Unless otherwise indicated, the financial data set out in this section of the listing document has been extracted without material adjustment from the historical financial information for the Prudential Group as reported by KPMG Audit Plc set out in Appendix I to this listing document or from Prudential Group's unaudited accounting records, operating systems and other information prepared by Prudential.

OVERVIEW

The Prudential Group is a large global financial services group, providing retail financial services in the United Kingdom, the United States and Asia. It has been in existence for over 160 years and has £290 billion in assets under management (as at 31 December 2009). Prudential is not affiliated with Prudential Financial, Inc. or its subsidiary, The Prudential Insurance Company of America.

The Prudential Group 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 Prudential Group strategy, cash and capital management, leadership development and succession, reputation management and other core group functions.

Prudential Corporation Asia's core business is life insurance, health and protection, either attached to a life policy or on a standalone basis, and mutual funds. It also provides selected personal lines property and casualty insurance, group insurance, institutional fund management and consumer finance (Vietnam only). The product range offered is tailored to suit the individual country markets. Insurance products are distributed mainly through an agency salesforce together with selected banks, while the majority of mutual funds are sold through banks and brokers. Joint venture partners are mandatory in some markets: for example, the life insurance operation in China is a 50% equity joint venture with CITIC, in India the Prudential Group has a 26% equity stake in a joint venture with ICICI Bank Limited ("ICICI") and in Malaysia its Takaful business is a 70% equity joint venture with Bank Simpanan Nasional. In the fund management business Prudential Group holds a 49% equity stake in a joint venture with ICICI, in China it has a 49% equity stake in a joint venture with CITIC and in Hong Kong it has a 36% equity stake in a joint venture with Bank of China International.

As at 31 December 2009, Prudential Corporation Asia had:

- over 15 million customers in 28 businesses spread across 13 countries;
- distribution relationships with over 75 institutions across Asia including Standard Chartered Bank ("SCB"), E-Sun Bank and joint venture partners ICICI in India and CITIC in China;
- one of the largest networks of tied agents, comprising over 410,000 agents; and
- consistently high brand recognition, outperforming many other financial services companies and had received multiple awards for its customer service.

In the United States, the Prudential Group offers a range of products through Jackson, including fixed, fixed index and variable annuities; life insurance; guaranteed investment contracts; and funding agreements. Jackson distributes these products through independent insurance agents; securities broker-dealers; registered investment advisers; a small captive agency channel, consisting of approximately 100 life insurance agents; and banks, credit unions and other financial institutions.

Jackson also offers fee-based separately managed accounts and investment products through Curian Capital, LLC, which is Jackson's registered investment adviser.

As at 31 December 2009, in the United States, Jackson:

- was among the 20 largest life insurance companies in terms of General Account assets[(1)];
- was ranked 4th in total annuity sales in 2009, up from 11th in 2008[(2)];
- was ranked the top insurance company for overall sales support satisfaction in the Financial Research Corporation's Adviser Insight Series on market effectiveness[(3)];
- was once again rated as a 'World Class' service provider for the fifth successive year by Service Quality Measurement Group[(4)]; and
- completed a record sales year with total annual premium equivalent ("APE") retail sales of £912 million, the highest level in Jackson history.

As at 31 March 2010, Jackson was rated A1 (negative outlook) by Moody's, AA (negative watch) by Standard & Poor's and Fitch and A+ (under review-negative) by AM Best.

In the United Kingdom, the Prudential Group 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. The Prudential Group in the United Kingdom primarily distributes these products through financial advisers, partnership agreements with banks and other financial institutions, and direct marketing, by telephone, mail, internet and face-to-face advisers.

As at 31 December 2009, the Prudential Group in the United Kingdom:

- was one of the market leaders in the individual annuity market and the with-profits market[(5)];
- was awarded two Five-Star awards at the Financial Adviser Service Awards in the Life and Pensions and Investments categories; and
- was named "Best Annuity Provider" at the 2010 Professional Adviser Awards; and
- delivered top-quartile investment performance in 38% of M&G's retail funds in the three years to December 2009[(6)].

As at 31 March 2010, the financial strength of PAC was rated Aa2 (negative outlook) by Moody's, AA (negative watch) by Standard & Poor's and AA+ (negative watch) by Fitch.

HISTORY AND DEVELOPMENT

The Prudential Group has been writing life assurance policies in the United Kingdom for over 160 years. It has had one of the largest long-term funds in the United Kingdom for over a century. The Prudential Group expanded its business into British Commonwealth countries, including Singapore and Malaysia in the 1920s and 1930s. In 1986, the Prudential Group acquired Jackson National Life Insurance Company, a US insurance company writing life and fixed annuity business. A group strategy review in the early 1990s identified significant opportunities for the Prudential Group in the Asian life sector and Prudential Corporation Asia was established in 1994 to develop a material and profitable Asian business. In 1999, the Prudential Group acquired M&G, a leading UK

Note:

(1) Source: Statutory financial data per National Underwriter Insurance Data Services from Highline Data, rankings as at 30 September 2009, latest rankings available.

(2) Source: Life Insurance and Market Research Association.

(3) Source: Adviser Insight Marketing Effectiveness, 2009

(4) Source: Service Quality Measurement Group

(5) Source: Association of British Insurers ("ABI")

(6) Source: Morningstar

fund manager. In June 2000, Prudential completed its listing of ADRs on the New York Stock Exchange.

In March 2010, the Prudential Group contributed significantly to the achievement of its strategic objective to focus on Asian growth when it reached an agreement with AIG, on terms for the combination of the Prudential Group and the AIA Group. The Acquisition will be effected (by way of the Scheme) through the acquisition of both Prudential and AIA by a new company, New Prudential.

STRENGTHS AND STRATEGY

The Prudential Group aims to deliver growth in shareholder value across three continents and different economies, in different stages of development, focusing on the most profitable opportunities in the pre- and post- retirement sector. The Prudential Group has sought to achieve this by maintaining a strong discipline in relation to profitable new business growth in the long term. As a result, the Prudential Group has delivered a strong performance even during the recent testing market conditions.

The Prudential Group's principal strengths include:

- financial strength;
- proven operational expertise and excellence, in distinct economies, across the world;
- prudent management of capital resources;
- investment and risk management skills;
- geographic spread;
- the Prudential Group's brands;
- product innovation; and
- distribution expertise.

The Prudential Group's strategy is to profitably meet its customers' changing needs for savings, income and protection in its chosen markets. By maintaining focus and discipline in the implementation of this strategy, and by allocating capital to the most attractive opportunities, the Prudential Group believes it is able to generate sustainable and differentiated value for shareholders.

Through the Prudential Group's international, selective and disciplined approach, it seeks to maintain a diverse portfolio of businesses, which embrace countries at different stages of development, but which share one key attribute: the opportunity for the Prudential Group to build a market-leading operation with prospects for sustainable, long-term, profitable growth and a superior rate of return on capital. The Prudential Group's financial strength is fundamental to its strategy and it has combined a disciplined approach to risk management with targeted group-wide actions to grow and protect its capital.

A key part of the Prudential Group's growth strategy and differentiation from its competitors is its presence in Asia, which includes 28 businesses that are spread over 13 countries. Its approach to Asia is intended to be highly sophisticated and discriminating in terms of product offering, distribution and branding.

Asia is complex and its economies differ significantly, with varying levels of economic development, from the OECD members, the significant potential of India and China, the dynamic city states of Singapore and Hong Kong, to the fast-growing markets of South East Asia such as Indonesia, Vietnam and Malaysia.

In the US, which remains the world's largest retirement market, the Prudential Group aims to continue to focus on building its share of the expanding and cash-generative annuities market. The Prudential Group aims to build on its progress in the US by maintaining focus on value over volume, with a particular emphasis on variable annuity products, continuing to target the most profitable business. It will also look to diversify earnings growth and capitalise on its scaleable platform by making bolt-on acquisitions of closed books, when suitable opportunities emerge.

In the UK, the strategy remains to focus rigorously on balancing new business with cash and capital preservation, with the aim of generating surplus capital for investment group-wide that delivers significantly higher returns than in the UK. The UK business continues to use its strong brand heritage and customer franchise and provides a good foundation for the group-wide strategy.

The strategy for the asset management businesses in the UK and Asia is to continue to capitalise on their strong investment track record and trusted brands. Asset management is a core competence of the Prudential Group and is a key component of its strategy, providing a reliable source of cash and high-quality profits.

PRUDENTIAL GROUP'S BUSINESS TODAY

Asian business — life insurance

Market Overview

Asia has attractive growth opportunities due to its current high levels of economic activity in the Prudential Group's target markets that are translating into higher levels of personal wealth, greater disposable incomes, higher savings rates 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. Demographic shifts towards an increasingly ageing population are also beginning to drive increased household savings rates and an increasing need for healthcare and retirement solutions.

Asian governments are actively encouraging the development of a strong, dynamic private sector to meet people's growing need for financial solutions.

Consequently, Asia's life insurance markets can appear very attractive to US and European insurers. However, there are some formidable barriers to successful entry, including entrenched incumbents, unfamiliar regulations, language and cultural differences, mandatory domestic partners in some markets and a shortage of experienced staff.

Introduction

The Prudential Group's current strategy in Asia is to leverage its platform to generate further shareholder value by continuing to increase the scale of its operations. This is reflected in the following strategic commitments: further increasing agency scale and productivity, continuing to build distribution through partnerships, an increased focus on health and protection and retirement products, further developing direct marketing channels and up-sell and cross-selling capabilities.

The Prudential Group was an early mover in recognising the long-term growth potential in the Asian insurance industry. From the presence it established in Asia in the 1920s, it has created a business in the region that holds market-leading positions in the world's most populous and dynamic economies. Prudential is one of the leading foreign companies or joint ventures in seven of its 12 life markets.(1)

The Prudential Group's operations in Asia are unified under the 'Prudence' face icon. This icon has a consistently high recognition rate, outperforming other financial service companies in the region. The Prudential Group operates distinct life insurance businesses in 12 markets. These are all

(1) Market share rankings are shown in "Industry Overview and Competition" in this listing document.

managed by local teams, with strategic leadership and technical support provided by the regional team (based in Hong Kong). Opportunities are taken to leverage synergies and best practices around the region, and from the wider Prudential Group, particularly in areas such as product development, distribution channel management and asset liability practices. The Asian businesses operate with common principles and within a regionally managed risk framework. The Prudential Group consistently wins industry awards for the quality of its operations in Asia, including its customer service.

Underpinning the Prudential Group's success in the region is the breadth and depth of its management teams and staff. These comprise a combination of market-leading international specialists and the best local talent.

Although externally the highest profile measure of success is new business volumes and how this translates into market share, the Prudential Group's internal focus is on EEV new business profit, as opposed to these volume measures. The Prudential Group's business in Asia maintains strict financial discipline to ensure that there is always a strong correlation between business volumes and the value generated, as reflected in the shareholders' embedded value metrics. As the scale of the Prudential Group's business in Asia continues to increase, as evidenced by the increase in embedded value before acquired goodwill from £5.3 billion at 31 December 2008 to £5.8 billion at 31 December 2009, there is a greater focus on demonstrating the emergence of this value in terms of distributable IFRS profits and cash.

Given the current economic climate, a thorough review has been undertaken of all the operations' solvency positions from the local regulatory and the IGD perspectives. Optimising capital efficiency from the Prudential Group's perspective has always been a priority, and with the recent market turbulence across the world, the Prudential Group continued to pay particular attention to this during 2009.

Disposal of PCA Life Taiwan's agency business

When the Prudential Group entered the Taiwanese market in 1999, traditional "compulsory dividend" life policies were the only type of savings and protection policy permitted by the regulator. These policies are unique to Taiwan and have claims, guaranteed surrender values and local statutory reserves calculated on a prescribed actuarial basis, which includes an underlying interest rate assumption based on two-year interest rates at the time the policy is sold.

The Prudential Group's acquisition of Chinfon Life in 1999 included a back book with interest rate assumptions at around 6.5% and expected liability duration of 30 to 40 years. Since then interest rates in Taiwan have declined and stood at just 1.4% at 31 December 2008. Under the local solvency rules, the related provisions can be offset by profits generated from new business, which was an important consideration in introducing a unit-linked business in 2002. The net cash strain the Prudential Group experienced from this back book was running at the rate of around £50 million per annum.

However, the Prudential Group is domiciled in the EU and therefore is subject to the requirements of the EU's Insurance Groups Directive ("IGD") when assessing solvency. The Prudential Group saw an opportunity to materially improve its capital position by releasing the economic capital supporting the Taiwan back book. Therefore on 20 February 2009, the Prudential Group announced that it had agreed to transfer the assets and liabilities derived from its agency distribution channel, including the back book, to China Life Insurance Ltd (Taiwan). The disposal which was completed on 19 June 2009 led to a one-off negative IFRS shareholders' funds impact of approximately £600 million after restructuring costs but increased the Prudential Group's IGD solvency position by approximately £800 million.

The Prudential Group remains an active and committed player in the Taiwanese life insurance market through its successful bancassurance, direct marketing and other non-agency distribution channels. Bank and direct sales in Taiwan, measured on an APE basis, grew by 84% in 2009 to £107 million.

Distribution

Agency is the primary distribution channel in most Asian markets and for the Prudential Group the agency force generated 63% of new business volumes in 2009. Success in agency distribution requires building and maintaining meaningful scale in terms of agent numbers together with managing agent training and sales practices that drive agency productivity.

As at the end of 2009, the Prudential Group had approximately 410,000 agents, only marginally below the 413,000 number for 2008 (excluding Taiwan). Throughout 2009 agent activity remained at 2008 levels, a testament to how this distribution channel has been managed amid a challenging environment, in which the Prudential Group continued to focus on maintaining a professional and productive agency force with the discipline to terminate agents not meeting specific performance criteria.

Average premiums per policy in 2009 declined from 2008 levels as the proportion of sales derived from health and protection products increased (while these products have high new business margins, they tend to have lower average premiums). More recently the trend for average premiums per case reflects a return to 2008's pre-crisis levels.

The Prudential Group complements its agency distribution in the region with a number of distribution agreements with leading banks and brokers. The strategy for bank distribution, which accounted for 24% of APE sales in 2009, does not rely on a single approach, with bank staff (relationship managers) selling insurance products as well as deploying a trained and specialised sales force within the bank branches. These Financial Service Consultants ("FSCs") are managed to quality and productivity standards, and they are rewarded for results. During 2009, sales from FSCs accounted for 60% of the region's new business from the bank channel. Overall, the bank channel grew 13% in 2009.

During 2008 and in early 2009 the Prudential Group expanded and extended its bank distribution agreement with SCB. The Prudential Group now works with SCB in nine markets.

On 6 January 2010, the Prudential Group announced an agreement to acquire United Overseas Bank Limited ("UOB") Life Assurance Limited in Singapore. The total consideration was SGD428 million (approximately £192 million). As part of this transaction the Prudential Group also entered into a long-term strategic partnership to develop a major regional bancassurance business with UOB. Through this partnership, the Prudential Group's life insurance products are now being distributed through UOB Group's bank branches across Singapore, Indonesia and Thailand.

On 15 January 2010 the Prudential Group's Japanese insurance subsidiary announced the suspension of the underwriting of new policyholder contracts post 15 February 2010. This decision will be reviewed on an ongoing basis in the light of changes to the business environment. The Prudential Group reinforced its commitment to honouring all existing policyholder contracts and providing policyholders with an appropriate level of customer service. Measures have been taken to ensure there is adequate staff and supporting infrastructure for customer servicing, taking into account that the company closed its proprietary distribution channel in 2006 and since then has been working with third party distributors only.

This suspension does not affect the Prudential Group's asset management business in Japan, which is a separate entity from the insurance business with its own operating platform and distribution networks. The Prudential Group does not expect any significant impact on its asset management business.

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. The Prudential Group also offers health, disablement, critical illness and accident cover to supplement its core life products. The Prudential Group's business in Asia has a high proportion of regular premium mode products that provide both savings and protection benefits. In 2009, the new business profit mix was 56% health and protection products, 31% unit-linked and 13% non-linked products. At the end of 2009 Prudential Corporation Asia offered health and protection products in all of its markets and unit-linked products in 11 of the 12 countries, the exception being Thailand as the regulation permitting unit-linked products only came into place in 2009.

Unit-linked products combine savings with protection, with the cash value of the policy depending on the value of the underlying unitised 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. Health and protection products provide mortality or morbidity benefits and include health, disablement, critical illness and accident covers. Health and protection 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 under the heading "with-profits products" 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 unitised fund. The profits from health and protection and non-participating products consist of any surplus remaining after paying policy benefits.

The Prudential Group has implemented a structured and disciplined approach to expanding its health and protection portfolio with the local businesses supported by a regional team with sales management, product development, underwriting, claims, operations and business development expertise. Underwriting processes have been re-engineered to improve customer service and claims turnaround has been enhanced while quotation systems have been upgraded to inform agents of the availability of appropriate health riders e.g. augmenting a core life policy with critical illness cover.

Critical factors in the Prudential Group's success in health and protection include integrating the product initiatives with the distribution channels and tailoring sales support activities to the sales force. For example, health products have been incorporated into agency incentive programmes and a standalone healthcare product was launched into the SCB channel with simplified underwriting and compelling media campaigns to capture direct business and provide leads for other channels.

In Malaysia and Indonesia, the Prudential Group also offers life insurance policies that are constructed to comply with Islamic principles, known as Takaful. The main principles are that policyholders co-operate among themselves for the common good, uncertainty is eliminated in respect of subscription and compensation and there is no investment in prohibited areas such as gambling or alcohol.

Asia's growing and increasingly urban middle class population face a growing need for financial advice and products to help people save for retirement, secure an income during retirement and protect their financial well-being throughout life. The Prudential Group has already taken a lead in raising the awareness of the need for retirement financial planning through the 'What's Your Number?' campaigns, and the retirement planning message continues to be reinforced through fully integrated marketing and promotional materials and refreshed product ranges.

New business premiums

In 2009, total sales of insurance products were £2,019 million, down 17% from 2008 (£2,422 million excluding Taiwan agency). Of this amount, regular premium insurance sales increased 9% to £1,177 million and single premium insurance sales decreased 37% to £842 million.

The following table shows the Prudential Group'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	2008	2009
	£m	£m	£m
Singapore	660	419	395
Hong Kong	618	661	326
Malaysia	119	127	203
Taiwan (excluding Taiwan agency)	31	91	201
Japan	144	145	103
Korea	420	289	156
China (the Prudential Group's 50% interest in joint venture with CITIC)	69	95	110
Indonesia	227	261	227
India (the Prudential Group's 26% interest in joint venture with ICICI)	203	262	210
Other countries	91	72	88
Total	2,582	2,422	2,019

Asian business — asset management

The Prudential Group's Asian asset management business manages funds for the Prudential Group's Asian and UK Life businesses. It further supports the Asian Life business with the design of funds for investment linked products.

In addition, the Prudential Group's Asian asset management business runs a sizeable third-party client business which accounts for 46% of its funds under management as at 31 December 2009. Today it has retail operations in ten markets. During 2009 in China, CITIC-Prudential was awarded the Qualified Domestic Institutional Investors ("QDII") licence, and in Malaysia, Asia Asset Management launched Prudential Al-Wara as its new Islamic fund management subsidiary.

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 the Prudential Group having established strong relationships with both regional and local banks and placing significant emphasis on providing good service. The Prudential Group's Asian asset management business is also growing its third party institutional and pension fund management business.

Distribution

In order to capitalise on the exciting and sizeable opportunities in Asia's retail financial services market, the Prudential Group's Asian asset management business maintained its focus on building a strong third-party customer retail franchise. The customer proposition is driven by the Prudential Group's strong investment capabilities, which enable it to develop innovative product suites, and distribute them through diverse channels including regional banks, local banks, private banks, and securities houses and an internal sales force. The Prudential Group's Asian asset management business has become one of the largest and most successful domestic asset management companies in the region, as demonstrated by the fact that the Prudential Group occupies a number of top ten market share positions in the markets in which it operates and the fact that a significant proportion of its funds are either in the top-two quartiles or outperformed their benchmarks as of January 2010.

During 2009, the Prudential Group's Asian asset management business continued to build its retail distribution network across Asia. For example, in Japan, the business has successfully established distribution relationships with mega distributors.

Products

The Prudential Group's Asian asset management business offers mutual fund investment products in India, Taiwan, Japan, Singapore, Malaysia, Hong Kong, Korea, Vietnam, China and United Arab Emirates, allowing customers to participate in debt, equity, money market and alternative asset investments.

Fund innovation is essential for stimulating sales and gaining 'shelf space' with distributors. During 2009 fund launches were curtailed reflecting the difficult market conditions; nevertheless, there were some notable successes: in Dubai, the Prudential Group successfully raised £300 million (US$469 million) from a Qatar Fixed Maturity Plan Series; £220 million (US$345 million) was raised from an equity fund in China; £109 million (US$170 million) from a target return fund in India; and a new Brazil Fund, launched in Taiwan, raised £94 million (US$147 million).

The Prudential Group's Asian asset management business levies transaction charges (initial and surrender depending on the type of fund and the length of the investment) and also 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 Prudential Group's Asian asset management business's total funds under management ("FUM") as at 31 December 2009 were £42.4 billion. This included £4.2 billion of assets from the Prudential Group, £18.7 billion from Prudential Corporation Asia's life funds, and £19.5 billion from third-party customers. Compared to 2008, the overall FUM increased by 22% (excluding the FUM related to the sold Taiwan agency business).

Third party net inflows were £2 billion in 2009, driven principally by money market funds in India, with strong net equity inflows in Japan and the United Arab Emirates being offset by net outflows of equity funds in Korea and fixed income funds in India.

US business

The Prudential Group conducts its US insurance operations through Jackson and its subsidiaries, including Curian Capital, LLC, a registered investment adviser. The US operations also include PPM America, the Prudential Group's US internal and institutional fund manager, and the Prudential Group's US broker-dealer operations (National Planning Corporation, SII Investments, Inc., INVEST Financial Corporation and Investment Centers of America, Inc.). At 31 December 2009, the Prudential Group's US operations had more than 2.8 million policies and contracts in effect and PPM America managed approximately £47 billion of assets. In 2009, new business premiums totalled a record £8,909 million.

US market overview

The United States is the world's largest retirement savings market, and is continuing to grow rapidly. As 78 million baby boomers[(8)] reach retirement age, their retirement assets will be expected to shift from asset accumulation to income distribution. There are already US$2 trillion of assets generating retirement income in the US — and this amount is forecast to rise to approximately US$7 trillion by 2029[(9)].

(8) Source: US Census Bureau

(9) Source: Tiburon Strategic Advisers, LLC

During 2009, the US financial services industry continued to face an array of challenges. After the S&P 500 index fell to a 12-year low in March, it rebounded and ended the year up 23.5% (compared to a 38.5% decline in 2008). Governmental interest rates increased but remained at historic lows, and rating agencies downgraded the financial strength ratings of many of the largest US insurance companies.

Further uncertainty arose early in 2009 as several companies scaled back their product offerings due to capital constraints which, combined with the financial strength downgrades, caused consumers to question the long-term financial stability of product providers. At the same time, tightening credit spreads and the rally in equity markets throughout the last nine months of 2009 created more favourable market conditions for the sale of variable annuities. These developments in the annuity market provided a competitive advantage to companies with strong financial strength ratings and a relatively consistent product set.

Prudential's US business, Jackson, benefited from this activity in the US annuity market, as customers are increasingly seeking product providers that offer consistency, stability and financial strength. Jackson's strategy continues to target increasing volumes in variable annuities in line with the goal of capital preservation. As Jackson focused on optimising the balance between new business profits and capital consumption, no institutional sales were made during the full year of 2009.

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 offers products with specialised 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 a more than nine-fold increase in variable annuity sales from 2001 to 2009. Over the same period, Jackson improved its market share from 2.3% in 2001 to 5.9% in 2009 and moved from 17th in total annuity sales to 4th(10).

The success in the marketplace of Jackson continues to be driven by its industry-leading distribution organisation and product innovation, coupled with its sound evaluation of product economics. The Prudential Group's long-term goals for Jackson include the continued and profitable expansion of its share of the US annuities and retail asset management markets, which it plans to achieve by building on its strong position in the advice-based distribution channels. Ongoing profitable growth in Jackson's share of the US annuities market largely depends on the continued enhancement and expansion of its existing product offering, increased penetration of existing distribution channels and entry into new distribution channels, as well as opportunistic inorganic growth.

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 advisers. Jackson also markets life insurance and fixed annuity products through its captive insurance agency, which is concentrated in the south eastern United States.

The annuity industry is consolidating to the strongest players, and this consolidation has contributed to a substantial increase in Jackson's distribution relationships. Jackson experienced a large influx of new advisers in 2009, increasing its licensed agent and registered representative count by more than 30,000 to 117,453, which has driven significant increases in market share for Jackson, particularly in variable annuities. Jackson signed a distribution agreement with Merrill Lynch, which began selling Jackson products in late 2009.

(10) Source: Life Insurance and Market Research Association

Many baby boomers are increasingly seeking advice to help them recover the losses suffered during the crisis. With strong growth in its distribution relationships in advice-based channels, Jackson is well positioned to benefit from this trend.

Innovation in product design and speed to market continue to be key drivers of Jackson's competitiveness in the variable annuity market. High-quality and cost-effective technology has allowed Jackson to offer a comprehensive product portfolio that can be customised to meet the needs of individual customers. Jackson offers products on an unbundled basis, enabling customers to select those benefits that meet their unique financial requirements and to pay only for those benefits they desire. In the Prudential Group's view, leveraging this advantage is a more sustainable long-term strategy than competing on price: Jackson will not sacrifice product economics for a short-term increase in market share.

During 2009, Jackson maintained its track record of continued product innovation by enhancing its variable annuity product line through offering a bonus variable annuity and six new portfolio investment options. Jackson also continued to modify its Guaranteed Minimum Withdrawal Benefits ("GMWB").

The significant increase in new business in 2009, following the difficult market conditions in 2008, resulted in higher call volumes to Jackson's service centres. Despite this increased workload, Jackson continued to demonstrate the ability to service investors' and advisers' needs accurately and efficiently, earning a World Class certification for its Michigan call centre in the Service Quality Measurement Group's ("SQM") latest benchmarking study of North American service centres. Historically, this World Class designation is earned by only 5% of service centres. Furthermore, 2009 marked the fifth year that Jackson has achieved a World Class designation for customer service. Jackson also earned SQM's 'Highest Customer Satisfaction by Industry' award for having the highest rate of customer satisfaction in the financial services industry. During 2009, Jackson created a series of educational presentations and materials designed to address the concerns that advisers were facing in such a challenging economic environment. In Financial Research Corporation's 2009 Advisor Insight study, Jackson ranked number one in overall adviser satisfaction with marketing effectiveness.

National Planning Holdings ("NPH") is Jackson's affiliated independent broker-dealer network. The business is comprised of four broker-dealer firms, including National Planning Corporation, SII Investments, Inc., INVEST Financial Corporation and Investment Centers of America, Inc. The US broker-dealer business continued to grow in 2009 through strong recruiting efforts. By utilising its high-quality, state-of-the-art technology, NPH's advisers receive the tools they need to operate their practices more efficiently. At the same time, 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 advisers and their clients.

Curian Capital LLC ("Curian"), Jackson's registered investment adviser, provides innovative fee-based separately managed accounts and investment products to advisers through a sophisticated technology platform. Curian expands Jackson's access to advisers and provides a complement to Jackson's core annuity product lines.

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 31 December		
	2007	2008	2009
	£m	£m	£m
By Product			
Annuities			
Fixed annuities			
Interest-sensitive	481	1,629	915
Fixed index	447	501	1,433
Immediate	91	95	138
Variable annuities	4,554	3,491	6,389
Total	5,573	5,716	8,875
Life insurance	26	31	34
Institutional products			
GICs, funding agreements and Federal Home Loan Bank of Indianapolis (FHLBI) advances	408	560	—
Medium term note funding agreements	527	634	—
Total	935	1,194	—
Total	6,534	6,941	8,909
By Distribution Channel			
Independent agents	623	1,225	1,229
Bank	812	1,077	1,566
Broker-dealer	4,153	3,428	6,099
Captive agents	10	16	15
Institutional products department	936	1,195	—
Total	6,534	6,941	8,909

Annuities

Fixed annuities

Interest-sensitive annuities

In 2009, interest-sensitive fixed annuities accounted for 10% of total new business premiums and 24% of policyholder liabilities of the US operations. These annuities, which allow for tax-deferred accumulation of funds, 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. On more than 90% of in-force business, 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 favourable 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 if customers seek alternative investment opportunities.

Approximately 61% of the interest-sensitive fixed annuities Jackson wrote in 2009 provide for a market value adjustment that could be positive or negative, on surrenders in the surrender period of the policy. This formula-based adjustment approximates the change in value that assets supporting the product would realise as interest rates move up or down. The minimum guaranteed rate is not affected by this adjustment.

Fixed index annuities

Fixed index annuities accounted for 16% of total new business premiums in 2009 and 10% of policyholder liabilities of the US operations. Fixed index 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 5 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 favourable 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 2009, immediate annuities accounted for 2% of total new business premiums and 2% 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 2009, variable annuities accounted for 72% of total new business premiums and 49% 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 a guaranteed fixed-rate option. 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 benefits ("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 annuitisation. 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 annuitisation regardless of the value of the investments underlying the contract at the time of annuitisation. Due to the inability to economically hedge or reinsure new issues, GMIBs are no longer offered, with existing coverage being reinsured with an unaffiliated reinsurer.

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 utilise 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 utilisation 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, the equity exposure remains well managed. As evidence of Jackson's hedging programme, over the cumulative 24-month period of 2008 and 2009, which included a historic decline and partial recovery of equity markets as well as significant interest rate movements, Jackson's variable annuity guaranteed benefits and related hedges resulted in a net operating loss of £7 million, after allowing for variable annuity guarantee fees in the period.

Life insurance

Reflecting the competitive life insurance market and the overall trend towards asset accumulation products, Jackson's life insurance products accounted for less than 1% of the total new business premiums and 9% of policyholder liabilities of the US operations in 2009. Jackson sells several types of life insurance, including term life, universal life and variable universal life. Term life provides protection for a defined period 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") programme, and medium term note funding agreements. During 2009, there was no new institutional business as the company restricted sales in this business line in order to conserve and direct capital to higher margin variable annuity business. As at 31 December 2009, institutional products accounted for 6% 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 programme. 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. There were no funding agreements terminable by the policyholder with less than 90 days' notice outstanding at 31 December 2009.

Jackson is a member of the FHLBI. Membership allows Jackson access to advances from FHLBI that are collateralised by mortgage-related assets in Jackson's investment portfolio. These advances are in the form of funding agreements issued to FHLBI.

Medium term note funding agreements

Jackson has also established European and global medium-term note programmes. 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 supports its network of independent agents and advisers with education and training programmes.

Independent agents and broker-dealers

Jackson's subsidiary, Jackson National Life Distributors, LLC ("JNLD"), is the primary marketing and distribution organisation for annuities and life insurance products. The insurance and fixed annuity products are distributed through independent agents located throughout the United States. These approximately 21,000 appointed insurance agents or brokers (as at 31 December 2009), 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 Jackson to generate significant volumes of business on a low, variable cost basis. Jackson also provides 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. As at 31 December 2009, there were more than 780 active selling agreements with regional and independent broker-dealer organisations throughout the United States, which provides Jackson access to nearly 65,000 appointed agents.

Jackson provides training for its broker-dealers and also provides 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 organisations that serve these institutions. Jackson is a leading provider of annuities offered through banks and credit unions and as at 31 December 2009 had access to more than 12,500 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 the Prudential Group'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 3,478 registered representatives at the end of 2009.

Registered investment adviser

Curian Capital, LLC, Jackson's registered investment adviser channel, provides innovative fee-based separately managed accounts and investment products to advisers through a sophisticated technology platform. Curian expands Jackson's access to advisers while also providing a complement to Jackson's core annuity product lines.

The registered investment adviser 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 personalised investment advice, 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 more than 100 life insurance agents as at 31 December 2009, was formed to help retain the Life of Georgia book of business and to create a new distribution channel for Jackson's life insurance.

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 match closely 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. As at 31 December 2009, 10% 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. As at 31 December 2009, 62% 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. Jackson hedges the economic risk associated with these contracts and, therefore, has not explicitly hedged its fair value risk. In addition, certain benefits have mortality risk and are therefore precluded from being carried at fair value. As a result of these factors, the income statement may include a timing mismatch related to changes in fair value. However, as demonstrated during 2008 and 2009, Jackson's hedges operated effectively, as designed.

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 the Prudential Group'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 1983 Individual Annuitant Mortality Table and the Annuity 2000 Mortality Table for newer issues. Interest rate assumptions currently range from 2.0% to 7.0%.

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% to 160% of the 1975-1980 Basic Select and Ultimate tables, depending on underwriting classification and policy duration. Interest rate assumptions range from 4.0% to 8.0%. 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 unaffiliated 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 US$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 equalled more than 1% of total policy reserves.

Beginning in late 1995, Jackson entered into reinsurance agreements to cede 80% 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 on 1 January 1999, it began to cede 90% 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 favourable.

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 also serves as investment adviser 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 31 December 2009, the Prudential Group's UK business was structured into two business units, each focusing on its respective target customer markets. The Prudential Group's UK business units are UK Insurance Operations and M&G.

The following discussion describes:

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

In 2009, the Prudential Group's UK business generated new business insurance premiums of £5,014 million and gross investment inflows of £24,875 million. As at 31 December 2009, M&G had £174 billion of funds under management. See paragraph 4.5 below for an analysis and description of this asset manager and its funds under management.

UK retail financial services business overview

Prudential UK (the UK insurance operations) continues to focus on realising value from the opportunities created by the increasing need for retirement solutions. The Prudential Group's UK business competes in selected areas of the UK's retirement savings and income markets where it believes that it can generate attractive returns from capital employed. In line with the Prudential Group's strategy, the business continues to place significant emphasis on the disciplined deployment of capital to seize opportunities that play to the core strengths of the business and this focus enabled it to deliver a strong relative performance in 2009.

In 2009, Prudential UK performed strongly against a challenging background of difficult capital markets, volatile equity markets and widespread economic uncertainty which led consumers to look for greater certainty and security through trusted and financially strong brands. Prudential UK believes that the business has a good combination of competitive advantages including its longevity experience, multi-asset investment capabilities, strong brand and financial strength. These help put Prudential UK in a robust position to generate attractive returns across its businesses.

The UK is characterised by an ageing population and the concentration of wealth in the mass affluent and high net worth sectors — a combination that positions the retirement and near-retirement segment as the fastest-growing in the marketplace. Low savings rates and high levels of consumer debt, coupled with an increasing shift in responsibility for providing retirement income away from the Government and employers towards individuals, have resulted in individuals in the UK being inadequately provided for during increasingly long periods of retirement.

Areas of focus in 2009

- Maintaining a leadership position in individual annuities;
- Building on the Prudential Group's multi-asset capabilities and expertise;
- Growing other income streams;
- Strengthening distribution capabilities;
- Delivering improvements in customer service; and
- Maintaining a disciplined approach to pricing and capital usage.

The pipeline of internal vestings from maturing individual and corporate pension policies is expected to remain strong at least over the next ten years. Management have based this assessment on a combination of analysis of the projected value of maturities of in-force business (after allowing for lapses) used within the Prudential Group's actuarial valuation models as at 31 December 2008 and analysis of the Selected Retirement Date contained with the policy data for a population covering approximately 75% of in-force pension business. This pipeline is supplemented by strategic partnerships with third parties where Prudential UK is the recommended annuity provider for customers vesting their pensions at retirement. Prudential UK is one of the largest annuity providers in the UK market[11], with approximately 1.5 million annuities in payment as at 31 December 2009. Looking ahead, the UK annuities market is expected to grow in the near-term, and Prudential UK believes it is well-positioned to maintain a significant share of this market.

Prudential UK's with-profits business performed strongly during 2009, showing that with-profits, when invested in an actively managed and financially strong fund like Prudential's, continues to be an attractive medium to long-term investment, offering strong annualised returns compared with other investment options. Prudential UK's with-profits fund has delivered investment returns of 66.3% over the last ten years through the end of 2009 compared with the FTSE All-Share Index (total return) of 17.7% over the same period.

In the wholesale markets, Prudential UK's aim is to participate selectively in bulk and back-book buyouts using the Prudential Group's financial strength, superior investment track record and annuitant mortality risk assessment capabilities. Maintaining a strict focus on value means that Prudential UK will only participate in transactions that meet its strict return on capital requirements.

The business has also continued to make good progress against its cost reduction plans, with Prudential UK expecting that it will have achieved its total cost savings target of £195 million per annum by the end of 2010. The first phase of the Prudential UK cost reduction programme (completed in 2007) delivered savings of £115 million per annum, with a further £60 million per annum of savings expected to be delivered by the end of 2010 through the administration outsourcing agreement with Capita, which commenced in April 2008. The remaining £20 million per annum is expected to be generated from across the rest of the UK business by the end of 2010. By the end of 2009, a total of £156 million per annum of savings had been delivered.

Over time, the Capita contract is expected to result in the migration of approximately seven million in-force policies from a number of Prudential legacy IT systems to two Capita proprietary

(11) Source: ABI

platforms, significantly enhancing operational performance and efficiencies. The first migration from a legacy system to a Capita platform was completed during 2009.

UK products and profitability

In common with other UK long-term insurance companies, the Prudential Group's UK 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). The Prudential Group's primary with-profits sub-fund is part of PAC's 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 UK's with-profits policyholders currently receive 90% of the distribution from the main with-profits sub-fund as bonus additions to their policies and shareholders receive the remaining 10% as a statutory transfer.

The profits from almost all of the Prudential Group'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 PAC'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 PAC from Prudential International Assurance plc and Canada Life (Europe) Assurance Ltd and the with-profits annuity business transferred to PAC from the Equitable Life Assurance Society on 31 December 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 UK 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 realisation 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 bank branches, tied agents, company sales forces and financial advisers, 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 advisers, with the result that many insurers, including the Prudential Group, have chosen to close these tied agents and direct sales force networks.

Direct and e-commerce distribution methods are generally lower-cost than other methods but have not generally 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.

The FSA, following a consultation process, implemented "depolarisation" rules at the end of 2004. Advisers 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 independent financial adviser ("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 UK worked with major financial adviser groups to design and build multi-tie propositions and has been appointed to a number of multi-tie panels of these major financial adviser groups.

The FSA is conducting a review of the retail distribution marketplace called the Retail Distribution Review ("RDR") and published a policy statement on 26 March 2010, which follows nearly two years of discussion and consultation papers. The changes are designed to encourage greater levels of transparency, professionalism and sustainability within the industry, with the prime aim of increasing consumers' confidence in the industry and therefore their desire to engage with it. Prudential supports the concepts of adviser remuneration and the new professional standards which are included as part of the RDR and believes that these provide an opportunity to put in place a framework that will better align the interests of consumers, advisers and providers. The proposed implementation date for the proposals remains 31 December 2012.

The changes to be implemented are centred on improving the clarity with which firms describe their services to customers and the role of advisers, particularly with regards to remuneration. The advice market will be split between independent and restricted advice. This will be supported by the need for specific disclosure of status both in writing and orally at point of sale. Commission will be replaced by "Adviser Charging" with prescriptive rules aimed at ensuring consumers have total clarity on the cost of advice services. This will apply to all investment advice, but advisers will continue to be able to be remunerated by commission for pure protection business. In a separate discussion paper, the FSA proposed a number of changes to the Platform market which made clear that the same standards will apply as to the Retail market.

The Professionalism and Qualification elements are expected to be agreed in 2010. A greater role is proposed for professional bodies in helping to set and manage the ethics agenda in the industry. The FSA is proposing to revert to an internal model for the Professional Standards Board rather than establishing this as a separate independent entity.

The proposals on independent advice (which is restricted and unbiased) and raising professional standards will help to achieve improved outcomes for consumers.

The full impact of the RDR cannot yet be predicted, but it is likely that cash flow will be an issue for IFA firms that are currently reliant on initial commission. Although some IFAs may choose to exit the market, Prudential believes that many will adapt to the new environment. Prudential UK has been preparing for the introduction of RDR for some time — for instance, Prudential UK's current individual pensions product, the Flexible Retirement Plan, is now priced excluding commission, which allows the margin deducted for advice to be specifically agreed between the customer and the adviser. A large proportion of Prudential UK's annuity sales are made on a non-advised basis and will be unaffected by these changes.

Prudential UK is continuing to work with the regulator, industry bodies and distributors on ways to help advisers make the transition to the new environment as it believes that a strong IFA sector is beneficial for the market, and for Prudential.

As at 31 December 2009, the Prudential Group's UK Insurance Operations distributed its products through the following channels:

	Year Ended 31 December		
	2007	2008	2009
	£m	£m	£m
Direct & Partnerships	2,597	2,567	2,015
Intermediated	2,319	3,029	2,810
Wholesale (including Credit Life)	1,820	1,434	62
Sub-Total	6,736	7,030	4,887
DWP Rebates	143	153	127
Total New Business Premiums	6,879	7,183	5,014

Direct and partnerships

The direct distribution channel is primarily charged with increasing revenue from existing Prudential Group customers and with seeking new customers. Direct distribution channels include the telephone, internet and face to face advisers and focuses on annuities, investments, protection and health products. Partnerships focus on developing strong relationships with banks, retail brands and other distributors. Partnerships also seeks to help the Prudential Group's distribution partners in their distribution and product development strategies. The Prudential Group now has a range of distribution partners including Barclays, National Australia Bank, Royal London Mutual, Save and Prosper, Scottish Life, St James's Place and Threadneedle.

Intermediaries

Prudential UK's intermediaries distribution channel increased its field sales force with an additional 13 regional sales units in 2009, and the focus is to continue developing deeper and better relationships with key accounts and through partnership arrangements. Prudential UK was successful in gaining over 50 new panel positions across its 24 key accounts in 2009, meaning that its products are now even more widely available to intermediaries than before.

Wholesale

Prudential UK maintained its strict focus on value in the bulk annuity and back-book markets in 2009, completing transactions generating premium income of £39 million compared with £1,417 million in 2008. The 2008 figure included the large bulk annuity transactions which have not been repeated in 2009, due to the unavailability of transactions which met Prudential's return criteria.

UK business units

Long-term products

The Prudential Group's long-term products in the United Kingdom consist of life insurance, pension products and pensions annuities. The following table shows the Prudential Group'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 31 December		
	2007	2008	2009
	(in £ millions)		
Life insurance			
With-profits	406	968	1,320
Unit-linked	899	939	610
Total life insurance	1,305	1,907	1,930
Pensions			
With-profits individual	29	77	154
Unit-linked individual	80	89	86
Department of Work and Pensions rebates	143	153	127
Corporate	680	651	386
Total pensions	932	970	753
Pension annuities and other retirement products			
Fixed	1,742	2,427	1,445
Retail Price Index	659	1,404	493
With-profits	2,228	459	382
Total pension annuities and other retirement products	4,629	4,290	2,320
Healthcare	13	16	11
Total new business premiums	6,879	7,183	5,014

Life insurance products

The Prudential Group'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 the Prudential Group offers are investment bonds.

Savings products — investment bonds

The Prudential Group offers customers a choice through a range of investment funds to meet different risk and reward objectives. The Prudential Group launched the Flexible Investment Plan ("FIP") in 2003 and the Prudential Investment Plan ("PIP") in 2007. Through these plans, its customers have the option to invest in the With-Profits fund or in a range of unit-linked investment funds. Advisers can build an individual portfolio and asset allocation model to accurately match a client's risk / reward profile. Both FIP and PIP also give financial advisers the opportunity to choose from different external fund management groups and the flexibility to make changes to portfolio and asset allocation over time. In 2009, sales of the unit-linked option of FIP and PIP were £117 million.

The Prudence Bond, a single premium, unitised 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, the Prudential Group launched the next generation with-profits investment bond, entitled PruFund, which is designed to provide increased transparency and smoothed investment returns to the customer. PruFund also offers clients an optional five-year guarantee on the initial investment. In 2008, PruFund became available as a fund option on the FIP and PIP products. In 2009, total new business premiums attributable to PruFund, including new business through FIP and PIP, was £1,082 million.

In March 2008, the Prudential Group launched the International Portfolio Account ("IPA") offering clients access to a wide range of quoted UK investments. Sales of Prudential's offshore bonds, the International Prudence Bond, International Prudential Portfolio Bond and International Portfolio Account were £315 million in 2009.

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 annual bonuses, which are credited to the bond on a daily basis from investment returns achieved within PAC's long-term with-profits fund, offset 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 PAC's long-term with-profits fund are either fully or partially withdrawn, PAC may apply a market value adjustment to the amount paid out.

Sales of PruFund, Prudential UK's unitised and smoothed investment plan, were particularly strong in 2009. Since October 2008, PruFund has been available across Prudential UK's range of tax wrappers, including individual pensions, income drawdown and onshore and offshore bonds. Over £1.3 billion was invested across the Prudential UK retail savings product range in 2009. In 2009, Prudential UK extended further the PruFund range of investments with the launch of the PruFund Cautious series to sit alongside the PruFund Growth series within the on-shore bond wrapper. As at 31 December 2009, approximately £300 million had been invested in PruFund Cautious since it was launched in the second half of 2008. Prudential also launched the new PruSelect range of unit-linked funds across its UK pensions and investments products in 2008, more than doubling the number of funds available.

The sales growth across Prudential UK's with-profits range has been achieved on the back of sustained strong investment performance in its Life Fund over a number of years, reflecting the benefits of its diversified investment policy. The Prudential Group believes that this market will continue to see further growth as investors turn to trusted and financially strong brands and products offering an element of capital protection.

Life and health protection

Prudential UK has a joint venture with Discovery of South Africa which uses the Prudential brand and Discovery's expertise to build branded distribution and innovative product offerings in the private healthcare and protection markets.

Since its launch in October 2004, PruHealth has established itself in the marketplace as a private medical insurance provider, and it now has more than 200,000 customers insured.

PruProtect, launched in September 2007, follows the success of PruHealth by applying the Vitality points system. PruProtect's product is focused around a core philosophy of helping people become healthier while protecting and improving the quality of their lives. PruProtect continues to grow sales strongly following the re-launch of its product range and improved distribution model in November 2008. Sales of £14 million were achieved in 2009, an increase of 311% over 2008.

Pension products

Prudential UK provides both individual and corporate pension products. In 2009 new business premiums totalled £240 million for individual pensions and £386 million for corporate pensions. Pension products are tax-advantaged long-term savings products that comply with rules established by HMRC 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 the Prudential Group 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 the Prudential Group both in underlying mortality and investment assumptions.

Prudential UK 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% of the with-profits sub-fund as at 31 December 2009.

Many of the pension products Prudential UK 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 UK 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 UK's individual pension range offers unit-linked and unitised with-profits products.

In 2001, Prudential UK introduced products that continue to meet the criteria of the UK government's stakeholder pension programme. 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 UK designs, administers and 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 UK government has capped charges at 1.5% per annum of the policyholder account balance for stakeholder pensions for the first ten years, decreasing to 1% 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 UK 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 the Prudential Group. 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. The Prudential Group has an established defined benefit plan client base covering the small to medium-sized employer market. Prudential UK'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 where Prudential UK offers the Additional Voluntary Contribution facility). 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 defined benefit plans to new members or to convert existing schemes from defined benefit to defined contribution in order to stabilise or reduce potential pension liabilities.

Prudential UK offers group unit-linked policies and with-profits policies to the corporate pensions market. Prudential UK'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.

In addition, Prudential UK 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 (ceasing to exist or being replaced by a new type of scheme). Prudential UK also has the facility to accept enhanced transfers from deferred members of a corporate's defined benefit pensions scheme into the Prudential UK Personal Pension plan where the member has received advice from an independent financial adviser (often called an Enhanced Transfer Value exercise).

Pension annuities and other retirement products

Prudential UK 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. Prudential UK also offers products with an income drawdown option which allow customers greater flexibility in terms of the amount of income they take in retirement and the option to delay buying an annuity up to age 75. In 2009, Prudential UK sold £91 million of income drawdown products. A total of £2,189 million of individual annuities were sold in 2009. Of this total, £1,357 million were sold to existing Prudential UK customers with maturing pension policies. The other £832 million were sold to new customers, typically individuals with a pension maturing with another provider who chose Prudential UK to provide their annuity. Prudential UK 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 UK's bulk annuity sales is unpredictable as it depends on the decision of scheme trustees. In 2009, Prudential UK sold £39 million of bulk annuities.

Prudential UK'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 UK from immediate annuity products, therefore, are mortality improvements and credit risk.

Conventional annuities

Prudential UK's conventional annuities include level (non-increasing), fixed increase and RPI annuities. Prudential UK'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 2009, sales of RPI annuities were £493 million (including £19 million of bulk annuities). In 2009, sales of level and fixed increase annuities amounted to £1,445 million (including £20 million of bulk annuities and £43 million of unit-linked income drawdown products).

With-profits annuities

Prudential UK'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. Through this product, Prudential UK brings its product development strengths to bear while also capitalising on people's need for protection from inflation through increasingly long periods of retirement. Prudential is one of only a few companies in the United Kingdom in the with-profits annuities market and has been operating in this market since 1991. In 2009, Prudential UK's premiums for this business were £382 million (including £48 million of with-profits income drawdown products). Prudential UK is now the market leader, with a market share of over 84% in the nine months to September 2009[12].

In the first quarter of 2009, Prudential UK launched a new Income Choice Annuity which allows customers to choose an income between a defined maximum and minimum level, with the option of re-setting this every two years. It also provides an opportunity for pension income to grow because the product is backed by Prudential's strong with-profits fund.

Income drawdown

Given the UK's compulsory annuitisation age of 75, an increasingly sophisticated consumer population, and the rising incidence of second careers and semi-retirement as a result of increasing longevity, the market has seen good growth in the 'bridge' between pensions and annuities through income drawdown products. Prudential UK launched an income drawdown option as a part of the Flexible Retirement Plan in late 2007 and achieved premiums of £91 million in 2009 compared to £75 million in the previous year for this and the existing product, the Flexible Income Retirement Account. These products help customers manage their pensions through the various stages of retirement, and also offer flexibility while providing potential for capital growth.

Lifetime mortgage

In November 2009, Prudential UK announced the decision to close its equity release operation to new business. For this product, a significant cash expense is incurred up front in acquiring new business and the payback period on capital employed is long. Prudential UK management concluded that this is not sustainable and that cash and capital can be deployed more effectively across other parts of the business. Prudential UK's existing lifetime mortgage customers are unaffected by this decision.

Reinsurance

In view of the size and spread of PAC'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. In addition PMI policies issued by Pru Health are reinsured.

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 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 UK'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

(12) Source: ABI

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.

The Prudential Group 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 EU insurance companies. See "Financial Strength of PAC's Long-term Fund" for further information on solvency and "Realistic Financial Strength Reporting" for further information on realistic reporting.

Financial strength of PAC's long-term fund

As at 31 March 2010, the financial strength of PAC was rated Aa2 (negative outlook) by Moody's, AA (negative watch) by Standard & Poor's, and AA+ (negative watch) by Fitch.

PAC's with-profits fund is one of the largest and financially strongest in the UK, continuing to cover comfortably all of its regulatory solvency requirements. The fund is supported by an inherited estate of £6.4 billion (as at 31 December 2009) which provides the working capital required to support the fund for the long-term benefit of current and future policyholders.

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

	2007	2008	2009
	%	%	%
UK equities	35	34	25
International equities	17	17	12
Property	14	14	12
Fixed Interest	28	29	40
Cash and other asset classes	6	6	11
Total	100	100	100

Despite difficult conditions in financial markets throughout 2008 and during the first half of 2009, the with-profits sub-fund performed strongly in 2009. With-profits, when invested in an actively managed and financially strong fund like PAC's, continues to be an attractive medium to long-term investment, offering annualised returns which compare favourably with other investment options. The with-profits sub-fund has delivered investment returns of 66.3% over ten years compared with the FTSE All-share index (total return) of 17.7% over the same period (figures are to 31 December 2009, before tax and charges). Much of this strong 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 equities and increased its exposure to fixed interest securities.

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 £6.4 billion at the end of 2009 before deduction for the risk capital margin.

Shareholders' interests in Prudential UK's long-term insurance business

In common with other UK long-term insurance companies, the Prudential UK's products are structured as either with-profits products or non-participating (including unit-linked) products. For statutory and management purposes, PAC'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 UK's primary with-profits fund is part of PAC'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 UK writes is an amount equal to up to one-ninth of the value of the bonuses the Prudential UK credits or declares to policyholders in that year. Prudential UK 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.

PAC'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, PAC 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 PAC notionally attributes to the policy. In calculating asset shares, PAC 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 UK 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 UK 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 PAC'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 2009, PAC declared a total surplus of £2,149 million from PAC's primary with-profits sub-fund, of which £1,935 million was added to with-profits policies and £214 million was distributed to shareholders. This includes annual bonus rates of 3.0% per annum for the Prudence Bond and 3.0% per annum for personal pensions. In 2008, PAC declared a total surplus of £3,029 million from PAC's primary with-profits sub-fund, of which £2,730 million was added to with-profits policies and £298 million was distributed to shareholders. This includes annual bonus rates of 3.5% for the Prudence Bond and 3.5% for personal pensions.

The closed Scottish Amicable Insurance Fund ("SAIF") declared total bonuses in 2009 of £533 million compared to £777 million in 2008. 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 sub-fund within the long-term fund of PAC comprise the amounts that it 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 sub-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 sub-fund is called the 'inherited estate' and has accumulated over many years from various sources.

The inherited estate, as working capital, 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.

Prudential UK, of which PAC is part, announced in March 2006 that it had begun a process to determine whether it could achieve greater clarity as to the status of the inherited estate through reattribution. In June 2008, Prudential announced that it did not believe that it was in the interests of current or future policyholders or shareholders to continue the reattribution process. This announcement reflects PAC's overriding priority, which is to maintain the long-term financial security of the with-profits sub-fund and to continue delivering strong relative performance for the benefit of its policyholders.

Depletion of surplus assets and shareholders' contingencies

As a proprietary insurance company, PAC 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 Prudential 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 UK stated that deducting personal pensions mis-selling costs from the inherited estate of the with-profits sub-fund would not impact Prudential UK's bonus or investment policy. Prudential UK 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 30 June 2002 and consequently the assurance has not applied to new business issued since 1 January 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 maximum amount of capital support available under the terms of the assurance will reduce over time as claims are paid 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.

During 2009, the FSA issued a policy statement confirming that certain payments of compensation and redress for events occurring after 31 July 2009 may only be paid from assets attributable to shareholders. As the pensions mis-selling review was concluded prior to this date, the requirements of the policy statement do not impact the pensions mis-selling provision met from the inherited estate described above.

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 UK subsidiary, Scottish Amicable Life plc, which operated for the benefit of shareholders.

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 UK'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 UK. Since mid-2004, Prudential UK 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 £31 million as at 31 December 2009, within the main with-profits fund to honour guarantees on these products. PAC's main exposure to guaranteed annuities in the United Kingdom is through SAIF and a provision of £284 million was held in SAIF as at 31 December 2009, to honour the guarantees. As SAIF is a separate sub-fund of PAC's long-term business fund, this provision has no impact on shareholders.

M&G

M&G is the Prudential Group'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 investment performance, net investment flows and profits.

Fund management

M&G is an investment-led business which aims to deliver superior investment performance and maximise risk-adjusted returns in a variety of macro-economic environments. Through M&G, the Prudential Group seeks to add value by generating attractive returns on internal funds as well as growing profits from the management of third party assets. Such external funds now represent 40% of M&G's total FUM as at 31 December 2009.

In the retail market, M&G's strategy is to maximise the value of its centralised investment function through a multi-channel, multi-geography distribution approach. Key themes in recent years have included the growing proportion of business sourced from intermediated channels and the growth of cross-border products. M&G has benefited from having a diverse product portfolio during the recent financial turmoil as inflows were received throughout 2009 despite investors' appetite for bond funds switching to equity funds during the second half of the year.

M&G's institutional strategy centres on leveraging capabilities developed primarily for internal funds into higher margin external business opportunities. In recent years this has allowed M&G to operate at the forefront of a number of specialist fixed income strategies, including leveraged finance and infrastructure investment. The recent chaos in capital markets has resulted in a renewed focus on more traditional credit and equity mandates, again drawing on its core research and investment expertise.

Key initiatives and performance

Delivering fund performance remains critical and is the key determinant of success for an active asset management business. M&G has continued to deliver market-leading investment performance in 2009 with strong results.

In the three years to December 2009, 38% of M&G's retail funds delivered top-quartile investment performance[13]. Over the same period, 89% of M&G's active institutional funds delivered returns ahead of their benchmarks. On the back of this strong investment performance M&G delivered record net third party fund inflows of £13.5 billion in 2009, an increase of 296% year-on-year.

Gross third party fund inflows rose 54% to £24.9 billion. These third party inflows and the recovery of equity markets in the latter half of 2009 led to a 23% increase in M&G's total funds under management to £174 billion. As at 31 December 2009, 40% of M&G's funds under management were for third party clients.

M&G's retail business had a strong year in 2009, seeing net inflows jump by 259% over the year to £7.5 billion. Gross fund sales were up 50% at £13.6 billion. Sales of M&G's top-performing fixed income funds accounted for most of the inflows for most of the year before investor appetite switched to M&G's equity and property funds during the second half of 2009 as sentiment turned more bullish.

Similarly, the institutional business attracted a high level of net new third party business. Net inflows were £6.0 billion, a rise of 354% on 2008. This included the award of a single fixed income mandate valued at £4 billion and £0.8 billion of net new money into M&G's leveraged loan funds. Gross fund sales were up 59% at £11.3 billion.

Net sales remained robust in the fourth quarter of 2009. The retail business attracted net new money of £1.8 billion, more than double the £0.7 billion taken in the same quarter in 2008. Gross retail sales were £3.8 billion. The institutional business took £0.6 billion of net new business over the final three months compared with an outflow of £1.4 billion for the same period a year ago. Gross sales were 93% higher year-on-year at £2.7 billion.

During 2009, M&G's cost/income ratio was 65%, increasing from 60% in 2008. The increase can largely be attributed to the reinstatement of costs associated with the long-term incentive plan ("LTIP") as the medium-term outlook for the business improved in light of strong fund inflows and recovering market levels. M&G remains focused on cost control.

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

	31 December		
	2007	2008	2009
	£ billion	£ billion	£ billion
Retail fund management	22	19	31
Institutional fund management	29	28	39
Internal fund management	116	94	104
Total	167	141	174

Prudential Capital

Prudential Capital manages Prudential Group's balance sheet for profit by leveraging Prudential Group's market position. This business has three strategic objectives: to operate a first-class wholesale and capital markets interface; to realise profitable proprietary opportunities within a tightly-controlled risk framework; and to provide professional treasury services to the Prudential Group. Prudential Capital generates revenue by providing bridging finance, managing investments and operating a securities lending and cash management business for the Prudential Group and its clients.

The business has consolidated its position in a period of difficult and volatile markets, focusing on liquidity across the Prudential Group, management of existing asset portfolio and conservative

(13) Source: Morningstar

levels of new investment. Development of new product and infrastructure has continued, helping to maintain the dynamism and flexibility necessary to identify and realise opportunities for profit within acceptable risk parameters. Prudential Capital is committed to working closely with other business units across the Prudential Group to exploit opportunities and increase value creation for Prudential as a whole. In particular, Prudential Capital offers to the Prudential Group a holistic view on hedging strategy, liquidity and capital management.

PRODUCT DEVELOPMENT

The Prudential Group believes that it can benefit from an operating model that helps enable each of its businesses to stay close to its customers and their needs when formulating product and distribution strategies, whilst seeking to achieve a consistent and disciplined group-wide approach to managing risk, capital and cash. This group oversight is achieved through the annual planning process and approval of changes to those plans. Details of the products sold and recent initiatives are included in the discussion of each business unit in this section of the listing document.

INTERNAL AUDIT

The group-wide internal audit function plays an important role in supporting the Group Audit Committee to fulfil its responsibilities under the Combined Code and the Sarbanes-Oxley Act, and provides independent assurance on Prudential's processes of identification and control of risk. The Group Audit Committee agreed the work programme of the internal audit function undertaken during 2009. Each of the Prudential Group's business units has an internal audit team, the heads of which report to the Group-wide Internal Audit Director. Internal audit resources, plans and work are overseen by the Group Audit Committee and by business unit audit committees. Across the Prudential Group, total internal audit headcount stands at 117 as at 31 December 2009. The Group-wide Internal Audit Director reports functionally to the Group Audit Committee and for management purposes to the Chief Financial Officer.

Formal reports are submitted to Group Audit Committee meetings, with interim updates where appropriate, and views are also sought at the private meetings between the Group Audit Committee and the internal auditors, as well as during regular private meetings between the Chairman of the Group Audit Committee and the Group-wide Internal Audit Director.

The Group Audit Committee assesses the effectiveness of the internal audit function by means of regular reviews, some of them carried out by external advisers, and through ongoing dialogue with the Group-wide Internal Audit Director. External reviews of internal audit arrangements and standards were last conducted in 2006 and 2007 to ensure that the activities and resources of internal audit are most effectively organised to support the oversight responsibilities of the Committee. These reviews, performed by Deloitte, confirmed that the internal audit function complies with the Institute of Internal Auditors' international standards for the professional practice of internal auditing and was operating effectively. An internal assessment of the internal audit function was performed by the Group-wide Internal Audit Director in 2008 and 2009, based on internal audit's ongoing self-assessment processes and using a maturity model derived from the review criteria used by Deloitte. The assessment confirmed that the internal audit function conforms to the Institute of Internal Auditors' international standards and continues to operate effectively in all areas of professional practice. The results of the assessment were reported in detail to the Group Audit Committee in February 2010.

LEGAL AND REGULATORY PROCEEDINGS

Litigation

Other than as set out below, neither Prudential nor any member of the Prudential Group is or has been engaged in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Prudential is aware) during the period covering at least the previous 12 months which may have, or have had in the recent past, significant effects on Prudential and/or the Prudential Group's financial position or profitability.

At 31 December 2007, 2008 and 2009, respectively the legal provisions made in the Prudential Group's audited accounts for the years ending on those dates of £19 million, £23 million and £15 million relate predominantly to Jackson. Jackson is involved as a defendant in class action and other litigation substantially similar to class action and other 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. During 2007, 2008 and 2009, respectively, £nil, £2 million and £9 million was paid. This provision has been calculated to reflect Jackson's estimate of claims likely to settle. However, it is not possible to meaningfully quantify the potential claim amount.

In addition to the legal proceedings relating to Jackson mentioned above, members of the Prudential Group are involved in other litigation and regulatory issues. While the outcome of such matters cannot be predicted with certainty, Prudential believes that the ultimate outcome of such litigation and regulatory issues will not have a significant effect on Prudential and/or the Prudential Group's financial position or profitability.

Pension mis-selling

In 1988, the UK government introduced new pensions legislation intended to encourage more individuals to make their own arrangements for their pensions. During the period from April 1988 to June 1994, many individuals were advised by insurance companies, Independent Financial Advisers and other intermediaries not to join, to transfer from or to opt out of their occupational pension schemes in favour of private pension products introduced under the UK Income and Corporation Taxes Act 1988. The UK insurance regulator (previously the Personal Investment Authority, now the FSA), subsequently determined that many individuals were incorrectly advised and would have been better off not purchasing the private pension products sold to them. Industry participants are responsible for compensating the persons to whom private pensions were mis-sold.

As a result, the FSA required that all UK life insurance companies review their potential cases of pension mis-selling and pay compensation to policyholders where necessary and, as a consequence, record a provision for the estimated costs. The Prudential Group met the requirement of the FSA to issue offers to all cases by 30 June 2002.

The table below summarises the change in the pension mis-selling provision for the years ended 31 December 2007, 2008 and 2009. The change in the provision is included in benefits and claims in the income statement and the movement in unallocated surplus of with-profits funds has been determined accordingly.

	2007	2008	2009
	£m	£m	£m
Balance at beginning of period	401	448	345
Changes to actuarial assumptions and method of calculation	71	(75)	20
Discount unwind	22	20	3
Redress to policyholders	(41)	(46)	(44)
Payment of administrative costs	(5)	(2)	(2)
Balance at end of period	448	345	322

The pension mis-selling provision is included within the liabilities in respect of investment contracts with discretionary participation features under IFRS 4.

The pension mis-selling provision at 31 December 2007, 31 December 2008 and 31 December 2009 respectively, set out above of £448 million, £345 million and £322 million is stochastically determined on a discounted basis. The average discount rate implied in the movement in 2007, 2008 and 2009 respectively, is 4.6%, 4.0% and 4.6%. The undiscounted amounts at 31 December 2007, 31 December 2008 and 31 December 2009 respectively, expected to be paid in the five year periods subsequent to each of the years ending 31 December are presented below, with amounts expected to be paid beyond the five year period shown in aggregate:

	2007	2008	2009
	£m	£m	£m
Year ended 31 December			
2008	51	—	—
2009	15	17	—
2010	15	8	29
2011	15	9	8
2012	22	13	11
2013	—	12	12
2014	—	—	15
Thereafter	707	572	513
Total undiscounted amount	825	631	588
Aggregate discount	(377)	(286)	(266)
Discounted pension mis-selling provision at 31 December 2007, 31 December 2008 and 31 December 2009, respectively	448	345	322

The liability accounting for the contracts which are the subject of the mis-selling provision is reflected in two elements, namely the core policyholder liability determined on the basis applied for other contract liabilities and the mis-selling provision. The overall liability for these contracts remains appropriate in the context of the accounting for policyholder liabilities that determines the calculation of both elements. However, the constituent elements are reallocated and remeasured for the changes arising from the application of the realistic Peak 2 basis of liabilities for the core policyholder liability, as reflected in the IFRS policy improvement to apply the UK GAAP standard FRS 27.

The Financial Ombudsman Service periodically updates the actuarial assumptions to be used in calculating the provision, including interest rates and mortality assumptions. The pension mis-selling provision represents the discounted value of future expected payments, including benefit payments and all internal and external legal and administrative costs of adjudicating, processing and settling those claims. To the extent that amounts have not been paid, the provision increases each year reflecting the shorter period of discount.

Prudential believes that, based on current information, the provision, together with future investment return on the assets backing the provision, will be adequate to cover the costs of pension mis-selling as well as the costs and expenses of the Prudential Group's pension review unit established to identify and settle such cases. Such provision represents the best estimate of probable costs and expenses. However, there can be no assurance that the current provision level will not need to be increased.

The costs associated with the pension mis-selling review have been met from the inherited estate (see below). Accordingly, these costs have not been charged to the asset shares used in the determination of policyholder bonus rates. Hence policyholders' pay-out values have been unaffected by pension mis-selling.

In 1998, Prudential stated that deducting mis-selling costs from the inherited estate would not impact its bonus or investment policy and it 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. This review was completed on 30 June 2002. The assurance will continue to apply to any policy in force at 31 December 2003, both for premiums paid before 1 January 2004, and for subsequent regular premiums (including future fixed, RPI or salary-related increases and Department of Work and Pensions rebate business). The assurance has not applied to new business since 1 January 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 maximum amount of capital support available under the terms of the assurance will reduce over time.

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

Mortgage endowment products

In common with several other UK insurance companies, the Prudential Group used to sell low-cost endowment products related to repayment of residential mortgages. At sale, the initial sum assured is set at a level such that the projected benefits, including an estimate of the annual bonus receivable over the life of the policy, will equal or exceed the mortgage debt. Because of a decrease in expected future investment returns since these products were sold, the FSA is concerned that the maturity value of some of these products will be less than the mortgage debt. The FSA has worked with insurance companies to devise a programme whereby the companies write to customers indicating whether they may have a possible shortfall and outline the actions that the customers can take to prevent this possibility.

The Prudential Group is exposed to mortgage endowment products in respect of policies issued by Scottish Amicable Life plc ("SAL") and policies issued by Scottish Amicable Life Assurance Society ("SALAS") which were transferred into the Scottish Amicable Insurance Fund ("SAIF"). At 31 December 2007, 2008 and 2009, respectively, provisions of £5 million, £5 million and £4 million in SAL and £43 million, £40 million and £35 million in SAIF were held with policyholder liabilities to cover potential compensation in respect of mortgage endowment product mis-selling claims. As SAIF is a separate sub-fund of the PAC long-term business fund, this provision has no impact on shareholders.

In addition, in the years ended 31 December 2007, 2008 and 2009, respectively, PAC's main with-profits fund paid compensation of £5 million, £1 million and £2 million in respect of mortgage endowment products mis-selling claims and at 31 December 2007, 2008 and 2009, respectively, held a provision of £55 million, £54 million and £47 million in respect of further compensation. The movement in this provision has no impact on the Prudential Group's profit before tax.

In May 2006, the Prudential Group introduced a deadline for both Prudential and Scottish Amicable mortgage endowment complaints. Impacted customers have three years to lodge a mis-selling complaint in line with the time limit prescribed by the FSA and the Association of British Insurers.

The provision for mortgage endowment claims is based on the Prudential Group's expectations of amounts that it might have to pay if there is a shortfall of the final maturity value of the policy as compared to the mortgage amount repayable. It is not based on explicit claims but on the Prudential Group's expectation of what might be claimed in the future. It is based on the following factors:

- the expected number of future claims (based on a proportion of the number of non-timebarred red letters);
- an expected proportion of claims submitted that are expected to be successful;

- an expected cost per successful claim; and
- an estimate of the expenses associated with dealing and settling any claims that may arise in the future

where all these factors are set according to recent experience, with margins for prudence as appropriate.

Discussions with tax authorities

As is common for many large business, members of the Prudential Group from time to time hold discussions with relevant tax authorities as part of agreeing their tax computations for each accounting period. Some of these discussions may be contentious in nature and a small number of the matters under discussion are (or may become) the subject of litigation. The Directors believe that appropriate and adequate provisions have been made in the Prudential Group accounts to cover any amounts that may be payable once such outstanding matters have been resolved.

DISTRIBUTION CHANNELS

Prudential is not aware of any material non-compliance with local laws and regulations in respect of the contractual relationship between the relevant member of the Prudential Group and its agents and employees in the jurisdictions where the Prudential Group has material operations.

The Prudential Group distributes its products through all major distribution channels, including tied agents, banks, direct marketing and brokers, some of which are employees of the Prudential Group.

EMPLOYEES

See section “Directors, Senior Management and Employees — Employees”.

Training and Development Activities

The Prudential Group has an established range of training and development activities for employees, including:

- Groupwide development programmes (the Leadership Development Programme and the Management Development Programme) for senior and middle management. These programmes identify the development that individuals need to be credible successors to future leadership roles in the Prudential Group;
- The Momentum Programme, which was launched in 2007 and aims to identify high-potential individuals early in their career, providing them with the opportunities to develop the skills needed to succeed in an international business. This programme is open to people both within and outside the Prudential Group and individuals are part of the programme for 4-6 years; and
- The Executive Development Programme, due for launch in May 2010, which will target future CEOs in Asia, providing them with the skills to be credible successors within 5 years.

Each business unit also provides tailored training and development activities for their employees, including:

- Online training available to employees of M&G and Prudential UK;
- The Managing for Success Programme launched in 2008 by Prudential UK to provide managers with the knowledge, skills and tools they need to manage people effectively;
- The Academy and Cornerstone Programmes in M&G, targeting future senior managers within the asset management business; and

- PruUniversity, a structured range of courses available to all Asian employees, covering a range of subjects from management and leadership to technical and commercial skills. Courses are available in a number of languages.

The Prudential Group is also committed to supporting movement across the group, which will provide critical experiences and development for its best people.

Pension plans

The Prudential Group operates a number of pension schemes. The majority of these are defined contribution plans with a small number of defined benefit plans.

Defined benefit plans

The specific features of the defined benefit plans vary in accordance with the regulations of the country in which the plan operates. Three of the plans are based in the UK. These are, in general, funded wholly by the Prudential Group and based on a formula using years of service and salary earned in the last year or years of employment.

The largest defined benefit scheme is the principal UK scheme, namely the Prudential Staff Pension Scheme (PSPS), 86% (2008: 87%) of the underlying scheme liabilities of the Prudential Group defined benefit schemes are accounted for within PSPS.

The Prudential Group also operates two smaller defined benefit schemes for UK employees who were employed by the Scottish Amicable business prior to its acquisition by Prudential and for M&G employees who were employed by M&G prior to its acquisition by Prudential.

Defined benefit schemes in the UK are required to be subject to full actuarial valuation at least every three years in order to assess the appropriate level of funding for schemes in relation to their liabilities. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds. For all three schemes the projected unit method was used for the most recent full actuarial valuations.

PSPS was last actuarially valued as at 5 April 2008 by the external scheme actuary Towers Watson (previously known as Watson Wyatt). This valuation demonstrated the scheme to be 106% funded by reference to the Scheme Solvency Target that forms the basis of the scheme's statutory funding objective. Accordingly, the total contributions to be made by the Prudential Group into the scheme were reduced from the previous arrangement of £75 million per annum to £50 million per annum effective from July 2009. As the scheme was in a surplus position at the valuation date, no formal recovery plan was required.

The £50 million contribution is made up of £25 million per annum employer's contributions for ongoing service of current employees, and £25 million per annum to recognise that there had been significant deterioration in the value of the scheme assets between 5 April 2008 and 31 March 2009 the date of the finalisation of the valuation. Any contributions are subject to a reassessment when the next valuation (5 April 2011) is completed. The additional funding is akin to deficit funding. Deficit funding for PSPS is apportioned in the ratio of 70/30 between the PAC life fund and shareholder-backed operations following detailed consideration in 2005 of the sourcing of previous contributions. Employer contributions for ongoing service of current employees are apportioned in the ratio relevant to current activity. In 2009 total contributions for the year including expenses and augmentations were £67 million (2008: £79 million). The market value of scheme assets as at 5 April 2008 was £4,759 million. The actuarial assumptions used in determining benefit obligations and the net periodic benefit costs for the purposes of valuation were as follows:

	%
Rate of increase in salaries	Nil
Rate of inflation	3.5
Rate of increase of pensions in payment for inflation:	
Guaranteed (maximum 5%)	3.5
Guaranteed (maximum 2.5%)†	2.5
Discretionary	Nil
Expected returns on plan assets	4.55

Mortality assumptions

The tables used for PSPS pensions in payment at 5 April 2008 were:

Base post retirement mortality:

For current male (female) pensioners 108.6% (103.4%) of the mortality rates of the 2000 series mortality tables, published by the Continuous Mortality Investigation Bureau. For male (female) non-pensioners 113.4% (97.4%) of the 2000 series rates.

Allowance for future improvements to post retirement mortality:

For males (females) 100% (75)% of Medium Cohort subject to a minimum rate of improvement of 1.75% (1%) up to the age of 90, decreasing linearly to zero by age of 120.

The valuation of the Scottish Amicable Pension Scheme as at 31 March 2008 demonstrated the scheme to be 91% funded, with a shortfall of actuarially determined liabilities of 9%, representing a deficit of £38 million. This valuation was performed by the external actuaries Xafinity. Based on this valuation, deficit funding amounts designed to eliminate the actuarial deficit over a seven-year period were made from July 2009 of £7.3 million per annum, which has been allocated 50% to the PAC with-profits fund and 50% to the PAC shareholders fund.

The valuation of the M&G Pension Scheme as at 31 December 2008 was finalised in January 2010. The valuation demonstrated the scheme to be 76% funded, with a shortfall of actuarially determined assets to liabilities of £51 million. Based on this valuation, deficit funding amounts designed to eliminate the actuarial deficit over a 5 year period were made from January 2010 of £14.1 million per annum for the first two years and £9.3 million per annum for the subsequent three years.

All three UK defined benefit plans were closed to new members prior to or during 2003.

There is also a small defined benefit scheme in Taiwan, but as part of the sale of the Taiwan agency business completed in June 2009, the Prudential Group settled the majority of the obligations under the scheme as a significant number of employees transferred out of the scheme.

Defined contribution plans

The Prudential Group operates a number of defined contribution schemes/pensions savings plans. These include schemes in the UK for employees employed after August 2003 (defined contribution section of the PSPS plan) and in Jackson and Asia. The cost of the Prudential Group's contributions for continuing operations to these schemes in 2009 was £38 million.

Directors' pensions and life assurance

Prudential's current practice in respect of pension arrangements for the current executive Directors is set out below.

Michael McLintock participates in a contributory scheme that provides a target pension of 2/3rds of Final Pensionable Earnings on a retirement at age 60 for an employee with 30 years or more potential service, for which his contribution is 4% of basic salary. In both cases Final Pensionable Earnings are capped by a notional scheme earnings cap which replicates the HMRC earnings cap in force before A-Day (6 April 2006). Michael McLintock is entitled to supplements based on the portion of his basic salary not covered for pension benefits under a HMRC approved scheme. He is also provided with life assurance cover of four times salary.

Clark Manning participates in a US tax-qualified defined contribution plan (a 401K plan). He is also provided with life assurance cover of two times salary. Company matching contributions of 6% of basic salary up to a maximum of $14,700 were made in 2009. In addition, an annual profit sharing contribution of $14,700 was made in 2009.

Rob Devey, Nic Nicandrou, Tidjane Thiam and Barry Stowe are entitled to a total salary supplement of 25% of basic salary. They are all provided with life assurance cover of four times salary. All these executive Directors, except Barry Stowe, were members of the staff defined contribution pension plan as at 31 December 2009.

Where supplements for long term saving and pension purposes are paid in cash, the amounts are included in Directors' remuneration tables in Appendix IX to this listing document.

Details of Directors' pension entitlements under HMRC approved defined benefit schemes are set out in the following table.

				Additional pension earned during year ended 31 Dec 2009		Transfer value of accrued benefit at 31 Dec(3)			
	Age at 31 Dec 2009	Years of pensionable service at 31 Dec 2009	Accrued benefit at 31 Dec 2009	Ignoring inflation on pension earned to 31 Dec 2008(1)	Allowing for inflation on pension earned to 31 Dec 2008(2)	2009 B	2008 A	Amount of (B - A) less contributions made by directors during 2009	Contributions to pension and life assurance arrangements(4)
			£000	£000	£000	£000	£000	£000	£000
Michael McLintock	48	17	47	5	5	755	426	329 (note 5)	89

(1) As required by London Stock Exchange Listing Rules.
(2) As required by the Companies Act remuneration regulations.
(3) The transfer value equivalent has been calculated in accordance with Actuarial Guidance Note GN11.
(4) Supplements in the form of cash are included in the Directors' remuneration table in Appendix IX to this listing document.
(5) A number of factors operating together have resulted in the increase in transfer value over the year. This includes increases due to changes in market conditions from inflation rates rising and interest rates falling, an extra year of service accruing, an increase in the HMRC earnings cap and Michael drawing one year closer to retirement.

No enhancements to the retirement benefits paid to or receivable by Directors or former Directors other than the discretionary pension increases awarded to all pensioners have been made during the year.

Total contributions to Directors' pension arrangements including cash supplements for pension purposes were £876,466 (2008: £1,027,267) of which £298,586 (2008: £268,668) related to money purchase schemes.

Share awards and share option plans

Prudential Group Performance Share Plan

The Group Performance Share Plan ("GPSP") is the incentive plan in which all executive directors and other senior executives within the Prudential Group may participate. This scheme was established as a replacement for the Restricted Share Plan ("RSP") under which no further awards could be made after March 2006. Awards are granted either in the form of a nil cost option, conditional right over shares, or such other form that shall confer to the participant an equivalent economic benefit, with a vesting period of three years. The performance measure for the awards in 2007, 2008 and 2009 is that Prudential's Total Shareholder Return ("TSR") outperforms an index comprising of peer companies. Vesting of the awards between each performance point is on a straight-line sliding scale basis. Participants are entitled to the value of reinvested dividends that would have accrued on the shares that vest. The shares which vest are settled either by shares purchased in the open market by a trust for the benefit of qualifying employees or by new issue shares. Special rules apply on termination of employment and on a change of control.

Prudential Business Unit Performance Plan ("BUPP")

The BUPP is an incentive plan created to provide a framework under which awards would be made to executive directors and other senior employees in the UK, Jackson and Asia. Awards under this plan in 2007, 2008 and 2009 were based on growth in shareholder capital value on the European embedded value (EEV) basis with performance measured over three years. For the UK, awards under this plan in 2010 are based on the Prudential Group TSR measure but for Jackson and Asia will continue to be based on growth in shareholder capital value on the EEV basis as noted above. Upon vesting, the 2007 award was released half as cash and half as shares. The 2008 award will also be released as half cash and half shares, from 2009 onwards the awards are released wholly in shares. The shares which vest are settled by either shares purchased in the open market by a trust for the benefit of qualifying employees or by new issue shares. Special rules apply on termination of employment and on a change of control. Participants are entitled to receive the value of reinvested dividends over the performance period for those shares that vest. The growth parameters for the awards are relevant to each region and vesting of the awards between each performance point is on a straight line sliding scale basis.

Prudential Savings Related Share Option Scheme, Prudential 2003 Savings Related Share Option Scheme (SAYE Schemes)

UK-based employees and executive directors are eligible to participate in the SAYE Schemes. The schemes allow employees to save towards the exercise of options over Prudential Shares, at an option price set at the beginning of the savings period at a discount of up to 20% to the market price. Savings contracts may be up to £250 per month for three or five years. On maturity at the end of the set term, participants may exercise their options within six months of the end of the savings period and purchase Prudential Shares. If an option is not exercised within six months, participants are entitled to a refund of their cash contributions plus interest if applicable under the rules. Shares are issued to satisfy options that are exercised. Special rules apply on termination of employment and on a change of control.

Prudential International Assurance Sharesave Plan

The Irish equivalent of the SAYE Schemes, as outlined above, for employees in the Republic of Ireland.

Prudential International Savings Related Share Option Scheme

The international equivalent of the Prudential Savings Related Share Option Scheme, as outlined above for the Asia based executive director and employees in Hong Kong, Singapore, Malaysia, Taiwan and India.

Prudential International Savings Related Share Option Scheme (non-employees)

The equivalent of the SAYE Schemes, as outlined above, for individuals who are not employees but who provide services to the Prudential Group such as insurance agents.

Prudential Group Deferred Bonus Plan 2010 and the PruCap Deferred Bonus Plan

These plans, which operate together with the relevant business unit annual bonus plans, require that a portion of a participant's annual bonus be paid in the form of a right to acquire Prudential Shares. The shares are released to the participant at the end of the three year deferral period. Special rules apply on termination of employment and on a change of control.

Prudential Services Limited Share Incentive Plan, Prudential Assurance Company Limited Share Incentive Plan, Prudential UK Services Limited Share Incentive Plan and Prudential Group Share Incentive Plan

These HMRC approved Share Incentive Plans allow all employees based in the UK insurance business and Group Head Office to purchase Prudential Shares (partnership shares) on a monthly basis out of gross salary. For every four partnership shares bought, an additional matching share is awarded, purchased on the open market. Dividend shares accumulate while the employee participates in the plan. Partnership shares may be withdrawn from the plan at any time. If the employee withdraws from the plan within five years, the matching shares are forfeited and if within three years, dividend shares are forfeited.

Prudential Europe Share Participation Plan

The Prudential Europe Share Participation plan is an Irish Revenue approved plan and is open to certain employees of Prudential Europe Assurance Holdings, Prudential International Assurance and Prudential International Management Services. The plan gives participants the opportunity to have Prudential Shares purchased on their behalf and held by a trustee. The value of the shares purchased is limited; each participant's entitlement may be a fixed amount or a proportion of the participant's basic salary subject to a limit of 7½% of the participant's basic salary or an amount determined by the Irish Revenue from time to time.

Prudential-Jackson National Life US Performance Share Plan

Jackson operates a performance-related share award which, subject to the prior approval of the Jackson Remuneration Committee, may grant share awards to eligible Jackson employees in the form of a contingent right to receive shares or a conditional allocation of shares. These share awards have vesting periods of four years and are at nil cost to the employee. Award holders do not have any right to dividends or voting rights attaching to the shares. The shares are held in the employees-share trust in the form of American Depository Receipts which are tradable on the New York Stock Exchange. Special rules apply on termination of employment and on a change of control.

Prudential Corporation Asia Long Term Incentive Plan

This plan is an incentive plan for senior employees based in Asia. Awards under the plan vest after three years subject to the employee being in employment at the time of vesting without any performance conditions. Awards are discretionary and on a year by year basis determined by PCA's full year financial results and the employee's contribution to the business in each case for the immediately preceding financial year. All awards are in Prudential shares except for countries where share awards are not feasible due to securities and/or tax reasons, where awards are replaced by the cash value of the shares that would otherwise have been transferred.

The Prudential Corporation Asia Deferred Bonus Plan

Under this plan, a portion of a participant's annual bonus may be paid in the form of an award over Prudential Shares. Participants may also be given the opportunity to take all or part of their remaining bonus in the form of an award over Prudential Shares. Participants may also be granted matching awards over additional Prudential Shares. Awards may or may not be made subject to performance targets. Awards, which may take the form of nil-cost options or a conditional right over shares, normally vest after a three year deferral period subject to continued employment and, if applicable, satisfaction of performance targets. Special rules apply on termination of employment and on a change of control.

The Momentum Retention Plan

Employees who are participating in the Momentum development programme may receive an award in respect of Prudential Shares, half of which are released four years from the award date and the other half are released seven years from the award date. Special rules apply on termination of employment and on a change of control. Until the release date participants do not have any right to dividends or voting rights attaching to shares.

Annual Incentive Plan (non-US tax payers) and Annual Incentive Plan (US tax payers) (the Annual Incentive Plans)

Prudential operates two annual incentive plans, one for non-US tax payers and one for US tax payers. Senior executives may participate in the relevant Annual Incentive Plan which is based on the achievement of annual performance measures taken from Prudential's business plans and an individual's contribution. Certain senior employees have annual incentive plans with awards made partly in cash and partly in the form of shares, deferred for three years, with the release of shares subject to close periods. The shares are held in the employee share trust and shares equivalent to dividends otherwise payable will accumulate in the form of additional deferred shares for the benefit of award holders during the deferral period up to the release date.

Prudential Restricted Share Plan

The Restricted Share Plan is an incentive plan to encourage or facilitate the holding of shares in Prudential by or for the benefit of employees of Prudential and its Subsidiaries. There are only two employees within the Prudential Group with outstanding options in the plan which became exercisable when performance targets based on Prudential's Total Shareholder Return (TSR) were satisfied.

New Share Plans

The following is a summary of the main provisions of the New Share Plans which, subject to the approval of the shareholders of Prudential, New Prudential will adopt to operate after the Scheme Effective Date. The operation of each share plan will be governed by the rules of that plan. In each case, the new plan is substantially identical to the corresponding Prudential Share Scheme. New Prudential will also adopt new plans to replace (or, where appropriate amend the existing plans) the remaining Prudential Share Schemes.

In addition (but subject to shareholders approval), New Prudential has passed a resolution which will allow it to establish additional share plans for the benefit of the New Prudential group's overseas employees provided that such plans operate within the equity dilution limits described below and (save to the extent necessary or desirable to take account of overseas tax, securities and exchange control laws) such plans do not confer upon participants benefits which are greater than those which could be obtained from the plans described below and that, once such plans have been established, they may not be amended without the approval of New Prudential in general meeting if such approval would be required to amend the corresponding provision of the plans described below.

1. New Prudential Group Performance Share Plan (Group PSP)

(i) Administration

The Remuneration Committee of New Prudential or other duly authorised Board committee (the "Committee") is responsible for determining awards to, and administering the Group PSP.

(ii) Eligibility

All employees of the New Prudential group, as well as any executive directors who are required to devote substantially all of their time to the business of the New Prudential group, are eligible to participate in the Group PSP at the discretion of the Committee.

(iii) Grant of awards

Awards may be granted in the six weeks following the date on which the Group PSP is adopted by New Prudential. Thereafter, awards may normally only be granted in the six weeks following the announcement by New Prudential of its results for any period, or where there are circumstances considered by the Committee to be exceptional. Awards may also be granted outside these periods in connection with the commencement of an eligible employee's employment if this is appropriate. However, at all times, the grant of awards will be subject to the terms of the Model Code for transactions in securities by directors and New Prudential Share Dealing Rules.

No awards may be granted later than ten years after the approval of the Group PSP by the shareholders of Prudential.

Awards may take the form of:

- an option to acquire ordinary shares in New Prudential at nil or nominal cost;
- a conditional right over ordinary shares in New Prudential; or
- such other form that shall confer to the participant an equivalent economic benefit.

Awards may be granted over newly issued shares, treasury shares and shares purchased in the market and held by an employee benefit trust established by any member of the New Prudential group.

Awards granted under a nil or nominal cost option can be exercised no later than the tenth anniversary of the date of award (or such earlier date as determined by the Committee at the date of the award).

Awards under the Group PSP will not be pensionable. Awards are not transferable (other than on death) without the consent of the Committee. No payment will be required for the grant of an award.

(iv) Performance conditions

Awards will vest subject to the satisfaction of challenging conditions which will determine how much (if any) of the award will vest at the end of the performance period. The period over which performance will be measured shall not be less than three years (except as noted below).

The performance conditions will be designed to link reward to the achievement of stretching levels of performance and the creation of shareholder value. The performance period will normally start on the first date of the financial year in which the award is made.

Details of the performance conditions applied to awards made to executive directors will be set out in the Directors' Remuneration Report each year.

The performance conditions may be varied in certain circumstances following the grant of an award so as to achieve the original purpose but not so as to make the achievement of the performance conditions any more or less difficult to satisfy.

(v) Individual limits

For employees who are required to devote substantially all of their time to the business of the New Prudential group based in the US or such other jurisdictions as the Committee determines to be appropriate, the maximum award which may be granted under the Group PSP in respect of any financial year will be over shares worth 550% of basic salary. For all other employees the maximum will be 350% of basic salary.

Awards granted under the New Prudential Business Unit Performance Plan in respect of the relevant financial year shall be included in these limits.

(vi) Dilution limits

The maximum number of new issue shares that may be allocated under the Group PSP must not exceed the following limits:

a) in any 10-year period, the aggregate number of new issue shares allocated under the Group PSP, when added to the number of new issue shares allocated under all other employee share plans operated by Prudential or New Prudential must not exceed 10% of the issued ordinary share capital of New Prudential from time to time; and

b) in any 10-year period, the aggregate number of new issue shares allocated under the Group PSP, when added to the number of new issue shares allocated under all other discretionary employee share plans operated by Prudential or New Prudential must not exceed 5% of the issued ordinary share capital of New Prudential from time to time.

While it remains best practice to do so, treasury shares will be treated as newly issued for the purposes of these limits.

Awards granted to participants under the Prudential Share Schemes in exchange for their awards under those plans will be treated as having been granted at the time when the awards which they replace were originally granted.

(vii) Leaving employment

A participant's awards will normally lapse unless he or she has remained in employment with the New Prudential group until after the end of the performance period.

The Committee may, however, allow exceptions where a participant leaves employment as a result of death, injury or disability, the company or business for which he or she works being sold out of the New Prudential group or for any other reason at the Committee's discretion.

If a participant leaves as a result of death, injury or disability before the end of the performance period, the Committee may, in its discretion, decide the extent to which an award will vest having regard to the performance condition at date of leaving and the period of time that has elapsed since the award was granted.

If a participant leaves as a result of the company or business for which he or she works being sold out of the New Prudential group, the Committee may, in its discretion, determine the extent to which awards vest or are carried forward in an appropriate form, taking account of the circumstances of the transaction, performance (of New Prudential and/or the performance condition) and the time elapsed.

In any other circumstances where the Committee decides to exercise its discretion on a participant leaving employment, the Committee may determine the timing of and extent to which an award may vest, normally having regard to the period of time that has elapsed since the award was granted and the performance condition measured from the start of the performance period to the date of departure or to the end of the 3-year performance period.

(viii) Dividends

Participants will normally be entitled to the value of reinvested dividends that would have accrued on their vested shares, unless at the time of an award the Committee determines otherwise.

(ix) Change of control or reconstruction

In the event of a change of control of New Prudential as a result of a takeover, reconstruction or winding up of New Prudential (not being an internal reorganisation), the Committee may require awards to be exchanged for new awards in the acquiring company on a comparable basis. Alternatively, the Committee may, at its discretion, determine the extent to which awards may vest and/or become exercisable taking into account the performance of New Prudential and the period of time which has elapsed since the date of the award having regard to the following table:

Proportion of performance period that has elapsed at change of control	Proportion of award which is eligible for release subject to performance
Less than 12 months	33%
12 months — 24 months	67%
More than 24 months	100%

As an alternative to early release, the Committee may permit participants to exchange their awards for new awards of shares in the acquiring company on a comparable basis.

(x) Adjustments

Awards may be adjusted if there is a variation in the share capital of New Prudential such as a rights or bonus issue, or if New Prudential implements a demerger, or a special dividend, that would affect the value of awards.

(xi) Rights attaching to shares

Shares allotted or transferred under the Group PSP will rank equally with all other ordinary shares of New Prudential for the time being in issue (except for rights attaching to such shares by reference to a record date prior to the exercise of the award). New Prudential will apply for the listing of any new shares allotted under the Group PSP.

(xii) Amendments

The Group PSP may at any time be altered by the Committee in any respect. However, any alterations to the rules governing eligibility, limits on participation and the number of new shares available under the Group PSP, terms of vesting and adjustment of awards for variations in share capital, which are to the advantage of participants must be approved in advance by the shareholders of New Prudential in general meeting unless the alteration or addition is minor in nature and/or made to benefit the administration of the Group PSP, to comply with the provisions of any existing or proposed legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or New Prudential group companies.

The Committee shall not make any amendment that would materially prejudice the existing interest of a participants except with the prior consent of the participant.

2. New Prudential Business Unit Performance Plans (BUPP)

(i) Administration

The Remuneration Committee of New Prudential or any other duly authorised committee (the "Committee") is responsible for determining awards to, and administering the BUPP.

(ii) Eligibility

All employees of the New Prudential group, as well as any executive directors who are required to devote substantially all of their time to the business of the New Prudential group, are eligible to participate in the BUPP at the discretion of the Committee.

(iii) Grant of awards

Awards may be granted in the six weeks following the date on which the BUPP is adopted by New Prudential. Thereafter, awards may normally only be granted in the six weeks following the announcement by New Prudential of its results for any period, or where there are circumstances considered by the Committee to be exceptional. Awards may also be granted outside these periods in connection with the commencement of an eligible employee's employment if this is appropriate. However, at all times, the grant of awards will be subject to the terms of the Model Code for transactions in securities by directors and New Prudential's Share Dealing Rules.

No awards may be granted later than ten years after the approval of the BUPP by the shareholders of New Prudential.

Awards may take the form of a combination of cash and ordinary shares in New Prudential. For executive directors, 50% of the award will be denominated in ordinary shares, or such greater proportion as determined by the Committee.

The proportion of the award which is denominated in ordinary shares in New Prudential may take the form of:

- an option to acquire ordinary shares in New Prudential at nil or nominal cost;
- a conditional right over ordinary shares in New Prudential; or
- such other form (including a cash award) that shall confer to the participant an equivalent economic benefit.

The awards may be granted over newly issued shares, treasury shares and shares purchased in the market and held by an employee benefit trust established by New Prudential.

Awards granted under a nil or nominal cost option can be exercised no later than the tenth anniversary of the date of awards (or such earlier date as determined by the Committee at the date of the award).

Awards under the BUPP will not be pensionable. Awards are not transferable other than on death without the consent of the Committee. No payment will be required for the grant of an award.

(iv) Performance conditions

Awards will vest subject to the satisfaction of challenging conditions which will determine how much (if any) of the award will vest at the end of the performance period. The period over which performance will be measured shall not be less than three years.

The performance conditions will be designed to link reward to the achievement of stretching levels of performance and the creation of shareholder value in each business unit. The performance period normally will start on the first day of the financial year in which the award is made.

Details of the performance conditions applied to awards made to the executive directors will be set out in the Directors' Remuneration Report each year.

The performance conditions may be varied in certain circumstances following the grant of an award so as to achieve the original purpose but not so as to make the achievement of the performance conditions any more or less difficult to satisfy.

(v) Individual limits

For employees who are required to devote substantially all of their time to the business of the New Prudential group based in the United States or such other jurisdictions as the Committee determines to be appropriate, the maximum award which may be granted under the BUPP in respect of any financial year will be 550% of basic salary.

For all other employees the maximum award will be 350% of basic salary. Awards granted under the Group Performance Share Plan in respect of the relevant financial year shall be included in these limits.

(vi) Dilution limits

The maximum number of new issue shares that may be allocated under the BUPP must not exceed the following limits:

(a) in any 10-year period, the aggregate number of new issue shares allocated under the BUPP, when added to the number of new issue shares allocated under all other employee share plans operated by New Prudential or Prudential must not exceed 10% of the issued ordinary share capital of New Prudential from time to time; and

(b) in any 10-year period, the aggregate number of new issue shares allocated under the BUPP, when added to the number of new issue shares allocated under all other discretionary employee share plans operated by New Prudential or Prudential must not exceed 5% of the issued ordinary share capital of New Prudential from time to time.

While it remains best practice to do so, treasury shares will be treated as newly issued for the purposes of these limits.

Awards granted to participants under the Prudential Share Schemes in exchange for their awards under those plans will be treated as having been granted at the time when the awards which they replace were originally granted.

(vii) Leaving employment

A participant's award will normally lapse unless he or she has remained in employment with the New Prudential group until after the end of the performance period.

The Committee may, however, allow exceptions where a participant leaves employment as a result of death, injury or disability, the company or business for which he or she works being sold out of the New Prudential group or for any other reason at the Committee's discretion.

If a participant leaves for reason of death, injury or disability before the end of the performance period, the Committee may, in its discretion decide the extent to which an award will vest having regard to the performance condition at the date of leaving and the period of time that has elapsed since the award was granted.

If a participant leaves as a result of the company or business for which he or she works being sold out of the New Prudential group, the Committee may, in its discretion, determine the extent to which awards vest or are carried forward in an appropriate form taking account of the circumstances of the transaction, performance (of New Prudential and/or the performance condition) and the time elapsed.

In any other circumstance where the Committee decides to exercise its discretion on a participant leaving employment, the Committee may determine the timing of and extent to which an award may vest having regard to the period of time that has elapsed since the award was granted and the performance condition measured from the start of the performance period to the date of departure or to the end of the three-year performance period.

(viii) Dividends

Participants will normally be entitled to the value of reinvested dividends that would have accrued on their vested shares, unless at the time of an award the Committee determines otherwise.

(ix) Change of control or reconstruction

In the event of a change of control of New Prudential as a result of a takeover, reconstruction or winding-up of New Prudential (not being an internal reorganisation), the Committee may require awards to be exchanged for new awards in the acquiring company on a comparable basis. Alternatively, the Committee may, at its discretion, determine the extent to which awards may vest and/or become exercisable taking into account the performance of New Prudential and the period of time which has elapsed since the date of the award having regard to the following table:

Proportion of performance period that has elapsed at change of control	Proportion of award which is eligible for release subject to performance
Less than 12 months	33%
12 months — 24 months	67%
More than 24 months	100%

As an alternative to early release, the Committee may permit participants to exchange their awards for new awards of shares in the acquiring company on a comparable basis.

(x) Adjustments

Awards may be adjusted if there is a variation in the share capital of New Prudential such as a rights or bonus issue, or if New Prudential implements a demerger, or a special dividend, that would affect the value of awards.

(xi) Rights attaching to shares

Shares allotted or transferred under the BUPP will rank equally with all other ordinary shares of New Prudential for the time being in issue (except for rights attaching to such shares by reference to a record date prior to the exercise of the award). New Prudential will apply for the listing of any new shares allotted under the BUPP.

(xii) Amendments

The BUPP may at any time be altered by the Committee in any respect. However, any alterations to the rules governing eligibility, limits on participation and the number of new shares available under the BUPP, terms of vesting and adjustment of awards for variations in share capital, which are to the advantage of participants must be approved in advance by the shareholders of New Prudential in general meeting unless the alteration or addition is minor in nature and/or made to benefit the administration of the BUPP, to comply with the provisions of any existing or proposed legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or New Prudential group companies.

The Committee shall not make any amendment that would materially prejudice the existing interest of a participant except with the prior consent of the participant.

3. New Prudential UK Savings Related Share Option Scheme (the SAYE Scheme)

(i) Administration

The directors of New Prudential, or a duly authorised committee thereof, (the "Committee") are responsible for the operation and administration of the SAYE Scheme, which is designed to obtain HMRC approval under the Income Tax (Earnings and Pensions) Act 2003.

(ii) Eligibility

All UK resident employees (including directors) of New Prudential, or any subsidiary nominated to join in the SAYE Scheme, who have completed a specified minimum period of service, will be eligible to apply for options.

(iii) Options

Options will entitle the holder to acquire ordinary shares of New Prudential. Options may be satisfied by the issue of new shares, the transfer of shares held in treasury or the purchase of shares in the market.

Options will be personal to the participant and may not be transferred.

(iv) Exercise price

The exercise price may not be less than an amount equal to 80% of the average of the closing middle-market quotations of a New Prudential Share, as derived from the Daily Official List of the London Stock Exchange, for such three consecutive dealing days as the Committee may select in the 30-day period (or, if applications have to be scaled down, the 42-day period) prior to the date of grant.

(v) Savings contract

As a condition of the grant of an option, an eligible employee must agree to enter into a savings contract with a bank or building society approved by the Committee under which the employee agrees to pay monthly contributions over a 3 or 5 year period and on the maturity of which a tax-free bonus is payable.

(vi) Individual limit

The aggregate maximum monthly contribution payable by an employee under all savings contracts linked to the SAYE Scheme may not exceed such sum as the Committee may determine, being not more that the amount from time to time permitted by the Income Tax (Earnings and Pensions) Act 2003 (currently, £250).

An option will be over such number of ordinary shares in New Prudential as has a total exercise price as nearly as possible equal to, but not exceeding, the amount repayable under the relevant savings contract on its maturity.

(vii) Dilution limits

The maximum number of new issue shares that may be allocated under the SAYE Scheme in any 10-year period must not, when added to the number of new issue shares allocated under all other employee share plans operated by Prudential or New Prudential, exceed 10% of the issued ordinary share capital of New Prudential from time to time.

While it remains best practice to do so, treasury shares will be treated as newly issued for the purposes of these limits.

Awards granted to participants under the Prudential Share Schemes in exchange for their awards under those plans will be treated as having been granted at the time when the awards which they replace were originally granted.

(viii) Exercise of options

Options will normally be exercisable in whole or in part during the period of six months starting on the maturity date of the related savings contract. A participant may also exercise his options within six months of reaching age 65.

Whenever an option is exercised, it may only be exercised to the extent of the amounts then repayable under the related savings contract (including any interest or bonus).

(ix) Leaving employment

If the participant leaves as a result of death, his personal representatives may exercise his options in the 12 months following his death or, if earlier, the maturity date of the related savings contract. If a participant ceases to be employed within the New Prudential group for a permitted reason, the participant may exercise his options in the six months following the termination of his employment. A permitted reason is: injury; ill-health; disability; redundancy; retirement at age 65 or at the age at which he is bound to retire in accordance with his terms of employment; the sale of the company or business in which the participant works; and, in the case of any option which the participant has held for at least three years, on a mutual termination of employment. If a participant ceases to be employed in any other circumstances, his option will lapse.

(x) Change of Control

The exercise of options will also be permitted in the event of a change of control including a change of control resulting from a restructuring, a scheme of arrangement pursuant to Part 26 of the Companies Act 2006 or a takeover or a voluntary winding up of New Prudential.

In the event of a change of control, participants may surrender their options in return for substitute options over shares in the acquiring company or another company. If, immediately following the change of control, not less than 75% of the shareholders of the acquiring company are the same as the shareholders of New Prudential before the change of control and the participants are offered or granted substitute options, the Committee may deem that unvested options are exchanged, unless the participant objects.

(xi) Adjustments

Options may be adjusted if there is a variation in the share capital of New Prudential such as a rights or bonus issue, that would affect the value of awards.

(xii) Rights attaching to shares

Shares allotted or transferred under the SAYE Scheme will rank equally with all other New Prudential Shares for the time being in issue (except for rights attaching to such shares by reference to a record date prior to the exercise of the award). New Prudential will apply for the listing of any new shares allotted under the SAYE Scheme.

(xiii) Amendments

The SAYE Scheme may at any time be altered by the Committee in any respect. However, any alterations to the rules governing eligibility, limits on participation and the number of shares available under the SAYE Scheme, terms of vesting and adjustment of awards for variations in share capital, which are to the advantage of participants must be approved in advance by the shareholders of New Prudential in general meeting unless the alteration or addition is minor in nature and/or made to benefit the administration of the SAYE Scheme, to comply with the provisions of any existing or proposed legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or New Prudential group companies.

The Committee shall not make any amendment that would materially prejudice the existing interest of a participant except with the prior consent of the participant.

4. New Prudential Irish SAYE Scheme

This scheme will apply for the benefit of employees working in the Republic of Ireland. Its provisions are substantially similar to those of the SAYE Scheme.

5. New Prudential International (Employees) SAYE Scheme

This scheme will apply for the benefit of employees working outside the UK and the Republic of Ireland. Its provisions are substantially similar to those of the SAYE Scheme.

6. New Prudential International (Non-Employees) SAYE Scheme

This scheme will apply to incentivise and retain individuals, such as insurance agents, who are not employees of the New Prudential group but who are closely connected with this group. Its provisions are substantially similar to those of the SAYE Scheme save that options lapse when the participant's contract for services ends unless the Committee in its absolute discretion decides otherwise, when the Board may decide the terms on which the options may be exercised.

7. New Prudential Share Incentive Plan (SIP)

(i) Administration

The Board or an authorised committee thereof, (the "Committee") is responsible for the operation and administration of the SIP.

(ii) Eligibility

All UK resident employees (including directors) of New Prudential, and any subsidiary nominated to participant in the SIP, who have completed a specified minimum period of service will be eligible to participate in the SIP. Other employees may be invited to participate in the SIP at the discretion of the directors of New Prudential or duly authorised committee thereof.

(iii) Constitution

The SIP will be constituted by a trust deed.

(iv) Operation of the Plan

On any occasion on which the Committee decides to operate the SIP, it may be operated on one or more of the following bases:

(a) as a Free Plan;

(b) as a Partnership Plan; and

(c) as a Matching Plan.

(v) Free Plan

The employing companies will provide the trustees with funds to enable them to subscribe for and/or purchase ordinary shares in New Prudential which will then be allocated to the eligible employees. The maximum individual allocation of Shares under the Free Plan ("**Free Shares**") in any tax year will be the limit from time to time specified by the Income Tax (Earnings and Pensions) Act 2003 (currently, £3,000).

Any allocation of Free Shares must be made on similar terms; however, the allocation can be linked to remuneration, length of service, number of hours worked, or to such individual, team, divisional or corporate performance as the Committee may decide. The performance targets set for each unit must be broadly comparable and must not contain any features which have the effect of concentrating the awards on directors or higher-paid employees.

Free Shares must be held by the trustees for a minimum period of 3 years or for such longer period not exceeding 5 years as the Committee may decide. If a participant ceases to be employed within the New Prudential group, his Free Shares must be withdrawn from the trust. If the shares are withdrawn from the trust before the end of the five-year period, the participant may incur an income tax and national insurance liability.

If the participant ceases to be employed within the minimum three-year period (or within such shorter period as the Committee may decide) otherwise than in certain specified circumstances such as redundancy or disability, the Committee may provide that his Free Shares will be forfeited.

(vi) Partnership Plan

Under the Partnership Plan, an eligible employee may enter into an agreement with New Prudential to allocate part of his pre-tax salary each year to subscribe for and/or purchase Shares ("**Partnership Shares**"). The maximum allocation may not exceed that from time to time permitted by the Income Tax (Earnings and Pensions) Act 2003 (currently, £1,500). The agreement may provide for the Partnership Shares to be bought within 30 days of the day on which the deduction is made. Alternatively, the agreement may provide for the deductions to be accumulated for a period (not exceeding 12 months) and for the Partnership Shares to be bought within 30 days of the end of that period.

A participant may withdraw his Partnership Shares at any time and must do so on ceasing to be employed within the New Prudential group but, if he does so before the Partnership Shares have been held in the trust for five years, he may incur an income tax and national insurance liability.

(vii) Matching Plan

If the Committee decides to operate the Partnership Plan in any period, it may also decide to operate the Matching Plan in the same period. Under the Matching Plan, the employing companies will provide the trustees with funds to enable them to subscribe for and/or purchase Shares ("**Matching Shares**") which will then be allocated to the eligible employees who have purchased Partnership Shares up to the maximum from time to time permitted by the Income Tax (Earnings and Pensions) Act 2003.

Matching Shares must be held by the trustees for a minimum period of 3 years or for such longer period not exceeding 5 years as the Committee may decide. If a participant ceases to be employed within the New Prudential group, his Matching Shares must be withdrawn from the trust. If the shares are withdrawn from the trust before the end of the 5 year period, the participant may incur an income tax liability and national insurance.

If the participant ceases to be employed within the minimum 3 year period (or within such shorter period as the Committee may decide) other than for a specified reason such as redundancy or disability or withdraws his Partnership Shares from the trust before the end of the minimum 3 year period, the Committee may provide that his Matching Shares will be forfeited.

(viii) Subscription price

The subscription price of any Free or Matching Shares issued will be the greater of the nominal value of the share on the date of subscription and the market value of a share. The subscription price for Partnership Shares will be the market value at the date of subscription or, if there is an accumulation period, the market value at the start of the period, if lower.

(ix) Dilution limits

The maximum number of new issue shares that may be allocated under the SIP in any 10-year period must not, when added to the number of new issue shares allocated under all other employee share plans operated by Prudential or New Prudential, exceed 10% of the issued ordinary share capital of New Prudential from time to time.

While it remains best practice to do so, treasury shares will be treated as newly issued for the purposes of these limits.

Awards granted to participants under the Prudential Share Schemes in exchange for their awards under those plans will be treated as having been granted at the time when the awards which they replace were originally granted.

(x) Leaving employment

If a participant ceases to be an eligible employee the trustees shall transfer to the participant any shares held by the trustee or if the participant so directs, dispose of the shares and account for proceeds of the sale to the participant.

(xi) Dividends

Any dividends paid on the Free, Partnership or Matching Shares will, subject to a specified limit, be paid or re-invested in the purchase of additional shares in New Prudential, unless otherwise directed by the Committee.

(xii) Voting rights

The trustees of the SIP will not exercise the voting rights attributable to the shares held in the trust except in accordance with the participant's instructions.

(xiii) Change of Control

In the event of a general offer being made to the shareholders of New Prudential or a rights or capitalisation issue, participants will be able to direct the trustees how to act on their behalf.

(xiv) Listing

New Prudential will apply for any shares issued pursuant to the SIP to be admitted to the Official List and for permission to trade in those shares. Shares issued under the SIP will rank equally in all respect with existing New Prudential Shares except for rights attaching to shares by reference to a record date prior to the date of allotment.

(xv) Benefits non-pensionable

Benefits under the SIP will not form part of a participant's remuneration for pension purposes.

(xvi) Amendments

The Committee may amend the SIP, or the terms of awards, to take account of changes to any applicable legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the New Prudential group.

Except as described above no amendment which is to the advantage of employees or participants may be made, without the prior approval of the shareholders of New Prudential in general meeting, to those provisions dealing with eligibility, individual or eligible employees scheme limits, determination of price, rights attaching to shares acquired under the SIP, the rights of participants on winding up, the terms of awards, the adjustment of awards or the power of amendment.

8. M&G Executive Long Term Incentive Plan 2010 (the M&G 2010 LTIP)

(i) Administration

The Remuneration Committee of New Prudential or any other duly authorised committee (the "Committee") is responsible for the operation and administration of the M&G 2010 LTIP.

(ii) Eligibility

All directors and employees of M&G or any member of the New Prudential group who are not under notice of termination of employment or directorship are eligible to participate in the M&G 2010 LTIP.

(iii) Awards

Awards of phantom shares are granted in the absolute discretion of the Committee. The amount of any payment due under any award will be determined by reference to M&G's operating profits and fund investment performance, over a performance period of three financial years, with usually a notional starting share price of £1.00 per phantom share.

Each year, the number of phantom shares to be awarded will depend on the performance of M&G in the financial year prior to the award being made and an assessment of each participant's contribution. Thus the award to be made in 2011 will be related to the business performance in 2010.

Awards will normally be paid out shortly after the announcement of results for the final year of the performance period. The amount of the payout is based on the sustained performance of M&G both in terms of appropriate levels of profitability and maintaining strong fund investment performance.

At the end of the three year performance period, the value of the phantom shares awarded is based on the IFRS profits achieved at the end of the three year period. The number of phantom shares subject to the award will be adjusted at the end of the performance period to take account of the performance of M&G both in terms of profitability and maintaining strong investment performance as follows:

(iv) Profit growth

- Awards will be scaled back based on profit performance achieved if profits in the third year are less than the average of the profits in the years prior to and over the performance period.
- The scaling back will be on a straight-line basis from 0% to 100% of the award between zero profit and the achievement of profits equal to the average.
- No award will vest in the event of a loss or zero profit, irrespective of fund performance.
- No adjustment will be made if the profits at the end of the third year are at least equal to the average of the profits in the years prior to and over the performance period.

(v) Investment performance

- Where investment performance over the three year performance period is in the top two quartiles the number of phantom shares vesting will be enhanced. A sliding scale will apply up to 200% of the annual award, which is awarded when top quartile performance is reached.
- Awards will be forfeited if investment performance is in the fourth quartile, irrespective of any performance growth.

No benefits under the plan are pensionable and awards cannot be transferred except on death.

(vi) Adjustments

The Committee may make adjustments to the terms of awards if there are changes in accounting policy, there is a merger or demerger or disposal of all or part of the M&G business, if anybody obtains control of M&G or New Prudential or following any other change in M&G's structure that has a material impact on the value of awards.

(vii) Leaving employment

If a participant leaves the New Prudential group, the award will normally be forfeited unless he or she leaves because of death, disability or for reasons attributable to a change of control (as defined below) within 12 months of the change of control. In these circumstances, the award would be paid out immediately but would be pro-rated based on the number of days the participant was employed compared with the total number of days in the performance period. The amount of the payment would be as described above but based on operating profits for complete financial years only and fund investment performance at the end of the previous financial year.

If a participant leaves for any other reasons, the Committee may, in its discretion decide that the award will be carried forward or paid out early. The Committee will determine the amount of any early payment taking account of the performance of M&G and the method which is used for determining payouts for other good leavers.

(viii) Change of control

In the event of a change of control of New Prudential, the award will normally remain in place and the payment at the end of the normal three year period will be underpinned by the payment which would have been made if operating profits had been as projected by the most recently adopted M&G business plan prior to the change of control. The Committee may determine in its absolute discretion that the award vests taking into account performance and pro-rating for time as appropriate.

For these purposes, a change of control also includes a sale of the participant's employer outside the New Prudential group.

(ix) Amendments

The plan may at any time be altered by the Committee in any respect. However, any alteration to the rules governing eligibility, limits on participation, the basis on which payouts are made and adjustments to awards which are to the advantage of participants must be approved in advance by the shareholders of New Prudential in general meeting unless the alteration or addition is minor in nature and/or is made to benefit the administration of the plan, to comply with the provisions of existing or proposed legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or members of the New Prudential group.

9. New Prudential Europe Share Participation Plan (ESPP)

(i) Administration

The Board, or a duly constituted committee thereof, (the "Committee") is responsible for the operation and administration of the ESPP.

(ii) Eligibility

All Irish resident employees, including full time directors of New Prudential and its participating subsidiaries who have not less than three months continuous service are eligible to participate in the ESPP in any year in which it is operated. Other employees may be eligible to participate in the ESPP at the Committee's discretion.

(iii) Constitution

The ESPP will be constituted by a trust deed.

(iv) Limitations

The maximum number of shares that may be allocated to any one participant in any year shall be determined by the relevant Irish legislation for the time being in-force.

(v) Operation of the Plan

On any occasion on which the Committee decides to operate the ESPP, it will decide the allocation basis, i.e; the manner in which eligible employees may participate, the amount of funds that may be made available to the ESPP by the participating employers, the basis on which those funds will be made available and the allocation amongst the participants of the ordinary shares of New Prudential acquired with the contributions.

The ESPP sets out different bases of allocations which can be used at the discretion of the Committee. In all cases the Taxes Consolidation Act 1997 provides that the basis of allocation must satisfy the requirements of the Irish Revenue Commissioners for similar terms treatment for all participants. Shares can be acquired from company contributions and from employees' salary foregone funds.

The trustees will apply the amounts received by them in acquiring ordinary shares in New Prudential for allocation amongst the participants. The trustees (as directed by the Committee) will acquire the shares.

Shares allocated to a participant will be held by the trustees for a minimum period of two years from the date of allocation or for such other period as specified by the Irish Taxes Consolidation Act 1997, during which period they may not be sold or dealt in except on the death of the participant, the attainment of pensionable age (as defined in section 2 of the Irish Social Welfare (Consolidation) Act 2005) or the termination of employment by reason of injury, disability or redundancy.

Shares must be held within the ESPP for three years, or for such other period as may be specified by the Irish Taxes Consolidation Act 1997, in order to be released to participants free of income tax.

(vi) Dividends

While a participant's shares remain held by the trustees, he will receive any dividends paid on those shares.

(vii) Voting rights

The participant may direct the trustees how to exercise the voting rights attaching to his shares while they are held in trust. The trustees will not exercise those voting rights except in accordance with the participant's instructions.

(viii) Change of control, reorganisations etc

In the event of a general offer being made to the shareowners or a rights or capitalisation issue, participants will be able to direct the trustees how to act on their behalf.

(ix) Amendments

The ESPP may at any time be altered by the Committee, provided that no amendment shall: alter to the disadvantage of a participant his rights in respect of shares under the ESPP; result in the ESPP ceasing to be approved by the Irish Revenue Commissioners; or take effect unless the prior written approval from the Irish Revenue Commissioners has been obtained.

10. New Prudential Share Option Plan ("SOP")

(i) Administration

Options under the SOP may be granted by the Board, or a duly authorised committee thereof (the "Committee") on behalf of New Prudential, the trustees of the plan or a Subsidiary. In the remainder of this summary, the term "the Grantor" will refer to the administering body that is responsible for the appropriate award. Where the Grantor is not the Committee the terms of any option must be approved in advance by the Committee.

(ii) Eligibility

Any employee of the New Prudential group will be eligible to participate in the plan at the discretion of the Committee.

(iii) Grant of Options

Options may be granted at any time after approval of the plan. However, at all times the grant of options will be subject to the terms of the Model Code for transactions in securities by directors and New Prudential's share dealing rules. No options may be granted later than 10 years after the adoption of the SOP. The option price may not be less than the closing price on the day preceding the date of grant taken from the Official List.

Options are non-transferable and will be not be pensionable. No payment will be required for the grant of an option.

(iv) Performance Conditions

The vesting of an option and the extent to which it vests may be subject to the satisfaction of any objective performance targets and any other conditions set by the Grantor at the time of the grant. The performance conditions may be varied (or waived) in certain circumstances following the grant of an option in a way which is intended to be reasonable in the circumstances and to produce a fairer measure of performance and is not materially more or less difficult to satisfy (except in the case of a waiver).

An option will generally vest no earlier than 3 years from the date of grant and must be exercised within 10 years (or such shorter period as the Committee may determine).

(v) Individual Limits

An option will not be granted to an individual if it will cause the aggregate market value of: the shares subject to that option, the shares which they may acquire on exercising other options and the shares which they may acquire on exercising options under any other HMRC approved discretionary scheme established by any member of the New Prudential group, to exceed the amount permitted by statute (currently £30,000).

(vi) Dilution Limits

The maximum number of new issue shares that may be allocated under the SOP must not exceed in any 10 year period when added to the number of new issue shares allocated under all other employee share plans operated by New Prudential or Prudential, 10% of the issued ordinary share capital of New Prudential from time to time.

While it remains best practice to do, treasury shares will be treated as newly issued for the purposes of these limits. Awards granted to participants under the Old Share Plans in exchange for their awards under those plans will be treated as having been granted at the time when the awards which they replaced were originally granted.

(vii) Leaving Employment

A participant's options will lapse if the optionholder ceases to be employed within the New Prudential group.

(viii) Rights Attaching to Shares

Shares issued or transferred under the SOP will rank equally with all other New Prudential Shares for the time being in issue (except for rights attaching to such shares by reference to a record date prior to the date of such issue or transfer). New Prudential will apply for the listing of any new shares allotted under the SOP, if and so long as New Prudential Shares are listed on the Official List and traded on the London Stock Exchange.

(ix) Change of Control

In the event of a change of control of New Prudential the options under the SOP may be exchanged for new options. If options are not exchanged then they will become exercisable to the extent that the relevant performance targets have been satisfied at the date of the change of control but only on a time pro rated basis (unless the Committee decides otherwise).

(x) Variations in Share Capital

Options may be adjusted if there is a variation in the share capital of New Prudential such as a capitalisation issue, a rights issue, a rights offer or bonus issue and a sub-division, consolidation or reduction in the capital of New Prudential.

(xi) Amendments

The plan rules may from time to time be amended by the Committee but any change to a key feature of the SOP will need to be approved by HMRC. The provisions relating to eligibility, limits on the number or amount of the shares subject to the scheme, the maximum entitlement for any one participant and the basis for determining a participant's entitlement to shares and for the adjustment of such entitlements if there is any variation in the share capital cannot be altered to the advantage of participants without the prior approval of shareholders in general meeting except for minor amendments to benefit the administration of the scheme, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any member of the New Prudential group.

11. Momentum Retention Plan

(i) Administration

The plan will be operated and administrated by a committee (including Directors) or persons appointed for the purposes of administering the plan (the "**Committee**").

(ii) Eligibility

Employees who are participants in the Momentum development programme are eligible to participate in the plan.

(iii) Grant of awards

Participants in the plan may receive an award of deferred shares or phantom shares which will be settled in cash. For the deferred shares awards/phantom awards half of the shares will be released 4 years from the award date, and the other half will be released 7 years from the award date.

Awards are not pensionable and cannot be transferred except on death.

(iv) Leaving employment

A participant's awards will lapse if the participant leaves the New Prudential group before the shares are released or ceases to participate in the Momentum development programme. However, the Committee may decide that some or all of the award will continue or will be released after termination of the participant's employment or ceasing to participate in the programme (or vest on such event) in the following circumstances: illness, injury, the company or business in which the employee works being transferred out of the New Prudential group, disability and death.

(v) Change of control or reconstruction

In the event of a change of control of New Prudential as a result of a takeover, or a reconstruction or winding up of New Prudential, the awards will be exchanged for new awards in the acquiring Company on a comparable basis. Alternatively, the Committee may, at its discretion, determine the extent to which awards will be released.

(vi) Adjustments

Awards may be adjusted by the Committee if there is a variation in the share capital or reserves of New Prudential (such as a capitalisation or rights issue or any consolidation, sub-division or reduction), or the implementation by New Prudential of a demerger or a special dividend.

(vii) Rights attaching to shares

Until the release date a participant shall not have any beneficial ownership of shares which are subject to the award, and will not have any right to any dividends or voting rights attached to the shares.

(viii) Dilution Limits

The maximum number of new issue shares which may be allocated under the plan in any 10 year period must not when added to the number of new issue shares allocated under all other employee share plans operated by Prudential or New Prudential exceed 10% of the issued ordinary share capital of New Prudential from time to time.

While it remains best practice to do so, treasury shares will be treated as newly issued for the purposes of these limits. Awards granted to participants under the Old Share Plans in exchange for their awards under those terms will be treated as been granted at the time when the awards which they replaced were originally granted.

(ix) Amendments

The plan may be altered at any time in any respect. However, any alterations to the rules which govern eligibility, limits on participation and the number of shares available under the plan, the terms of vesting and adjustments of awards for variations in the share capital which are to the advantage of participants must be approved in advance by the shareholders of New Prudential in general meeting unless the alteration or addition is minor in nature and/or made to benefit the administration of the plan, to comply with the provisions of any existing or proposed legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or New Prudential group companies.

CORPORATE PROPERTIES

As at 31 December 2009, Prudential's UK-headquartered businesses occupied approximately 35 properties in the United Kingdom, Europe, India, South Africa and Namibia. These properties are primarily offices with some ancillary storage and warehouse facilities. Prudential's global headquarters are located in London. Of the remainder, the most significant are offices in London and Reading 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 PAC's long-term fund. The rest of the properties occupied by Prudential's UK-based businesses, in the UK, India, South Africa and Namibia, are held leasehold. In Europe 5 of the properties are occupied leasehold and the rest (three) are short-term serviced offices. The leasehold properties range in size from 500 to 160,000 sq ft. Overall, the UK, Europe, Mumbai, South Africa and Namibia occupied property portfolio totals approximately 650,000 sq ft.

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 74 other leasehold properties in the United Kingdom, spread geographically throughout the country. There are also three properties in Dublin, Ireland. This surplus accommodation totals approximately 740,000 sq ft.

In the United States, the Prudential Group owns Jackson National Life's executive and principal administrative office located in Michigan. The Prudential Group owns a total of six facilities in Lansing, Michigan, which total 550,842 sq ft.

The Prudential Group also leases premises in Michigan, Colorado, California, Illinois, New York, New Jersey, Georgia, Florida, Wisconsin, Massachusetts, Connecticut, New Hampshire, Pennsylvania, Virginia, Indiana and North Dakota for certain of its operations.

The Prudential Group holds 30 operating leases with respect to office space, throughout the United States. The leasehold properties range in size from 500 - 180,000 sq ft. In the United States, the Prudential Group owns and leases a total of approximately 872,584 sq ft of property. In addition to the owned and leased properties, the Prudential Group also owns a total of 238 acres of surplus land. This property is all located in Lansing, Michigan.

In Asia, the Prudential Group 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, the Prudential Group owns 24 property assets, ranging from office space, warehouse storage units to land holdings. The breakdown of these owned assets by country is as follows:

- *Malaysia:* 6 owned assets — all office space totalling 12,315 sq. ft
- *Philippines:* 2 owned assets — all office space totalling 4,278 sq. ft
- *Singapore:* 1 owned asset — all office space totalling 11,883 sq. ft
- *Thailand:* 11 owned assets — all land holdings totalling 73,832 sq. ft
- *Taiwan:* 4 owned assets — all office space totalling 12,989 sq. ft

The Prudential Group also has (excluding India) a total of 539 operating leases, (expense and intercompany leases), totalling approximately 4.8 million sq ft of property.

In India, the Prudential Group holds a minority stake in a joint venture with ICICI who hold the property interests. The property is occupied by the ICICIPruLife and ICICIPru AMC businesses. The holding comprises approximately 2,450 properties, totalling approximately 3.5 million sq ft. There is one owned and occupied asset comprising approximately 30,000 sq ft in Mumbai. Prudential Corporation Asia's real estate strategy moving forward involves consolidation of its existing property portfolio to take advantage of the downturn in regional and global markets and securing cost savings to the business while maintaining competitive advantage.

The total value of the Prudential Group's owner occupied properties, discussed in the narrative above and as reported in the financial information, is £153 million as at 31 December 2009. This represents less than 0.1% of the Prudential Group's total assets.

Post 31 December 2009, the following two agreements have been approved and either have been or are expected to be completed in due course. The first agreement covers the lease of a property in Tennessee in the United States, which is required to provide additional space to accommodate expansion and an Eastern region sales desk. The initial lease will run for a period of 10 years and 6 months, commencing in January 2011, based on an initial occupancy of 90,000 sq ft. This occupancy will be increased to 150,000 sq ft in a phased approach as headcount increases. The second agreement is in respect of the lease of a property in Singapore, with the purpose of allowing the relocation of six other separate office functions to a single location. The leased office space consists of 37,000 sq ft with the lease commencing in 2011 and having an initial 9 year term.

The characteristics of the agreements mean that both of these leases will be accounted for as operating leases.

There have been no other property transactions subsequent to 31 December 2009 which would have a material impact on the financial position of the Prudential Group.

Prudential believes that its facilities are adequate for its present needs in all material respects. Prudential confirms that the Prudential Group's owner occupied properties and leased properties are individually and collectively not crucial and material to its operations, and that the Prudential Group's operating leases have no material commercial value.

As set out above, the Prudential Group owns 31 properties which the Prudential Group also occupies, which are accounted for as owner occupied property. These properties are comprised of 24 in Asia, 1 in the UK and 6 in the US. The total value of the Prudential Group's owner occupied properties at 31 December 2009 was £153 million. This represents less than 0.1% of the Prudential Group total assets.

The Prudential Group also holds interests in properties within its investment portfolios accounted for as investment property. At 31 December 2009 the total value of investment property was £10,905 million and was comprised 592 properties held by the UK, 6 held by the US and 5 held by the Asia business. In total they comprise 4.8% of the Prudential Group's total assets. The UK business' holdings account for over 98% by value of the total investment property.

The Prudential Group is the lessee under 600 operating leases used as office accommodation, comprised of 539 leases held by the Asia, 30 leases held by the US and 31 leases held by the UK business. In the UK, the Prudential Group holds 3 short-term serviced offices and a further 77 leases that are not occupied and represent surplus accommodation.

The Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver in respect of the requirement of inclusion of a property valuation report from compliance with Rules 5.01, 5.06 and paragraph 3(a) of Practice Note 16 of the Listing Rules on the grounds that (i) the Company's core business is not investment in properties, and properties constitute an immaterial part of the Group's total assets; (ii) to require the Company to comply with the above requirements, considering the immateriality of the properties held by the Group, would be unduly burdensome, unnecessary, inappropriate and impractical; (iii) the information contained in this listing document relating to properties will enable shareholders and the public to make a properly informed assessment of the Company's securities; (iv) to require the Company to comply with the above requirements would involve preparation of a property valuation report in respect of more than 1,200 properties which is expected to run over 2,400 pages of English text; and (v) for the reasons set out in paragraphs (i) to (iii) above, the waiver sought would not be repugnant to, or conflict with the duties of, the Stock Exchange and the general principles under Rule 2.03 of the Listing Rules.

INTELLECTUAL PROPERTY

The Prudential Group conducts business under the "Prudential", "Jackson" and "M&G" brand names and logos. It is also the registered owner of over 1,000 domain names, including "**www.prudential.co.uk**", "**www.prudentialcorporation-asia.com**", "**www.jackson.com**", "**www.mandg.co.uk**" and "**www.pru.co.uk**". Details of the Group intellectual property rights are set out in the paragraph headed "Material Intellectual Property Rights of the Enlarged Group" under the section headed "Further Information About the Company's Business" in Appendix IX to this listing document. As at the Latest Practicable Date, the Company has registered 34 trade marks in Hong Kong. The Group is in the process of applying for the registration of 6 trade marks in Hong Kong.

The Prudential Group 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. Under these arrangements Prudential Financial, Inc. has the right to use the Prudential name in the Americas and certain parts of the Caribbean, Japan, Korea and Taiwan and the Prudential Group has the right to use the name everywhere else in the world although third parties have rights to the name in certain countries.

As at the Latest Practicable Date, the Prudential Group was not aware of any material incidence of intellectual property rights infringement claims or litigation initiated by others and vice versa for the three years ended 31 December 2009.

EXISTING LISTINGS

The Existing Shares are listed on the premium segment of the Official List and admitted to trading on the London Stock Exchange's main market for listed securities. Prudential's 4.54% notes due 11 June 2008, 6.50% perpetual subordinated capital securities, index linked notes due 10 July 2023, 5.75% floating rate subordinated notes due 19 December 2021, 5 7/8% bonds due 2029, 6.125% subordinated notes due 19 December 2031, 6 7/8% bonds due 2023, Tier 1 notes, floating rate notes due 16 April 2010, 3.375% senior notes due 28 January 2013 and callable dated Tier 2 notes due 29 May 2039 are each listed on the standard segment of the Official List and admitted to trading on the regulated market of the London Stock Exchange. Prudential is subject to the provisions of the UK Listing Rules and to the provisions of the City Code on Takeovers and Mergers. ADRs have been listed for trading on the New York Stock Exchange since 28 June 2000. In addition, application has been made in Hong Kong to the Listing Committee for the listing of, and permission to deal in, Prudential Shares. Application has also been made in Singapore to the SGX-ST for the listing and quotation of Prudential Shares on the Main Board of the SGX-ST.

Settlement of dealings on the London Stock Exchange takes place on the third business day following the date of transaction. Settlement of dealings on the New York Stock Exchange takes place on the third business day following the date of transaction.