2008, HKSFC issued a consultation paper to the public on pre-vetting of funds notice and advertisements to the retail public. HKSFC is proposing to remove the current pre-approval requirement and replace it with a post filing to HKSFC instead. Consultation ended on February 29, 2008 and HKSFC will soon publish the consultation results along with its final proposal on this subject.

Japan

PCA Asset Management Limited ("PCA AM") is registered with the Financial Services Agency to provide Second Financial Instrument business, Investment Management business and Investment Advisor & Agency business.

Under the registration of Second Financial Instrument business, PCA AM extends solicitation to investors while maintaining no account specifically due to no direct sales channel to be facilitated upon Business and Service Documents revised upon Financial Instruments & Exchange Law (FIEL).

Recent regulatory trends

The new Financial Instruments and Exchange Law ("FIEL"), effective from September 30, 2007 has established a cross-sectional legislative framework for user protection covering a wide range of financial products, enhanced disclosure requirements, and ensuring appropriate management of self-regulatory operations by exchanges and strict countermeasures against unfair trading.

The new law requires the description of sales materials to indicate specific risks related to each product in order for any investors to duly understand the feature/risk of our funds and internal rules to be reviewed.

Korea

Prudential conducts fund business in Korea through an indirect, wholly-owned subsidiary, PCA Investment Trust Management Co. Ltd ("PCA Investment Trust").

The bodies responsible for the regulation of an Asset Management Company ("AMC"), Investment Advisory Company ("IAC") or Discretionary Investment Company ("DIC") are the Ministry of Strategy and Finance ("MOSF"), the Financial Services Commission ("FSC") and its executive arm, the Financial Supervisory Service ("FSS").

Traditionally, the FSC in Korea operates in a prescriptive way, with a significant amount of detailed regulation that AMCs must comply with. In recent years, the style of regulation of the indirect investment industry has been changing in line with the trend towards liberalization of financial services. In particular, the regulator is focusing on deregulation in asset management and product design activities and shifting towards a principles-based regulatory regime.

Recent regulatory trends

The proposed Capital Market Consolidation Act is expected to be effective from February 2009. Under the proposed law, there is allowance for operations to expand into other business activities creating further opportunities and competition within the asset management industry. To ensure fair competition, the same level of regulations would apply to the same business category.

It is also proposed that stricter internal control measures be required for conducting multiple businesses to avoid conflicts of interests and that heightened investor protection measures such as stricter liability for mis-selling and tighter disclosure requirements be introduced.

Taiwan

The body responsible for regulation of the Securities Investment Trust Enterprise ("SITE"), Securities Investment Consulting Enterprise ("SICE"), and Discretionary investment business is the Securities and Futures Bureau ("SFB") under the Financial Supervisory Commission ("FSC").

PCA Securities Investment Trust Co., Ltd is registered as a SITE with the FSC. It is compulsory that all SITEs are memberships of the self-regulatory organization ("SRO") in Taiwan Securities Investment

Trust and Consulting Association ("SITCA"). SITE and SICE may not commence business without being admitted to membership in the Association.

SFB is the first line of supervisory body responsible for declaration of laws, regulations and policies. The missions of the SRO are to support the regulatory and administrative operations entrusted by the SFB, including adopting self-regulatory rules and overseeing self-regulation by its members, establishing membership disciplinary framework, and carrying out matters that SFB has authorized it to handle such as previewing product filing document before submission for SFB's final review. The SRO also acts as liaison between the SFB and its members for matters of business development.

China

CITIC-Prudential Fund Management Company Limited, a joint venture between Prudential and CITIC Group (China International Trust and Investment Corporation), is regulated by the China Securities Regulatory Commission ("CSRC"). The CSRC supervises the establishment of fund management companies ("FMCs") and the launch of securities investment funds.

The legislative framework of China's fund industry comprises the China Securities Investment Funds Law (the "Fund Law") and a set of ancillary regulations (the "Fund Regulations"). While the Fund Law and Fund Regulations spell out the rules and requirements which must be adhered to by all FMCs, the supervisory approach of CSRC, to a certain extent, is also principles-based. The Chinese authorities aim to protect the legitimate rights and interests of the investors and other relevant parties, and thereby to promote the healthy development of securities investment funds and securities markets.

Recent regulatory trends

In late 2007, the CSRC has imposed a new requirement that all fund distributors are requested to have fund suitability policies and procedures. The CSRC has also issued a Fund Distributor Internal Control Guidelines, by which all fund distributors are requested to implement internal controls and process in accordance with the Guidelines

The CSRC also implemented a new regulation in January 2008 where fund management companies that meet the CSRC qualification requirements may apply for a license to provide discretionary asset management services to their clients.

India

ICICI Prudential Asset Management Company Limited, a joint venture between Prudential and ICICI Bank, is approved by Securities and Exchange Board of India ("SEBI") under SEBI (Mutual Funds) Regulations, 1996 to act as Investment Manager of ICICI Prudential Mutual Fund (the "Fund"). The Fund was set up as a Trust sponsored by Prudential plc (through its wholly owned subsidiary namely Prudential Corporation Holdings Ltd) and ICICI Bank Ltd. ICICI Prudential Trust Limited (the "Trust Company"), a company incorporated under the Companies Act, 1956, is the Trustee to the Fund.

Mutual funds in India are regulated by the SEBI (Mutual Funds) Regulations, 1996, and circulars / guidelines issued under these regulations, the Indian Trusts Act, 1882 and relevant provisions of the Companies Act, 1956.

As specified by the Indian Trusts Act, 1882 and reiterated by the SEBI regulations, all mutual funds are required to be in the form of trusts. The trustee functions are carried out by separately established trust companies or boards of trustees. In all cases, the trust deed must be approved by SEBI.

ICICI Prudential Asset Management Company Limited has obtained registration from SEBI to act as a Portfolio Manager under SEBI (Portfolio Managers) Regulations, 1993.

Recent regulatory trends

SEBI has prescribed that no entry load shall be charged for direct applications received by any AMC with effect from January 4, 2008. Direct applications are applications received through the internet or submitted to an AMC, collection centre, or Investor Service Centre that are not routed through any distributor, agent or broker, for the fresh investments or additional purchases under the same folio or switch-in to a scheme from other schemes.

SEBI removed the provision regarding the charging of initial issue expenses and amortization by closed ended schemes. All mutual fund schemes are required to meet the sales, marketing and other such expenses connected with sales and distribution of schemes from the entry load. This new requirement is applicable to all mutual fund schemes launched after January 31, 2008.

With effect from February 1, 2008, SEBI has made it mandatory for any investors investing Indian Rupees 50,000/- and above in mutual funds to comply with Know Your Client ("KYC") requirements under the Prevention of Money Laundering Act 2002.

Singapore

Prudential Asset Management (Singapore) Limited ("PAMS"), an indirect wholly owned subsidiary of Prudential plc, holds a Capital Markets Services ("CMS") licence, with respect to the regulated acivities of fund management and dealing in securities as regulated activities, issued by the Monetary Authority of Singapore ("MAS") under the Securities and Futures Act. The MAS' supervisory approach has evolved over the years and is now more risk-focused and disclosure-based than it was previously.

PAMS is also registered with the Central Provident Fund ("CPF") Board, Singapore, to offer unit trusts included under the CPF Investment Scheme ("CPFIS"). In addition, PAMS is registered with the U.S. Securities & Exchange Commission under the Investment Advisers Act, the Financial Supervisory Commission ("FSC"), Korea and the Securities and Exchange Board of India ("SEBI") under the SEBI (Foreign Institutional Investors) Regulations, 1995.

Recent regulatory trends

In conjunction with the registration of funds under the CPFIS, all funds are required to comply with a 3% sale charge cap and a the median expense ratio cap by July 1, 2007 and January 1, 2008, respectively.

Malaysia

Prudential Fund Management Berhad ("PFMB") is part of Prudential plc (United Kingdom). PFMB was incorporated in November 2000 and is a wholly owned subsidiary of a Malaysian resident holding company, which is in turn a subsidiary of the Prudential group of companies.

PFMB is regulated by the Securities Commission, which supervises the establishment of unit trust funds and asset management products.

The Securities Commission's Guidelines on Unit Trust Funds stipulates the rules and requirements to be adhered by any person intending to establish a unit trust fund in Malaysia and issue, offer or invite any person to subscribe or purchase units of the unit trust fund. Whilst the rules are principles based, the Securities Commission encourages a disclosure based regime. This provides a healthy environment in promoting unit trust funds and capital markets.

Dubai

Prudential Asset Management Limited ("PAMD") was incorporated in the Dubai International Financial Centre ("DIFC") in September 2006. PAMD is an indirect wholly owned subsidiary of Prudential plc.

PAMD is regulated by the Dubai Financial Services Authority ("DFSA"), which is the independent regulator for the DIFC. PAMD holds a licence for Dealing in Investments as Agent, Managing Assets, Arranging Credit or Deals in Investments, Advising on Financial Products or Credit, Arranging Custody, Operating a Collective Investment Fund, Providing Fund Administration and Operating an Islamic Window.

The supervisory approach of DFSA, is to a large extent, risk based.

Recent regulatory trends

The DFSA published Consultation Paper No. 52 on December 4, 2007 outlining its proposals to develop its regulatory regime in three key areas: client classification and access; the regime for Collective Investment Funds; and convergence with international regulatory developments. The Consultation Paper sets out proposals for extensive changes to enable the financial services market of the DIFC to progress into its next stage of development. The proposals are expected to be finalized by the second quarter of 2008.

Vietnam

Prudential Vietnam Fund Management Private Limited Company ("PVN FMC") was established and currently operates under the Business Registration Certificate No. 410400113 issued by the Department of Planning and Investment of Ho Chi Minh City on May 24, 2005 and the License No. 03/UBCK-GPHDQLQ dated May 26, 2005 and Decision No. 459/QD-UBCK dated August 13, 2007 by the State Securities Commission of Vietnam (SSC) for operation in securities investment fund management and securities portfolio management.

Prudential Vietnam Life Insurance Company is the sole owner of PVN FMC.

PVN FMC is regulated by the State Securities Commission of Vietnam ("SSC"), which is overseen by Ministry of Finance ("MOF"). Given the mandate to establish and develop the securities markets, the SSC supervises the organization, and operation of securities investment funds and fund management companies.

Recent regulatory trends

PVN FMC is subject to the Securities Law, which came into effect in early 2007. The Securities Law contemplates two types of domestic securities trading market: The Securities trading center and Stock Exchange.

On January 17, 2007, the Government issued Decree 14 implementing the Securities Law governing public offerings, listings and the regulation of securities companies, fund management companies and securities investment companies.

The MOF has also issued a number of other regulations to implement the Securities Law and Decree 14, including Decision 35 on the organization and management of fund management companies; Decision 45 on the establishment and management of securities investment funds; and Circular 38 on publishing information on the securities market.

Item 4A. Unresolved staff comments

None

Item 5. Operating and Financial Review and Prospects

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis should be read in conjunction with Prudential's consolidated financial statements and the related notes to Prudential's consolidated financial statements included elsewhere in this document. Prudential's consolidated financial statements have been prepared in accordance with IFRS. A summary of the critical accounting policies which have been applied to these statements is set forth in the section below entitled " Factors Affecting Results of Operations IFRS Critical Accounting Policies".

The results discussed below are not necessarily indicative of the results to be expected in any future periods. This discussion contains forward-looking statements based on current expectations, which involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in these forward-looking statements due to a number of factors, including those set forth in the section below entitled " Factors Affecting Results of Operations", in Item 3, "Key Information Risk Factors" and elsewhere in this document.

Introduction

Prudential is an international retail financial services group with significant operations in Asia, the US and the UK. Prudential's aim is to promote the financial well-being of its customers and their families, with a particular focus on saving for retirement and security in retirement.

Prudential is structured around four main business units; Prudential Corporation Asia, Jackson, Prudential UK insurance operations and M&G. These are supported by central functions which are responsible for leading Group strategy, cash and capital management, leadership development and succession, reputation management, and other core Group functions.

Prudential Corporation Asia is the leading European-based life insurer in Asia in terms of market coverage and the number of top five market positions. The Company has life insurance and asset management operations in 13 markets covering China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand, Vietnam and the United Arab Emirates.

Jackson provides retirement savings and income solutions in the mass and mass-affluent segments of the US market, primarily to retirees and those nearing retirement.

Prudential UK insurance operations is a leading provider of retirement savings and income solutions and life assurance in the UK and believes it has a unique combination of competitive advantages including its significant longevity experience, multi-asset management capabilities and its brand and financial strength. Prudential provides a range of financial products and services including annuities, corporate pensions, with-profits and unit-linked bonds, savings and investment products, protection, equity release and health insurance products.

M&G is Prudential's UK and European fund management business and has £167 billion of assets under management as at December 31, 2007 of which £116 billion relates to Prudential's long-term business funds. M&G aims to maximize profitable growth by operating in markets where it has leading position and competitive advantage, including retail fund management, institutional fixed income, pooled life and pension funds, property and private finance.

Factors Affecting Results of Operations

Prudential's results of operations are affected, to a greater or lesser degree, by a variety of factors, including demographics, general economic and market conditions, government policy and legislation and regulation, as discussed in greater detail below. In addition changes in interest rates and returns from equity, real estate and other investments as well as volatility in these items may affect Prudential's profitability.

See Item 3, "Key Information Risk Factors" for more information on risks associated with these and other factors. In addition, changes to the composition of its businesses and the execution of its growth strategy may result in increased variation in profits from year to year.

General Economic and Market Conditions

Prudential believes that the retail financial services industry is undergoing a transformation as a large segment of the population transitions out of the workforce and into active retirement. Some estimates suggest that, in the US and the UK alone, some £7 trillion of assets could move into the retirement market over the next five years, and there is also a significant and growing retirement opportunity in Asia.

Not only are these people likely to live longer than previous generations, but their needs are different from their predecessors. In particular, many are looking for a more active lifestyle in retirement, but often underestimate the savings required for this. In addition, there is a move towards greater self-provision as a result of declining governmental support. The increased cost of long term care is also a significant factor, as is the need to protect the value of assets against inflation over longer periods of time.

Prudential believes that this retirement opportunity will be a significant driver of growth and profitability over the coming years, and that it has a set of assets and capabilities which position it extremely well to capture a large share of that opportunity in its chosen markets. These include its brands, its investment and risk management skills, its product innovation and its powerful distribution networks.

Particular features for the Group's geographic areas of operations are shown below:

Asia

Asian households are changing rapidly; they are becoming wealthier, smaller and older with a growing need for financial solutions.

Asia remains a very attractive region for growth opportunities due to its high levels of economic activity translating into higher levels of personal wealth, greater disposable incomes, a comparatively higher propensity to save and a growing appetite for good quality protection and savings products. Traditionally older people have relied on their children to provide for them, but Prudential believes that within just one generation this will be far less common. Ageing demographics are also beginning to drive increased household savings rates and an emerging need for healthcare and retirement solutions.

Asian governments have little appetite to increase the provision of state funded retirement benefits and healthcare and are actively encouraging the development of a strong, dynamic private sector to meet people's growing need for financial solutions. The composition of demand and economic activity has been shifting recently towards being more domestically driven and Prudential expects this trend to continue, resulting in less dependence on Western economies. Short term interest rates are expected to continue to rise slowly as central banks balance normalizing economic policy with containing pressure for currencies to appreciate. Long term bond yields are expected to climb from current levels as economic activity broadens and domestic inflation rises. Equity investments will be supported by continued economic growth and the current valuation levels. Overall, it is expected that these factors will continue to encourage investors into long term savings products.

US

The United States is the largest retirement savings market in the world and is expected to continue to grow significantly over the next 10 years as the post-war generation reaches retirement.

The combination of increasing life expectancy and decreasing retirement age in the US is expected to lead to an increase in the average time individuals will spend in retirement and a shift from asset accumulation to income distribution in the retirement market. At the same time, the responsibility for providing income during retirement continues to shift away from institutions, such as government and employers, toward individuals. As a result, consumers have a growing need for independent financial advice and increasingly seek guarantees and longevity protections from the financial products they purchase.

The US life insurance industry remains highly fragmented and competition for market share is intensifying through aggressive pricing. Life insurers find themselves competing with other financial services providers, particularly mutual fund companies and banks, for a share of retirement savings assets in the US.

Jackson was predominantly a spread-based business until recently, with the majority of its assets invested in fixed income securities. Recently its fee-based business has become more prominent and now represents a significant part of Jackson's business mix.

In general, Jackson's results are heavily affected by fluctuations in economic and market conditions, especially interest rates, credit conditions and equity markets.

The profitability of Jackson's spread-based business depends in large part on its ability to manage interest rate spreads, as well as the credit and other risks inherent in its investment portfolio. Prudential designs its US products and manages the investments supporting this business to reduce interest rate sensitivity. This has the effect of moderating the impact on Prudential's results of changes in prevailing interest rates.

Changes in interest rates either upward or downward, including changes in the difference between the levels of prevailing short-term and long-term rates, can expose Jackson to the risk of not earning anticipated spreads between the rate earned on investments and the rate credited on its policies. For example, if interest rates go up and/or competitors offer higher crediting rates, withdrawals on annuity contracts may increase as policyholders seek higher investment returns elsewhere. In response, Jackson could (1) raise its crediting rates to stem withdrawals, decreasing its spread; (2) sell assets which may have depressed values in a high interest rate environment, creating realized investment losses; or (3) pay out existing cash which would otherwise have earned interest at the higher interest rates. Moreover, to the extent that Jackson holds illiquid private placements and commercial mortgages, there is a risk that it will incur losses if it needs to sell those assets. Conversely, if interest rates decrease, withdrawals from annuity contracts may decrease relative to original expectations, creating more cash than expected to be invested at lower rates. Jackson may have the ability to lower the rates it credits to policyholders as a result, but may be forced to maintain crediting rates for competitive reasons or because there are minimum interest rate guarantees in certain contracts. In either case, the spread earned by Jackson would be lowered.

The profitability of Jackson's fee-based business depends in large part on its ability to manage equity market risk. As the investment return on the separate account assets is attributed directly to the contract holders, Jackson's profit arises from the fees charged on the contracts, less the expenses incurred, which include the costs of guarantees. In addition to being a profitable book of business in its own right, the variable annuity book also provides an opportunity to utilize the offsetting equity risk among various lines of business to manage Jackson's equity exposure in a cost-effective fashion. Jackson believes that the internal management of equity risk coupled with the utilization of external derivative instruments where necessary, continues to provide a cost effective method of managing equity exposure. Profits in the variable annuity book of business will continue to be subject to the impact of market movements both on sales and allocations to the variable accounts and the effects of the economic hedging programme. While Jackson hedges its risk on an economic basis, the nature and duration of the hedging instruments, which are recorded at fair value through the income statement, will fluctuate and produce some accounting volatility. Jackson continues to believe that, on a long-term economic basis, its equity exposure remains well managed. See Item 11, "Quantitative and Qualitative Disclosures about Market Risk" for a discussion of the management of Prudential's exposure to such market risk.

UK

With an ageing population and the increasing concentration of wealth, Prudential believes the retirement and near-retirement population will represent the fastest growing segments of the market over the next 10 years.

Prudential is focusing on the retirement savings and income market in the UK. Over 50 per cent of total assets, including pensions, housing equity and liquid assets, are held by those approaching or in retirement. In addition, wealth is concentrated in the mass affluent and high net worth individuals.

Additionally, the responsibility for providing income during retirement is continuing to shift away from the government and employers towards the individual. This coupled with low savings and high indebtedness in the UK, increases the risk that individuals will be inadequately provided for during increasingly long periods of retirement. Consequently, there is a growing demand for financial advice and financial products including guarantees and longevity protection.

In the United Kingdom, where Prudential's with-profits fund invests in debt and other fixed income securities, equity securities and real estate, shareholders' profits under IFRS are strongly related to the bonuses it declares. The most important influences on the bonus rates are the overall rate of return earned on investments and Prudential's expectation of future investment returns. See " Analysis by Geographic Region United Kingdom Basis of Profits", " With-profits Products" and " Bonus Rates" below. Prudential's bonus policy and its impact on profitability are addressed in more detail in "IFRS Critical Accounting Policies" below. In addition, the shareholders' profits under IFRS are significantly influenced by the contribution from the growing shareholder backed annuity business. The key factors affecting the profitability of this business are described in note D2 to the consolidated financial statements.

Government Policy and Legislation

Changes in government policy or legislation applying to companies in the financial services and insurance industries in any of the jurisdictions in which Prudential operates, particularly in the United Kingdom, the United States and Asia, may adversely affect the result of its operations. These include possible changes in the tax treatment of financial products and services, government pension arrangements and policies, the regulation of selling practices and solvency standards. These changes may affect Prudential's existing and future business by, for example, causing customers to cancel existing policies, requiring Prudential to change its range of products and services, redesign its technology or other systems, retrain staff, pay increased tax or incur other costs.

Regulation

In recent years, the insurance sectors in the markets in which Prudential operates have seen considerable regulatory change. Failure to comply with local regulation may result in sanctions, which could take the form of a financial penalty.

Additional regulation, scrutiny and related costs have put pressure on the margins on new business. In the United States, Prudential has been the subject of regulatory sanctions and class actions. These legal proceedings are discussed in more detail under Item 4, "Information on the Company Business of Prudential Legal Proceedings". Changes in pension, financial services and tax regulation could have an impact on Prudential's results. See Item 4, "Information on the Company Supervision and Regulation of Prudential" for a summary of the current regulatory environment in which Prudential conducts its business.

Exchange Rates

Due to the geographical diversity of Prudential's businesses, it is subject to the risk of exchange rate fluctuations. Prudential's international operations in the United States, Asia and Europe, which represent a significant proportion of total group income and expenses, generally write policies and invest in the same local currency, which although limiting the effect of exchange rate fluctuations on local operating results, can lead to fluctuations in Prudential's consolidated financial statements upon translation of results into pounds sterling.

IFRS Critical Accounting Policies

Prudential's discussion and analysis of its financial condition and results of operations are based upon Prudential's audited consolidated financial statements, prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (collectively "IFRS"). Were the Group to apply International Financial Reporting Standards as adopted by the European Union as opposed to those issued by the International Accounting Standards Board, no additional adjustments would be required.

The preparation of these financial statements requires Prudential to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, Prudential evaluates its estimates, including those related to long-term business provisioning, the fair value of assets and the declaration of bonus rates. Prudential bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially give rise to materially different results under different assumptions and conditions. Prudential believes that its critical accounting policies are limited to those described below.

The critical accounting policies in respect of the items discussed below are critical for the Group's results insofar as they relate to the Group's shareholder financed business, in particular for Jackson. The policies are not critical in respect of the Group's with-profits business. Accordingly, explanation is provided in this section as to why the distinction between with-profits business and shareholder-backed business is relevant.

The items discussed below explain the effect of changes in estimates and the effect of reasonably likely changes in the key assumptions underlying these estimates as of the latest balance sheet date so as to provide analysis that recognizes the different accounting effects on profit and loss or equity. In order to provide relevant analysis that is appropriate to the circumstances applicable to the Group's businesses, the explanations refer to types of business, fund structure, the relationship between asset and policyholder liability measurement, and the differences in the method of accounting permitted under IFRS 4 for accounting for insurance contract assets, policyholder liabilities and unallocated surplus of the Group's with-profits funds.

Investments

Determining the fair value of unquoted investments

The Group holds certain financial investments which are not quoted on active markets. Their fair values are determined in full or in part by using valuation techniques. If the market for a financial investment of the Group is not active, the Group establishes fair value by using quotations from independent third parties, such as brokers or by using valuation techniques. The fair values of investments valued using a valuation technique at December 31, 2007 was £9,854 million (2006: £8,211 million). Of this amount £5,739 million (2006: £4,503 million) is held by with-profits operations, for which value movements do not affect directly shareholder results, and £4,115 million (2006: £3,708 million) is held by shareholder-backed operations. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments.

The majority of the financial investments valued using valuation techniques were debt securities. The fair value of debt securities valued using valuation techniques at December 31, 2007 was £6,374 million (2006: £6,200 million), of which debt securities with a fair value of £3,511 million (2006: £3,341 million) were held by UK operations with £3,002 million (2006: £2,945 million) of this amount related to securities held by with-profits operations and £509 million (2006: £396 million) related to securities held by the shareholder-backed UK annuity subsidiary PRIL. Debt securities valued using valuation techniques held by the US operations were £2,863 million (2006: £2,859 million).

These debt securities include private debt securities such as private placements, project finance, asset securitizations and local authority securities. The securities are mainly long-dated and not regularly traded and are valued internally using market standard practices. The majority of the debt securities above are valued using matrix pricing, which is based on assessing credit quality of the underlying borrower to derive a suitable discount rate relative to government securities. Under matrix pricing, the debt securities are priced by taking the credit spreads on comparable quoted public debt securities and applying them to the equivalent debt instruments factoring a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

For the UK operations, in accordance with the Group's Risk Management Framework, all internally generated calculations are subject to independent assessment by the Group's Fair Value Committees which comprise members who are independent of the fund managers involved in the day-to-day trading in these assets.

In addition to private debt securities, debt securities of US operations valued using valuation techniques also included securities held by the Piedmont trust entity, an 80 per cent Jackson held static trust formed as a result of a securitization of asset-backed securities in 2003 that are accounted for on an available-for-sale basis. As at December 31, 2007, the fair value of these Piedmont assets valued using valuation techniques was £316 million (2006: £405 million). Significant estimates and judgments are also employed in valuing certain asset-backed and mortgage-backed securities held by the Piedmont trust entity. These valuations may impact reported shareholder profit and loss amounts through the determination of impairment and recovery amounts.

Whilst management believes that the estimates and assumptions employed in developing the fair value estimates are reasonable and present management's best estimate of such values, a reasonable range of values exists with respect to most assumptions utilized in determining these values. As a result of the potentially significant variability in the estimates of the assumptions used in these models, the range of reasonable estimates of the fair value of these securities is significant.

Management has obtained broker bids on these Piedmont trust assets that represent the value at which the Group could sell the investments, if forced. These bids are not based on full knowledge and hence analysis of the investments, but represent the best estimate of the worst case decline in market value of these securities. The broker bids for these securities at December 31, 2007 totaled £260 million, a difference of £56 million (2006: £372 million, a difference of £33 million) to the fair value applied.

The equity securities and other investments, which include, property and other partnerships in investment pools, venture investments and derivative assets, valued using valuation techniques apply less readily observable market factors and more non-observable factors than the matrix pricing technique as used for the majority of the debt securities. In addition to the investments shown above, there are some minor amounts valued using valuation techniques in the Group's Asian operations.

The total amount of the change in fair value estimation using valuation techniques, including valuation techniques based on assumptions not wholly supported by observable market prices or rates, recognized in the income statement in 2007 was a gain of £101 million (2006: gain of £47 million) for the with-profits fund investments. Changes in values of assets of the with-profits funds are reflected in policyholder liabilities and unallocated surplus. Due to the liability accounting treatment of unallocated surplus, changes in values of securities held by with-profits funds have no direct effect on the profit or loss attributable to shareholders or shareholders' equity.

The total amount of the change in fair value estimation using valuation techniques, including those based on assumptions not wholly supported by observable market prices or rates, recognized in the income statement in 2007 and which was attributable to shareholders, was a gain of £138 million (2006: gain of £68 million) for the PRIL and US investments.

Determining impairments relating to financial assets

Available-for-sale securities

1. Information regarding the 2007 and 2006 results

Financial investments carried on an available-for-sale basis are represented by Jackson's and Egg's debt securities portfolio. These are considered to be impaired if there has been a significant or prolonged period of decline in fair value below its amortized cost or if there is objective evidence of impairment. The consideration of this requires management's judgment. Among the factors considered is whether the decline in fair value results from a change in quality of the security itself, or from a downward movement in the market as a whole and the likelihood of recovering the carrying value based on the current and short-term prospects of the issuer.

Unrealized losses that are considered to be primarily the result of market conditions, such as increasing interest rates, unusual market volatility, or industry-related events, and where the Group also believes there is a reasonable expectation for recovery and, furthermore, it has the intent and ability to hold the investment until maturity or the market recovers, are usually determined to be temporary. Prudential's review of fair value involves several criteria including economic conditions, credit loss experience, other issuer-specific developments and future cash flows. These assessments are based on the best available information at the time. Factors such as market liquidity, the widening of bid/ask spreads and a change in cash flow assumptions can contribute to future price volatility. If actual experience differs negatively from the assumptions and other considerations used in the consolidated financial statements, unrealized losses currently in equity may be recognized in the income statement in future periods.

In 2007 Impairment losses recognized on available-for-sale securities amounted to £30 million (2006: £24 million). Of this amount, 14 per cent (2006: 76 per cent) has been recorded on structured asset-backed securities, primarily due to reduced cash flow expectations on such securities that are collateralized by diversified pools of primarily below investment grade securities. 57 per cent (2006: 24 per cent) of the losses related to the impairment of fixed maturity securities of the top five individual corporate issuers, reflecting a deteriorating business outlook of the companies concerned.

In 2007, the Group realized gross losses on sales of available-for-sale securities of £86 million (2006: £58 million). 46 per cent (2006: 30 per cent) of these losses related to the disposal of fixed maturity securities of six (2006: six) individual issuers, which were disposed of to rebalance the portfolio in the US operations in response to the unstable mortgage lending market in the US.

The effect of those reasonably likely changes in the key assumptions underlying the estimates that underpin the assessment of whether impairment has taken place depends on the factors described above. A key indicator of whether such impairment may arise in future, and the potential amounts at risk, is the profile of gross unrealized losses for fixed maturity and equity securities accounted for on an available-for-sale basis by reference to the time periods by which the securities have been held continuously in an unrealized loss position and by reference to the maturity date of the securities concerned.

For 2007, the difference between the carrying value and book cost of equity securities in gross unrealized loss position was nil (2006: £(1) million).

The following table shows the amounts of gross unrealized losses for fixed maturity securities classified as available-for-sale under IFRS in an unrealized loss position for the time periods indicated as at December 31, 2007 and 2006.

The unrealized losses in the US insurance operations balance sheet on unimpaired fixed maturity securities classified as available-for-sale under IFRS are (£439) million (2006: £(256) million). This reflects assets with fair market value and book value of £10,291 million and £10,730 million respectively.

The following table shows some key attributes of the fixed maturity securities that are in an unrealized loss position at December 31, 2007 and 2006.

Fair value of fixed maturity securities as a percentage of book value	**Fair value 2007**	**Unrealized loss 2007**	**Fair value 2006**	**Unrealized loss 2006**
	£m	**£m**	**£m**	**£m**
Between 90% and 100%	**9,370**	**(274)**	10,941	(248)
Between 80% and 90%	**784**	**(122)**	61	(8)
Below 80%	**137**	**(43)**		
	10,291	**(439)**	11,002	(256)

Included within the table above are amounts relating to sub-prime and Alt-A securities of:

Fair value of fixed maturity securities as a percentage of book value	**Fair value**	**Unrealized loss**
	£m	**£m**
Between 90% and 100%	**572**	**(24)**
Between 80% and 90%	**132**	**(22)**
Below 80%	**28**	**(10)**
	732	**(56)**

Aged analysis of unrealized losses for the periods indicated:

	2007				2006			
	Not rated	Non-investment grade	Investment grade	Total	Not rated	Non-investment grade	Investment grade	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Less than 6 months	**(7)**	**(8)**	**(52)**	**(67)**	(1)	(1)	(14)	(16)
6 months to 1 year	**(10)**	**(21)**	**(105)**	**(136)**	(3)	(1)	(10)	(14)
1 year to 2 years	**(5)**	**(2)**	**(16)**	**(23)**	(24)	(10)	(135)	(169)
2 years to 3 years	**(24)**	**(10)**	**(140)**	**(174)**	(5)		(9)	(14)
3 years to 4 years	**(3)**	**(1)**	**(5)**	**(9)**	(5)		(35)	(40)
4 years to 5 years	**(3)**		**(24)**	**(27)**				
5 years to 6 years					(2)	(1)		(3)
6 years to 7 years	**(1)**	**(2)**		**(3)**				
	(53)	**(44)**	**(342)**	**(439)**	(40)	(13)	(203)	(256)

At December 31, 2007, the gross unrealized losses in the balance sheet for the sub-prime and Alt-A securities in an unrealized loss position were £56 million. Sub-prime and Alt-A securities with unrealized losses of £37 million in the balance sheet at December 31, 2007 have been in an unrealized loss position for less than one year with the remaining securities with unrealized losses of £19 million being in an unrealized loss position for more than one year.

The following table shows the amount of gross unrealized losses for fixed maturity securities classified as available-for-sale under IFRS in an unrealized loss position by maturity date of the securities as at December 31, 2007 and 2006.

	2007	2006
	£m	£m
Less than 1 year	**(1)**	(1)
1 to 5 years	**(54)**	(29)
5 to 10 years	**(164)**	(113)
More than 10 years	**(60)**	(51)
Mortgage-backed securities and other debt securities	**(160)**	(62)
Total	**(439)**	(256)

2. Information regarding the position as at March 31, 2008

On April 17, 2008, Prudential published its first quarter 2008 Interim Management Statement with the UK Listing Authority. In light of the unusual prevailing credit market conditions, market participants' potential focus on Jackson's available-for-sale securities, and the changes to the value of such securities since December 31, 2007, this statement included details on the financial position as at March 31, 2008 as follows:

Jackson's overall credit exposure remains tightly controlled. The exposure is well within Group risk parameters and Jackson continues to manage it proactively. For securities classified as available-for -sale under IAS 39, at March 31, 2008 there was an increase in the net unrealized loss position of £459 million from £136 million at December 31, 2007. This increase reflects exceptional market conditions.

Jackson remains confident of the quality of its overall portfolio of £19 billion of debt securities. 90 per cent of its gross unrealized loss is on investment grade securities. Of the £257 million of gross unrealized losses on securities with a fair value of less than 80 per cent of book value, only £28 million is on securities which are non-investment grade. In addition, there were no credit defaults in the direct investment portfolio in the quarter and downgrades were immaterial. As stated with Prudential's 2007 results announcement, Jackson holds its debt securities with the intent and ability to hold them for the longer-term.

Jackson's portfolio of debt securities is managed proactively: 21 credit analysts closely and regularly monitor and report on the credit quality of its holdings. Jackson continues to review its investments on a case-by-case basis to determine whether any decline in fair value represents an other-than-temporary impairment. At March 31, 2008 for all securities for which there was a temporary impairment recorded, management has the ability and intent to hold for the longer-term.

In the first quarter of 2008, Jackson recorded £24 million of other-than-temporary impairment losses of which £11 million related to Alt-A holdings. This is more than the normalized risk margin charge (RMR) to the Group's supplementary performance reporting measure of operating profits based on longer-term investment returns of £12 million.

For Jackson's securities classified as available-for-sale under IAS 39, at March 31, 2008 there was a net unrealized loss position of £459 million. This amount comprised £335 million of gross unrealized gains and £794 million of gross unrealized losses on individual securities. Included within the gross unrealized losses is £257 million for securities which are valued at less than 80 per cent of book value. For securities valued at less than 80 per cent of book value, 89 per cent are investment grade. 97 per cent of the securities valued at less than 80 per cent of book value have been at this level for less than 6 months.

The following notes on Jackson's debt securities were also provided with the April 17, 2008 announcement.

a Movement in the values at March 31, 2008:

	March 31, 2008	**Change reflected directly in shareholders' equity**	**December 31, 2007**
	£m	**£m**	**£m**
Assets fair value at below book value			
Book value	**11,345**		10,730
Unrealized loss	**(794)**	(355)	(439)
Fair value (as included in the balance sheet)	**10,551**		10,291
Assets fair value at or above book value			
Book value	**7,882**		8,041
Unrealized gain	**335**	32	303
Fair value (as included in the balance sheet)	**8,217**		8,344
Total			
Book value	**19,227**		18,771
Net unrealized (loss) gain	**(459)**	(323)	(136)
Fair value (as included in the balance sheet)	**18,768**		18,635

b

Debt securities in an unrealized loss position

The following table shows the fair value of the fixed maturity securities in a gross unrealized loss position for various percentages of book value:

	Fair value March 31, 2008	Unrealized loss March 31, 2008	Fair value December 31, 2007	Unrealized loss December 31, 2007
	£m	£m	£m	£m
Between 90% and 100%	**8,232**	**(278)**	9,370	(274)
Between 80% and 90%	**1,601**	**(259)**	784	(122)
Below 80%	**718**	**(257)**	137	(43)
	10,551	**(794)**	10,291	(439)

c

Subprime and Alt-A exposures

As at March 31, 2008 Jackson held £219 million in subprime exposure and £0.6 billion in Alt-A exposure. Alt-A are debt securities backed by collateral consisting of mortgages where the risk profile falls between prime and subprime. This subprime exposure, which is primarily fixed rate with first lien collateral, is all investment grade and 96 per cent AAA rated. The Alt-A exposure is 79 per cent AAA rated. With an average Fair, Isaac & Co ("FICO") credit score of 610-620 Jackson's subprime collateral could be categorized as "near prime" with a score close to a prime score of 660.

Assets held at amortized cost

Loans and receivables are carried at amortized cost using the effective interest rate method. The loans and receivables include loans collateralized by mortgages, deposits and loans to policyholders. For these assets, the Group measures the amount of any impairment loss by comparing the carrying amount of the asset with the present value of its estimated future cash flows.

In estimating future cash flows, the Group looks at the expected cash flows of the assets and applies historical loss experience of assets with similar credit risks that has been adjusted for conditions in the historical loss experience which no longer exist, or for conditions that are expected to arise. The estimated future cash flows are discounted using the financial asset's original or variable effective interest rate and exclude credit losses that have not yet been incurred.

The risks inherent in reviewing the impairment of any investment include the risk that market results may differ from expectations; facts and circumstances may change in the future and differ from estimates and assumptions; or the Group may later decide to sell the security as a result of changed circumstances.

The principal holdings of loans and receivables where credit risk was of particular significance were loans and advances to customers held by Egg. Egg was sold in May of 2007 (see note J to the consolidated financial statements).

Changes in the estimates of credit risk in any reporting period could result in a change in the allowance for losses on the loans and advances.

Insurance contracts

Product classification

IFRS 4 requires contracts written by insurers to be classified as either "insurance contracts" or "investment contracts" depending on the level of insurance risk transferred. If significant insurance risk is transferred by the contract then it is classified as an insurance contract. Contracts that transfer financial risk but not significant insurance risk are termed investment contracts. Furthermore, some

contracts, both insurance and investment, contain discretionary participation features representing the contractual right to receive additional benefits as a supplement to guaranteed benefits:

(a) that are likely to be a significant portion of the total contractual benefits;

(b) whose amount or timing is contractually at the discretion of the insurer; and

(c) that are contractually based on asset or fund performance, as discussed in IFRS 4.

Accordingly, insurers must perform a product classification exercise across their portfolio of contracts issued to determine the allocation to these various categories. IFRS 4 permits the continued usage of previously applied GAAP for insurance contracts and investment contracts with discretionary participating features. Except for UK regulated with-profits funds, as described below, this basis has been applied by the Group.

For investment contracts that do not contain discretionary participating features, IAS 39 and, where the contract includes an investment management element, IAS 18, apply measurement principles to assets and liabilities attaching to the contract.

Valuation assumptions

(i) Contracts of with-profits funds

The Group's insurance contracts and investment contracts with discretionary participating features are primarily with-profits and other protection type policies. For UK regulated with-profits funds, the contract liabilities are valued by reference to the FSA realistic basis. In aggregate this basis has the effect of placing a value on the liabilities of UK with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the with-profits funds and current circumstances.

The basis of determining liabilities for the Group's with-profits business has little or no effect on the results attributable to shareholders. This is because movements on liabilities of the with-profits funds are absorbed by the unallocated surplus. The unallocated surplus represents the excess of assets over liabilities that have yet to be appropriated between policyholders and shareholders. Except through indirect effects, or in remote circumstances as described below, changes to liability assumptions are therefore reflected in the carrying value of the unallocated surplus rather than shareholders' equity.

A detailed explanation of the basis of liability measurement is contained in note D2(e)(ii) to the financial statements. Key elements of the value placed on the liabilities are that:

(a) The component for the with-profits benefit reserve is based on retrospective calculation of documented asset shares. Asset shares are calculated as the accumulation of all items of income and outgo that are relevant to each policy type; and

(b) The component for future policyholder related liabilities includes a market consistent valuation of costs and guarantees, options and smoothing determined using either a stochastic approach, hedging costs or a series of deterministic projections with attributed probabilities.

The Group's other with-profits contracts are written in with-profits funds that operate in some of the Group's Asian operations. The liabilities for these contracts and those of Prudential Annuities Limited, which is a subsidiary company of the PAC with-profits funds, are determined differently. For these contracts the liabilities are estimated using actuarial methods based on assumptions relating to premiums, interest rates, investment returns, expenses, mortality and surrenders. The assumptions to which the estimation of these reserves is particularly sensitive are the interest rate used to discount the provision and the assumed future mortality experience of policyholders.

For liabilities determined using the basis described above for UK regulated with-profits funds, and the other liabilities described in the preceding paragraph, changes in estimates arising from the likely range of possible changes in underlying key assumptions have no direct impact on the reported profit.

This lack of sensitivity reflects the with-profits fund structure, basis of distribution, and the application of previous GAAP to the unallocated surplus of with-profits funds as permitted by IFRS 4. Except for unlikely circumstances, where the net assets are insufficient to meet the obligations and capital requirements of the funds, such as those described in note H14, changes in liabilities of these contracts that are caused by altered estimates are absorbed by the unallocated surplus of the with-profits funds with no direct effect on shareholders' equity.

(ii) Other contracts

Contracts, other than those of with-profits funds, are written in shareholder-backed operations of the Group. The significant shareholder-backed product groupings and the factors that may significantly affect IFRS results due to experience against assumptions or changes of assumptions vary significantly between business units. For some types of business the effect of changes in assumptions may be significant, whilst for others, due to the nature of the product, assumption setting may be of less significance. The nature of the products and the significance of assumptions are discussed in notes D2, D3 and D4 to the consolidated financial statements. From the perspective of shareholder's results, the key sensitivity relates to assumed future investment returns for the Taiwan life operation as described below.

Jackson

Jackson offers individual fixed annuities, fixed index annuities, immediate annuities, variable annuities, individual and variable life insurance and institutional products. With the exception of institutional products and an incidental amount of business for annuity certain contracts, which are accounted for as investment contracts under IAS 39, all of Jackson life assurance contracts are accounted for under IFRS 4 as insurance contracts by applying US GAAP, the previous GAAP used before IFRS adoption. Under US GAAP the requirements of SFAS 60 'Accounting and Reporting for Insurance Enterprises' and SFAS 97 'Accounting and Reporting by Insurance Enterprises for certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments' apply to these contracts. The accounting requirements under these standards and the effect of changes in valuation assumptions are considered below for fixed annuity, variable annuity and traditional life insurance contracts.

Fixed annuity contracts, which are treated as investment contracts under US GAAP terminology, are accounted for by applying in the first instance a retrospective deposit method to determine the liability for policyholder benefits. This is then augmented by potentially three additional amounts, namely deferred income, any amounts previously assessed against policyholders that are refundable on termination of the contract, and any premium deficiency, i.e., any probable future loss on the contract. These types of contract contain considerable interest rate guarantee features. Notwithstanding the accompanying market risk exposure, except in the circumstances of interest rate scenarios where the guarantee rates included in contract terms are higher than crediting rates that can be supported from assets held to cover liabilities, the accounting measurement of Jackson's fixed annuity products is not generally sensitive to interest rate risk. This position derives from the nature of the products and the US GAAP basis of measurement.

Variable annuity contracts written by Jackson may provide for guaranteed minimum death, income, or withdrawal 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 2007 and 2006 was 8.4 per cent per annum determined using a mean reversion methodology. Likely changes to this percentage return are not expected to be significant.

These returns affect the level of future expected profits through their effects on the fee income with consequential impact on the amortization 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.

Asian operations

The insurance products written in the Group's Asian operations principally cover with-profits business, unit-linked business, and other non-participating business. The results of with-profits business are relatively insensitive to changes in estimates and assumptions that affect the measurement of policyholder liabilities. As for the UK business, this feature arises because unallocated surplus is accounted for by the Group as a liability. The results of Asian unit-linked business are also relatively insensitive to changes in estimates or assumptions.

The principal non-participating business in the Group's Asian operations, for which changes in estimates and assumptions are important from year to year, is the traditional whole-life business written in Taiwan. The premiums for the in-force business for these contracts have been set by the regulator at different points for the industry as a whole. Premium rates were set to give a guaranteed minimum sum assured on death and a guaranteed surrender value on early surrender based on prevailing interest rates at the time of policy issue. Premium rates also included an allowance for mortality and expenses. The required rates of guarantee have fallen over time as interest rates have reduced from a high of eight per cent to current levels of around two per cent. The current low bond rates in Taiwan gives rise to a negative spread against the majority of these policies. The current cash costs of funding in force negative spread in Taiwan is around £45 million a year.

The adequacy of the insurance contract liabilities is tested by reference to best estimates of expected investment returns on policy cash flows and reinvested income. The assumed earned rates are used to discount the future cash flows. The assumed earned rates consist of a long-term best estimate determined by consideration of long-term market conditions and rates assumed to be earned in the trending period. For 2007 and 2006, it has been projected that rates of return for Taiwanese bond yields will trend from the then current levels of some 2.5 per cent (2.0 per cent) to 5.5 per cent by December 31, 2013.

The liability adequacy test results are sensitive to the attainment of the trended rates during the trending period. Based on the current asset mix, margins in other contracts that are used in the assessment of the liability adequacy tests and currently assumed future rates of return, if interest rates were to remain at current levels in 2008 and 2009 and the target date for attainment of the long-term bond yield deferred to December 31, 2015, the premium reserve, net of deferred acquisition costs, would be sufficient. If interest rates were to remain at current levels beyond the end of 2009 with the date of the attainment of the long-term rate further delayed, the margin within the net GAAP reserve will reduce further.

However, the need to write off deferred acquisition costs or increase the liabilities, and by how much, would be affected by the impact of new business written between December 31, 2007 and the future reporting dates to the extent that the business is taken into account as part of the liability adequacy testing calculations for the portfolio of contracts.

The adequacy of the liability is also sensitive to the level of the projected long-term rate on bonds. The current long-term assumption of 5.5 per cent has been determined on a prudent best estimate basis by reference to detailed assessments of the financial dynamics of the Taiwanese economy. In the event that the rate applied was altered, the carrying value of the deferred acquisition costs and policyholder liabilities would potentially be affected.

At December 31, 2007, if the assumed long-term bond yield applied had been reduced by 0.5 per cent from 5.5 per cent to 5.0 per cent and continued to apply the same progression period to December 31, 2013, by assuming bond yields increase from current levels in equal annual installments to the long-term rate, the premium reserve, net of deferred acquisition costs, would have been sufficient. The impact of reducing the long-term rate by a further 0.5 per cent to 4.5 per cent would have been such that the net GAAP reserve would have met the liability adequacy test but with no margin available to cover further deterioration. An additional 0.5 per cent reduction in the assumed long-term rate from 4.5 per cent to 4.0 per cent would lead to a charge of some £200 million.

Whole of life contracts with floor levels of policyholder benefits that accrue at rates set at inception are also written in the Korean life operations, though to a much less significant extent than in Taiwan. The business is much less sensitive to returns than Taiwan with the higher proportion of linked and health business.

The other area of note in respect of guarantees is the Japanese business where pricing rates are higher than current bond yields. Lapse risk is a feature in that policyholders could potentially surrender their policies on guaranteed terms if interest rates significantly increased leaving the potential for losses if bond values had depreciated significantly. However, the business is matched to a relatively short realistic liability duration.

For the Korean and Japanese life business exposures described above, the results are comparatively unaffected by changes of assumption. The accounts basis value of liabilities for both operations are of a similar order of magnitude to those that apply for the purposes of Group solvency calculations under the IGD.

Deferred acquisition costs

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 not recognized under the accounting application of the realistic FSA regime, these costs, which vary with, and are primarily related to, the production of new business, are capitalized and amortized 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 amortization 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 operations is for individual and group annuity business where the incidence of acquisition costs is negligible.

Jackson

For term business, acquisition costs are deferred and amortized in line with expected premiums. For annuity business, acquisition costs are deferred and amortized 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 the Jackson companies, industry experience and future expectations. A detailed analysis of actual experience is measured by the internally developed mortality studies.

For variable annuity business, as described above, the key assumption is the expected long-term level of equity market returns, which for 2007 and 2006 was 8.4 per cent per annum determined using a mean reversion methodology.

Asian operations

The key shareholder-backed Asian operation is the Taiwan life business. The sensitivity of the results for this operation, including the potential effect on write-offs of deferred acquisition costs, is significant and is described above. There was no write-off of DAC made in 2007 or 2006.

Pensions

The Group applies the requirements of IAS 19, "Employee Benefits" to its defined benefit pension schemes. Due to the inclusion of actuarial gains and losses in the income statement rather than being recognized directly in equity, the results of the Group are affected by changes in interest rates for corporate bonds that affect the rate applied to discount projected pension payments and changes in mortality assumptions.

The economic participation in the surplus or deficits attaching to the main Prudential Staff Pension Scheme ("PSPS") and the smaller Scottish Amicable Pension Scheme ("SAPS") are shared between the PAC WPSF and shareholder operations. The economic interest reflects the source of contributions over the scheme life, which in turn reflects the activity of the members during their employment.

In the case of PSPS, movements in the apportionment of the surplus or deficit for PSPS between the WPSF and shareholders' funds in 2007 reflect the $^{70}/_{30}$ ratio applied to the base deficit position as at December 31, 2005 but with service cost and contributions for ongoing service apportioned by reference to the cost allocation for activity of current employees.

For SAPS the ratio is estimated to be 50/50 between the WPSF and shareholders' funds.

The table below shows the sensitivity of the PSPS liabilities of £4,361 million at December 31, 2007 to changes in discount rates, inflation rates and mortality assumptions.

Assumption	Change in assumption	Impact on scheme liabilities on IAS 19 basis
Discount rate	Decrease by 0.2% from 5.9% to 5.7%	Increase scheme liabilities by 3.5%
Discount rate	Increase by 0.2% from 5.9% to 6.1%	Decrease scheme liabilities by 3.4%
Rate of inflation	Decrease by 0.2% from 3.3% to 3.1% with consequent reduction in salary increases	Decrease scheme liabilities by 1.3%
Mortality rates	Reduce rates from 100% of table to 95%	Increase liabilities by 1.2%

Deferred tax

Deferred tax assets are recognized to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved. The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets. For the 2007 results and balance sheet position at December 31, 2007, the possible tax benefit of approximately £280 million (2006: £333 million), which may arise from capital losses valued at approximately £1.4 billion (2006: £1.7 billion), is sufficiently uncertain that it has not been recognized. In addition, a potential deferred tax asset of £112 million (2006: £71 million), which may arise from trading losses of approximately £350 million (2006: £245 million), is sufficiently uncertain that it has not been recognized.

Goodwill

Goodwill impairment testing requires the exercise of judgment by management as to prospective future cash flows.

Other features of IFRS accounting that are of particular significance to an understanding of Prudential's results

The other features that are of significance relate to the timing of adoption of certain IFRS standards and their consequential impact upon the financial statements; the accounting for UK with-profits funds; and the presentation of certain items in the financial statements.

Insurance contract accounting

With the exception of certain contracts described in note D1, the Group's life assurance contracts are classified as insurance contracts and investment contracts with discretionary participating features. As permitted by IFRS 4, assets and liabilities of these contracts (see below) are accounted for under previously applied generally accepted financial principles ("GAAP"). Accordingly, except as described below, the modified statutory basis ("MSB") of reporting as set out in the revised Statement of Recommended Practice ("SORP") issued by the Association of British Insurers ("ABI") in November 2003 has been applied.

The application of previously applied GAAP is of particular relevance to the treatment of the unallocated surplus, overseas operations and product options and guarantees.

Unallocated surplus represents the excess of assets over policyholder liabilities for the Group's with-profits funds that have yet to be appropriated between policyholders and shareholders. The Group has opted to account for unallocated surplus wholly as a liability with no allocation to equity. This treatment reflects the fact that shareholders' participation in the cost of bonuses arises only on distribution. Shareholder profits on with-profits business reflect one-ninth of the cost of declared bonus.

For Jackson, applying the MSB as applicable to overseas operations, the assets and liabilities of insurance contracts are accounted for under insurance accounting prescribed by US GAAP. For the assets and liabilities of insurance contracts of Asian operations, the local GAAP is applied with adjustments, where necessary, to comply with UK GAAP. For the operations in Taiwan, Vietnam and Japan, countries where local GAAP is not appropriate in the context of the previously applied MSB, accounting for insurance contracts is based on US GAAP. For participating business the liabilities include provisions for the policyholders' interest in realized investment gains and other surpluses that, where appropriate, and in particular for Vietnam, have yet to be declared as bonuses.

The usage of these bases of accounting has varying effects on the way in which product options and guarantees are measured. For UK regulated with-profits funds, options and guarantees are valued on a market consistent basis. The basis is described in note D2(e)(ii) to the financial statements. For other operations a market consistent basis is not applied under the accounting basis described in note A4. Details of the guarantees, basis of setting assumptions, and sensitivity to altered assumptions are described in notes D3 and D4 to the financial Statements.

Valuation and accounting presentation of fair value movements of derivatives and debt securities of Jackson

Under IAS 39, derivatives are required to be carried at fair value. Unless net investment hedge accounting is applied, value movements on derivatives are recognized in the income statement. Except in respect of variable annuity business, the value movements on derivatives held by Jackson are separately identified within the short-term fluctuations in investment returns identified as part of the Group's supplementary analysis of results described under "Item 5" Additional analysis of consolidated results reflecting the basis used by management and reported externally to UK shareholders and the UK financial market". Derivative value movements in respect of variable annuity business are included within the operating profit based on longer-term investment returns also as described in that additional analysis section.

For derivative instruments of Jackson, the Group has considered at length whether it is appropriate to undertake the necessary operational changes to qualify for hedge accounting so as to achieve matching of value movements in hedging instruments and hedged items in the performance statements. In reaching the decision a number of factors were particularly relevant. These were:

- IAS 39 hedging criteria has been designed primarily in the context of hedging and hedging instruments that are assessable as financial instruments that are either stand-alone or separable from host contracts, rather than, for example, duration characteristics of insurance contracts;

- the high hurdle levels under IAS 39 of ensuring hedge effectiveness at the level of individual hedge transactions for specific transactions;

- the difficulties in applying the macro hedge provisions under IAS 39 (which are more suited to banking arrangements) to Jackson's derivative book;

- the complexity of asset and liability matching of US life insurers such as those with Jackson's product range; and finally

- whether it is possible or desirable, without an unacceptable level of costs and restraint on commercial activity, to achieve the accounting hedge effectiveness required under IAS 39.

In this regard, the issues surrounding the IAS 39 application are very similar to those considered by other US life insurers when the US financial reporting standard FAS 133 was first applied for US GAAP reporting. Taking account of these considerations the Group has decided that, except for certain minor categories of derivatives, it is not appropriate to seek to achieve hedge accounting under IAS 39 by completely reconfiguring the structure of Jackson's derivative book. As a result of this decision, the total income statement results are more volatile as the movements in the value of Jackson's derivatives are reflected within it.

Under IAS 39, unless carried at amortized cost (subject to impairment provisions where appropriate) under the held-to-maturity category, debt securities are also carried at fair value. The Group has chosen not to classify any financial assets as held-to-maturity. Debt securities of Jackson are designated as available-for-sale with value movements being recorded as movements within shareholders' equity.

Accounting for with-profits business

For with-profits business (including non-participating business of Prudential Annuities Limited which is owned by the PAC with-profits fund), adjustments to liabilities and any related tax effects are recognized in the income statement. However, except for any impact on the annual declaration of bonuses, shareholder profits for with-profits business and shareholders' funds would not be affected by adjustments to liabilities. This is because the income statements solely reflect one-ninth of the cost of bonuses declared for with-profits policies for the year.

Adjustments to the long-term business provision for the PAC with-profits fund would normally reflect changes that have also been reflected in the annual regulatory returns submitted to the FSA. Except to the extent of any second order effects on other elements of the regulatory returns, such changes can be expected to have a consequent effect on the excess of assets over liabilities of the fund for the purposes of solvency calculations, and the related free asset ratio which is an indicator of the overall financial strength of the fund. Similar principles apply to the Group's Asian with-profits business.

Profits Recognition

As outlined in " Analysis by Business Segment and Geographic Region United Kingdom Basis of Profits" below, Prudential's results include an annual profit distribution to shareholders from long-term with-profits funds that represents an amount of up to one-ninth of the value of that year's bonus declarations to policyholders. The distribution corresponds directly to the post-tax basis profit for with-profits business. The boards of directors of the subsidiary companies that have with-profits operations, using actuarial advice, determine the amount of annual and final bonuses to be declared each year on each group of contracts.

Unallocated surplus

As discussed above, the unallocated surplus represents the excess of assets over policyholder liabilities of the Group's with-profits funds. The annual excess or shortfall of income over expenditure of the with-profits funds after declaration and attribution of the cost of bonuses to policyholders and shareholders is transferred to, or from, the unallocated surplus through a charge or credit to the income statement. The balance is determined after full provision for deferred tax on unrealized appreciation of investments.

Changes to the level of the unallocated surplus do not directly impact shareholders' results or funds. After allowing for differences in the basis of preparation of the financial statements and UK regulatory returns, movements in the level of the unallocated surplus are broadly indicative of movements in the excess of regulatory basis assets over liabilities of the fund. In turn, movements in this excess as a proportion of liabilities are indicative of changes in the financial strength of the fund. Differences in the basis of preparation of financial statements and UK regulatory returns arise principally from the treatment of certain regulatory basis liabilities, such as mismatching reserves (that are accounted for as reserves within the unallocated surplus), recognition of deferred acquisition costs in the financial statements, and asset valuation differences and admissibility deductions reflected in the regulatory returns.

Fair Value of Assets

Changes in the fair value of assets of Prudential's long-term with-profits funds will primarily be reflected in the excess of assets over liabilities recorded as the unallocated surplus. Shareholders' profits from with-profits business and shareholders' funds are not directly impacted by movements in the fair values of the assets. However, current investment performance is a factor that is taken into account in the setting of the annual declaration of bonuses which, in turn, affects UK shareholder profits to the extent of one-ninth of the cost of bonus.

Changes in the fair value of assets of unit-linked (separate account) funds are normally accompanied by a matching change in unit-linked business liabilities that is also recognized in the income statement.

Investment Returns

For with-profits business, investment returns together with other income and expenditure are recorded within the income statement. However, the difference between net income of the fund and the cost of bonuses and related statutory transfers is reflected in an amount transferred to or from the unallocated surplus within the income statement. Except to the extent of current investment returns being taken into account in the setting of bonus policy, the investment returns of with-profits fund in a particular year do not affect shareholder profits or with-profits funds.

Presentation of results before tax

The total tax charge for the Group reflects tax that in addition to relating to shareholders' profits is also attributable to policyholders and unallocated surplus of with-profits funds and unit-linked policies. This is explained in more detail in note F5 to the financial statements. However, pre-tax profits are determined after transfers to or from unallocated surplus of with-profits funds. These transfers are in turn determined after taking account of tax borne by with-profits funds. Consequently reported profit before the total tax charge is not representative of pre-tax profits attributable to shareholders. In order to provide a measure of pre-tax profits attributable to shareholders the Group has chosen to adopt an income statement presentation of the tax charge and pre-tax results that delineates between policyholder and shareholder components.

Overview of Consolidated Results

Introduction

The following table shows Prudential's IFRS consolidated total profit for the periods indicated.

	Year Ended December 31,		
	2007	**2006**	**2005**
	£m	**£m**	**£m**
Total revenue, net of reinsurance	**32,866**	35,031	40,010
Total charges	**(31,681)**	(32,810)	(37,909)
Profit before tax*	**1,185**	2,221	2,101
Tax attributable to policyholders' returns	**(19)**	(849)	(1,147)
Profit before tax attributable to shareholders	**1,166**	1,372	954
Tax expense	**(401)**	(1,241)	(1,389)
Less: tax attributable to policyholders' returns	**19**	849	1,147
Tax attributable to shareholders' profits	**(382)**	(392)	(242)
Profit from continuing operations after tax	**784**	980	712
Discontinuing operations (net of tax)	**241**	(105)	48
Profit for the year	**1,025**	875	760

* Profit before tax represents income net of post-tax transfers to unallocated surplus of with-profits funds, before tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders' profits.

Basis of preparation of overview

In Prudential's interim and annual financial statements that appear in Prudential's distributions to UK shareholders and the UK financial market, and in Prudential's preliminary results release and its UK

Annual Report, the structure of the operating and financial review has been prepared in accordance with the basis for financial reporting used by Prudential's management. Prudential's management analyze IFRS profit before shareholder tax between management's chosen performance measure of operating profit based on longer-term investment returns and other items.

In preparing this Form 20-F, it has been necessary for the structure of the overview of the consolidated results to be reconfigured to meet US reporting requirements.

Under IFRS the pre-tax GAAP measure of profits is profit before policyholder and shareholder taxes. This measure is not relevant for reflecting pre-tax results attributable to shareholders for two reasons. First, this profit measure represents the aggregate of pre-tax results attributable to shareholders and a pre-tax amount attributable to policyholders. Second, the amount is determined after charging the transfer to the liability for unallocated surplus, which in turn is determined in part by policyholder taxes borne by the ring-fenced with-profits funds. It is noted that this circular feature is specific to with-profits funds in the UK, and other similarly structured overseas funds, and should be distinguished from other products, which are referred to as 'with-profits' and the general accounting treatment of premium or other policy taxes.

Accordingly, Prudential has chosen to explain its consolidated results by reference to profits for the year, reflecting profit after tax for continuing and discontinued operations. In explaining movements in profit for the year reference is made to trends in profit before shareholder tax and the shareholder tax charge.

Profit for the year

Profit for 2007 was £1,025 million compared with £875 million in 2006. This £150 million increase reflects an increase of £346 million in the net of tax result for discontinued operations, from a loss of £105 million in 2006 to a profit of £241 million reported in 2007, which was partially offset by a decrease in the profit from continuing operations after tax of £196 million, from £980 million to £784 million.

The decrease in profit from continuing operations after tax reflects a decrease in profits before tax attributable to shareholders of £206 million, from £1,372 million in 2006 to £1,166 million in 2007, partially offset by a £10 million decrease in the tax charge attributable to shareholders, which fell from £392 million in 2006 to £382 million in 2007. The effective tax rate in 2007 was 33 per cent compared with 29 per cent in 2006, both of which were similar to the expected tax rates. Further details are provided in note F5 to the consolidated financial statements.

The decrease in profit before tax attributable to shareholders on continuing operations in 2007 reflects an increase in underlying profits (as described in the additional analysis of consolidated results reflecting the basis used by management and reported externally to UK shareholders and the UK financial market) on continuing operations of £163 million, from £1,050 million in 2006 to £1,213 million in 2007, which was more than offset by a £77 million negative movement against the prior year in actuarial gains and losses on defined benefit pension schemes, from a gain of £167 million in 2006 to a gain of £90 million in 2007, and a negative movement in short-term fluctuations in investment returns taken to income, which decreased £292 million from a £155 million credit in 2006 to a £137 million charge in 2007.

Profit for 2006 was £875 million compared with £760 million in 2005. This £115 million increase reflected an increase in the profit from continuing operations after tax of £268 million, from £712 million to £980 million, offset by a decrease of £153 million in the net of tax result for discontinued operations, from a profit of £48 million in 2005 to a loss of £105 in 2006.

Profit from continuing operations after tax in 2006 was £980 million compared with £712 million in 2005, with the shareholder tax charge having increased to £392 million in 2006 from £242 million in

2005. The effective tax rate in 2006 was 29 per cent compared with 24 per cent in 2005. The effective tax rate in 2006 was close to the expected tax rate of 31 per cent (which reflects the geographic split of profits). The effective tax rate in 2005 was unusually low due to a number of factors, including favorable settlements reached with the revenue authorities and being able to take credit for Egg's losses in France.

In 2006, the growth in profit before tax attributable to shareholders on continuing operations primarily reflected an increase in underlying profits of £137 million from £913 million in 2005 to £1,050 million in 2006, an increase in actuarial gains and losses on defined benefit pension schemes of £217 million from a charge of £50 million in 2005 to a gain of £167 million in 2006 and no goodwill impairment charge in 2006 against a charge of £120 million in 2005, with this partially offset by a reduction in short-term fluctuations in investment returns credited to income of £56 million from a £211 million gain in 2005 to a £155 million gain in 2006.

Discontinued operations in 2007, 2006 and 2005 relates to the discontinued banking operations. The presentation of the 2006 and 2005 comparative results has been adjusted to reclassify Egg as discontinued operations. In addition, the 2005 results include the completion of Egg's withdrawal from France and the losses incurred by Funds Direct.

Analysis by Business Segment and Geographic Region

The Group's reportable segments are based on the organizational structure used by management for making operating and investment decisions and for assessing performance. The Group's business segments are insurance operations, asset management and, prior to the disposal of Egg, banking whilst its geographical segments comprise the territories in which the Group conducts business, which are the United Kingdom, the United States and Asia.

The following table shows Prudential's IFRS consolidated total profit for the periods indicated divided by business segment and geographic region. The accounting policies applied to the segments below are the same as those used in the Group's consolidated accounts and are described in Note A4 to the consolidated financial statements.

Total profit for the year reflecting profit after tax for continued and discontinued operations:

2007	**UK**	**US**	**Asia**	**Total**
	£m	**£m**	**£m**	**£m**
Insurance operations	**305**	**300**	**55**	**660**
Asset management	**182**	**4**	**57**	**243**
Unallocated corporate	**(119)**			**(119)**
Total profit from continuing operations	**368**	**304**	**112**	**784**
Discontinued operations	**241**			**241**
Total profit for the year	**609**	**304**	**112**	**1,025**

2006	**UK**	**US**	**Asia**	**Total**
	£m	**£m**	**£m**	**£m**
Insurance operations	317	301	227	845
Asset management	166	22	37	225
Unallocated corporate	(90)			(90)
Total profit from continuing operations	393	323	264	980
Discontinued operations	(105)			(105)
Total profit for the year	288	323	264	875

2005	UK	US	Asia	Total
	£m	£m	£m	£m
Insurance operations	288	350	148	786
Asset management	99	5	0	104
Unallocated corporate	(178)			(178)
Total profit from continuing operations	209	355	148	712
Discontinued operations	48			48
Total profit for the year	257	355	148	760

Profit from Insurance operations

Total profit from Insurance operations in 2007 was £660 million compared to £845 million in 2006.This decrease was driven by a 15 per cent decrease in profit before shareholder tax from £1,186 million in 2006 to £1,003 million in 2007, and an increase in the shareholder tax charge from £341 million in 2006 to £343 million in 2007.

The effective shareholder tax rate on profits from continuing insurance operations increased from 29 per cent in 2006 to 34 per cent in 2007 resulting from a number of factors including disallowed expenses and prior year adjustments in the UK, and tax losses in Asia which are not expected to be available against future profits.

Total profit from insurance operations in 2006 was £845 million compared to £786 million in 2005.This growth was supported by a 3 per cent increase in profit before shareholder tax, from £1,152 million in 2005 to £1,186 million in 2006, and a decrease in the shareholder tax charge from £366 million in 2005 to £341 million in 2006.

This growth in profit before tax attributable to shareholders of £34 million compared to 2005 primarily reflects an increase in underlying profits offset by a lower level of short-term value increases on financial instruments.

The effective shareholder tax rate on profits from continuing insurance operations decreased from 32 per cent in 2005 to 29 per cent in 2006 resulting from minor variations on the rates applicable to UK and Asian businesses.

In order to understand how Prudential's results are derived it is necessary to understand how profit emerges from its business. This varies from region to region, primarily due to differences in the nature of the products and regulatory environment in which Prudential operates.

United Kingdom

Basis of profits

Prudential's results comprise an annual profit distribution to shareholders from its UK long-term with-profits fund, hereafter referred to as the with-profits fund, as well as profits from its other businesses. For most of Prudential's operations, other than its UK long-term insurance businesses, the IFRS basis of accounting matches items of income and related expenditure within the same accounting period. This is achieved through the deferral of acquisition costs and application of the accruals concept.

With-profits products

For Prudential's UK insurance operations, the primary annual contribution to shareholders' profit comes from its with-profits products. With-profits products are designed to provide policyholders with smoothed investment returns through a mix of annual and final bonuses. Shareholders' profit in respect of bonuses from with-profits products represents an amount of up to one-ninth of the value of that year's bonus declaration to policyholders. The smoothing inherent in the bonus declarations provides for relatively stable annual shareholders' profit from this business.

Bonus rates

The main factors that influence the determination of bonus rates are the return on the investments of the with-profits fund, the effect of inflation, taxation, the expenses of the fund chargeable to policyholders and the degree to which investment returns are smoothed. The overall rate of return earned on investments and the expectation of future investment returns are the most important influences on bonus rates. The assets backing the with-profits business are predominantly invested in equities and real estate. If the financial strength of the with-profits fund were adversely affected, then a higher proportion of fixed interest or similar assets might be held by the fund.

Unallocated surplus

The annual excesses of premiums and investment returns over claim payments, operating expenses and the change in policyholder provisions within Prudential's with-profits fund that are not distributed in that year as bonuses and related shareholders' profit are transferred to the liability for unallocated surplus by a charge to the income statement of the with-profits fund. Any shortfall in such amounts would result in a transfer from the unallocated surplus by a credit to the income statement of the long-term fund. Current year amounts in respect of premiums, investment returns, operating expenses and unusual charges or credits do not directly affect the distribution of profit to shareholders from the with-profits business in that year. Current year claims, which include final bonus payments, do have an effect on shareholders' profit through the shareholders' proportion of the value of those final bonuses.

Surplus assets and their use

The liability for unallocated surplus comprises amounts Prudential expects to pay to policyholders in the future, the related shareholder transfers and surplus assets. These surplus assets, which are described in more detail under Item 4, "Information on the Company Business of Prudential UK Business Shareholders' Interests in Prudential's Long-term Insurance Business Surplus Assets in Prudential Assurance's Long-term With-profits Fund", have accumulated over many years from a variety of sources and provide the with-profits fund with working capital. This working capital permits Prudential to invest a substantial portion of the assets of the with-profits fund in equity securities and real estate, smooth investment returns to with-profits policyholders, keep its products competitive, write new business without being constrained as to cash flows in the early policy years and demonstrate solvency.

In addition, Prudential can use surplus assets to absorb the costs of significant events, such as fundamental strategic change in its long-term business and, with the consent of the UK regulator, the cost of its pension mis-selling, without affecting the level of distributions to policyholders and shareholders. The costs of fundamental strategic change may include investment in new technology, redundancy and restructuring costs, cost overruns on new business and the funding of other appropriate long-term insurance related activities, including acquisitions.

The "SAIF" and "PAL" funds

Prudential's with-profits fund also includes the SAIF and the wholly-owned subsidiary, PAL. All assets of the SAIF business are solely attributable to former policyholders of Scottish Amicable Life Assurance Society (predating the acquisition of Scottish Amicable by Prudential in October 1997). The SAIF with-profits fund is discussed in more detail under Item 4, "Information on the Company Business of Prudential UK Business Shareholders' Interests in Prudential's Long-term Insurance Business The SAIF Sub-fund and Accounts". Since PAL is a wholly owned subsidiary of the with-profits fund, profits from this business affect shareholders' profits only to the extent that they affect the annual with-profits bonus declaration and resultant transfer to shareholders.

Comparison of total profit arising from UK insurance operations

The profit from UK insurance operations decreased from £317 million in 2006 to £305 million in 2007. This decrease reflects an increase of £60 million in the shareholder tax charge, from £109 million in 2006 to £169 million in 2007, which was partially offset by an increase in profit before shareholder tax of £48 million from £426 million in 2006 to £474 million in 2007.

The growth in profit before tax attributable to shareholders of £48 million primarily reflects growth in underlying profits of £52 million from £469 million in 2006 to £521 million in 2007 partially offset by an increase in short-term fluctuations in investment returns charged to income of £4 million from a £43 million charge in 2006 to a £47 million charge in 2007.

The effective shareholder tax rate on profits from UK insurance operations increased from 26 per cent in 2006 to 36 per cent in 2007. The increase mainly related to disallowed expenses and prior year adjustments arising from routine revisions of tax returns.

Profit from UK insurance operations increased from £288 million in 2005 to £317 million in 2006.

The growth in profits after tax reflected an increase in profit before shareholder tax from £416 million in 2005 to £426 million in 2006 and a decrease in the shareholder tax charge from £128 million in 2005 to £109 million in 2006.

The growth in profit before tax attributable to shareholders of £10 million primarily reflected growth in underlying profits of £69 million from £400 million in 2005 to £469 million in 2006 and an increase in actuarial gains and losses on defined benefit schemes of £20 million partially offset by an adverse movement in short-term fluctuations in investment returns taken to income of £79 million from a £36 million credit in 2005 to a £43 million charge in 2006.

The effective shareholder tax rate on profits from UK insurance operations decreased from 31 per cent in 2005 to 26 per cent in 2006. This partially related to a tax credit arising from relief for excess expenses in respect of the shareholder-backed protection business.

United States

Basis of profits

The profit on Jackson's business predominantly arises from spread income from interest-sensitive products, such as fixed annuities, institutional products and fee income on variable annuities. Except for institutional products and certain term annuities which are classified as investment products under IAS 39, for the purposes of IFRS reporting, deposits into these products are recorded as premiums, withdrawals and surrenders and are included in benefits and claims and the resulting net movement is recorded under other reserve movements within benefits and claims. Benefits and claims also include interest credited to policyholders in respect of deposit products less fees charged on these policies.

Comparison of total profit arising from US insurance operations

Profit from US insurance operations decreased from £301 million in 2006 to £300 million in 2007. This £1 million decrease reflects a decrease in profit before shareholder tax from £451 million in 2006 to £426 million in 2007, which was offset by a decrease in shareholder tax from £150 million to £126 million over the same period.

The £25 million decrease in 2007 of profit before tax attributable to shareholders reflects the change in short-term fluctuations in investment returns of £71 million, from a gain of £53 million in

2006 to a loss of £18 million in 2007, offset by growth in underlying profits of £46 million, from £398 million in 2006 to £444 million in 2007.

Profit from US insurance operations decreased from £350 million in 2005 to £301 million in 2006. This decrease of £49 million reflects a decrease in profit before shareholder tax from £526 million in 2005 to £451 million in 2006 offset by a decrease in the shareholder tax charge from £176 million to £150 million over the same period.

The £75 million decrease in 2006 of profit before tax attributable to shareholders mainly reflects growth in underlying profits of £50 million from £348 million in 2005 to £398 million in 2006 more than offset by a significant decrease in the accounting value of short-term fluctuations in investment returns taken to income of £125 million from a £178 million credit in 2005 to a £53 million credit in 2006.

Asia

Basis of profits

The assets and liabilities of contracts classified as insurance under IFRS 4 are determined in accordance with methods prescribed by local GAAP and adjusted to comply, where necessary, with UK GAAP. Under IFRS 4, subject to the conditions of that standard, the continued application of UK GAAP in this respect is permitted.

For Asian operations in countries where local GAAP is not well established and in which the business is primarily non-participating and linked business, US GAAP is used as the most appropriate reporting basis. Of the more significant Asia operations, this basis is applied in Taiwan, Japan and Vietnam. For with-profits business in Hong Kong, Singapore and Malaysia the basis of profit recognition is bonus driven as described in the section " United Kingdom with-profits products".

Comparison of total profit arising from Asian insurance operations

Profit from Asian long-term business decreased from £227 million in 2006 to £55 million in 2007. This £172 million decrease reflects a fall in profit before shareholder tax from £309 million to £103 million, which was partially offset by a decrease in shareholder tax charge from £82 million to £48 million during the same period.

The £206 million decrease in profit before tax attributable to shareholders in 2007 arose primarily from a decrease in short-term fluctuations in investment returns included in the IFRS income statement of £205 million, which fell from a profit of £134 million in 2006 to a loss of £71 million in 2007. The short-term fluctuations for Asian operations in 2007 primarily reflect value movements in Vietnam offset by value movements in Taiwan on the value of debt securities arising from increases in interest rates and a £30 million reduction of an investment in a CDO fund, which were partially offset by strong equity market movements in Vietnam. For 2006, the £134 million of short-term fluctuations mainly arose in Vietnam due to strong equity returns.

The effective shareholder tax rate increased from 27 per cent in 2006 to 47 per cent in 2007. This increase was due to tax losses in several jurisdictions which are not expected to be available against future profits, and losses on investments in jurisdictions which do not provide corresponding tax relief.

Profit from Asian long-term business increased from £148 million in 2005 to £227 million in 2006. This £79 million increase largely reflects a rise in profit before shareholder tax from £210 million to £309 million and an increase in the shareholder tax charge from £62 million to £82 million during the same period.

The £99 million increase in profit before tax attributable to shareholders in 2006 arose primarily from an increase of £102 million in short-term fluctuations in investment returns included in the income statement, which increased from a gain of £32 million in 2005 to a gain of £134 million in 2006.

The effective shareholder tax rate decreased from 30 per cent in 2005 to 27 per cent in 2006.

A goodwill impairment charge of £120 million was incurred in 2005 in respect of the Group's Japanese life business. This charge is reflected in the explanation of profit and losses for unallocated corporate activity.

Profit from asset management operations

In 2007, total profit from asset management increased by £18 million from £225 million in 2006 to £243 million in 2007. This increase primarily results from an improvement in profit earned from M&G's UK and European operations, from £166 million in 2006 to £182 million in 2007, and an increase in the Group's Asian operations, from £37 million in 2006 to £57 million in 2007, partially offset by a decrease in the Group's US operations' profit from £22 million in 2006 to £4 million in 2007.

The increase of £18 million in total profit reflects an increase of £61 million in profit before shareholder tax, from £283 million in 2006 to £344 million in 2007, and an increase in tax charge of £43 million, from £58 million in 2006 to £101 million in 2007.

The growth in profit before tax attributable to shareholders of £61 million primarily reflects growth in underlying profits of £73 million from £263 million in 2006 to £334 million in 2007 partially offset by a charge of £17 million in actuarial gains attributable to the M&G defined benefit pension scheme from £22 million in 2006 to £5 million in 2007.

In 2006 total profit from asset management increased by £121 million, from £104 million in 2005 to £225 million in 2006. This increase primarily resulted from an improvement in profit earned from M&G's UK and European operations, from £99 million in 2005 to £166 million in 2006, the improvement in profits from the Group's Asian operations from £nil in 2005 to a profit of £37 million in 2006 and an increase in the Group's US operation's profit from £5 million in 2005 to £22 million in 2006.

The increase of £121 million in total profit reflected an increase of £129 million in profit before shareholder tax, from £154 million in 2005 to £283 million in 2006 and an increase in the tax charge of £8 million, from £50 million in 2005 to £58 million in 2006.

The increase in profit before shareholder tax reflected growth in underlying profits of £72 million from £189 million in 2005 to £261 million in 2006, an increase in short-term fluctuations in investment returns taken to income of £9 million from a £9 million charge in 2005 to a £nil charge in 2006 and a favorable movement of £48 million in actuarial gains attributable to the M&G defined benefit pension scheme from a £26 million charge in 2005 to a £22 million credit in 2006.

Unallocated corporate

The total net of tax charges for unallocated corporate activity increased by £29 million, from £90 million in 2006 to £119 million in 2007. The change primarily reflects a £87 million increase in pre-tax expenditure, from £97 million in 2006 to £181 million in 2007, offset by an increase of £54 million in the tax credit, from £8 million in 2006 to £62 million in 2007.

The increase in pre-tax expenditure primarily reflects a decrease in shareholders' share in actuarial gains and losses on defined benefit pension schemes, an increase in the level of underlying expenditure and losses on short-term fluctuations in investment returns. There was no goodwill impairment charge for 2007 or 2006.

Total net of tax charges for unallocated corporate activity decreased by £88 million from £178 million in 2005 to £90 million in 2006. The change primarily reflects a £255 million decrease in pre-tax expenditure from £352 million in 2005 to £97 million in 2006 offset by an decrease of £166 million in the tax credit, from £174 million in 2007 to £8 million in 2006.

The decrease in pre-tax expenditure primarily reflects an increase in the level of underlying expenditure offset by an increase in the short-term value gains and technical adjustments for consolidated investment funds, an increase in shareholder actuarial gains on defined benefit schemes and there was no goodwill impairment charge for 2006. In 2005 there was a goodwill impairment charge of £120 million in respect of the Japanese life insurance business.

Discontinued operations

The Group's discontinued operations primarily relate to the UK banking business following the sale of Egg. The profit (loss) from discontinued operations moved from a loss of £105 million in 2006 to a profit of £241 million in 2007 primarily as a result of a £290 million profit on the sale of Egg which, was partially offset by a £49 million trading loss incurred by Egg prior to its disposal. The £105 million loss in 2006 relates to trading losses incurred by Egg during the period. Additional information is set forth in note J1 to the consolidated financial statements.

Business Segment and Geographical Analysis by Nature of Revenue and Charges

The following table shows Prudential's consolidated total revenue and consolidated total charges for the following periods.

	Year Ended December 31,		
	2007	2006	2005
	(In £ Millions)		
Gross earned premiums (note a)	**18,359**	16,157	15,225
Outward reinsurance premiums	**(171)**	(171)	(197)
Earned premiums, net of reinsurance	**18,188**	15,986	15,028
Investment income (note b)	**12,221**	17,128	23,120
Other income	**2,457**	1,917	1,862
Total revenue, net of reinsurance	**32,866**	35,031	40,010
Benefits and claims and movement in unallocated surplus of with-profits funds (note c)	**(26,990)**	(28,421)	(33,100)
Acquisition costs and other operating expenditure (note d)	**(4,523)**	(4,212)	(4,514)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(168)**	(177)	(175)
Goodwill impairment charge			(120)
Total charges	**(31,681)**	(32,810)	(37,909)
Profit before tax*	**1,185**	2,221	2,101
Tax attributable to policyholders' returns	**(19)**	(849)	(1,147)
Profit before tax attributable to shareholders	**1,166**	1,372	954
Tax attributable to shareholders' profits	**(382)**	(392)	(242)
Profit from continuing operations after tax	**784**	980	712
Discontinued operations (net of tax)	**241**	(105)	48
Total profit	**1,025**	875	760

*

Profits before tax represents income net of post-tax transfers to unallocated surplus of with-profits funds, before tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders' profits.

(a) Gross earned premiums

	Year Ended December 31,		
	2007	**2006**	**2005**
		(In £ Millions)	
UK Operations	**7,477**	7,028	7,881
US Operations	**5,860**	5,390	4,348
Asian Operations	**5,022**	3,739	2,996
Total	**18,359**	16,157	15,225

Gross earned premiums, net of reinsurance, for long-term business totaled £18,359 million in 2007 compared to £16,157 million in 2006. The increase in gross earned premiums in 2007 against 2006 was driven by growth across all regions during the year.

Gross earned premiums totaled £16,157 million in 2006 compared to £15,225 million in 2005. The increase in earned premiums compared with 2005 was contributed largely from the growth in earned premiums in the US and Asian operations, which was partially offset by a decrease in the UK operations.

United Kingdom

Gross earned premiums for Prudential UK increased by 6 per cent in the year from £7,028 million in 2006 to £7,477 million in 2007, primarily driven by an increase in bulk transfers, which was partially offset by a reduction in credit life insurance sales following the non-renewal of the credit life contact previously held with Lloyds TSB.

The decrease in the earned premiums in 2006 largely reflects decreased sales in the wholesale market as Prudential UK undertook a selective participation strategy to ensure margins and profitability were maintained in a period when the market experienced increased competition.

United States

Gross earned premiums increased by 9 per cent from £5,390 million in 2006 to £5,860 million in 2007. This increase was driven primarily by a continued increase in variable annuity sales. Fixed index annuity sales however were down, affected by the impact of low interest rates on caps and participation rates that are offered.

Gross earned premiums from insurance contracts increased by 24 per cent in 2006 from £4,348 million in 2005 to £5,390 million in 2006 driven largely by strong growth in Jackson's variable annuity business. Jackson delivered record variable annuity sales in 2006. This reflects its distinct competitive advantages of an innovative product offering, an efficient and flexible technology platform, a relationship-driven distribution model and award-winning service.

The growth in sales of variable annuities in 2006 was partially offset by lower sales of fixed annuities and fixed index annuities. Entry spreads for fixed annuities continued to be challenging during 2006, which limited the attractiveness of the market to Jackson, whilst fixed index annuity sales continued to be affected by the uncertain regulatory environment in the United States.

Asia

Gross earned premiums increased by 34.3 per cent to £5,022 million in 2007 compared to £3,739 million in 2006 due to a rise in single premiums and the accumulative effects of the growth in regular premium income.

Prudential distributes its products in Asia predominantly through a network of agents. The agent numbers at the end of 2007 increased by 123 per cent in India to 277,000 agents and in China by

38 per cent to 20,500 in China. Prudential also has a large partnership distribution network in Asia and has continued to broaden its range of linked products.

Gross earned premiums in 2005 and 2006 were £2,996 million and £3,739 million, respectively, an increase of 24.8 per cent in 2006.

While the majority of these gross earned premiums in 2006 related to sales made through Asia's tied agency distribution channel, Prudential believed that there was potential to expand alternate channels, particularly banks and direct marketing.

The number of agents at the end of 2006 had increased by 114,000 in India, 11,000 in Indonesia and 5,000 in China compared to 2005. Distribution from non-agency channels also grew strongly in 2006. Strong growth from bank distribution included record new business volumes from SCB in Hong Kong, an increasing proportion of new business from ICICI Bank in India and encouraging growth from Maybank and Singpost in Singapore.

(b) Investment income

	Year Ended December 31,		
	2007	**2006**	**2005**
	£m	**£m**	**£m**
UK Operations	**8,263**	12,472	19,959
US Operations	**2,140**	2,937	2,391
Asian Operations	**1,818**	1,719	770
Total	**12,221**	17,128	23,120

Investment income consists of interest income, dividends and realized and unrealized gains and losses on investments designated as fair value through profit and loss.

United Kingdom

In the United Kingdom, investment income decreased from £12,472 million in 2006 to £8,263 million in 2007. This decrease is due to a reduction of £3,726 million in net unrealized gains reflecting the decrease in market returns in 2007 compared to 2006 and a decrease of £491 million in interest and dividends, which is partially offset by an increase of £8 million in net realized gains.

In the United Kingdom, investment income decreased from £19,959 million in 2005 to £12,472 million in 2006. This decrease is due to between a reduction of £10,022 million in net unrealized gains on 2005 which is offset partially by an increase of £1,520 million in interest and dividends and an increase of £1,015 million in net realized gains.

The investment income for UK operations primarily represents the return on the assets supporting the PAC long-term fund. The PAC with-profits sub-fund delivered a pre-tax return of 7.2 per cent in 2007 compared with a pre-tax return of 12.4 per cent in 2006. Over the last five years the fund has achieved a total return of 91 per cent. Prudential UK continuously evaluates prospects for different markets and asset classes. During the year PAC's long-term fund reduced its exposure to property and increased the quality of its corporate bond portfolio.

United States

In the United States, investment income decreased from £2,937 million in 2006 to £2,140 million in 2007. The decrease in investment income in 2007 is mainly due to a decrease of £752 million in income received such as dividends and interest, primarily in respect of linked liabilities, and a decrease of £41 million in realized gains.

Investment income increased from £2,391 million in 2005 to £2,937 million in 2006. The increase in investment income in 2006 was mainly due to an increase of £697 million in income received such as dividends and interest offset partially by a decrease of £182 million in realized gains.

Asia

In Asia, investment income increased from £1,719 million in 2006 to £1,818 million in 2007. This increase is mainly driven by an increase in realized gains on investments.

Investment income increased from £770 million in 2005 to £1,719 million in 2006. This increase was mainly driven by an increase in net unrealized gains on investments.

(c) Benefits and claims and movement in unallocated surplus of with-profits funds

	Year Ended December 31,		
	2007	**2006**	**2005**
	(In £ Millions)		
UK Operations	**(14,172)**	(17,030)	(24,782)
US Operations	**(7,096)**	(7,291)	(5,591)
Asian Operations	**(5,722)**	(4,100)	(2,727)
Total	**(26,990)**	(28,421)	(33,100)

Benefits and claims represent payments, including final bonuses, to policyholders in respect of maturities, surrenders and deaths plus the change in technical provisions (which primarily represents the movement in amounts owed to policyholders). Movement in unallocated surplus of with-profits funds represents the transfer to (from) the unallocated surplus each year through a charge (credit) to the income statement of the annual excess (shortfall) of income over expenditure of the with-profits funds, after declaration and attribution of the cost of bonuses to policyholders and shareholders.

Total benefits and claims decreased by £1,431 million in 2007 to £26,990 million compared to £28,421 million in 2006. Total benefits and claims decreased by £4,679 million in 2006 to £28,421 million, compared to £33,100 million in 2005. These movements principally reflect the movement in policyholder liabilities as a result of the decrease or increase in investment income discussed above, which has been passed on to the policyholders in the form of bonus declaration for with-profits products or through the corresponding decrease or increase in policyholder liabilities for unit-linked and similar products, or transfer to unallocated surplus.

United Kingdom

Overall benefits, claims and the transfer to unallocated surplus decreased to £14,172 million in 2007 from £17,030 million in 2006 and £24,782 million in 2005. The decrease in the charge for the period partially resulted from decreased market returns, which in turn affected policyholder benefits from unit-linked and similar products, as the asset returns on the attached pool of assets were negatively affected by a weaker market. The 2006 benefits and claims included an increase in reserves relating to the Royal London in-force annuity book transaction.

Similarly, there is a close correlation between the level of increase in the values of assets of the funds and the level of a combined charge for benefits and movement on unallocated surplus. With gross profit market returns of 7.2 per cent on the with-profits fund in 2007 compared to 12.4 per cent in 2006, there is an attendant decrease in the charge to the income statement.

United States

In 2007, the accounting charge for benefits and claims decreased by 3 per cent to £7,096 million compared to 2006. In 2006, the accounting charge for benefits and claims increased by 30 per cent to £7,291 million compared to 2005.

The charges in 2007, 2006 and 2005 reflect underlying movements in claims, benefits and maturities for contracts classified as insurance products under IFRS 4.

Asia

In 2007, benefits and claims totaled £5,722 million, up 39.6 per cent on £4,100 million in 2006, reflecting primarily an increase in policyholder benefits of 27 per cent from £1,117 million in 2006 to £1,420 million in 2007 and an increase in the movement in policyholder liabilities and unallocated surplus of with-profit funds of 44 per cent from £2,974 million in 2006 to £4,293 million in 2007.

In 2006, benefits and claims totaled £4,100 million, up 50.3 per cent on £2,727 million in 2005, reflecting primarily an increase in policyholder benefits of 19 per cent from £938 million in 2005 to £1,117 million in 2006 and an increase in the movement in policyholder liabilities and unallocated surplus of with-profit funds of 67 per cent from £1,780 million in 2005 to £2,974 million in 2006.

(d) Acquisition costs and other operating expenditure

	Year Ended December 31,		
	2007	**2006**	**2005**
	£m	**£m**	**£m**
UK Operations	**(2,716)**	(2,462)	(2,980)
US Operations	**(730)**	(800)	(767)
Asian Operations	**(1,077)**	(950)	(767)
Total	**(4,523)**	(4,212)	(4,514)

Total acquisition costs and other operating expenditure of £4,523 million in 2007 was 7.4 per cent higher than the £4,212 million incurred in 2006. Total acquisition costs and other operating expenditure of £4,212 million in 2006 was 7 per cent lower than the £4,514 million incurred in 2005.

United Kingdom

Total UK acquisition costs and other operating expenses in 2007 were £2,716 million, compared to £2,462 million in 2006. The increase of £254 million in 2007 mainly relates to an increase in operating expenses from £1,157 million to £1,739 million and lower acquisitions costs from £619 million in 2006 to £229 million in 2007.

Total UK acquisition costs and other operating expenses in 2006 were £2,462 million, compared to £2,980 million in 2005. The decrease of £518 million in 2006 mainly relates to a decrease in operating expenses from £1,563 million to £1,157 million and a lower acquisition costs from £742 million in 2005 to £619 million in 2006.

United States

Acquisition costs and other operating expenses of £730 million in 2007 were 9 per cent lower than expenses in 2006 of £800 million. The decrease primarily reflects a decrease in interest payable from £269 million in 2006 to £148 million in 2007 partially offset by higher amortization of DAC from £203 million in 2006 to £303 million in 2007.

Acquisition costs and other operating expenses of £800 million in 2006 were 4 per cent higher than expenses in 2005 of £767 million. The increase primarily reflects higher US interest rates resulting in an increase in interest payable from £147 million in 2005 to £269 million in 2006 offset partially by lower amortization of DAC from £276 million in 2005 to £203 million in 2006.

Asia

Total Asian acquisition costs and other operating expenses in 2007 were £1,077 million, an increase of £127 million compared to £950 million in 2006. This increase mainly reflects an increase in operating costs from £440 million in 2006 to £508 million in 2007.

Total Asian acquisition costs and other operating expenses in 2006 were £950 million, an increase of £183 million compared to £767 million in 2005. This increase reflects an increase in DAC amortization from £431 million in 2005 to £465 million in 2006 and an increase in operating expenses from £401 million in 2005 to £440 million in 2006.

Additional analysis of consolidated results reflecting the basis used by management and reported externally to UK shareholders and the UK financial market

For many years, the assessment of performance by management has been, and continues to be, applied to profit before shareholder tax by analysis of the result between operating profit based on longer-term investment returns and other reconciling items. The focus on profit before shareholder tax, rather than profit before policyholder and shareholder tax, reflects the shareholders' interests in surpluses as they arise and the regulatory basis of ring-fenced long-term funds in the United Kingdom. In particular, taxes borne by policyholders of with-profits contracts are borne by the liability for unallocated surplus of with-profits funds.

Until the adoption of IFRS, operating profit based on longer-term investment returns was a GAAP measure arising from the specific recommendation of the Statement of Recommended Practice (SORP) for accounting for insurance business issued by the ABI. With the adoption of IFRS, the ABI SORP is no longer authoritative literature for the purposes of determining GAAP measures. Nevertheless, it continues to be the basis applied by the Company for internal performance assessment and a fundamental element of the analysis provided to shareholders and the UK stock market. The analysis that follows reflects information published with the Group's results on March 14, 2008.

The Group uses a performance measure of operating profit based on longer-term investment returns, excluding charges for goodwill impairment and actuarial and other gains and losses on defined benefit pension schemes. The directors believe that this performance measure better reflects underlying performance. It is the basis used by management for the reasons outlined below. It is also the basis on which analysis of the Group's results has been provided to UK shareholders and the UK financial market for some years under long standing conventions for reporting by proprietary UK life assurers.

Longer-term investment returns included within the performance measure are determined by reference to expected long-term rates of return. These are intended to reflect historical rates of return on assets and, where appropriate, current inflation expectations adjusted for consensus economic and investment forecasts. The overriding reason for distinguishing longer-term investment returns from short-term fluctuations is that the investments are generally held for the longer-term to back long duration insurance contract liabilities and solvency capital rather than for short-term trading purposes.

Furthermore, the income statement recognition of investment appreciation, short-term value movements on derivatives, and the charge for the policyholder benefits under IFRS 4 give rise to accounting mismatches that Prudential believes are not representative of the underlying economic position.

Goodwill impairment charges reflect adverse changes in assessment in a given period as to whether the excess of the amount paid over the accounting value of acquired assets and liabilities is expected to be recoverable in the future. It is thus appropriate for such charges to be distinguished from current period operational performance.

Actuarial and other gains and losses on defined benefit pension schemes principally reflect short-term value movements on scheme assets and the effects of changes in actuarial assumptions. Under the Group's accounting policies these items are recorded within the income statement, rather than through other comprehensive income, solely due to the interaction of the Group's approach to adoption of IFRS 4 for with-profits funds and the requirements of IAS 19. In analyzing profit before shareholder tax the separate identification of these gains and losses is analogous to the more normal treatment of inclusion as a movement on other comprehensive income, i.e. not within profit for the period.

Reconciliation of total profit by business segment and geography to underlying performance measure

A reconciliation of profit before all taxes to profit before tax attributable to shareholders and profit for the year is shown below.

	Year Ended December 31,		
	2007	**2006**	**2005**
	(In £ Millions)		
Profit before tax	**1,185**	2,221	2,101
Tax attributable to policyholders' returns	**(19)**	(849)	(1,147)
Profit before tax attributable to shareholders	**1,166**	1,372	954
Tax expense	**(401)**	(1,241)	(1,389)
Less: tax attributable to policyholders' returns	**19**	849	1,147
Tax attributable to shareholders' profits	**(382)**	(392)	(242)
Profit from continuing operations after tax	**784**	980	712
Discontinued operations (net of tax)	**241**	(105)	48
Profit for the year	**1,025**	875	760

A reconciliation of profit from continuing operations before tax attributable to shareholders to operating profit based on longer-term investment returns is provided below:

	Year Ended December 31,		
	2007	**2006**	**2005**
	(In £ Millions)		
Performance measure: operating profit from continuing operations based on long-term investments returns[(i)]	**1,213**	1,050	913
Goodwill impairment charge[(ii)]			(120)
Short-term fluctuations in investment returns on shareholder-backed business[(iii)]	**(137)**	155	211
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes[(iv)]	**90**	167	(50)
Profit from continuing operations before tax attributable to shareholders	**1,166**	1,372	954

Notes:

(i)

Operating profit based on longer-term investment returns

Operating profit based on longer-term investment returns is a supplemental measure of results. For the purposes of measuring operating profit, investment returns on shareholder financed business are based on expected long-term rates of return. The expected long-term rates of return are intended to reflect historical real rates of return and, where appropriate, current inflation expectations adjusted for consensus economic and investment forecasts. The significant operations that require adjustment for the difference between actual and longer-term investment returns are Jackson and certain businesses of the Group's Asian operations. The amounts included in operating results for long-term capital returns for debt securities comprise two components. These are a risk margin reserve based charge for expected defaults, which is determined by reference to the credit quality of the portfolio, and amortization of interest-related gains and losses for operating results based on long-term results to the date when sold bonds would otherwise have matured.

(ii)

Goodwill impairment charge

The charge for goodwill impairment in 2005 of £120 million relates to the Japan life insurance business. The charge reflects the slower than expected development of the Japanese life insurance business. There was no impairment charge for goodwill in 2007 and 2006.

(iii)

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

	Year Ended December 31,		
	2007	**2006**	**2005**
	(In £ Millions)		
Asian operations	**(71)**	134	122
US operations	**(18)**	53	56
UK insurance operations	**(47)**	(43)	32
Other	**(1)**	11	1
	(137)	155	211

(iv)

Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes

Year Ended December 31,		
2007	**2006**	**2005**
(In £ Millions)		

	Year Ended December 31,		
Actuarial gains and losses			
Actual less expected return on scheme assets	**(8)**	156	544
Experience gains (losses) on liabilities	**(14)**	18	1
Gains (losses) on changes of assumptions for scheme liabilities (based on long-term inflation of 2.8%)	**317**	311	(489)
	295	485	56