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PRUDENTIAL

Prudential plc

英國保誠有限公司*

(Incorporated and registered in England and Wales under the number 01397169)

(Stock code: 2378)

PRESS RELEASE AND ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

NEWS RELEASE

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13 March 2012

PRUDENTIAL PLC 2011 FULL YEAR RESULTS

ASIA DRIVES PROFITABLE GROWTH AND CASH

IFRS:
- Operating profit of £2,070 million, up 7 per cent
- Asia life insurance business operating profit[1] of £709 million, up 32 per cent, for the first time the largest contributor[2] to Group operating profit
- Total profit before tax[3] of £1,943 million, up 33 per cent
- Shareholders' funds of £9.1 billion, up 14 per cent

New Business:
- EEV new business profit of £2,151 million, up 6 per cent
- Asia EEV new business profit of £1,056 million, up 22 per cent (excluding India)

Embedded Value:
- Operating profit of £3,978 million, up 8 per cent
- Asia life insurance business operating profit[1] of £1,764 million, up 22 per cent
- Shareholders' funds of £19.6 billion, up 8 per cent, equivalent to 771 pence per share

Capital & Dividend:
- Underlying free surplus generation[4] up 16 per cent to £1,983 million
- Net remittances from business operations up 18 per cent to £1,105 million; Asia net cash remittance of £206 million
- Insurance Groups Directive (IGD) capital surplus estimated at £4.0 billion; solvency requirements covered 2.75 times
- Investment in new business of £553 million, a decrease of 14 per cent
- 2011 full year dividend increased by 5.6 per cent to 25.19 pence per share, from the new higher base established at full year 2010
- Minimal direct exposure to PIIGS[5] sovereign and bank debt

Commenting on the results, Tidjane Thiam, Group Chief Executive, said:

"Prudential has delivered another strong performance in 2011 led by Asia, where our life insurance business[1] for the first time became the single largest contributor[2] to our Group IFRS operating profit. Since 2008, Asia's contribution to this benchmark profit measure has almost trebled from £257 million to £709 million.

"As a Group, we have continued to grow across our key metrics of IFRS, new business profit and cash while maintaining a robust capital position. This performance has been achieved against both a more challenging global economy in 2011 and the demanding comparator of 2010, our best year ever until now. In line with our strategy of value optimisation and capital conservation, higher sales and higher profit in 2011 have been achieved while consuming less capital in both relative and absolute terms than in 2010.

"The heart of our strategy remains Asia, where our positive momentum has been maintained in 2011, with total IFRS operating profit up 30 per cent and a cash remittance to the Group of £206 million. Asia is generating both growth and cash and our focus on the fast-growing markets of South-East Asia continues to pay off. In the US, Jackson is one of the leading providers of variable annuities

[1] Excluding Eastspring Investments, development costs and Asia regional head office expenses.
[2] If long-term business is considered separately from asset management and UK general insurance commission.
[3] Attributable to shareholders.
[4] Free surplus generated from in-force business net of amounts invested in new business.
[5] Portugal, Italy, Ireland, Greece, Spain

in the world's largest retirement market. Compared to 2010, we have continued to grow our sales profitably while increasing cash generation, with new business profit up 7 per cent and new business margin at a level significantly above historic levels. In the UK, we continued to focus on value over volume and on increased IFRS operating profit. In asset management, both M&G and our business in Asia have seen continued net inflows and record IFRS operating profit.

"We remain on track to deliver the 2013 profit growth and cash generation objectives we announced in December 2010. In this uncertain macroeconomic environment, our clear strategy and the strength of our products and distribution – combined with our balanced portfolio of businesses and market-leading positions in Asia – mean we are well positioned to deliver continued relative outperformance in the medium-term."

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Notes to Editors:

1. The results in this announcement are prepared on two bases: International Financial Reporting Standards (IFRS) and European Embedded Value (EEV). The IFRS basis results form the basis of the Group's statutory financial statements. The supplementary EEV basis results have been prepared in accordance with the European Embedded Value principles issued by the CFO Forum of European Insurance Companies in May 2004 and expanded by the Additional Guidance on EEV disclosures published in October 2005. Where appropriate the EEV basis results include the effects of IFRS. Period on period percentage increases are stated on an actual exchange rate basis.

2. Annual premium equivalent (APE) sales comprise regular premium sales plus one-tenth of single premium insurance sales.

3. Operating profits are determined on the basis of including longer-term investment returns. EEV and IFRS operating profits are stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions and the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes. The operating profit based on longer-term investment returns for 2010 also excludes costs associated with the terminated AIA transaction and the gain arising upon the dilution of the Group's holding in PruHealth. In addition, for EEV basis results, operating profit based on longer-term investment returns excludes the effect of changes in economic assumptions and the mark to market value movement on core borrowings.

4. There will be a conference call today for media at 09.15am GMT hosted by Tidjane Thiam, Group Chief Executive. UK dial-in telephone number: +44 (0)20 3140 0668, Hong Kong dial-in telephone number: +852 3060 9173, Passcode: 906393#.

5. A presentation to analysts will be webcast live at 12.30pm GMT from UBS, 1 Finsbury Avenue, London, EC2M 2PP. This can be viewed live, and as a replay, on the corporate website via the link below:
   www.prudential.co.uk/prudential-plc/investors/resultspresentations/resultsday/

   Alternatively, a dial-in facility will be available to listen to the presentation: please allow time ahead of the presentation to join the call (lines open half an hour before the presentation is due to start, ie from 12.00pm GMT) Dial-in: +44 (0)20 8817 9301, Playback: +44 (0)20 7769 6425, Passcode: 6853865#. This will be available from approximately 3.30pm GMT on 13 March 2012 until 11.59pm GMT on 20 March 2012.

   A copy of this announcement can be found at www.prudential.co.uk/prudential-plc/media

6. High resolution photographs are available to the media free of charge at www.prudential.co.uk/prudential-plc/media/media_library

7. Total number of Prudential plc shares in issue as at 31 December 2011 was 2,548,039,330.

8. **2011 Full Year Dividend**

Ex-dividend date	28 March 2012 (UK, Ireland and Singapore shareholders) 29 March 2012 (Hong Kong shareholders)
Record date	30 March 2012
Payment of dividend	24 May 2012 (UK, Ireland and Hong Kong shareholders) On or about 31 May 2012 (Singapore shareholders) 1 June 2012 (ADR holders)

9. About Prudential plc

Prudential plc is incorporated in England and Wales, and its affiliated companies constitute one of the world's leading financial services groups. It provides insurance and financial services through its subsidiaries and affiliates throughout the world. It has been in existence for over 160 years and has £351 billion in assets under management (as at 31 December 2011). Prudential plc is not affiliated in any manner with Prudential Financial, Inc, a company whose principal place of business is in the United States of America.

10. Forward-Looking Statements

This document may contain 'forward-looking statements' with respect to certain of Prudential's plans and its goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential's beliefs and expectations, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty. A number of important factors could cause Prudential's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, future market conditions, fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives related to the financial crisis and the effect of the European Union's 'Solvency II' requirements on Prudential's capital maintenance requirements; the impact of competition, inflation, and deflation; experience in particular with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of changes in capital, solvency standards or accounting standards, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; and the impact of legal actions and disputes. These and other important factors may for example result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Further discussion of these and other important factors that could cause Prudential's actual future financial condition or performance or other indicated results to differ, possibly materially, from those anticipated in Prudential's forward-looking statements can be found under the 'Risk factors' heading in this document and the Annual Report and the 'Risk Factors' heading of Prudential's most recent annual report on Form 20-F filed with the U.S. Securities and Exchange Commission, as well as under the 'Risk Factors' heading of any subsequent Prudential Half Year Financial Report. Prudential's most recent Annual Report, Form 20-F and any subsequent Half Year Financial Report are/will be available on its website at www.prudential.co.uk.

Any forward-looking statements contained in this document speak only as of the date on which they are made. Prudential expressly disclaims any obligation to update the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST listing rules or other applicable laws and regulations.

Group Chief Executive's Report

I am pleased to report a strong performance in 2011. We announced in December 2010 clear 'Growth and Cash' objectives for 2013. 2011 has marked another year of progress towards achieving these objectives: (i) doubling 2009 Asia IFRS and new business profit by 2013, (ii) cumulative net remittances to the Group of at least £3.8 billion over 2010 to 2013 and (iii) UK, Asia and Jackson to deliver respectively £350 million, £300 million and £200 million of cash in 2013.

We have achieved two key milestones which emphasise the good progress that we have made towards these objectives.

First, our life insurance business in Asia[1] is now the biggest contributor to Group IFRS operating profit[2], making it our largest business on both IFRS and EEV profitability measures. Since 2008, we have made considerable progress in translating the promise of our Asian life insurance franchise into a solid business delivering significant growth in sales but also IFRS operating profit and cash. Asia offers some of the most attractive opportunities within the global insurance market and the potential for long-term profitable growth for Prudential in the region is clear. Our focus on Asia is simply a consequence of our approach to shareholder value and capital allocation that prioritises our investment towards the markets, products and channels that offer the most profitable returns and the most attractive payback periods.

We have continued to make progress in Asia as measured by our primary growth metric, new business profit. Six markets have achieved new business profit growth in excess of 20 per cent in 2011. Our focus on profitable growth has not stopped us from continuing to grow our absolute and relative scale: six of our 11 Asian life insurance operations are now market leaders in terms of absolute new business sales and, excluding India, all of our markets have grown their sales in 2011.

Second, as a Group, we have enjoyed a track record of sales growth for a number of years. What is particularly pleasing in our 2011 performance is that our progress on cash has been as visible as our progress on our traditional growth agenda. All four of our business units have remitted significant amounts of cash to the Group. Achieving a balanced funding structure is one of our explicit strategic objectives, moving us away from an operating model that relied historically on our UK life business for cash generation. Our business units' ability to generate cash is possibly the best evidence that they have navigated well through the financial crisis.

Group performance
APE sales were up 6 per cent in life insurance in 2011 to £3,681 million (2010: £3,485 million[3]). New business profit increased by 6 per cent to £2,151 million (2010: £2,028 million[3]) at attractive new business margins which remained stable at 58 per cent (2010: 58 per cent). Net inflows in our asset management businesses were £4.5 billion (2010: £8.9 billion) following two years of exceptionally high performance. The inflows we have generated in 2011 remain an impressive result in what was a particularly challenging year for the asset management industry due to the weak and volatile performance of global stock markets.

In executing our strategy, we are guided by three clearly defined Group-wide operating principles.

The first of these is a balanced approach to performance management across the three key measures of IFRS, EEV and cash, with an increased emphasis on IFRS and cash. As a result, in 2011, we are reporting results which show growth across all three key measures. This puts us in a strong position to continue to capture the profitable growth opportunities available in our chosen markets.

On a statutory IFRS basis, our operating profit based on longer-term investment returns increased by 7 per cent in 2011 to £2,070 million (2010: £1,941 million). IFRS shareholders' funds increased in 2011 to £9.1 billion, up 14 per cent compared to £8.0 billion as at 31 December 2010. On an EEV basis, Group operating profit based on longer-term investment returns increased by 8 per cent in 2011 to £3,978 million (2010: £3,696 million). Since 2008, we have been using free surplus as the primary indicator of our ability to generate cash and capital and at the end of 2011, free surplus increased to £3.4 billion (2010: £3.3 billion). Underlying free surplus generation was up 16 per cent to £1,983 million (2010: £1,714 million).

Second, we have focused on allocating capital to the highest return and shortest payback opportunities across the Group. This means that we focus our investment on writing new business in the areas of the market where our demanding return and payback criteria are met. In 2011, new business profit increased 6 per cent while investment in new business was £553 million (2010: £643 million[3]), 14 per cent lower. Since 2008, new business profit has increased 79 per cent while investment in new business has fallen 30 per cent over the same period, a material increase in capital efficiency.

Third, we take a proactive approach to managing risk across the cycle. We have transformed the capital position of the Group since 2008 with an estimated £4.0 billion of Insurance Groups Directive (IGD) capital surplus against £1.5 billion at the end of 2008. We are continuously improving our risk management process and systems to ensure that our key risks are tracked and managed both locally and centrally.

1 Excluding Eastspring Investments, development costs and Asia regional head office expenses.

2 If long-term business is considered separately from asset management and UK general insurance commission.

3 Excludes Japan, which ceased writing new business in 2010.

Our operating performance by business unit

Prudential Corporation Asia
Our medium and long-term growth opportunities are driven by the rapidly expanding middle class across the region, with its strong appetite for savings and protection products. Although the global economic environment has been more challenging in recent times, we continue to believe that our prospects in the region are exciting, as indicated by our commitment to double our key metrics of IFRS operating profit and new business profit between 2009 and 2013.

Across Asia, we continue to innovate both in products and technology, where our investment drives improvements in operational efficiency, helps manage persistency and ensures that we can continue to meet profitably the evolving demands of our customers. Our business is aided by a positive regulatory environment as governments in the region seek to increase insurance penetration, recognising the social role and economic benefits of life insurance as a key provider of long-term capital.

In South-East Asia, our 'sweet spot', our growth has been largely led by the rising market of Indonesia as well as the more developed economies of Hong Kong, Singapore and Malaysia. These operations are generating sustainable growth and value, supporting our investments in more emerging markets such as the Philippines, Vietnam and Thailand.

Prudential Indonesia is now our largest business in Asia across virtually all metrics and is the clear market leader in a country where the opportunities for continued growth are significant. It is a market that has low insurance penetration, of just 1 per cent. It is the world's fourth most populous country and a member of the G20. Indonesia has the largest Muslim population in the world; in Syariah products, which are compliant with Islamic law, we have a 54 per cent market share. With 142,000 licensed agents, we have the largest agency network in the country. We believe that the opportunities to further enhance our distribution scale there are significant.

In the more emerging markets, we continue to make good operational progress, and over time expect to see a steadily increasing contribution to growth and profits from our businesses in these territories. The Philippines provides a good illustration of these trends. Our business had excellent APE sales growth of 30 per cent, helping it leapfrog from third place to become this rapidly developing country's largest life insurance provider in terms of new business, a very creditable achievement in this highly competitive market.

As previously indicated, the market in India has been challenging since the fourth quarter of 2010 due to significant regulatory reforms across the industry in that year. We are now coming out of this difficult period, a year after the reform, and our joint venture with ICICI continues to be the leading private sector player. In the fourth quarter of 2011, our sales increased notably, demonstrating that our business in India is gathering some momentum. We remain confident about the long-term prospects of that market as we train our extensive agency force to sell a new product suite.

Central to our success in Asia is distribution. Agency continues to be our largest distribution channel, consistent with our customers' preference for face-to-face contact when buying life, health and protection products. In addition, and in parallel, Prudential has a number of highly successful bancassurance partnerships across the region. Our distribution through bank branches complements well our agency distribution and gives us a broader and more diversified footprint. These partnership agreements include regional relationships with international banks such as Standard Chartered, which this year was extended to an 11th country, the Philippines, and local banks such as E.Sun in Taiwan. 2011 has been the first full year in our relationship with UOB. We have already extended our relationship beyond the three original markets of Singapore, Thailand and Indonesia to include Malaysia and China. This partnership has contributed materially to our strong performance, notably in Singapore where APE sales were up 34 per cent, new business profit up 25 per cent and IFRS operating profit up 29 per cent.

Prudential Corporation Asia's delivery of both profitable growth and cash has validated the central element of the Group's strategy, to focus on the region as a means to deliver sustainable shareholder value.

Jackson National Life Insurance Company (Jackson)
In the United States, the transition of the 'baby boomer' generation from employment to retirement which became visible around 2005-2006 is now firmly underway. Over the next 20 years, more than 10,000 people a day will reach retirement age in the US[1] and these individuals will look to the insurance industry among others to help them convert their accumulated wealth into a steady stream of retirement income.

Jackson's strategy focuses on capturing this opportunity while balancing value, volume, capital efficiency, cash generation, balance sheet strength and strict pricing discipline. Our capital has primarily been directed towards higher-margin and more capital-efficient variable annuities. Our approach to pricing and hedging is conservative and enables us to mitigate the impact of macroeconomic challenges and ensure that we are able to meet our commitments to our customers.

Policyholder behaviour across our book of in-force policies continues to trend in line with our assumptions. Jackson is financially strong, with a risk-based-capital ratio of 429 per cent at the end of 2011, after paying a large remittance to the Group in June 2011.

In the US, customers and distributors are attracted by Jackson's track record of financial discipline and strong credit rating. We implemented a number of changes in 2010 and 2011 to proactively manage our sales levels, to comply with revised regulations,

1 Source: US Census Bureau

enhance risk management flexibility and increase profitability. Our monthly variable annuity sales declined from September 2011 onwards from the peak levels seen in the early summer as a result of, first, a number of proactive changes we made to manage the balance between growth, capital and profitability and second, the performance of US equity markets in the period. We have continued to write our business at attractive internal rates of return (IRRs) throughout the year.

Looking ahead, variable annuity sales volumes are likely to continue to show a good degree of correlation with the performance of the S&P 500 index and will also be impacted by our competitors' behaviour. Our approach will continue to focus on profitability ahead of sales. Our disciplined approach to pricing will remain unchanged as we continue to manage conservatively the balance of risk and returns. Prudential shareholders are seeing the benefits of Jackson's counter-cyclical expansion in variable annuities following the financial crisis as Jackson was able to remit £322 million in 2011, the largest net remittance it has ever paid to the Group.

Prudential UK

Like Jackson in the US, Prudential UK is well positioned to help British 'baby-boomers' as they approach retirement. In the UK, like our other chosen markets, in terms of new business, we focus on the lines of business where we have a clear competitive advantage and can generate attractive returns on capital invested; and we manage our in-force book for value.

Our performance in 2011 shows we continue to be a market leader both in individual annuities and in with-profits products. In individual annuities, we registered a decrease in our sales as we continued to proactively control capital consumption. The strength and performance track record of Prudential UK's With-Profits Fund is widely recognised. Despite the market volatility in 2011, with-profits customers' policy values were augmented by a total of £2.1 billion. Our customers continue to benefit from solid returns and the security offered by the large inherited estate. Our results in 2010 benefited from a large bulk annuity contract. There were no similar opportunities of comparable size which met our strict value criteria so our level of activity in that segment was materially reduced.

At the end of 2010, the business announced a number of cost-saving initiatives to reduce costs by £75 million per annum by the end of 2013. We remain on track to achieve this objective.

Asset management

Our asset management businesses have continued to perform well, with M&G IFRS operating profit exceeding £300 million. Our fund managers have a strong track record of outperforming their respective benchmarks and our performance track record has driven another good year for net inflows in what was a challenging environment for the industry. Over the last four years, M&G has risen from being the fifth largest player in the UK retail market in terms of funds under management to now being the second largest, and our UK retail assets have almost trebled over this period to over £35 billion.

After two successive years of extremely high net sales, it was our expectation that net fund flows would revert closer to historic levels in 2011. This was amplified by the macroeconomic environment in Continental Europe, particularly in the second half. However, in the UK, sales remain strong, demonstrating M&G's strength across asset classes and distribution channels. As at December 2011, we have been number one in retail sales for 13 consecutive quarters[1].

Regarding our asset management activities in Asia, we announced in November 2011 that our Asian asset management business would be rebranded Eastspring Investments. It is already a market-leading onshore third party fund management business. This new branding will enable it to establish a more cohesive regional presence, and to market its Asian expertise in Europe and North America. The business had a good year, growing profits by over 11 per cent in spite of a challenging environment characterised by weak stock market performance and the impact of the natural disaster in Japan.

Capital and risk management

Proactive and disciplined management and allocation of capital are the foundations of a robust balance sheet and remain critical in the current economic and financial environment. Using the regulatory measure of the Insurance Groups Directive (IGD), before allowing for the final dividend, our Group capital surplus at 31 December 2011 was estimated at £4.0 billion (2010: £4.3 billion). The Group's required capital is covered 2.75 times.

Solvency II, which is currently anticipated to be implemented from 1 January 2014, represents a major overhaul of the capital adequacy regime for European insurers. We are supportive in principle of the development of a more risk-based approach to capital but we have concerns about the potential consequences of some aspects of the Solvency II regime under consideration. With the continued delays to policy development, the final outcome of Solvency II remains uncertain. We are continuing to engage directly with our peers, policymakers and regulators so that the industry ultimately operates under a fair, effective and reasonable capital adequacy regime. Lack of certainty over the policy content and timetable continues to impede the industry's ability to prepare fully for the new regime.

Therefore, in parallel to continuing our preparation for eventually implementing the Solvency II rules, we also evaluate actions to mitigate the possible negative effects. We regularly review the range of options available to us to maximise the strategic flexibility of the Group. Among these options is consideration of optimising the Group's domicile, including as a possible response to an adverse outcome on Solvency II.

1 Source: Fundscape. (Q4 issue, February 2012). The Pridham Report. Fundscape LLP

Dividend
In light of the continued strong performance of the business and our focus on a growing dividend, the Board has recommended a final dividend of 17.24 pence per share (2010: 17.24 pence), giving a full 2011 dividend of 25.19 pence (2010: 23.85 pence), representing an increase of 5.6 per cent over 2010.

The Board will maintain its focus on delivering a growing dividend, which will continue to be determined after taking into account the Group's financial flexibility and our assessment of opportunities to generate attractive returns by investing in specific areas of the business. The Board believes that in the medium-term a dividend cover of around two times is appropriate.

Outlook
We continue to believe our long-term success rests on our substantial presence in fast-growing economies across Asia. Our chosen markets benefit from solid economic growth, increasing wealth, favourable demographics – particularly a rapidly expanding middle class - with significant and increasing health and protection demands.

We expect Jackson to continue to benefit from the opportunity created by the transition of the 'baby boomers' into retirement and to make significant remittances to the Group. Our UK life operations should continue in 2012 to deliver significant remittances to the Group and maintain their balance sheet strength. Our asset management businesses, M&G and Eastspring Investments should continue to support our strategy, providing both profitable growth and cash.

The Group's results are a clear sign of the success of our strategy of focusing our energies and capital on the most attractive opportunities and we are in a strong position to continue to deliver relative outperformance in the medium-term. We have made a positive start to 2012 and over the course of the year we expect to continue to make progress towards our 2013 'Growth and Cash' objectives.

Financial highlights

Life APE new business sales, profits and investment in new business

	2011			2010			Change		
	Sales £m	NBP[a] £m	Free surplus invested in new business £m	Sales £m	NBP[a] £m	Free surplus invested in new business £m	Sales change %	NBP change %	Free surplus invest-ment change %
Asia[b]	**1,660**	**1,076**	**297**	1,501	902	278	11	19	7
US	**1,275**	**815**	**202**	1,164	761	300	10	7	(33)
UK	**746**	**260**	**54**	820	365	65	(9)	(29)	(17)
Total Group	**3,681**	**2,151**	**553**	3,485	2,028	643	6	6	(14)

(a) New Business Profit (NBP)
(b) Asia amounts exclude Japan, which ceased writing new business in 2010.

New business profit (NBP) margin, IRRs and payback periods

	2011			2010		
	NBP margin %	IRR[b] %	Payback period (years)	NBP margin %	IRR[c] %	Payback period (years)
Asia[b]	**65**	**>20**	**3**	60	>20	3
US	**64**	**>20**	**1**	65	>20	1
UK	**35**	**>20**	**4**	45	>20	4
Total Group	**58**	**>20**	**2**	58	>20	2

(b) Asia amounts exclude Japan, which ceased writing new business in 2010.
(c) IRR = Internal Rate of Return

Shareholder-backed policyholder liabilities and net liability flows

	2011		2010		Change	
	Shareholder-backed Policyholder liabilities £m	Net liability flows[d] £m	Shareholder-backed Policyholder liabilities £m	Net liability flows[d] £m	Shareholder-backed Policyholder liabilities %	Net liability flows %
Asia	**18,269**	**1,839**	17,716	1,298	3	42
US	**69,189**	**7,824**	60,523	7,368	14	6
UK	**46,048**	**(657)**	43,944	1,029	5	(164)
Total Group	**133,506**	**9,006**	122,183	9,695	9	(7)

(d) Defined as movements in shareholder-backed policyholder liabilities arising from premiums (net of charges), surrenders, maturities and deaths.

Asset management net inflows and profitability

	Net in-flows			IFRS operating profit			External funds under management		
	2011 £m	2010 £m	Change %	2011 £m	2010 £m	Change %	2011 £m	2010 £m	Change %
M&G	**4,385**	9,105	(52)	**357**	284	26	**91,948**	89,326	3
Total asset management	**4,506**	8,890	(49)	**461**	378	22	**111,169**	111,374	-
Total asset management (ex MMF)[e]	**5,018**	10,942	(54)						

(e) Excludes Asia Money Market Fund (MMF) net flows of negative £512 million (2010: negative £2,052 million).

Operating profit based on longer-term investment returns - IFRS

	2011		2010		Change	
	Long-term £m	Total £m	Long-term £m	Total £m	Long-term %	Total %
Asia	**709**	**789**	536	608	32	30
US	**694**	**718**	833	855	(17)	(16)
UK	**683**	**1,080**	673	1,003	1	8
Other income and expenditure [f]	**(5)**	**(517)**	(4)	(525)	25	(2)
Total Group	**2,081**	**2,070**	2,038	1,941	2	7

(f) Including Solvency II implementation costs, restructuring costs, Asia development costs, Asia Regional Head Office costs and in 2011 the impact of the RPI to CPI inflation measure change for defined benefit pension schemes.

Operating profit based on longer-term investment returns - EEV

	2011		2010		Change	
	Long-term £m	Total £m	Long-term £m	Total £m	Long-term %	Total %
Asia	**1,764**	**1,844**	1,450	1,522	22	21
US	**1,431**	**1,455**	1,458	1,480	(2)	(2)
UK	**853**	**1,250**	936	1,266	(9)	(1)
Other income and expenditure [g]	**(5)**	**(571)**	(4)	(572)	25	-
Total Group	**4,043**	**3,978**	3,840	3,696	5	8

(g) Including Solvency II implementation costs, restructuring costs, Asia development costs, Asia Regional Head Office costs, and in 2011 the impact of the RPI to CPI inflation measure charge for defined benefit pension schemes.

***Basic earnings per share - based on operating profit after tax and non-controlling interest*[(h)]**

	2011	2010	Change%
IFRS	**63.9 p**	62.0 p	3
EEV	**115.7 p**	106.9 p	8

(h) 2010 excludes an exceptional tax credit of £158 million which primarily relates to the impact of a settlement agreed with the UK tax authorities.

Underlying free surplus generated [(i)]

	2011		2010		Change	
	Long-term £m	Total £m	Long-term £m	Total £m	Long-term %	Total %
Asia	**410**	**472**	326	383	26	23
US	**748**	**764**	614	627	22	22
UK	**449**	**747**	464	704	(3)	6
Total Group	**1,607**	**1,983**	1,404	1,714	14	16

(i) Underlying free surplus generated comprises underlying free surplus generated from the Group's long-term business (net of investment in new business) and asset management operations.

Cash remitted by the business units to the Group

	2011		2010		Change	
	Long-term £m	Total £m	Long-term £m	Total £m	Long-term %	Total %
Asia	**239**	**206**	267	233	(10)	(12)
US	**322**	**322**	80	80	303	303
UK	**268**	**577**	388	622	(31)	(7)
Total Group	**829**	**1,105**	735	935	13	18

Cash and capital

	2011	2010	Change%
Dividend per share relating to the reporting period	**25.19 p**	23.85 p	6
Holding company cash and short-term investments	**£1,200 m**	£1,232m	(3)
IGD capital surplus before final dividend[(j)]	**£4.0 bn**	£4.3bn	(7)

(j) Estimated.

Group shareholders' funds (including goodwill attributable to shareholders)

	2011 £	2010 £	Change %
IFRS	**£9.1 bn**	£8.0bn	14
EEV	**£19.6 bn**	£18.2bn	8

	2011 %	2010 %
Return on IFRS shareholders' funds[(k), (l)]	**20**	27
Return on embedded value [(k), (m)]	**16**	19

(k) 2010 includes the effect of an exceptional tax credit of £158 million which primarily relates to the impact of a settlement agreed with the UK tax authorities.
(l) IFRS operating profit after tax and non-controlling interests as percentage of opening IFRS shareholders' funds. 2010 return excluding the effect of the tax settlement was 25 per cent.
(m) EEV operating profit after tax and non-controlling interests as percentage of opening EEV shareholders' funds. 2010 return excluding the effect of the tax settlement was 18 per cent.

	2011	2010	Change%
EEV shareholders' funds per share (including goodwill attributable to shareholders)	**771 p**	715 p	8
EEV shareholders' funds per share (excluding goodwill attributable to shareholders)	**713 p**	658 p	8

Chief Financial Officer's Overview

2011 was a productive year for Prudential during which we delivered strong performance across all of our key metrics and made clear progress towards our 2013 'Growth and Cash' financial objectives. At a Group level, the key headlines show that EEV new business profit ('new business profit') increased by 6 per cent to £2,151 million (2010: £2,028 million[1]), IFRS operating profit based on longer-term investment returns ('IFRS operating profit') increased by 7 per cent to £2,070 million (2010: £1,941 million) and underlying free surplus generation increased by 16 per cent to £1,983 million (2010: £1,714 million). These results were delivered during a particularly challenging macroeconomic environment and are testament to the quality of our franchises across Asia, the US and the UK.

Growth

In life insurance, new business profit was up 6 per cent to £2,151 million (2010: £2,028 million[1]) on APE sales in 2011 of £3,681 million (2010: £3,485 million[1]) resulting in a new business margin of 58 per cent (2010: 58 per cent[1]). The growth in both sales and new business profit was achieved while investing 14 per cent less capital than last year, reflecting our disciplined approach to optimising the balance between value creation and capital utilisation and our ongoing focus on those products and geographies with the highest returns and shortest payback periods.

Asia produced new business profit of £1,076 million (2010: £902 million[1]) and APE sales of £1,660 million (2010: £1,501 million[1]) up 19 per cent and 11 per cent respectively on the previous year. Our new business margin increased from 60 per cent to 65 per cent in 2011 driven by favourable country mix with a particularly strong performance in Indonesia, which is now the largest contributor to virtually all of our key financial metrics in Asia.

Jackson delivered new business profit of £815 million (2010: £761 million) up 7 per cent compared to 2010 based on APE sales of £1,275 million (2010: £1,164 million). Our new business margin in the US remains attractive at 64 per cent (2010: 65 per cent). We continued to focus on variable annuities over the course of 2011 and APE sales in this product line grew by 15 per cent to £1,091 million (2010: £948 million). We remain a top three player in US variable annuities[2] and continue to balance value, risk and capital.

In the UK, we delivered new business profit of £260 million (2010: £365 million) and total APE sales of £746 million (2010: £820 million), down 29 per cent and 9 per cent respectively. These declines are primarily due to the level of bulk annuity activity achieved in 2010, which was not repeated in 2011, as there were fewer attractive opportunities to deploy our capital in that segment of the market. At a retail level, we delivered new business profit of £231 million (2010: £257 million) and APE sales of £712 million (2010: £725 million) as we continue to apply our value over volume approach, focusing on the product lines that produce the most attractive IRRs and payback periods. In 2011 we delivered a retail new business margin of 32 per cent, down from 35 per cent in 2010 due to lower volumes of higher margin individual annuities.

Across our life insurance businesses we grew our shareholder-backed policyholder liabilities by £11.3 billion in 2011 to £133.5 billion. This increase was driven by £9.0 billion of net inflows with the balance principally coming from foreign exchange and investment related movements.

In asset management, we have delivered £4.5 billion of net inflows over 2011 (2010: £8.9 billion). This is a good performance in what was a challenging year for asset managers. At the end of 2011, our total funds under management were £351 billion, of which £111 billion are external assets. M&G produced £4.4 billion (2010: £9.1 billion) of net inflows in the period (£3.9 billion retail, £0.5 billion institutional), an excellent result given the market backdrop. M&G has ranked number 1 in the UK retail market for gross and net sales over the last 13 consecutive quarters based on data to the end of December 2011[3]. At 31 December 2011 it had external funds under management of £91.9 billion, 3 per cent higher than at the beginning of the year. External funds comprise £44.2 billion (2010: £42.5 billion) of retail and £47.7 billion (2010: £46.8 billion) of institutional assets. Adding these funds to internal amounts, M&G's total funds under management were £201.3 billion. Eastspring Investments reported retail and institutional net inflows of £633 million in 2011 (2010: £1.8 billion). At the end of 2011, Eastspring Investments had £50.3 billion of funds under management, of which £19.2 billion were external assets.

Profitability

Group IFRS operating profit increased by 7 per cent to £2,070 million (2010: £1,941 million) and Group EEV operating profit based on longer-term investment returns ('EEV operating profit') by 8 per cent to £3,978 million (2010: £3,696 million) equivalent to an annualised return on embedded value of 16 per cent. The contribution to these metrics from each business operation and each source is more balanced than at any previous time in the Group's history, greatly enhancing both the quality and the resilience of the Group's earnings.

The continued growth in the profits of our Asian life insurance business was one of the highlights of our 2011 results, as Asia passed an important milestone becoming the largest contributor[4] to Group IFRS operating profit. Asia's long-term business IFRS operating profit was up 32 per cent in 2011 to £709 million (2010: £536 million) with particularly strong performances coming from our businesses in Indonesia, Singapore and Hong Kong. We continue to see significant opportunities to grow both the size and the productivity of our distribution channels across South-East Asia while maintaining good penetration of high margin health and

1 Excludes Japan which ceased writing new business in 2010.

2 Source: Annuity Specs

3 Source: Fundscape. (Q4 issue, December 2011). The Pridham Report. Fundscape LLP.

4 If long-term business is considered separately from asset management and UK general insurance commission.

protection insurance, and this should aid strong ongoing IFRS performance. Asia's long-term EEV operating profit, a measure of the economic value creation in the year, grew by 22 per cent in 2011 to £1,764 million (2010: £1,450 million) further underlining the creation of sustainable value by these operations.

In the US, long-term business IFRS operating profit was down 17 per cent in 2011 to £694 million (2010: £833 million). This reduction was due to the expected accounting impact of accelerated deferred acquisition cost (DAC) amortisation of £232 million (2010: £11 million), which masked an underlying improvement in earnings. Excluding this effect, Jackson's earnings continued to grow during 2011 reflecting the rising asset base which generates both higher revenues and scale economies. Fee income increased by 34 per cent from £506 million in 2010 to £680 million in 2011 as a result of the strong growth in separate account asset balances which at 31 December 2011 were 23 per cent higher at £38 billion (2010: £31 billion) reflecting strong net inflows in variable annuities. Spread income (including the expected return on shareholders' assets) was £813 million in 2011 (2010: £817 million) and the average spread margin that we earned on general account liabilities increased from 243 bps in 2010 to 258 bps in 2011. The general account closed the period with policyholder liabilities of £31 billion (2010: £29 billion). Jackson's long-term EEV operating profit decreased by 2 per cent in 2011 to £1,431 million (2010: £1,458 million).

In the UK long-term business IFRS operating profit was up by 1 per cent from £673 million in 2010 to £683 million in 2011, despite 2010 benefitting from a single large bulk annuity deal, which contributed £63 million to the result (2011: £23 million). Our UK business continues to focus on the sustained delivery of IFRS profits. The strength of the with-profits fund, which currently has a surplus estate of £6.1 billion, provides a secure platform to support future IFRS profits and cash generation. EEV operating earnings reduced by 9 per cent in 2011 to £853 million (2010: £936 million), principally reflecting the reduction in new business profits discussed above.

In asset management IFRS operating profit was up 22 per cent to £461 million compared to £378 million in 2010. M&G (including Prudential Capital) delivered a record performance growing IFRS operating profit by 26 per cent to £357 million (2010: £284 million) due to rising revenues which increased by 15 per cent on the prior year and a lower cost-income ratio of 60 per cent (2010: 63 per cent). Eastspring Investments produced a good performance as rising revenues and a fall in the cost-income ratio to 62 per cent (2010: 64 per cent) drove IFRS operating profit higher by 11 per cent to £80 million (2010: £72 million).

Capital generation

We take a disciplined approach to capital allocation across the Group. Over the last few years we have taken several important steps to improve the efficiency and effectiveness of the capital allocation process, emphasizing an unbiased focus on the products and geographies with the most attractive profitability characteristics. This has improved not only our returns on capital invested but also our capital strength and capital fungibility. In 2011 we have continued to produce significant amounts of free capital, which we measure as free surplus generated.

In 2011, we generated £2,536 million of underlying free surplus before reinvestment in new business from our life in-force and asset management businesses, up 8 per cent from £2,359 million in 2010. We reinvested £553 million of the free surplus generated in the period into writing new business. The majority of this reinvestment (£297 million) was into Asia, which remains the primary destination for investment within the Group. In the US, we invested £202 million in new business with a continued emphasis on variable annuities as we capitalised on the 'baby boomer' demand for the product and a weakened competitive environment following the financial market challenges of the last few years. In the UK, we invested £54 million in new business and our product focus remains annuities and with-profits bonds. The IRRs on this invested capital were more than 20 per cent in Asia, the US, and the UK; with payback periods of 3 years, 1 year and 4 years respectively.

Of the remaining free surplus generated after reinvestment in new business, £1,105 million was remitted from the business units to Group. This cash was used to meet central costs of £195 million, service net interest payments of £282 million and meet dividend payments of £642 million. Furthermore, an aggregate £205 million was paid to secure new distribution agreements in Asia and to the UK tax authorities following the settlement reached in 2010.

The remaining free surplus generated in the period was retained within our businesses and this has bolstered local capital ratios. The total free surplus balance deployed across our life and asset management operations increased from £3,338 million at the beginning of the period to £3,421 million at the end of the period.

'Growth and Cash' financial objectives

The following discussion contains forward-looking statements that involve inherent risks and uncertainties. Prudential's actual future financial condition or performance or other indicated results may differ materially from those indicated in any such forward-looking statement due to a number of important factors (including those discussed under the heading 'Risk factors' in this document). See the discussion under the heading 'Forward-looking statement' at the front of this document.

At our 2010 investor conference entitled 'Growth and Cash' we announced new financial objectives demonstrating our confidence in continued rapid growth in Asia, and increasing levels of cash remittances from all of our businesses. These objectives were defined as follows:

(i) Asia growth and profitability objectives[1]:
To double the 2009 value of IFRS life and asset management pre-tax operating profit in 2013 (2009: £465 million); and
To double the 2009 value of new business profits in 2013 (2009: £713 million).

(ii) Business unit cash remittance objectives[1]:
Asia to deliver £300 million of net cash remittance to the Group in 2013 (2009: £40 million);
Jackson to deliver £200 million of net cash remittance to the Group in 2013 (2009: £39 million); and
UK to deliver £350 million of net cash remittance to the Group in 2013 (2009: £284 million[2]).

(iii) Cumulative net cash remittances[1]:
All business units in aggregate to deliver cumulative net cash remittances of at least £3.8 billion over the period 2010 to end-2013. These net remittances are to be underpinned by a targeted level of cumulative underlying free surplus generation of £6.5 billion over the same period.

As mentioned in the Group Chief Executive's Report we believe we remain on track to achieve these objectives. Below we set out in more detail our progress towards these objectives based on our results in 2011.

Asia profitability objectives

	Actual					Objective
	2009 £m	2010 £m	2011 £m	Change (over 2010) %	Change (since 2009) %	2013 £m
Value of new business	713	901	**1,076**	19	51	**1,426**
IFRS operating profit*	465	604	**784**	30	69	**930**

Business unit net remittance objectives

	Actual			Objective
	2009 £m	2010 £m	2011 £m	2013 £m
Asia**	40	233	**206**	**300**
Jackson***	39	80	**322**	**200**
UK†	434	420	**297**	**350**
M&G‡	175	202	**280**	
Total	688	935	**1,105**	

Objectives for cumulative period 1 January 2010 to 31 December 2013

	Actual 1 Jan 2010 to 31 Dec 2011 £m	Objective 1 Jan 2010 to 31 Dec 2013 £m	Percentage achieved At 31 Dec 2011 %
Cumulative net cash remittances from 2010 onwards	**2,040**	**3,800**	**54%**
Cumulative underlying group free surplus generation (which is net of investment in new business)	**3,697**	**6,500**	**57%**

* Total Asia operating profit from long-term business and Eastspring Investments after development costs.
** Net remittances from Asia in 2010 included a one-off remittance of £130 million, representing the accumulation of historic distributable reserves.
*** Net remittances from Jackson include £122 million in 2011 representing releases of excess surplus to Group.
† In 2009, the net remittances from the UK include the £150 million arising from the pro-active financing techniques used to bring forward cash emergence of the in-force book during the financial crisis. The 2010 net remittances include an amount of £120 million representing the releases of surplus and net financing payments.
‡ Including Prudential Capital.

1 The objectives assume current exchange rates and a normalised economic environment consistent with the economic assumptions made by Prudential in calculating the EEV basis supplementary information for the half-year ended 30 June 2010. They have been prepared using current solvency rules and do not pre-judge the outcome of Solvency II, which remains uncertain.

2 Representing the underlying remittances excluding the £150 million impact of proactive financing techniques used to bring forward cash emergence of the in-force book during the financial crisis.

In 2011 net remittances from business operations increased to £1,105 million. All of our businesses are now remitting considerable amounts of cash to Group and this is in line with our strategy as we seek to move away from the historical reliance on the UK. Jackson delivered the largest increase in net remittances during 2011 as we began to reap the rewards of our post-financial crisis expansion in variable annuities. It is testament to the quality of what Jackson has achieved in recent years that it can pay such a large remittance while financing growth and maintaining a strong RBC ratio, which at the end of 2011 was 429 per cent. Remittances from the UK life operations continue to be underpinned by the with-profits business but also reflect positive cash-flows from the shareholder-backed business. M&G delivered a large increase in net remittances reflecting its highly profitable growth and its 'capital-lite' business model that facilitates a high dividend payout ratio from its earnings. Asia's remittances were also very strong in 2011 as it matures into an increasingly cash generative business reaping the rewards of its significant growth and its health and protection product focus.

Against the cumulative 2010 to 2013 target of £3.8 billion, by the end of 2011 a total of £2,040 million has been remitted by business operations. We remain confident of achieving this target. Our confidence is underpinned by the strong underlying free surplus generation of our businesses which, by the end of 2011, had generated a total of £3.7 billion against our 2010 to 2013 cumulative target of £6.5 billion.

Capital position, financing and liquidity

The Group has continued to maintain a strong capital position. At 31 December 2011, our IGD surplus is estimated at £4.0 billion (2010: £4.3 billion), with coverage a very strong 2.75 times the requirement. All of our subsidiaries maintain strong capital positions at the local regulatory level. As mentioned above, Jackson's RBC ratio at the end of 2011 was 429 per cent.

In addition to our strong capital position, on a statutory (Pillar 1) basis the total credit default reserve for the UK shareholder annuity funds also contributes to protecting our capital position in excess of the IGD surplus. This credit default reserve as at 31 December 2011 was £2.0 billion, notwithstanding the positive steps taken through 2011 to improve the credit quality of the £26.8 billion asset portfolio (measured on a statutory basis). This represents 33 per cent of the portfolio spread over swaps, compared with 43 per cent at 31 December 2010, when bond spreads over swap rates were much lower. Importantly it is equivalent to a default rate of 7.6 per cent over the life of these investments, considerably higher than what has been experienced historically for the types of fixed income securities that we hold.

Solvency II, which is currently anticipated to be effective from 1 January 2014, represents a major overhaul of the capital adequacy regime for European insurers. We are supportive in principle of the development of a more risk-based approach to capital, but we have concerns as to the potential consequences of some aspects of the Solvency II regime under consideration. With the continued delays to policy development, the final outcome of Solvency II remains uncertain. Despite this uncertainty we continue to prepare for when the regime is eventually implemented.

Our financing and liquidity position remained strong throughout the year. In December of 2011 we redeemed €500 million of Tier 2 subordinated notes at their first call date. This redemption was effectively pre-financed via an issuance of US$550 million of Tier 1 subordinated notes in January of 2011, which raised £340 million net of transaction costs. The next call on external financing is in December 2014 on the $750 million of Perpetual Subordinated Capital Securities. Our central cash resources amounted to £1.2 billion at the end of 2011, a strong position.

We continue to engage with rating agencies in order to provide insurance financial strength ratings for the Group's insurance operations. Prudential's senior debt is currently rated A+ by Standard & Poor's, A2 by Moody's and A by Fitch.

Shareholders' funds

In 2011, investment markets experienced considerable volatility and recorded drops in both the global equity market indices and in long-term interest rates. Despite these effects the Group's EEV shareholders' funds increased by 8 per cent during 2011 to £19.6 billion (2010: £18.2 billion). On a per share basis EEV at the end of 31 December 2011 stood at 771 pence, up from 715 pence at 31 December 2010. IFRS shareholders' funds were also 14 per cent higher at £9.1 billion (2010: £8.0 billion).

The increases on both reporting bases are the result of the Group's strong operating performance, offset by the relatively muted effect of the investment markets on the business, reflecting both the quality of the asset portfolio and the effectiveness of our proactive approach to risk management.

Asia operations

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

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

Market overview

The European debt crisis is driving significant uncertainty in the global economy, however, Asia looks set to remain a world economic powerhouse as although lower external demand is impacting growth, regional and domestic demand remains robust. The Asian Development Bank[2] expects the Asian economies[3] to grow by around 7 per cent in 2012, down from about 7.5 per cent in 2011 and 9 per cent in 2010, but still significantly higher than the rest of the world. Prudential is well placed to participate in this growth as one of the region's leading providers of long-term savings and protection products.

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

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

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

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

The size and significance of Asian insurers has increased in recent years. A consequence of this has been their increased presence in the capital markets. Today there is far more disclosure and analysis of the financial performance of the businesses than was the case a few years ago, but there is still some way to go before the industry has common reporting standards and accounting practices. Market leadership is still typically gauged by simple sales metrics although this is changing as metrics that emphasise value generated using a risk-based assessment of returns to policyholders and shareholders are becoming more prevalent.

1 Excludes Japan which ceased writing new business in 2010.

2 Source: Published in the Asia Economic Monitor December 2011.

3 Excluding Australia and New Zealand

Regulators are now taking a broader view of market leadership too; leaders are expected to behave in an exemplary manner at all times, to drive improvements in all aspects of the business and to champion a variety of social initiatives.

Business performance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Looking at individual countries:

China

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

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

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

Hong Kong

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

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

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

India

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

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

Indonesia

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

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

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

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

Korea

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

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

Malaysia

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

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

Singapore

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

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

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

Taiwan

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

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

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

Others – Philippines, Thailand and Vietnam

	AER			CER	
	2011 £m	**2010 £m**	**Change %**	**2010 £m**	Change %
APE sales	**99**	90	10	86	15

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

Japan

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

US operations

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

Market overview

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

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

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

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

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

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

Business performance

Continue to drive positive net retail sales

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

1 Source: US Census Bureau

2 Source: McKinsey

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

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

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

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

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

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

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

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

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

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

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

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

1 Source: Morningstar Annuity Research Center (MARC)

2 Source: Cogent Research Advisor BrandscapeTM 2011

Jackson's strategy of proactively managing fixed annuity (FA) volumes resulted in APE sales of £47 million, 44 per cent lower than in 2010. Jackson ranked 14th in sales of traditional deferred fixed annuities through the third quarter of 2011, with a market share of 1.9 per cent, compared to eighth with a 3.4 per cent market share for the full year 2010[1].

Fixed index annuity (FIA) APE sales of £93 million in 2011 were down 15 per cent from 2010 as Jackson continued to focus its marketing efforts on higher margin VA products. Jackson ranked ninth in sales of fixed index annuities through the third quarter of 2011, with a market share of 4.6 per cent, down from sixth and a market share of 5.2 per cent in the full year 2010[2].

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

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

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

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

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

Jackson's RBC level at the end of 2011 was 429 per cent, which compares to 483 per cent in 2010. Jackson continues to have in place a SSAP86[3] permitted practice which has the effect of valuing the interest rate hedge programme at cost, thereby not recognising in the RBC ratio the significant mark to market gains on this programme that arose from the decline in interest rates during 2011. The RBC ratio would be 482 per cent (2010: 470 per cent) without the permitted practice. Jackson's RBC ratio remains at an appropriate level despite net remittances of £322 million during 2011, a testament to both the strength of Jackson's balance sheet and the effectiveness of the hedging programme.

1 Source: LIMRA

2 Source: AnnuitySpecs

3 Statement of Statutory Principle No. 86 – Accounting for Derivative Instruments and Hedging, Income Generation, and Replication (Synthetic Asset) Transactions

UK operations

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

Market overview

The UK life & pensions market, which is mature and the third largest in the world, is characterised by a concentration of wealth in the 45 to 74 age group and an ageing population, as the 'baby boomers' get older and progressively move into retirement. Many of these individuals are insufficiently prepared financially for the prospect of spending longer in retirement and as a result, are considering extending their working lives while adopting a more flexible approach towards retirement. Prudential UK is well positioned to help the 'baby boomers' and subsequent generations meet their financial needs both as they approach and during retirement through its range of market leading with-profits and annuity products.

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

Business performance

Strategic focus on core strengths

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

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

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

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

Corporate pensions sales of APE £233 million were 5 per cent higher than in 2011, with strong sales to new members of existing private sector schemes in the first half of the year due in part to existing customers transferring members from their defined benefit schemes to defined contribution schemes. Prudential UK continues to focus on retaining and developing existing schemes, securing new members and incremental business.

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

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

With-profits performance

The strength and performance track record of Prudential UK's With-Profits Fund is widely recognised. Despite extreme market volatility in 2011 the Fund continues to provide customers with solid returns over medium to long-term time horizons. Over ten years the Fund has delivered investment returns of 92.7 per cent, which compares favourably with other with-profits funds and the FTSE All-Share Index (total return) of 59.5 per cent over the same period. This strong medium to long-term performance has shown

that with-profits, when invested in an actively managed and financially strong fund like Prudential's, continues to be a very attractive medium to long-term investment, offering strong annualised returns compared with other investment options. Prudential's with-profits customers benefit from the security offered by Prudential's large inherited estate, with the free assets of the with-profits fund valued at approximately £6.1 billion at the year end, valued on the regulatory realistic basis.

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

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

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

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

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

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

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

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

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

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

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

M&G

	AER			CER	
	2011	**2010**	**Change**	**2010**	**Change**
	£m	**£m**	**%**	**£m**	**%**
Gross investment inflows	**25,981**	26,372	(1)	26,372	(1)
Net investment flows					
Retail business	**3,895**	7,416	(47)	7,416	(47)
Institutional business	**490**	1,689	(71)	1,689	(71)
Total	**4,385**	9,105	(52)	9,105	(52)
Revenue	**702**	612	15	612	15
Other income	**4**	3	33	3	33
Staff costs	**(285)**	(263)	(8)	(263)	(8)
Other costs	**(141)**	(123)	(15)	(123)	(15)
Underlying profit before performance-related fees	**280**	229	22	229	22
Performance-related fees	**21**	17	24	17	24
Operating profit from asset management operations	**301**	246	22	246	22
Operating profit from Prudential Capital	**56**	38	47	38	47
Total IFRS operating profit	**357**	284	26	284	26
Funds under management	**201 bn**	198 bn	2	198 bn	2

Market overview

M&G is the UK and European fund manager of the Prudential Group with responsibility for investments on behalf of both internal and external clients. M&G is an investment-led business whose aim is to generate superior long-term returns for its third-party investors and the internal funds of the Prudential Group. This is achieved by creating an environment that is attractive to investment talent. Our investment performance has been robust in the face of on-going macroeconomic instability. Over the three years to 31 December 2011, 25 retail funds representing approximately 76 per cent of retail funds under management (FUM), delivered first and second quartile investment performance. The performance of our actively managed external institutional fixed income mandates also remains very strong with all of the mandates meeting or outperforming their benchmarks over the three years to 31 December 2011.

In the retail market, M&G's aim is to operate a single fund range and to diversify the distribution base by accessing a wide variety of channels and geographies. In recent years, this has resulted in significantly increased sales of UK-based funds in European and other international markets.

In the institutional marketplace, M&G's approach centres on leveraging capabilities developed primarily for the Prudential internal funds to create higher margin external business opportunities. This has allowed M&G to offer third-party clients, such as pension funds, an innovative range of specialist fixed income and related strategies, including private debt opportunities in leveraged finance, and infrastructure investment.

Market context

Following considerable uncertainty over sovereign debts on both sides of the Atlantic and concerns over the lack of global economic growth, the third quarter of 2011 saw the FTSE 100 suffer its worst quarter for nine years, falling 14 per cent. Markets rebounded over the fourth quarter with the index rising by 9 per cent. M&G's FUM has proved resilient in the face of the market volatility experienced over the second half of the year. From a FUM level of £194.4 billion at the end of 30 September 2011, M&G's FUM increased to £201.3 billion by 31 December 2011. This included external funds under management, representing 46 per cent of total FUM, of £91.9 billion (quarter to 30 September 2011: £87.3 billion).

Business performance

In 2011, M&G attracted gross inflows of £26.0 billion and net inflows of £4.4 billion, with retail funds contributing the lion's share of the net position with £3.9 billion. After two successive years of extremely high net sales, it was our expectation that net fund flows would revert to somewhat lower levels in 2011 especially in light of the economic headwinds experienced over the year. However, while net sales are indeed lower, they remain strong. Our ability to maintain this sales performance over the year again demonstrates our strength and depth across all the main asset classes and distribution channels.

Gross new business wins for the fourth quarter to 31 December 2011 totalled £6.2 billion, compared to £6.4 billion for the previous quarter. Outflows totalled £4.4 billion (quarter to 30 September 2011: £6.7 billion), resulting in net inflows for the quarter of £1.8 billion. This was a positive turnaround on the total net outflow of £288 million experienced in the quarter to 30 September 2011.

Retail

As announced previously, volatile market conditions and reduced investor confidence led to a considerable worsening of the sales environment in the overall market during the second half of 2011, in both Europe and the UK, and particularly for equity products.

The European funds industry suffered net outflows of €69.3 billion in 2011 – only the second time in the past decade (net outflows were €298 billion in 2008)[1]. This result masks a significant divide between the first half of the year, which saw net inflows of €96

1 Source: Lipper FMI (February 2012, data as at December 2011). FundFlash. Thomson Reuters

billion, and the second half with net outflows of around €165 billion. It also masks a divide between markets where investors have been the greatest net buyers (notably the UK) and where they have been in significant net outflow (Continental Europe) as 21 out of 33 markets suffered full year outflows.

Despite this challenging flow environment, M&G's Retail business generated positive net sales in the final quarter. In our core UK market, gross inflows of £2.7 billion were generated over the quarter with corresponding net inflows of over £1.1 billion. Over the full year to 31 December 2011, M&G's UK Retail business has received gross inflows of £11.2 billion, representing an increase of 10 per cent on 2010 levels. At the net level, the UK Retail business recorded inflows of £4.3 billion, a modest fall of only 3 per cent on 2010 results.

M&G's UK Retail business has been number one for gross and net retail sales over 13 consecutive quarters based on data to 31 December 2011[1]. The strength of our UK distribution channels has helped to offset the difficult conditions encountered in mainland Europe, where risk-averse investors have been withdrawing money from funds. M&G's European Retail distribution business did make up lost ground over the fourth quarter with positive net inflows being received. M&G continued to expand its distribution capabilities, registering its OEIC fund range in Finland, Norway and Denmark in the fourth quarter. By retail net sales, M&G ranked ninth out of 48 cross-border groups in 2011[2]. M&G-managed retail FUM sourced outside of the UK now stand at £8.2 billion, the equivalent of almost one-fifth of the total retail external funds managed by M&G.

In product terms, retail fund flows across the industry, affected by the eurozone crisis, have seen muted demand for equity products in aggregate as bond products continue to remain the default choice for risk-averse investors. However, flows into some of M&G's flagship equity products have remained robust in spite of stock market conditions, with investor appetite for our global equity and emerging market products continuing. M&G's Property Portfolio Fund has also benefited from a consistent level of net sales over the full year. It is a core pillar of M&G's business performance that it is able to benefit from changing investor preferences as a result of its diversified product offering. No fewer than 14 of M&G's retail funds, representing all of the main asset classes, achieved net sales in excess of £50 million over the full year.

Institutional
M&G's Institutional business had a strong fourth quarter pushing the business into positive territory for the full year with net inflows of £490 million. The outflows experienced over the year included, as expected, a number of segregated clients withdrawing money from public debt funds due to asset allocation decisions. Additionally, outflows also reflected the contractual return of £696 million in capital to investors in mature closed-ended debt structures.

M&G's Institutional business continues to benefit from its innovative approach to investment. The Alternative Credit team has raised £200 million of capital for a UK social housing fund, the first fund of its kind to capitalise on the income-generating nature of the sector. This is the second instance of M&G creating a fund to assist organisations starved of bank loans since the onset of the credit crisis. The M&G UK Companies Financing Fund (UKCFF), M&G's loan facility for UK quoted companies, has now made total commitments of £710 million across eight loans, five of which were extended over 2011. Total commitments of £1.4 billion have been raised since its launch in 2009.

The M&G Secured Property Income Fund combines the expertise of both M&G's Fixed Income Team, with its extensive credit research capability, and PRUPIM, the real estate fund management arm of the M&G Group and its core capability in real estate investment analysis. The Fund, which offers pension fund investors an alternative means of managing their inflation liabilities, passed through a net asset value (NAV) of £1 billion during the final quarter. £350 million in total was added to the NAV in 2011. Fund performance is strong, investor interest remains high and we continue to work hard at maintaining a suitable pipeline of acquisition opportunities.

Awards
Our expertise and strong performance have been recognised by independent authorities within the industry and we have won an array of awards for our funds and as a group. These include M&G being awarded the prestigious 2011 Old Broad Street Research Outstanding Investment House Award for the second year running. The strength of M&G's performance in the institutional market is evidenced by the award of Fixed Income Manager of the Year 2011 at the Financial News Awards for Excellence in Institutional Asset Management. Indeed, M&G's flagship institutional UK corporate bond fund, with over £3.5 billion of FUM at 31 December 2011, has outperformed its benchmark[3] by 2.0 per cent[4] a year since the onset of the credit crisis in December 2008.

Financial performance
M&G continues to execute against its strategy and deliver strong performance for both clients and its shareholder, the Prudential Group. M&G's 2011 financial performance continues the momentum from the strong full year results recorded in 2010. Revenues have continued to improve steadily, rising £90 million (15 per cent), while costs remain under control, increasing by only £40 million (10 per cent). As a result, operating profits grew by 22 per cent during the year to a record level of £301 million, surpassing the previous best of £246 million set in 2010. M&G's operating margin increased to 40 per cent (year to 31 December 2010: 37 per cent)[5]. M&G's very strong profit performance reflects in particular the transformation in net sales experienced by the business since the beginning of 2009, particularly from the Retail business. We continue to seek operational efficiencies across the M&G Group to

1 Source: Fundscape. (Q4 issue, February 2012). The Pridham Report. Fundscape LLP

2 Source: Lipper FMI. (February 2012, data as at December 2011). SalesWatch. Thomson Reuters

3 The benchmark for the Fund is the iBoxx Sterling Non Gilts Index.

4 Returns are gross estimates on an offer to offer basis.

5 Excluding performance-related fees.

support the scalability of our business model. This cost discipline, combined with the rise in FUM has generated a cost / income ratio[1] of 60 per cent for the full year, an improvement on the 2010 result of 63 per cent.

Given the on-going strength of its financial performance, M&G continues to provide capital-efficient profits and cash generation for the Group. This is in addition to the strong investment returns generated on the internally managed funds. M&G remits a substantial proportion of its post-tax profits to the shareholder, which in 2011 amounted to £213 million (2010: £150 million).

Prudential Capital

Prudential Capital manages the Group's balance sheet for profit by leveraging Prudential's market position. This business has three strategic objectives: to provide professional treasury services to the Prudential Group; to operate a first-class wholesale and capital markets interface; and to realise profitable opportunities within a tightly controlled risk framework. 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 the existing asset portfolio and conservative 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.

Prudential Capital has a diversified earnings base derived from its portfolio of secured loans, debt investments and the provision of wholesale markets services. Despite the continued difficult market conditions, IFRS operating profit was £56 million in 2011 (2010: £38 million). In 2011 a total of £67 million was remitted to the Group.

1 Excluding performance-related fees and carried interest on private equity investments.

Eastspring Investments

	AER			CER	
	2011 £m	**2010 £m**	**Change %**	**2010 £m**	**Change %**
Gross investment inflows (excluding MMF)	**7,824**	11,973	(35)	11,959	(35)
Net investment inflows (excluding MMF)	**633**	1,837	(66)	1,882	(66)
Money Market Funds (MMF) net outflows	**(512)**	(2,052)	(75)	(1,954)	(74)
Funds under management	**50.3 bn**	51.9 bn	(3)	51.3 bn	(2)
Total IFRS operating profit	**80**	72	11	73	10

Market overview
Prudential's asset management business in Asia manages investments for Asian third-party retail and institutional clients in addition to investments of Prudential's Asian, UK and US life companies.

Markets remained challenging in 2011, with overall net outflows seen in the Asia (excluding Japan) onshore funds market. Equity markets struggled to gain traction driven by poor investor sentiment in the face of weak macroeconomic signals. Japan was also impacted by the natural disaster which occurred earlier in the year.

Eastspring Investments
In November 2011, Prudential announced that its Asian Fund Management operations would be rebranded Eastspring Investments. The new brand, which was officially launched in February 2012, will enable the business to establish a cohesive regional presence thereby penetrating the offshore segment more effectively. It also supports distribution to new markets beyond Asia.

Business performance
Total funds under management of £50.3 billion were down 3 per cent over the same period last year. The effect of positive net flows from the Asian Life Business and third party retail and institutional clients, was offset by the combined effect of outflows in the low margin money market funds (MMF) and the negative market movements particularly in the second half of the year.

Net inflows from third parties (excluding MMF) were £633 million compared to net inflows of £1,837 million during 2010. This is attributed to lower bond fund returns and to Japan, where significant inflows from the launch of the Asia Oceania equity fund in 2010 were not repeated in 2011. Clearly the environment in Japan was not conducive to product launches in the first half of 2011. This situation was partially mitigated by net inflows from corporate and institutional clients in Korea, together with new institutional mandates.

Financial performance
IFRS profits of £80 million are a record and were up 11 per cent on prior year as a result of higher average funds under management and disciplined management of costs.

US asset management

PPM America

	AER			CER	
	2011 £m	**2010 £m**	**Change %**	**2010 £m**	**Change %**
Total IFRS operating profit	**4**	10	(60)	10	(60)

Market overview
PPM America (PPMA) manages assets for Prudential's US, UK and Asian affiliates. PPMA also provides other affiliated and unaffiliated institutional clients with investment services including collateralised debt obligations (CDOs), private equity funds, institutional accounts, and mutual funds. PPMA's strategy is focused on managing existing assets effectively, maximising the benefits derived from synergies with our international asset management affiliates, and leveraging investment management capabilities across the Prudential Group. PPMA also pursues third-party mandates on an opportunistic basis.

Financial performance
IFRS operating profit in 2011 was £4 million, compared to £10 million in 2010, due to the non-recurrence of the 2010 performance related fees.

At 31 December 2011, funds under management of £55 billion were as follows:

	AER							
	2011				**2010**			
	US £bn	**UK £bn**	**Asia £bn**	**Total £bn**	**US £bn**	**UK £bn**	**Asia £bn**	**Total £bn**
Insurance	**32**	**15**	**-**	**47**	31	15	-	46
Unitised	**1**	**1**	**5**	**7**	1	1	5	7
CDOs	**1**	**-**	**-**	**1**	1	-	-	1
Total funds under management	**34**	**16**	**5**	**55**	33	16	5	54

Curian

	AER			CER	
	2011 £m	**2010 £m**	**Change %**	**2010 £m**	**Change %**
Gross investment flows	**1,684**	1,361	24	1,312	28
Revenue	**51**	39	31	37	38
Costs	**(45)**	(38)	18	(36)	25
Total IFRS operating profit	**6**	1	500	1	500
Total funds under management	**4.7bn**	3.5bn	34	3.5bn	34

Market overview
Curian Capital, Jackson's registered investment advisor, provides innovative fee-based managed accounts and investment products to advisers through a sophisticated technology platform. Curian expands Jackson's access to advisers while also complementing Jackson's core annuity product lines with Curian's retail asset management products.

Business performance
At 31 December 2011, Curian had total assets under management of £4.7 billion, compared to £3.5 billion at the end of 2010. Curian generated record deposits of £1,684 million in 2011, up 24 per cent over 2010. Curian continues to benefit from its prior investment platform expansions and its significant expansion in 2011 of the firm's wholesaling team and new distribution territories.

Financial performance
Curian reported an IFRS basis operating profit of £6 million in 2011 compared to £1 million in 2010.

US Broker-dealer

National Planning Holdings, Inc.

	AER			CER	
	2011 £m	**2010 £m**	**Change %**	**2010 £m**	**Change %**
Revenue	491	449	9	433	13
Costs	(477)	(438)	9	(422)	13
Total IFRS operating profit	14	11	27	10	40

Market overview
National Planning Holdings, Inc. (NPH) is Jackson's affiliated independent broker-dealer network. The business is comprised of four broker-dealer firms, including INVEST Financial Corporation, Investment Centers of America, National Planning Corporation, and SII Investments.

NPH continues to grow the business and revenue per representative. By utilising high-quality, state-of-the-art technology, Jackson provides NPH's advisers with 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, as well as receive valuable insights into the needs of financial advisers and their clients.

Financial performance
NPH generated revenue of £491 million in 2011, up from £449 million in 2010, on gross product sales of £8.6 billion. The network continues to achieve profitable results, with 2011 IFRS operating profit of £14 million, a 27 per cent increase from £11 million in 2010. At 31 December 2011, the NPH network had 3,636 registered advisers, up from 3,461 at year end 2010.

Financial Review

Results Summary

International Financial Reporting Standards (IFRS) Basis Results*

Statutory IFRS basis results

	2011	2010
Profit after tax attributable to equity holders of the Company	**£1,490m**	£1,431m
Basic earnings per share	**58.8 p**	56.7 p
Shareholders' equity, excluding non-controlling interests	**£9.1bn**	£8.0bn

Supplementary IFRS basis information

	2011 £m	2010 £m
Operating profit based on longer-term investment returns*	**2,070**	1,941
Short-term fluctuations in investment returns on shareholder-backed business	**(148)**	(123)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**21**	(10)
Costs of terminated AIA transaction	**-**	(377)
Gain on dilution of Group holdings	**-**	30
Profit before tax attributable to shareholders	**1,943**	1,461
Operating earnings per share* (reflecting operating profit based on longer-term investment returns after related tax and non-controlling interests)[(i)]	**63.9 p**	62.0 p

European Embedded Value (EEV) Basis Results*

	2011 £m	2010 £m
Asian operations	**1,839**	1,518
US operations	**1,455**	1,480
UK operations:		
UK insurance operations	**893**	982
M&G	**357**	284
Other income and expenditure	**(536)**	(494)
RPI to CPI inflation measure change on defined benefit pension schemes	**45**	-
Restructuring and Solvency II implementation costs	**(75)**	(74)
Operating profit based on longer-term investment returns*	**3,978**	3,696
Short-term fluctuations in investment returns	**(907)**	(30)
Mark to market value movements on core borrowings	**(14)**	(164)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**23**	(11)
Effect of changes in economic assumptions	**(158)**	(10)
Costs of terminated AIA transaction	-	(377)
Gain on dilution of Group holdings	-	3
Profit before tax (including actual investment returns)	**2,922**	3,107
Operating earnings per share* (reflecting operating profit based on longer-term investment returns after related tax and non-controlling interests)[(i)]	**115.7 p**	106.9 p
Shareholders' equity, excluding non-controlling interests	**19.6 bn**	18.2 bn

	2011	2010
Dividends per share declared and paid in reporting period	**25.19 p**	20.17 p
Dividends per share relating to reporting period	**25.19p**	23.85 p
Funds under management	**£351bn**	£340bn
Insurance Groups Directive capital surplus (as adjusted)*	**£4.0bn**	£4.3bn

(i) Operating earnings per share reflects operating profit based on longer-term investment returns after related tax and non-controlling interests but excludes in 2010 an exceptional tax credit of £158 million which primarily relates to the impact of a settlement agreed with the UK tax authorities.

* See basis of preparation on following page.

* Basis of preparation

Results bases
The basis of preparation of the statutory IFRS basis results and supplementary IFRS basis information is consistent with that applied for the full year 2010 results and financial statements.

The EEV basis results have been prepared in accordance with the European Embedded Value principles issued by the CFO Forum of European Insurance Companies in May 2004 and expanded by the Additional Guidance on EEV disclosures published in October 2005. Life insurance products are, by their nature, long-term and the profit on this business is generated over a significant number of years. Accounting under IFRS alone does not, in Prudential's opinion, fully reflect the value of future profit streams. Prudential considers that embedded value reporting provides investors with a measure of the future profit streams of the Group's in-force long-term businesses and is a valuable supplement to statutory accounts. There has been no change to the basis of presentation of the EEV results from the 2010 results and financial statements.

Exchange translation – Actual Exchange Rate (AER) and Constant Exchange Rate (CER)
The comparative results have been prepared using previously reported exchange rates (AER basis) except where otherwise stated. In particular results on a constant exchange rate (CER) basis are shown for the analysis of IFRS and EEV operating profit based on longer-term investment returns.

Operating profit based on longer-term investment returns
Consistent with previous reporting practice, the Group provides supplementary analysis of IFRS profit before tax attributable to shareholders and analyses its EEV basis results, so as to distinguish operating profit based on longer-term investment returns from other elements of total profit. On both the IFRS and EEV bases, operating earnings per share are calculated using operating profits based on longer-term investment returns, after related tax and non-controlling interests.

These profits exclude short-term fluctuations in investment returns and the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes. The operating profit based on longer-term investment returns for 2010 also excludes the costs associated with the terminated AIA transaction and the gain arising upon the dilution of the Group's holding in PruHealth.

Under the EEV basis, where additional profit and loss effects arise, operating profit based on longer-term investment returns also excludes the mark to market value movements on core borrowings and the effect of changes in economic assumptions.

After adjusting for related tax and non-controlling interests, the amounts excluded from operating profit based on longer-term investment returns are included in the calculation of basic earnings per share based on total profit attributable to the company's equity holders.

Insurance Groups Directive capital surplus (as adjusted)
The surpluses shown for 2011, which is estimated, and 2010 are before allowing for the final dividends for 2011 and 2010 respectively.

Accounting policy change to be applied in 2012
In October 2010, the Emerging Issues Task Force of the US Financial Accounting Standards Board issued new guidance on accounting for Deferred Acquisition Costs (DAC), effective for reporting periods commencing after 15 December 2011. These proposals restrict the acquisition costs that can be deferred to future periods to those costs that are directly incremental to acquiring a new contract. Although Prudential does not report in accordance with US GAAP, under the accounting policies applied in accordance with IFRS 4, US GAAP is used to measure the insurance assets and liabilities of Jackson and certain of Prudential's Asian operations. Prudential has therefore chosen, as an accounting improvement, to adopt from 1 January 2012 the new US GAAP DAC proposals for these entities. This change will first be applied in the 2012 half year financial report and there is no impact on the results included in this announcement for 2011 and 2010. However, on adoption of the new policy, which will be applied retrospectively, the 2011 IFRS operating profit based on longer-term investment returns will be altered from £2,070 million to £2,027 million, profit before tax attributable to shareholders will be altered from £1,943 million to £1,828 million, and shareholders' funds at 31 December 2011 will be altered from £9,117 million to £8,564 million. Further details, together with the equivalent impacts on the 2010 results and shareholders' funds, can be found in note 8 of the IFRS additional memorandum information. The change of policy has no effect on the regulatory capital position of the Group or on the overall EEV basis results, other than the presentational analysis of EEV shareholders' funds between the component representing IFRS basis shareholders' equity and the component representing additional shareholders' retained profit recognised on the EEV basis.

IFRS Results

IFRS basis operating profit based on longer-term investment returns

		AER		CER	
	2011 £m	2010 £m	Change %	2010 £m	Change %
Insurance business					
Long-term business:					
Asia	**709**	536	32	533	33
US	**694**	833	(17)	803	(14)
UK	**683**	673	1	673	1
Development expenses	**(5)**	(4)	25	(4)	25
Long-term business profit	**2,081**	2,038	2	2,005	4
UK general insurance commission	**40**	46	(13)	46	(13)
Asset management business:					
M&G (including Prudential Capital)	**357**	284	26	284	26
Eastspring Investments	**80**	72	11	73	10
Curian	**6**	1	500	1	500
US broker-dealer and asset management	**18**	21	(14)	20	(10)
	2,582	2,462	5	2,429	6
Other income and expenditure	**(483)**	(450)	7	(449)	8
RPI to CPI inflation measure change on defined benefit pension schemes[(i)]	**42**	-	n/a	-	n/a
Solvency II implementation costs	**(55)**	(45)	22	(45)	22
Restructuring costs	**(16)**	(26)	(38)	(26)	(38)
Total IFRS basis operating profit based on longer-term investment returns	**2,070**	1,941	7	1,909	8

(i) During 2011 the Group altered its assumptions for future statutory increases to pension payments for its UK defined benefit pension schemes. This reflects the UK Government's decision to change the basis of indexation from RPI to CPI.

In 2011, the Group's IFRS operating profit based on longer-term investment returns was £2,070 million, an increase of 7 per cent from 2010.

In Asia, IFRS operating profit for long-term business increased by 32 per cent from £536 million in 2010 to £709 million in 2011. Profits from in-force business grew by 29 per cent between the two periods from £593 million to £763 million, reflecting the continued growth of the business in the region. New business strain of £54 million (2010: £56 million[1]) was lower despite higher sales due to favourable product and country mix.

Hong Kong, Indonesia, Singapore and Malaysia, Prudential's largest markets in Asia, continue to see profits grow strongly, with operating profits from long-term business[2] up 27 per cent from £434 million in 2010 to £552 million in 2011. The growth in Indonesia operating profit[2] has been particularly strong, up 35 per cent from £157 million to £212 million, reflecting the organic growth of that business over recent years. Hong Kong's operating profit[2] increased 35 per cent to £69 million (2010: £51 million), reflecting the continued growth of the portfolio. Singapore increased by 29 per cent to £167 million[2] (2010: £129 million) and Malaysia increased by 7 per cent from £97 million to £104 million[2]. Other territories contributed operating profits of £119 million before non-recurring items (2010: £83 million) an increase of 43 per cent and have all made positive contributions to this metric for the first time.

The US long-term business operating profit decreased by 17 per cent from £833 million in 2010 to £694 million in 2011 and is after charging £232 million (2010: £11 million) of accelerated DAC amortisation as anticipated. This charge, which is not expected to recur, arises as a result of market movements and their interaction with the mean reversion methodology. It has the effect of masking an underlying improvement in the earnings of the US business, reflecting higher fees from variable annuity business following the growth of separate account balances in recent years. The benefit of higher fees is partially offset by administration expenses which have also increased broadly in line with the scale of business.

In Prudential's UK business, total IFRS operating profit was slightly higher than the prior year at £723 million (2010: £719 million), with long-term business generating £683 million (2010: £673 million). The year on year comparisons are distorted by the effect of bulk annuity transactions which are infrequent and vary in size between financial periods. Our approach to these is very selective and we will only write this business when it meets our strict profitability criteria. Two such transactions were completed in 2011 contributing £23 million to IFRS profits, compared to one transaction in 2010 with an IFRS profit contribution of £63 million.

Life business in the UK (excluding the impact of the bulk annuity transactions), contributed operating profits of £660 million in 2011, 8 per cent higher than the £610 million generated in 2010. The contribution from with-profits business was lower at £293 million (2010: £310 million). Operating profit from non-profit annuity and other life business was £67 million higher at £367 million, reflecting higher annuity profits. Profit from UK general insurance commission were lower at £40 million (2010: £46 million) following the expected decline of the in-force policy numbers as the business matures.

1 Excludes Japan which ceased writing new business in 2010. New business strain was in 2010 £1 million.

2 Before non-recurring items.

Total operating profit for 2011 from M&G and Prudential Capital was £357 million, an increase of 26 per cent from £284 million in 2010. This performance is driven by improved revenues reflecting the strong net inflows received in recent periods, with funds under management of £201 billion at 31 December 2011, compared with £198 billion at 31 December 2010, together with a continued focus on cost discipline which saw a 3 percentage point reduction in the cost/income ratio.

Eastspring Investments reported operating profits of £80 million, an increase of 11 per cent from the £72 million recognised in 2010. This improvement is driven both by increased operating revenues from higher average funds under management during 2011 and continued cost discipline resulting in a 2 percentage point improvement in the cost/income ratio.

The £33 million increase in the charge for other income and expenditure from £450 million in 2010 to £483 million in 2011 primarily reflects an increase in interest payable on core structural borrowings, following additional debt raised in January 2011 to repay debt in December 2011.

Following the UK Government's decision to change the basis of indexation from RPI to CPI, the Group altered its assumptions for future statutory increases to pension payments for its UK defined benefit pension schemes. This resulted in a one-off credit to operating profit of £42 million in 2011 and will not recur going forward.

A total of £55 million of Solvency II implementation costs were incurred in 2011 (2010: £45 million) as we move closer to the implementation of the new regime.

IFRS basis results - Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver

	AER 2011			AER 2010 [iii]			CER 2010		
	Operating profit £m	**Average liability £m**	**Margin[i] bps**	**Operating profit £m**	**Average liability £m**	**Margin[i] bps**	**Operating profit £m**	**Average liability £m**	**Margin[i] bps**
Spread income	**1,065**	**57,417**	**185**	1,013	53,894	188	988	53,056	186
Fee income	**870**	**68,298**	**127**	688	56,822	121	669	56,303	119
With-profits	**331**	**93,056**	**36**	342	89,693	38	342	90,060	38
Insurance margin	**736**			592			582		
Margin on revenues	**1,425**			1,212			1,211		
Expenses									
Acquisition costs[ii]	**(1,783)**	**3,681**	**(48)%**	(1,645)	3,492	(47)%	(1,612)	3,439	(47)%
Administration expenses	**(1,043)**	**125,715**	**(83)**	(924)	110,716	(83)	(910)	109,359	(83)
DAC adjustments	**280**			518			498		
Expected return on shareholder assets	**200**			242			237		
Operating profit based on longer-term investment returns	**2,081**			2,038			2,005		

(i) Margin represents the operating return earned in the period as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus. For UK and Asia, opening and closing policyholder liabilities have been used to derive an average balance for the period, as this is seen as a good proxy for average balances throughout the year. Given the volatility in the year the calculation of average liabilities has been refined for Jackson in two ways: (i) the average for both the general and separate account balances is now derived from month-end balances throughout the year as opposed to opening and closing balances only, and (ii) liabilities held in the general account for variable annuity living and death guaranteed benefits have been excluded from the calculation of the average as no spread income is earned on these balances. The 2010 balances for Jackson have been amended for consistency albeit impacts are minimal.

(ii) Acquisition cost ratio represents shareholder acquisition costs as a percentage of total APE (including £7 million of sales for Japan in 2010).

(iii) Following the reduction in 2010 of the Group's interest in the PruHealth and PruProtect businesses from 50 per cent to 25 per cent, the profits of these businesses have been shown as a single line in the insurance margin line consistent with associate accounting principles. 2010 has been amended in light of this change.

Spread income has increased by £52 million to £1,065 million, an increase of 5 per cent, broadly in line with the growth in average liabilities. The margin secured has fallen from 188 bps in 2010 to 185 bps in 2011 principally due to 2010 benefiting from higher bulk annuity sales. Spread income in the US has increased by £38 million, with 2011 continuing to benefit from transactions to more closely match asset and liability duration as well as lower amounts credited to policyholders on fixed annuities.

Fee income has increased by £182 million to £870 million driven by the 20 per cent increase in the Group's average unit-linked liabilities, which principally reflects the £7.0 billion net inflows into Jackson separate's accounts in 2011. The fee income margin has increased from 121 bps to 127 bps in 2011 as Jackson contributes a greater proportion to the total, where the fee margin is higher.

Insurance margin has increased by £144 million to £736 million in 2011 driven in part by the continuing growth in the in-force book in Asia, which has a relatively high proportion of risk-based products.

Margin on revenues principally comprises amounts deducted from premiums to cover acquisition costs and administration expenses. The margin has increased by £213 million from £1,212 million in 2010 to £1,425 million in 2011, with Asia accounting for £181 million of the increase. This principally reflects higher premium income.

Acquisition costs have increased in absolute terms to £1,783 million, broadly in line with the increased new business sales. Expressed as a percentage of new business APE, 2011 has seen a marginal increase from 47 per cent in 2010 to 48 per cent in 2011.

Administration expenses have also increased to £1,043 million, reflecting the growth of the business in the year, while the margin remains constant at 83 bps.

DAC adjustments are a net benefit to the result as the deferral of current years acquisition costs exceed the amortization of previously deferred costs. This net benefit decreased by £238 million in 2011 relative to last year, primarily as a result of the acceleration of DAC amortisation in the US of £232 million. This represents the reversal of the benefit received in 2008 from the mean reversion formula, together with the impact of lower than assumed separate account returns in the year.

IFRS basis results - Margin analysis of asset management pre-tax IFRS operating profit based on longer-term investment returns by driver

	2011				
	M&G	**Eastspring Investments**	**PruCap**	**US**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Operating income*	**727**	**202**	**122**	**338**	**1,389**
Operating profit based on longer-term investment returns	**301**	**80**	**56**	**24**	**461**
Average funds under management (FUM)†	**£199.8 bn**	**£51.1 bn**			
Margin based on operating income†	**36 bps**	**40 bps**			
Cost/income ratio‡	**60%**	**62%**			

	2010				
	M&G	**Eastspring Investments**	**PruCap**	**US**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Operating income*	632	191	88	229	1,140
Operating profit based on longer-term investment returns	246	72	38	22	378
Average funds under management (FUM)†	£186.5 bn	£47.2 bn			
Margin based on operating income†	34 bps	40 bps			
Cost/income ratio‡	63%	64%			

* Operating income is net of commissions and includes performance related fees.

† Margin represents operating income as a proportion of the funds under management (FUM). Opening and closing FUM have been used to derive the average.

‡ Cost/income ratio is calculated as cost as a percentage of income excluding performance-related fees, and for M&G carried interest on private equity investments.

M&G's asset management fee margin increased from 34 bps in 2010 to 36 bps in 2011. This reflected a shift in funds under management mix towards external business which at 31 December 2011 represented 46 per cent of total funds under management (2010: 45 per cent). M&G continues to focus on cost control and the efficiencies created as the scale of the business grows. The benefit of this operational leverage is evident in the reduction in the cost/income ratio from 63 per cent in 2010 to 60 per cent in 2011.

At Eastspring Investments, fee margin has been maintained at 40 bps. The margin reflects higher retail margins arising from new administration fees for offshore funds and higher margins in Taiwan, offset by a decrease in institutional margins due to a shift in asset mix from higher margin equity funds, in favour of lower margin fixed income funds. Equity markets correction experienced in Asia and globally in 2011 has contributed to this asset mix shift. Continued focus on costs has seen cost/income ratio decrease from 64 per cent in 2010 to 62 per cent in 2011.

PruCap's operating profit increased during 2011, reflecting the ongoing active management of the portfolio in the period.

IFRS basis profit after tax

	2011 £m	2010 £m
Operating profit based on longer-term investment returns	**2,070**	1,941
Short-term fluctuations in investment returns:		
Insurance operations	**(28)**	(148)
Other operations	**(120)**	25
	(148)	(123)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**21**	(10)
Costs of terminated AIA transaction	**-**	(377)
Gain on dilution of Group holdings	**-**	30
Profit before tax attributable to shareholders	**1,943**	1,461
Tax charge attributable to shareholders' profit[(i)]	**(449)**	(25)
Non-controlling interests	**(4)**	(5)
Profit for the year attributable to equity holders of the Company	**1,490**	1,431

(i) In 2010 tax charge attributable to shareholders' profit includes a credit of £158 million which primarily relates to the impact of a settlement agreed with the UK authorities.

The total profit before tax attributable to shareholders was £1,943 million in 2011, compared with £1,461 million in 2010. The improvement reflects the increase in operating profit based on longer-term investment returns, and the fact that in 2010 the profit was reduced by the terminated AIA transaction costs of £377 million.

In calculating the IFRS operating profit, we use longer-term investment return assumptions rather than actual investment returns arising in the year. The difference between actual investment returns recorded in the income statement and longer-term returns is shown in the analysis of profits as short-term fluctuations in investment returns.

IFRS short-term fluctuations in investment returns

Short-term fluctuations in investment returns for our insurance operations comprise negative £92 million for Asia, negative £95 million for US operations and positive £159 million in the UK.

The negative short-term fluctuations of £92 million for our Asian operations in part reflects equity market falls in Taiwan and a partial reversal of unrealised gains recognised in prior years on the Group's investment in China Life Insurance Company of Taiwan.

Negative fluctuations of £95 million arising in our US operation comprise negative £183 million from short-term fluctuations offset by positive £88 million relating to Jackson's debt securities portfolio. These gains arise as a result of a high level of realised investment gains in 2011, following management's credit risk reduction programme.

The positive short-term fluctuations of £159 million for our UK operations principally reflect net valuation gains arising in the period on fixed income assets backing the capital of the shareholder-backed annuity business.

Short-term fluctuations for other operations were negative £120 million representing unrealised losses on investments, principally on centrally held swaps to manage foreign exchange and certain macro-economic exposures of the Group.

Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes

The shareholders' share of actuarial and other gains and losses on defined benefit pension schemes of positive £21 million mainly reflects favourable experience in the year in respect of the Scottish Amicable scheme combined with the impact of assumption changes, primarily from lower inflation and lower expected salary increases, applied to the liabilities of both the Scottish Amicable and M&G schemes.

Effective tax rates

The effective rate of tax on operating profit based on longer-term investment returns was 22 per cent (2010: 11 per cent). For 2010, adjusting the reported tax rate to exclude the exceptional tax credit of £158 million which primarily relates to the impact of a settlement agreed with the UK tax authorities, the underlying tax rate operating profit was 19 per cent.

The effective rate of tax at the total IFRS profit level was 23 per cent (2010: 2 per cent). Adjusting the rate in 2010 to exclude the exceptional tax credit of £158 million gives an underlying tax rate at the total IFRS profit level of 13 per cent. In both 2011 and 2010, we have benefitted from a reduction in the main UK corporate tax rate from 28 per cent to 26.5 per cent. In 2010, and to a lesser extent in 2011, we also benefited from utilising carried forward tax losses for which no deferred tax asset was previously established.

EEV Results

EEV basis operating profit based on longer-term investment returns

	AER			CER	
	2011	**2010**	**Change**	**2010**	**Change**
	£m	**£m**	**%**	**£m**	**%**
Insurance business					
Asia	**1,764**	1,450	22	1,438	23
US	**1,431**	1,458	(2)	1,406	2
UK	**853**	936	(9)	936	(9)
Development expenses	**(5)**	(4)	25	(4)	25
Long-term business profit	**4,043**	3,840	5	3,776	7
UK general insurance commission	**40**	46	(13)	46	(13)
Asset management business:					
M&G	**357**	284	26	284	26
Eastspring Investments	**80**	72	11	73	10
Curian	**6**	1	500	1	500
US broker-dealer and asset management	**18**	21	(14)	20	(10)
	4,544	4,264	7	4,200	8
Other income and expenditure	**(536)**	(494)	9	(493)	9
RPI to CPI inflation measure change on defined benefit pension schemes[(i)]	**45**	-	n/a	-	n/a
Solvency II implementation costs	**(56)**	(46)	22	(46)	22
Restructuring costs	**(19)**	(28)	(32)	(28)	(32)
Total EEV basis operating profit	**3,978**	3,696	8	3,633	9

(i) During the first half of 2011 the Group altered its assumptions for future statutory increases to pension payments for its UK defined benefit pension schemes. This reflects the UK Government's decision to change the basis of indexation from RPI to CPI.

In 2011, Prudential Group's total EEV basis operating profit based on longer-term investment returns was £3,978 million, an increase of 8 per cent from 2010.

Long-term business profit generated by the Group increased by 5 per cent to £4,043 million. This profit comprises:

- New business profit of £2,151 million (2010: £2,028 million[1]);
- In-force profit of £1,897 million (2010: £1,817 million); and
- Negative £5 million for other items including development expenses (2010: negative £5 million).

New business profit at £2,151 million was 6 per cent higher than last year, which compares with the equivalent increase in new business APE of 6 per cent. Group new business margin was unchanged at 58 per cent as pricing actions coupled with favourable changes in business mix fully mitigated the downward pressure on margins from the significant declines in long-term interest rates.

Strong new business margins continue to be recorded across the Group. The margin for the Asian business increased from 60 per cent to 65 per cent driven by a shift in country mix and the ongoing high mix of health and protection business. The reduction in the US new business profit margin was curtailed to a 1 percentage point decrease to 64 per cent despite the significant falls in 10-year Treasury yields, as management took strong pricing and business actions. The UK new business margin was lower than last year at 35 per cent (2010: 45 per cent). Comparisons here are distorted by our selective approach to bulk annuity sales. The retail margin (which excludes credit life and bulk annuities) fell from 35 per cent in 2010 to 32 per cent in 2011 due to lower sales of the higher margin annuity business.

The contribution to operating profit from life in-force business increased by 4 per cent to £1,897 million. In-force profit comprises £1,447 million from the unwind of the discount on the opening embedded value and other expected returns (2010: £1,492 million) and £450 million from the effect of operating assumption changes, experience variances and other items (2010: £325 million). The unwind of discount and other expected returns is £45 million lower than 2010 with the growth in the business, being offset by the effect on this profit measure of lower interest rates. We estimate that the fall in long-term interest rates during 2011 adversely impacted the unwind and other expected returns by around £200 million.

In 2011, at £688 million (2010: £549 million), Asia was the highest contributor to the Group's life in-force profit for the first time. In Asia we have seen improvements in overall experience and operating assumption changes, with a positive impact for the year of £75 million (2010: negative £24 million). This positive trend primarily reflects favourable mortality and morbidity experience partially offset by the effect of strengthening partial withdrawals lapse assumptions in Malaysia following the review undertaken in 2011.

US life in-force profit was lower at £616 million (2010: £697 million). Jackson's focused approach to managing the in-force portfolio coupled with the benefits of scale, have enabled the business to outperform its expected return in both years, albeit to a lower extent in 2011. The contribution to profits from experience and operating assumption changes totalled £183 million in 2011 compared to £246 million last year. Within these amounts, swap transactions undertaken to more closely match the overall asset and liability duration in 2010 and 2011, contributed to spread gains of £152 million (2010: £158 million).

1 Excludes Japan which ceased writing new business in 2010.

UK life in-force profit was also higher at £593 million (2010: £571 million). The reduction in 15-year gilt yields reduced the contribution from the unwind of the discount on the opening embedded value and return on net worth relative to last year by £65 million to £485 million. Disciplined management of the in-force book has enabled the business to outperform the expected returns, generating profits from experience and operating assumption changes of £108 million (2010: £21 million). Included in both years are the beneficial effects on future profits arising from the reduction in UK corporation taxes enacted in both years; in 2011 this amounted to £79 million, while in 2010 this amounted to £41 million.

Operating profit from the asset management business and other non-long term businesses increased to £501 million, up 18 per cent from £424 million in 2010.

Other income and expenditure totalled a net expense of £536 million compared with £494 million in 2010. The £42 million increase principally reflects the higher interest payable on core structural borrowings on the US$550 million Tier 1 subordinated note issued in January, the proceeds of which were used to redeem the €500 million Tier 2 notes in December 2011.

EEV basis profit after tax and non-controlling interests

	AER	
	2011	**2010**
	£m	**£m**
EEV basis operating profit based on longer-term investment returns	**3,978**	3,696
Short-term fluctuations in investment returns:		
- Insurance operations	**(787)**	(55)
- Other operations	**(120)**	25
	(907)	(30)
Mark to market value movements on core borrowings	**(14)**	(164)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**23**	(11)
Effect of changes in economic assumptions	**(158)**	(10)
Costs of terminated AIA transaction	**-**	(377)
Gain on dilution of Group holdings	**-**	3
Profit before tax	**2,922**	3,107
Tax charge attributable to shareholders' profit[(i)]	**(776)**	(530)
Non-controlling interests	**(4)**	(4)
Profit after non-controlling interests	**2,142**	2,573

(i) In 2010 tax charge attributable to shareholders' profit includes a credit of £158 million which primarily relates to the impact of a settlement agreed with the UK tax authorities.

Short-term fluctuations in investment returns

EEV operating profit is based on longer-term investment return assumptions rather than actual investment returns achieved. Short-term fluctuations in investment returns represent the difference between the actual investment return and those assumed in arriving at the reported operating profit.

Short-term fluctuations in investment returns for insurance operations of negative £787 million comprise negative £155 million for Asia, negative £491 million for our US operations and negative £141 million in the UK.

For our Asian business, short-term fluctuations of negative £155 million (2010: positive £287 million) reflects the effect on future fee income of the lower than assumed equity market returns in 2011, partially offset by valuation gains on bonds backing shareholder capital arising from the fall in interest rates.

In our US business, short-term fluctuations in investment returns were negative £491 million (2010: negative £678 million), principally reflecting the effect on fee income of the actual separate account return in 2011 of negative 0.5 per cent being lower than the longer term expected level of 5.4 per cent on projected future fees.

For our UK business, the short-term fluctuations in investment returns were negative £141 million (2010: positive £336 million). This reflects the actual return on the with-profits fund in 2011 of 3.2 per cent being lower than the longer-term assumed rate of 5.1 per cent, partly offset by higher than expected returns on the bonds backing the capital of the shareholder annuity business, following the fall in yields in 2011.

Mark to market movement on core borrowings

The mark to market movement on core borrowings was a negative £14 million in 2011, lower than the negative £164 million reported in 2010 when there was a more significant narrowing of credit spreads as the 2008 market dislocation unwound.

Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes

The shareholders' share of actuarial and other gains and losses on defined benefit pension schemes on the EEV basis comprises the IFRS charge attributable to shareholders, and the shareholders' share of movements in the scheme assets and liabilities attributable to the PAC with-profits fund. On the EEV basis there was a gain of £23 million (2010: charge of £11 million) mainly reflecting favourable experience in the year in respect of the Scottish Amicable scheme combined with the impact of assumption changes, primarily from lower inflation and expected salary increases, applied to the liabilities of both the Scottish Amicable and M&G schemes.

Effect of changes in economic assumptions

The effect of changes in economic assumptions of negative £158 million, comprises positive £279 million for Asia, negative £144 million for the US and negative £293 million for the UK.

The Asia and UK effect principally reflects the effect on economic profits of the reduction in long-term yields and the associated decrease in the risk discount rates. This effect is positive in Asia given the predominance of health and protection while in the UK this effect is negative as the majority of future profits relate to with-profits business.

In our US business, the reduction in long-term yields and the associated decrease in risk discount rates has a positive effect on future fixed annuity spread profits which broadly offset the negative effect on future variable annuity fee income. The overall negative effect of £144 million principally reflects the prudent decision taken by Jackson to increase the allowance for future credit defaults following the widening of credit spreads in the second half of 2011.

Effective tax rates
The effective rate of tax on operating profit based on longer-term investment returns was 26 per cent (2010: 23 per cent). For 2010, adjusting the reported tax rate to exclude the exceptional tax credit of £158 million which primarily relates to the impact of a settlement agreed with the UK tax authorities, the underlying tax rate on 2010 operating profits was 27 per cent.

The effective rate of tax at the total EEV profit level was 27 per cent (2010: 17 per cent). Adjusting the rate in 2010 to exclude the exceptional tax credit of £158 million gives an underlying tax rate at the total profit level of 22 per cent.

At the operating profit level, the effective underlying tax rate is lower in 2011 than in 2010, reflecting reduced UK corporation tax rates. At the total profit level, the underlying effective tax rate is higher than in 2010 reflecting the absence of favourable one off adjustments in the US tax rate, partly offset by reduced UK corporation tax rates.

Earnings and Dividends Per Share

Earnings per share (EPS)

	2011	2010 Excluding exceptional tax credit [(i)]	2010 Including exceptional tax credit
	pence	pence	pence
Basic EPS based on operating profit after tax and non-controlling interests			
IFRS	63.9	62.0	68.3
EEV	115.7	106.9	113.2
Basic EPS based on total profit after non-controlling interests			
IFRS	58.8		56.7
EEV	84.6		101.9

(i) The exceptional tax credit in 2010 relates to a £158 million credit which primarily relates to the impact of a settlement agreed with the UK tax authorities.

Dividend per share

Interim dividends are recorded in the period in which they are paid. Final dividends are recorded in the period in which they are approved by shareholders. The final dividend for the year ended 31 December 2010 of 17.24 pence per ordinary share was paid to eligible shareholders on 26 May 2011 and the 2011 interim dividend of 7.95 pence per ordinary share was paid to eligible shareholders on 22 September 2011.

In light of the continued strong performance of the business and the Group's focus on a growing dividend, the Board has recommended a final dividend of 17.24 pence per share (2010: 17.24 pence), giving a full 2011 dividend of 25.19 pence (2010: 23.85 pence), representing an increase of 5.6 per cent over 2010.

The 2011 final dividend of 17.24 pence per ordinary share will be paid on 24 May 2012 in sterling to shareholders on the principal register and the Irish branch register at 6.00 p.m. BST on Friday, 30 March 2012 (the 'Record Date'), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30 p.m. Hong Kong time on the Record Date (HK Shareholders). Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about five days after the payment date of the dividend to shareholders on the principal register. The final dividend will be paid on or about 31 May 2012 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte.) Limited (CDP) at 5.00 p.m. Singapore time on the Record Date (SG Shareholders). The dividend payable to the HK Shareholders will be translated using the exchange rate quoted by the WM Company at the close of business on 12 March 2012. The exchange rate at which the dividend payable to the SG Shareholders will be translated into SG$ will be determined by CDP. The dividend will distribute an estimated £439 million of shareholders' funds.

In line with 2010, shareholders on the principal register and Irish branch register will be able to participate in a Dividend Reinvestment Plan.

The Board will maintain its focus on delivering a growing dividend, which will continue to be determined after taking into account our Group's financial flexibility and our assessment of opportunities to generate attractive returns by investing in specific areas of the business. The Board believes that in the medium term a dividend cover of around two times is appropriate.

Movement on Shareholders' Funds

	IFRS		EEV	
	2011	**2010 AER**	**2011**	**2010 AER**
	£m	**£m**	**£m**	**£m**
Operating profit based on longer-term investment returns	**2,070**	1,941	**3,978**	3,696
Items excluded from operating profit	**(127)**	(480)	**(1,056)**	(589)
Total profit before tax	**1,943**	1,461	**2,922**	3,107
Exceptional tax credit	**-**	158	**-**	158
Tax and non-controlling interests	**(453)**	(188)	**(780)**	(692)
Profit for the period	**1,490**	1,431	**2,142**	2,573
Exchange movements, net of related tax	**(100)**	251	**(158)**	693
Unrealised gains and losses on Jackson securities classified as available for sale[a]	**312**	478	**-**	-
Dividends	**(642)**	(511)	**(642)**	(511)
New share capital subscribed	**17**	75	**17**	75
Other	**9**	36	**71**	104
Net increase in shareholders' funds	**1,086**	1,760	**1,430**	2,934
Shareholders' funds at beginning of year	**8,031**	6,271	**18,207**	15,273
Shareholders' funds at end of year	**9,117**	8,031	**19,637**	18,207
Comprising				
Long-term business				
Free surplus [b]			**2,839**	2,748
Required capital			**3,447**	3,415
Net worth [c]			**6,286**	6,163
Value of in-force			**13,364**	12,051
Total			**19,650**	18,214
Other business [d]			**(13)**	(7)
Total[e]			**19,637**	18,207

a Net of related changes to deferred acquisition costs and tax.

b The increase in free surplus of £91 million from 31 December 2010 arises primarily from £1,100 million being generated by the long-term business (net of new business investment and market related movements), less the cash paid to the holding company, market movements, and other items.

c The increase in net worth in the period principally reflects the free surplus generated in the period, offset by cash paid to the holding company, changes to required capital and other items.

d Shareholders' funds for other than long-term business comprises:

	2011	**2010**
	£m	**£m**
Asset management operations[(i)]	**1,783**	1,787
Holding company net borrowings	**(2,188)**	(2,212)
Other, net	**392**	418
Total shareholders' funds for other business	**(13)**	(7)

(i) Including goodwill of £1,230 million for 31 December 2011 and 2010.

e EEV shareholders' funds excluding goodwill attributable to shareholders at 31 December 2011 is £18,172 million (2010: £16,741 million).

IFRS

Statutory IFRS basis shareholders' funds at 31 December 2011 were £9.1 billion. This compares to £8.0 billion at 31 December 2010 and represents an increase of £1.1 billion, equivalent to 14 per cent.

The movement primarily reflects the profit for the period after tax and non-controlling interests of £1,490 million and the increase in the level of net unrealised gains on Jackson's debt securities of £312 million from the position at 31 December 2010, offset by the payment of dividends of £642 million and exchange translation losses of £100 million.

EEV

On an EEV basis, which recognises the shareholders' interest in long-term business, shareholders' funds at 31 December 2011 were £19.6 billion, an increase of £1.4 billion from the 31 December 2010 level, equivalent to 8 per cent. This increased level of shareholders' funds primarily reflects the profit after tax of £2,142 million, offset by the negative effects of exchange movements of £158 million and dividend payments of £642 million.

The shareholders' funds at 31 December 2011 relating to long-term business of £19.7 billion comprise £8.5 billion (up 15 per cent from year end 2010) for our Asian long-term business operations, £5.1 billion (up 6 per cent from year end 2010) for our US long-term business operations and £6.1 billion (up 1 per cent from year end 2010) for our UK long-term business operations.

At 31 December 2011, the embedded value for our Asian long-term business operations was £8.5 billion, with £7.1 billion (up £1.1 billion from 2010) being in the South East Asia countries of Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam together with Hong Kong. For Prudential's other Asian markets, the embedded value was £1.4 billion in aggregate, unchanged from 2010.

Free Surplus and Holding Company Cash Flow

Overview

The Group manages its internal cash flow by focusing on the free surplus generated by the life and asset management businesses. Remittances are, however, made as and when required by the holding company with excess surplus being left in the businesses where it can be redeployed most profitably. The tables below set out the Group's free surplus generation, and the holding company cash flow statement for 2011.

Free surplus generation

Sources and uses of free surplus generation from the Group's insurance and asset management operations

Group free surplus at the end of the period comprises free surplus for the insurance businesses, representing the excess of the net worth over the required capital included in the EEV results, and IFRS net assets for the asset management businesses excluding goodwill. The free surplus generated during the period comprises the movement in this balance excluding foreign exchange, capital movements, and other reserve movements. Specifically, it includes amounts maturing from the in-force operations during the period less the investment in new business, the effect of market movements and other items.

For asset management operations we have defined free surplus generation to be total post-tax IFRS profit for the period. Group free surplus generated also includes the general insurance commission earned during the period and excludes shareholders' other income and expenditure, and centrally arising restructuring and Solvency II implementation costs.

The total movement in free surplus net of tax in the year can be analysed as follows:

	2011 £m	2010 £m
Free surplus generation		
Expected in-force cash flows (including expected return on net assets)	**2,335**	2,139
- Life operations	**1,972**	1,829
- Asset management operations	**363**	310
Changes in operating assumptions and experience variances	**168**	220
RPI to CPI inflation measure change on defined benefit pension schemes[(i)]	**33**	-
Underlying free surplus generated in the period from in-force business	**2,536**	2,359
Investment in new business	**(553)**	(645)
Underlying free surplus generated in the period	**1,983**	1,714
Market related items	**(531)**	(94)
Free surplus generated in the period from retained businesses	**1,452**	1,620
Net cash remitted by the business units	**(1,105)**	(935)
Other movements and timing differences	**(264)**	122
Total movement during the period	**83**	807
Free surplus at 1 January	**3,338**	2,531
Free surplus at end of period	**3,421**	3,338
Comprised of:		
Free surplus relating to long-term insurance business	**2,839**	2,748
Free surplus of other insurance business	**29**	33
IFRS net assets of asset management businesses excluding goodwill	**553**	557
Total free surplus	**3,421**	3,338

(i) During the first half of 2011 the Group altered its assumptions for future statutory increases to pension payments for its UK defined benefit pension schemes. This reflects the UK Government's decision to change the basis of indexation from RPI to CPI.

During 2011 Prudential generated total free surplus from the retained businesses of £1,452 million (2010: £1,620 million). Underlying free surplus generated from the in-force book in 2011 increased by 8 per cent to £2,536 million (2010: £2,359 million), as a result of increased expected returns from the growing insurance book. Changes in operating assumptions and variances comprise £168 million for our life business (2010: £220 million) and a £33 million credit arising from a reduction in the liabilities of the Group's defined benefit pension schemes following the UK Government's decision to change the basis of indexation from RPI to CPI. The life business variances comprise positive £52 million in Asia (2010: positive £3 million), negative £38 million in the UK (2010: positive £26 million), and positive £154 million in the US (2010: positive £191 million), principally reflecting favourable spread experience.

Underlying free surplus generated from in-force business has been used by our life businesses to invest in new business. Despite the strong growth in APE sales, investment in new business[1] has fallen by 14 per cent to £553 million in 2011 as a result of improved capital efficiency. This compares to a 6 per cent increase in sales[1] and a 6 per cent increase in new business profits[1]. The strong improvement in capital efficiency is primarily the result of continuing the active management of the product and geographical mix of the new business sold, in line with the Group's disciplined approach to capital conservation and value optimisation.

1 Excludes Japan which ceased writing new business in 2010. Investment in business in Japan in 2011 was £nil (2010: £2 million).

Market-related movements of negative £531 million in 2011 (2010: negative £94 million) include negative £432 million from the US principally reflecting the adverse impact on free surplus of the equity volatility experienced in 2011. It also includes negative £49 million in Asia, in part reflecting a fall in equity markets in Taiwan, negative £26 million in the UK and negative £24 million from our asset management businesses.

Value created through investment in new business by life operations

	2011						
	Asian operations						
	Excluding Japan £m	Japan £m	Total £m	US insurance operations £m	UK insurance operations £m	Group total excluding Japan £m	Group total including Japan £m
Free surplus invested in new business	**(297)**	**-**	**(297)**	**(202)**	**(54)**	**(553)**	**(553)**
Increase in required capital	**97**	**-**	**97**	**232**	**77**	**406**	**406**
Net worth invested in new business	**(200)**	**-**	**(200)**	**30**	**23**	**(147)**	**(147)**
Value of in-force created by new business	**1,011**	**-**	**1,011**	**500**	**172**	**1,683**	**1,683**
Post-tax new business profit for the year	**811**	**-**	**811**	**530**	**195**	**1,536**	**1,536**
Tax	**265**	**-**	**265**	**285**	**65**	**615**	**615**
Pre-tax new business profit for the year	**1,076**	**-**	**1,076**	**815**	**260**	**2,151**	**2,151**
New business sales (APE)	**1,660**		**1,660**	**1,275**	**746**		
New business margins (% APE)	**65%**		**65%**	**64%**	**35%**		
Internal rate of return*	**>20%**		**>20%**	**>20%**	**>20%**		

	AER						
	2010						
	Asian operations						
	Excluding Japan £m	Japan £m	Total £m	US insurance operations £m	UK insurance operations £m	Group total excluding Japan £m	Group total including Japan £m
Free surplus invested in new business	(278)	(2)	(280)	(300)	(65)	(643)	(645)
Increase in required capital	84	-	84	270	107	461	461
Net worth invested in new business	(194)	(2)	(196)	(30)	42	(182)	(184)
Value of in-force created by new business	866	1	867	525	224	1,615	1,616
Post-tax new business profit for the year	672	(1)	671	495	266	1,433	1,432
Tax	230	-	230	266	99	595	595
Pre-tax new business profit for the year	902	(1)	901	761	365	2,028	2,027
New business sales (APE)	1,501		1,508	1,164	820		
New business margins (% APE)	60%		60%	65%	45%		
Internal rate of return*	>20%		>20%	>20%	>20%		

	CER						
	2010						
	Asian operations						
	Excluding Japan £m	Japan £m	Total £m	US insurance operations £m	UK insurance operations £m	Group total excluding Japan £m	Group total including Japan £m
Free surplus invested in new business	(275)	(2)	(277)	(288)	(65)	(628)	(630)
Increase in required capital	84	-	84	260	107	451	451
Net worth invested in new business	(191)	(2)	(193)	(28)	42	(177)	(179)
Value of in-force created by new business	862	1	863	505	224	1,591	1,592
Post-tax new business profit for the year	671	(1)	670	477	266	1,414	1,413
Tax	229	-	229	257	99	585	585
Pre-tax new business profit for the year	900	(1)	899	734	365	1,999	1,998
New business sales (APE)	1,491		1,491	1,121	820		
New business margins (% APE)	60%		60%	65%	45%		
Internal rate of return*	>20%		>20%	>20%	>20%		

* *The internal rate of return (IRR) is equivalent to the discount rate at which the present value of the post-tax cash flows expected to be earned over the lifetime of the business written in shareholder-backed life funds is equal to the total invested capital to support the writing of the business. The capital included in the calculation of the IRR is equal to the amount required to pay acquisition costs and set up statutory reserves less premiums received, plus encumbered capital. The impact of the time value of options and guarantees is included in the calculation.*

Overall, the Group wrote £3,681 million of sales on an APE basis in 2011 (2010: £3,485 million[1]) generating a post-tax new business contribution to embedded value of £1,536 million (2010: £1,433 million[1]). To support these sales, we invested £553 million of capital (2010: £643 million[1]). By focusing on sales of products and in geographies which are less capital intensive, the Group has increased the amount of post-tax new business profit contribution to embedded value per £1 million of free surplus invested by 27 per cent to £2.8 million (2010: £2.2 million). We estimate the Group's overall internal rate of return for the year ended 31 December 2011 to be greater than 20 per cent. The amount of capital invested covers both new business strain, including commissions, of £147 million (2010: £182 million[1]) and the required capital of £406 million (2010: £461 million[1]). Management will continue to focus on capital preservation and investment in those areas which add most value to the Group.

In Asia, investment in new business was £297 million, a 7 per cent increase over the £278 million[1] invested in 2010. This contrasts to an 11 per cent increase in new business sales (APE) in the period. For each £1 million of free surplus invested we generated £2.7 million of post-tax new business contribution to embedded value (2010: £2.4 million) the improvement being driven by geographic and product mix changes. The average free surplus undiscounted payback period for business written in 2011 was 3 years (2010: 3 years).

In the US, investment in new business was £202 million, 33 per cent lower than 2010 (£300 million) and contrasts to a 10 per cent increase in APE new business sales. For each £1 million of free surplus invested we generated £2.6 million of post-tax new business contribution to embedded value (2010: £1.7 million). This higher return reflects both a higher proportion of variable annuity business being sold in the year, with a reduced proportion of more capital intensive fixed annuities, product changes which reduce the reserving requirements and marketing cost efficiency. The average free surplus undiscounted payback period for business written in 2011 was 1 year (2010: 1 year).

In the UK, investment in new business was lower, at £54 million compared to £65 million last year. This investment generated APE sales which were 9 per cent lower at £746 million in 2011. For each £1 million of free surplus invested we generated £3.6 million of post-tax new business contribution to embedded value (2010: £4.1 million), with 2010 benefitting from the relatively low capital utilisation of the profitable bulk annuity business written in the last quarter of 2010. The average free surplus undiscounted payback period for shareholder-backed business written in 2011 was 4 years (2010: 4 years).

1 Excludes Japan which ceased writing new business in 2010.

Holding company cash flow

We continue to manage cash flows across the Group with a view to achieving a balance between ensuring sufficient net remittances from the businesses to cover the progressive dividend (after corporate costs) and maximising value for shareholders through the retention of the free surplus generated at business unit level, so that it can be reinvested in the profitable opportunities available to the Group. On this basis, the holding company cash flow statement at an operating level should ordinarily balance close to zero before exceptional cash flows, but from time to time additional remittances from business operations will be made to provide the Group with greater financial flexibility at the corporate centre.

	2011 £m	2010 £m
Net cash remitted by business units:		
UK Life fund paid to the Group	**223**	202
Shareholder-backed business:		
Other UK paid to the Group	**116**	275
Group invested in UK	**(42)**	(57)
Total shareholder-backed business	**74**	218
UK net	**297**	420
US paid to the Group	**322**	80
Group invested in US	**-**	-
US net	**322**	80
Asia paid to the Group		
Long-term business	**289**	330
Other operations	**55**	33
	344	363
Group invested in Asia		
Long-term business	**(50)**	(63)
Other operations	**(88)**	(67)
	(138)	(130)
Asia net	**206**	233
M&G paid to the Group	**213**	150
PruCap paid to the Group	**67**	52
Net remittances to the Group from Business Units	**1,105**	935
Net interest paid	**(282)**	(231)
Tax received	**181**	185
Corporate activities	**(139)**	(146)
Solvency II costs	**(56)**	(34)
Total central outflows	**(296)**	(226)
Operating holding company* cash flow before dividend	**809**	709
Dividend paid (net of scrip in respect of 2010)	**(642)**	(449)
Operating holding company* cash flow after dividend	**167**	260
Issue of hybrid debt, net of costs	**340**	-
Repayment of subordinated debt	**(333)**	-
Costs of terminated AIA transaction	**-**	(377)
Bank loan reorganisation	**-**	120
Other cash payments	**(205)**	(276)
Total holding company cash flow	**(31)**	(273)
Cash and short-term investments at beginning of period	**1,232**	1,486
Foreign exchange movements	**(1)**	19
Cash and short-term investments at end of period	**1,200**	1,232

* Including central finance subsidiaries.

Operating holding company cash flow for 2011 before the shareholder dividend was £809 million, £100 million higher than 2010. After deducting the higher level of shareholder dividend paid following the upward rebasing at the end of 2010 and the cancellation of the scrip dividend option, the operating holding company cash flow was positive £167 million (2010: £260 million).

Cash remittances to the Group from business units

As previously highlighted, the Group focuses on the generation of free surplus by each of the Group's business units and then determines the use of this surplus, balancing between financing new business growth, retaining surplus capital in operations to absorb the effect of market shocks and remitting funds to the Group to cover central outgoings, including the shareholder dividend.

The holding company received £1,105 million of net cash remittances from the business units in 2011, an increase of £170 million from 2010.

Asia continues to be cash positive, with its remittances to the Group during 2011 at £206 million (2010: £233 million). 2010 benefited from a one-off remittance of £130 million from Malaysia, representing the accumulation of historic distributable reserves. Excluding this amount Asia has doubled its net remittances in 2011. Asia remains on track to meet its objective of £300 million net remittances in 2013.

Cash received from Jackson was £322 million in 2011 (2010: £80 million), above the 2013 sustainable remittance target of £200 million. Jackson's remittance to the Group for 2011 was taken in the first half, with £200 million representing the remittances for the year and a further £122 million representing releases of excess surplus to Group. These exceptional releases reflect the success that Jackson has enjoyed in rebuilding its balance sheet strength post the 2008 financial crisis and in writing business at high internal rates of return (IRRs) and with fast payback.

The UK insurance operations remitted £297 million in 2011 (2010: £420 million). Total shareholder-backed business net remittances in 2011 were £74 million (2010: £218 million) with 2010 including £120 million as a result of one-off release of surplus and net financing payments during that year. Cash from the annual with-profits transfer to shareholders increased from £202 million to £223 million in 2011. The UK remains on track to deliver £350 million of cash to the Group in 2013.

The Group's UK asset management operations remit substantially all of their annual post-tax earnings to the Group. M&G and PruCap collectively remitted £280 million (2010: £202 million).

In the course of 2009 and 2010, the Group raised certain financing contingent on future profits of the UK and Hong Kong life insurance operations which increased the cash remitted by business units by £245 million in aggregate. This was done in order to increase the financial flexibility of the Group during the investment market crisis.

Since then principal and interest repayments have reduced the cash available to be remitted to the Group by these businesses. Based on our current plans, the remaining balance of £145 million will impact the net remittances from these businesses in 2012.

Central outflows and other movements

Central outflows increased to £296 million in 2011 (2010: £226 million). Lower corporate activities spend in 2011 was offset by increased net interest payments, following the additional debt raised in 2011, and higher Solvency II implementation spend as we draw closer to the date that this regime comes into effect.

After central costs, there was a net cash inflow before dividend of £809 million in 2011 compared to £709 million for 2010. The dividend paid was £642 million in 2011 compared to £449 million (net of scrip of £62 million) in 2010.

During the first half of 2011 we raised £340 million, net of costs, from the issue of new subordinated debt. Substantially all of these proceeds (£333 million) were used to repay the €500 million Tier 2 subordinated debt in December 2011.

Outside of the normal recurring central cash flow items we incurred £205 million of other cash payments in 2011. These comprise the first instalment to the UK tax authorities following the settlement reached last year on historic tax issues and the prepayment of fees in relation to new distribution agreements in Asia. A further amount relating to the settlement with the UK tax authorities of £135 million will be paid evenly over the course of 2012 and 2013.

The overall holding company cash and short-term investment balances at 31 December 2011 was broadly level with the balance held at the end of 2010 at £1.2 billion. The company seeks to maintain a central cash balance in excess of £1 billion.

Balance Sheet
Summary

	AER	
	2011	**2010**
	£m	**£m**
Goodwill attributable to shareholders	**1,465**	1,466
Investments	**250,605**	239,297
Holding company cash and short-term investments	**1,200**	1,232
Other	**20,310**	18,811
Total assets	**273,580**	260,806
Less: Liabilities		
Policyholder liabilities	**227,075**	214,727
Unallocated surplus of with-profits funds	**9,215**	10,253
	236,290	224,980
Less: Shareholders' accrued interest in the long-term business	**(10,520)**	(10,176)
	225,770	214,804
Core structural borrowings of shareholders' financed operations (IFRS book value basis)	**3,611**	3,676
Other liabilities including non-controlling interest	**24,562**	24,119
Total liabilities and non-controlling interest	**253,943**	242,599
EEV basis net assets	**19,637**	18,207
Share capital and premium	**2,000**	1,983
IFRS basis shareholders' reserves	**7,117**	6,048
IFRS basis shareholders' equity	**9,117**	8,031
Additional EEV basis retained profit	**10,520**	10,176
EEV basis shareholders' equity (excluding non-controlling interest)	**19,637**	18,207

Financial instruments
The Group is exposed to financial risk through its financial assets, financial liabilities, and policyholder liabilities. The key financial risk factors that affect the Group include market risk, credit risk and liquidity risk. Information on the Group's exposure to financial risk factors, and our financial risk management objectives and policies, is provided both in the Risk and Capital Management section and the financial statements. Further information on the sensitivity of the Group's financial instruments to market risk and its use of derivatives is also provided in the financial statements.

The Group's investments are discussed in further detail in the Risk and Capital Management section B.1.b 'Credit risk'.

Policyholder liabilities and unallocated surplus of with-profits fund

	AER 2011				AER 2010
Shareholder - backed business	**Asia £m**	**US £m**	**UK £m**	**Total £m**	**Total £m**
At 1 January	17,716	60,523	43,944	**122,183**	100,061
Premiums	3,807	12,914	3,575	**20,296**	19,584
Surrenders	(1,735)	(4,270)	(1,970)	**(7,975)**	(6,724)
Maturities/Deaths	(233)	(820)	(2,262)	**(3,315)**	(3,165)
Net cash flows	1,839	7,824	(657)	**9,006**	9,695
Investment related items and other movements	(909)	136	2,761	**1,988**	9,249
Acquisition of UOB Life Assurance Limited	-	-	-	**-**	464
Dilution of holding in PruHealth					(27)
Foreign exchange translation difference	(377)	706	-	**329**	2,741
At 31 December	18,269	69,189	46,048	**133,506**	122,183
With-profits funds					
- Policyholder liabilities				**93,569**	92,544
- Unallocated surplus				**9,215**	10,253
Total at 31 December				**102,784**	102,797
Total policyholder liabilities including unallocated surplus at 31 December				**236,290**	224,980

Policyholder liabilities related to shareholder-backed business grew by £11.3 billion from £122.2 billion at 31 December 2010 to £133.5 billion at 31 December 2011.

The increase reflects positive net flows (premiums less surrenders and maturities/deaths) of £9,006 million in 2011 (2010: £9,695 million), driven by strong inflows in the US (£7,824 million) and Asia (£1,839 million). Net flows in Asia have increased by 42 per cent to £1,839 million in 2011 (2010: £1,298 million). Additionally, the rate of surrenders in Asia (expressed as a percentage of opening liabilities) was 4.4 per cent in the second half of 2011, an improvement compared with 5.1 per cent in the first half of 2011 and 6.4 per cent in the second half of 2010. The overall rate of surrender in 2011 was 9.8 per cent compared with 13.8 per cent in 2010.

Other movements include positive foreign exchange movements of £329 million (2010: £2,741 million) together with investment related and other items of £1,988 million. Investment related and other items fell from £9,249 million in 2010 to £1,988 million in 2011 principally as a result of the weaker equity markets.

During 2011, the unallocated surplus, which represents the excess of assets over policyholder liabilities for the Group's with-profits funds on an IFRS basis, reduced by 10 per cent from £10.3 billion at 31 December 2010 to £9.2 billion at 31 December 2011.

Shareholders' net borrowings and ratings

Shareholders' net borrowings at 31 December 2011:

	AER 2011			AER 2010		
	IFRS basis £m	**Mark to market value £m**	**EEV basis £m**	**IFRS basis £m**	**Mark to market value £m**	**EEV basis £m**
Perpetual subordinated						
Capital securities (Innovative Tier 1)	**1,823**	**(10)**	**1,813**	1,463	28	1,491
Subordinated notes (Lower Tier 2)	**829**	**120**	**949**	1,255	117	1,372
	2,652	**110**	**2,762**	2,718	145	2,863
Senior debt						
2023	**300**	**56**	**356**	300	33	333
2029	**249**	**21**	**270**	249	(1)	248
Holding company total	**3,201**	**187**	**3,388**	3,267	177	3,444
Prudential Capital	**250**	**-**	**250**	250	-	250
Jackson surplus notes (Lower Tier 2)	**160**	**17**	**177**	159	13	172
Total	**3,611**	**204**	**3,815**	3,676	190	3,866
Less: Holding company cash and short-term investments	**(1,200)**	**-**	**(1,200)**	(1,232)	-	(1,232)
Net core structural borrowings of shareholder-financed operations	**2,411**	**204**	**2,615**	2,444	190	2,634

The Group's core structural borrowings at 31 December 2011 totalled £3.6 billion on an IFRS basis, compared with £3.7 billion at 31 December 2010.

In January 2011, the Company issued US$550 million 7.75 per cent Tier 1 subordinated debt, primarily to retail investors. The proceeds, net of costs, were US$539 million (£340 million) and financed the repayment of the €500 million Tier 2 subordinated notes in December 2011.

After adjusting for holding company cash and short-term investments of £1,200 million, net core structural borrowings at 31 December 2011 were £2,411 million compared with £2,444 million at 31 December 2010. The decrease of £33 million represents the net fall in borrowings of £65 million, reflecting the debt repayment and issue described above together with foreign exchange movements in the year, offset by a £32 million fall in holding company cash and short-term investments.

In addition to our core structural borrowings set out above, we also have in place an unlimited global commercial paper programme. As at 31 December 2011, we had issued commercial paper under this programme totalling £736 million, US$2,539 million, €342 million, CHF62 million and AU$12 million. The central treasury function also manages our £5 billion medium-term note (MTN) programme, covering both core and non-core borrowings. In April and October 2011 we refinanced an existing internal £200 million issue under this programme. In total, at 31 December 2011 the outstanding subordinated debt under the programme was £835 million, US$1,300 million and €20 million, while the senior debt outstanding was £550 million. In addition, our holding company has access to £2.1 billion of syndicated and bilateral committed revolving credit facilities, provided by 17 major international banks, expiring between 2013 and 2017. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 31 December 2011. The commercial paper programme, the MTN programme and the committed revolving credit facilities are all available for general corporate purposes and to support the liquidity needs of our holding company and are intended to maintain a strong and flexible funding capacity.

We manage the Group's core debt within a target level consistent with our current debt ratings. At 31 December 2011, the gearing ratio (debt, net of cash and short-term investments, as a proportion of EEV shareholders' funds plus net debt) was 10.9 per cent, compared with 11.8 per cent at 31 December 2010. Prudential plc has strong debt ratings from Standard & Poor's, Moody's and Fitch. Prudential's long-term senior debt is rated A+, A2 and A from Standard & Poor's, Moody's and Fitch, while short-term ratings are A-1, P-1 and F1 respectively.

The financial strength of PAC is rated AA by Standard & Poor's, Aa2 by Moody's and AA by Fitch.

Jackson National Life Insurance Company's financial strength is rated AA by Standard & Poor's, A1 by Moody's and AA by Fitch.

Financial position on defined benefit pension schemes

The Group currently operates three defined benefit schemes in the UK, of which by far the largest is the Prudential Staff Pension Scheme (PSPS) and two smaller schemes, Scottish Amicable (SAPS) and M&G.

Defined benefit schemes in the UK are generally required to be subject to a full actuarial valuation every three years, in order to assess the appropriate level of funding for schemes in relation to their commitments. The last completed actuarial valuation of PSPS was as at 5 April 2008 demonstrating the scheme to be 106 per cent funded but additional funding akin to deficit funding was agreed by the Trustees in recognition of the fall in value of the scheme's investments between 5 April 2008 and the completion of the valuation in 2009. This additional deficit funding is apportioned in the ratio of 70/30 between the PAC with-profits fund and shareholder-backed operations, reflecting the company's historic rate of contributions over many years. The total contributions being currently made by the Group into the scheme, representing the annual accrual cost and deficit funding, are £50 million per annum. This amount will continue until the next valuation as at 5 April 2011 is finalised later in 2012 and the future level of company contributions is agreed with the Trustees. The valuation basis under IAS 19 for the Group financial statements differs markedly from the full triennial actuarial valuation basis. In particular, for PSPS, where constraints in the trust deed prevent the Group access to any

surplus in the scheme, the IAS 19 surplus, measured on an economic basis net of related tax relief, of £1,391 million at 31 December 2011 (2010: £421 million) is not recognised.

The actuarial valuation of SAPS as at 31 March 2008 demonstrated the scheme to be 91 per cent funded. Based on this valuation and subsequent agreement with the Trustees, £13.1 million per annum of deficit funding is currently being paid into the scheme. The actuarial valuation of SAPS as at 31 March 2011 is currently being finalised.

The actuarial valuation of the M&G pension scheme as at 31 December 2008 demonstrated the scheme to be 76 per cent funded. Based on this valuation, deficit funding amounts designed to eliminate the actuarial deficit over a five year period have been agreed with £14.1 million being paid in each of 2010 and 2011 and £9.3 million per annum for the subsequent three years. In 2011, the Group agreed with the Trustee to pay an additional funding of £1.2 million per annum from January 2012 until the conclusion of the actuarial valuation as at 31 December 2011, which is currently in progress.

As at 31 December 2011, on the Group IFRS statement of financial position, the shareholders' share of the net liabilities for these UK schemes amounted to a £17 million liability net of related tax relief (2010: £83 million). The total share attributable to the PAC with-profits fund amounted to a liability of £38 million net of related tax relief (2010: £99 million). The adoption by the Group in 2011 of the UK Government's decision to use the CPI in place of the RPI as the basis for inflationary increases to pensions, affected the IAS 19 valuation of certain tranches of the Group's schemes. This resulted in a credit to pre-tax IFRS operating profit of £42 million. The impact of this change on the shareholders' share of pension liabilities, net of related tax relief and the total share attributable to the PAC with-profits fund, net of related tax relief, was a reduction of £31 million and £22 million, respectively.

Financial strength of the UK Long-term Fund

On a realistic valuation basis, with liabilities recorded on a market consistent basis, the free assets were valued at approximately £6.1 billion at 31 December 2011, before a deduction for the risk capital margin. The value of the shareholders' interest in future transfers from the UK with-profits fund is estimated at £2.0 billion. The financial strength of PAC is rated AA by Standard & Poor's, Aa2 by Moody's and AA by Fitch Ratings.

Despite the decline in financial markets during 2011, Prudential UK's With-Profits fund performed relatively strongly achieving a 2.1 per cent pre-tax investment return for policyholder asset shares during 2011.

Risk and Capital Management

As a provider of financial services, including insurance, the management of risk lies at the heart of our business. As a result, effective risk management capabilities represent a key source of competitive advantage for our Group.

The Group's risk framework includes our appetite for risk exposures as well as our approach to risk management. Under this approach, we continuously assess the Group's top risks and monitor our risk profile against approved limits. Our main strategies for managing and mitigating risk include asset liability management, using derivatives to hedge relevant market risks, and implementing reinsurance and corporate insurance programmes.

A. Group risk appetite

Prudential defines and monitors aggregate risk limits based on financial and non-financial stresses for its earnings volatility, liquidity and capital requirements.

Earnings volatility: the objectives of the limits are to ensure that:

a. the volatility of earnings is consistent with the expectations of stakeholders;
b the Group has adequate earnings (and cash flows) to service debt, expected dividends and to withstand unexpected shocks; and
c earnings (and cash flows) are managed properly across geographies and are consistent with funding strategies.

The two measures used to monitor the volatility of earnings are European Embedded Value (EEV) operating profit and International Financial Reporting Standards (IFRS) operating profit, although EEV and IFRS total profits are also considered.

Liquidity: the objective is to ensure that the Group is able to generate sufficient cash resources to meet financial obligations as they fall due in business as usual and stressed scenarios.

Capital requirements: the limits aim to ensure that:
a. the Group meets its internal economic capital requirements;
b. the Group achieves its desired target rating to meet its business objectives; and
c. supervisory intervention is avoided.

The two measures used are the EU Insurance Groups Directive (IGD) capital requirements and internal economic capital requirements. In addition, capital requirements are monitored on a local statutory basis.

Our risk appetite framework forms an integral part of our annual business planning cycle. The Group Risk Committee is responsible for reviewing the risks inherent in the Group's business plan and for providing the Board with input on the risk/reward trade offs implicit therein. This review is supported by our Group Risk function, which uses submissions by business units to calculate the Group's aggregated position (allowing for diversification effects between business units) relative to the limits contained within the risk appetite statements.

B. Risk exposures

The Group Risk Framework deploys a common risk language, allowing meaningful comparisons to be made between different business units. Risks are broadly categorised as shown below.

Category	Risk type	Definition
Financial risks	Market risk	The risk of loss for our business, or of adverse change in the financial situation, resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.
	Credit risk	The risk of loss for our business or of adverse change in the financial position, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event (eg downgrade or spread widening).
	Insurance risk	The risk of loss for our business or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of a number of insurance risk drivers. This includes adverse mortality, longevity, morbidity, persistency and expense experience.
	Liquidity risk	The risk of the Group being unable to generate sufficient cash resources or raise finance to meet financial obligations as they fall due in business as usual and stress scenarios.
Non-financial risks	Operational risk	The risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events.
	Business environment risk	Exposure to forces in the external environment that could significantly change the fundamentals that drive the business's overall strategy.
	Strategic risk	Ineffective, inefficient or inadequate senior management processes for the development and implementation of business strategy in relation to the business environment and the Group's capabilities.

The key financial and non-financial risks and uncertainties faced by the Group, that have been considered by the Group Risk Committee during the year, and our approaches to managing them, are described below.

B.1 Financial risks

a Market risk

i Equity risk

In the UK business, most of our equity exposure is incurred in the with-profits fund, which includes a large inherited estate estimated at £6.1 billion as at 31 December 2011 (2010: £6.8 billion), which can absorb market fluctuations and protect the fund's solvency. The inherited estate itself is partially protected against falls in equity markets through an active hedging policy.

In Asia our shareholder exposure to equities is minimal and is mainly attributed to revenue from unit-linked products. From a capital perspective, we have a small exposure to falling equity markets from the with-profits businesses.

In the US, where we are a leading provider of variable annuities, there are well-understood risks associated with the guarantees embedded in our products. We provide guaranteed minimum death benefits (GMDB) on substantially all policies in this class, guaranteed minimum withdrawal benefits (GMWB) on a significant proportion of the book, and guaranteed minimum income benefits (GMIB) on only 5 per cent. To protect the shareholders against the volatility introduced by these embedded options, we use both a comprehensive hedging programme and reinsurance. The GMIB is no longer offered, with existing coverage being reinsured.

The Jackson IFRS shareholders' equity and US statutory capital are sensitive to the effects of policyholder behaviour on the valuation of GMWB guarantees, but to manageable levels. For example, at 31 December 2011, on two severe stress test scenarios:

A halving in lapses of significantly 'in the money' policies would have given rise to indicative reductions of £200 million in IFRS shareholders' equity and £235 million on US statutory capital, or;

A 10 per cent increase in utilisation by all policyholders would have given rise to indicative reductions of £100 million on IFRS shareholders' equity and £240 million on US statutory capital.

In our variable annuity sales activities, we focus on meeting the needs of conservative and risk averse customers who are seeking reliable income in retirement, and who display little tendency to arbitrage their guarantees. These customers generally select conservative investment options. We are able to meet the needs of these customers because of the strength of our operational platform.

It is our philosophy not to compete on price; rather, we seek to sell at a price sufficient to fund the cost we incur to hedge or reinsure our risks and to achieve an acceptable return for shareholders.

We use a macro approach to hedging that covers the risks inherent across the US business. Within this macro approach we make use of the natural offsets that exist between the variable annuity guarantees and the fixed index annuity book, and then use a combination of OTC options and exchange traded derivatives to hedge the remaining risk, considering significant market shocks and limiting the amount of capital we are putting at risk. Internal positions are generally netted before any external hedge positions are considered. The hedging programme also covers the fees on variable annuity guarantees.

Jackson hedges the economics of its products rather than the accounting result. This focus means that we accept a degree of variability in our accounting results in order to ensure we achieve the appropriate economic result. Accordingly, while Jackson's hedges are effective on an economic basis, due to different accounting treatment for the hedges and some of the underlying hedged items on an IFRS basis, the reported income effect is more variable.

ii Interest rate risk

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

In the US, there is interest rate risk across the portfolio. The majority of Jackson's fixed annuity and life liabilities allow for an annual reset of the crediting rate, which provides for a greater level of discretion in determining the amount of interest rate risk to assume. The primary concerns with these liabilities relate to potential surrenders when rates increase and, in a low interest environment, the minimum guarantees required by state law. For variable annuities, interest rate changes will influence the level of reserves held for certain guaranteed benefits. With its large fixed annuity and fixed index annuity books, Jackson has natural offsets for its variable annuity interest-rate related risks. Jackson manages interest rate exposure through a combination of interest rate swaps and interest rate options.

In the UK, the investment policy for the shareholder-backed annuity business is to match the annuity payments with the cash flows from investments. As a result, assets and liabilities are closely matched by duration. The impact on profit of any residual cash flow mismatching can be adversely affected by changes in interest rates; therefore the mismatching position is regularly monitored. The guarantees written in the with profits business also give rise to some interest rate discounting risk (ie falling rates result in an increase in the cost of guarantees) albeit these impacts are in the first instance absorbed by the with-profits fund and not IFRS shareholders' equity.

The exposure to interest rate risk arising from guarantees in Asia is at modest levels: for some non-unit-linked investment products it may not be possible to hold assets which will provide cash flows to match exactly those relating to policyholder liabilities. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. While this residual asset/liability mismatch risk can be managed, it cannot be eliminated.

iii Foreign exchange risk

Prudential principally operates in the UK, the US, and in 13 countries and territories in Asia and the Middle East. The geographical diversity of our businesses means that we are inevitably subject to the risk of exchange rate fluctuations. Prudential's international operations in the US and Asia, which represent a significant proportion of our operating profit and shareholders' funds, generally write policies and invest in assets denominated in local currency. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in our consolidated financial statements when results are expressed in pounds sterling.

We do not generally seek to hedge foreign currency revenues, as these are substantially retained locally to support the growth of the Group's business and meet local regulatory and market requirements. However, in cases where a surplus arising in an overseas operation supports Group capital or shareholders' interest, this exposure is hedged if it is economically optimal to do so. Currency borrowings, swaps and other derivatives are used to manage exposures.

b Credit risk

In addition to business unit and Group-wide operational limits on credit risk, we monitor closely our counterparty exposures at Group level, highlighting those that are large or of concern. Where appropriate, we will reduce our exposure, purchase credit protection or make use of collateral arrangements to control our levels of credit risk.

The Group held the following total investments at 31 December 2011.

	2011				2010
	Participating funds £bn	Unit-linked and variable annuities £bn	Shareholder-backed £bn	Total Group £bn	Total Group £bn
Debt securities	57.2	8.9	58.4	**124.5**	116.4
Equity	26.0	59.9	1.4	**87.3**	86.6
Property investments	8.5	0.7	1.6	**10.8**	11.2
Mortgage loans	1.0	-	4.7	**5.7**	5.0
Other loans	1.7	-	2.3	**4.0**	4.3
Deposits	7.2	1.5	2.0	**10.7**	10.0
Other investments	4.5	0.1	3.0	**7.6**	5.8
Total	106.1	71.1	73.4	**250.6**	239.3

The table below presents the balances of investments related to shareholder-backed operations.

	Asia life £bn	UK life £bn	US life £bn	Other £bn	Total £bn
Total shareholder-backed investments	7.1	28.5	34.0	3.8	**73.4**

Shareholders are not directly exposed to value movements on assets backing participating or unit-linked operations, with sensitivity mainly related to shareholder-backed operations.

i) Debt portfolio

The investments held by the shareholder-backed operations are predominantly debt securities, of which 95 per cent are rated, either externally or internally, as investment grade compared to 95 per cent at 31 December 2010.

The below table presents the balances of debt securities at 31 December 2011.

	2011				2010
	Participating funds £bn	Unit-linked and variable annuities £bn	Shareholder-backed £bn	Total Group £bn	Total Group £bn
Insurance operations					
UK	47.6	6.2	24.2	**78.0**	74.3
US	-	-	27.0	**27.0**	26.4
Asia	9.6	2.7	5.4	**17.7**	14.1
Asset management operations	-	-	1.8	**1.8**	1.6
Total debt securities	57.2	8.9	58.4	**124.5**	116.4

UK

The UK's debt portfolio on an IFRS basis is £78.0 billion as at 31 December 2011, including £47.6 billion within the UK with-profits fund. Shareholders' risk exposure to the with-profits fund is limited as the solvency is protected by the large inherited estate. Outside the with-profits fund there is £6.2 billion in unit-linked funds where the shareholders' risk is limited, with the remaining £24.2 billion backing the shareholders' annuity business and other non-linked business (of which 78 per cent is rated AAA to A, 20 per cent BBB and 2 per cent non-investment grade). The UK shareholder-backed portfolio did not experience any default losses in 2011.

US

The most significant area of exposure to credit risk for the shareholders is Jackson in the US. At 31 December 2011 Jackson's fixed income debt securities portfolio consisted of:

Summary	2011 £m	2010 £m
Corporate and government security and commercial loans:		
Government	**2,163**	2,440
Publicly traded and SEC Rule 144A securities	**16,281**	14,747
Non-SEC Rule 144A securities	**3,198**	3,044
Total	**21,642**	20,231
Residential mortgage-backed securities (RMBS)	**2,591**	2,784
Commercial mortgage-backed securities (CMBS)	**2,169**	2,375
Other debt securities	**620**	976
Total US debt securities	**27,022**	26,366

Of the £19.5 billion of corporate debt 95 per cent is investment grade. Concentration risk within the corporate debt portfolio is low, with the top ten holdings accounting for approximately 4 per cent of the portfolio. Our largest sector exposures in the investment grade corporate debt portfolio are Utilities and Energy each at 15 per cent. We actively manage the portfolio and will sell exposures as events dictate.

Within the RMBS portfolio of £2.6 billion, the portion guaranteed by US government sponsored agencies is 60 per cent. Another 18 per cent of the portfolio is non-agency prime and Alt-A investments with pre-2006/2007 vintages, where experience has been much more positive than later vintages. Our exposure to the 2006/2007 vintages totals £343 million of which £337 million is invested in the senior part of the capital structure. The actual exposure to non-senior 2006/2007 Prime and Alt-A RMBS is only £6 million. The total RMBS portfolio has an average fair value price of 92 cents on the dollar.

The CMBS portfolio of £2.2 billion is performing strongly, with 35 per cent of the portfolio rated AAA and only 2 per cent rated below investment grade. The entire portfolio has an average credit enhancement level of 30 per cent. This level provides significant protection, since it means the underlying collateral has to incur a 30 per cent loss, net of recoveries, before our holding is at risk.

Jackson's debt securities experienced total credit-related losses in 2011 of £52 million (2010: £213 million). This includes net recoveries on sales of previously impaired bonds of £10 million (2010: loss of £89 million) and IFRS write-downs of £62 million (2010: £124 million). Of this amount of write-downs, £21 million (2010: £71 million) was in respect of RMBS securities. In addition to the amounts for debt securities, there were £28 million (2010: £12 million) of write-downs on Jackson's commercial mortgage loan portfolio. In 2011 and 2010 Jackson did not have any defaults in its debt securities portfolio.

The impairment process reflects a rigorous review of every bond and security in our portfolio. Our accounting policy requires us to book full mark to market losses on impaired securities through our balance sheet. However, we would expect only a proportion of these losses eventually to turn into defaults, and some of the impaired securities to recover in price over time.

Jackson's net unrealised gains from debt securities was positive £2,057 million at 31 December 2011, compared to positive £1,210 million at 31 December 2010. The gross unrealised loss position was £246 million at 31 December 2011 (31 December 2010: £370 million). Gross unrealised losses on securities priced at less than 80 per cent of face value totalled £158 million at 31 December 2011 compared to £224 million at 31 December 2010.

Asia

Asia's debt portfolio totalled £17.7 billion at 31 December 2011. Of this, approximately 70 per cent was in unit-linked and with-profits funds with minimal shareholders' risk. The remaining 30 per cent is shareholder exposure and is invested predominantly (73 per cent) in investment grade bonds. For Asia, the portfolio has performed very well, and did not experience any default losses in 2011.

Asset management

The debt portfolio of the Group's asset management operations of £1.8 billion as at 31 December 2011 is principally related to Prudential Capital operations. Of this amount £1.5 billion were rated AAA to A- by S&P or Aaa by Moody's.

ii) Group shareholder sovereign debt exposure

Sovereign debt represented 16 per cent or £9.2 billion of the debt portfolio backing shareholder business at 31 December 2011. 43 per cent of this was rated AAA and 94 per cent investment grade. Of the Group's holdings in Continental Europe of £690 million, 87 per cent was AAA rated. Prudential's direct exposure to the eurozone is small in the context of our overall balance sheet: Shareholder exposure to the eurozone sovereigns of Portugal, Italy, Ireland, Greece and Spain (PIIGS) is £44 million. The Group does not have any sovereign debt exposure to Greece, Portugal, Ireland or France.

The exposure of the Group's shareholder and with-profits funds to sovereign debt (including credit default swaps that are referenced to sovereign debt) at 31 December 2011 is as follows.

	Shareholder sovereign debt £m	With-profits sovereign debt £m
Continental Europe		
Italy	**43**	**52**
Spain	**1**	**33**
	44	**85**
Germany	**598**	**602**
Other Europe (principally Isle of Man and Belgium)	**48**	**62**
	690	**749**
United Kingdom	**3,254**	**2,801**
United States	**2,448**	**2,615**
Other, predominantly Asia	**2,850**	**332**
Total	**9,242**	**6,497**

iii) Exposure to bank debt securities

Prudential expects that any second order sovereign credit exposures would most likely be concentrated in the banking sector. The Group's bank exposure is a function of its core investment business, as well as of the hedging and other activity undertaken to manage its various financial risks. Prudential relies on public information, such as the results of the July 2011 European Banking Authority (EBA) stress tests to identify banks with large concentrations of indirect exposure.

Prudential has a range of controls and processes to manage credit exposure. In addition to the control frameworks that cover shareholder and policyholder credit risk within each Business Unit, the Group Credit Risk Committee oversees shareholder credit risk across the Group. The Committee receives comprehensive management information, including details of counterparty and invested credit exposure (including structured credit and loans), secured and unsecured cash balances, top 30 credit exposures, and an analysis of shareholder exposure by industry/country and rating. The Group Risk function also continually monitors the portfolio for emerging credit risks through various tools and processes.

Prudential actively mitigates the level of Group wide credit risk (invested credit and counterparty) through a comprehensive system of hard limits, collateralisation agreements and centrally managed 'watch lists'.

Of the £58.4 billion of debt securities backing shareholder business (excluding holdings attributable to external holders of consolidated unit trusts), 4 per cent or £2.1 billion was in Tier 1 and Tier 2 hybrid bank debt. A further £2.2 billion was in the form of senior debt.

In terms of shareholder exposures to the bank debt of PIIGS, we held £328 million at 31 December 2011. This comprised £107 million of covered bonds, £59 million senior debt, £16 million Tier 1 debt and £146 million Tier 2 debt. There was no direct exposure to Greek banks.

The Group held the following direct exposures to banks' debt securities of shareholder-backed business at 31 December 2011.

	Bank debt securities - shareholder-backed business						
	Senior debt			Subordinated debt			
	Covered £m	Senior £m	Total senior debt £m	Tier 2 £m	Tier 1 £m	Total subordinated debt £m	Total £m
Portugal	**-**	**24**	**24**	**-**	**-**	**-**	**24**
Ireland	**-**	**13**	**13**	**-**	**-**	**-**	**13**
Italy	**-**	**11**	**11**	**56**	**14**	**70**	**81**
Greece	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Spain	**107**	**11**	**118**	**90**	**2**	**92**	**210**
	107	**59**	**166**	**146**	**16**	**162**	**328**
Austria	**-**	**-**	**-**	**9**	**-**	**9**	**9**
Belgium	**-**	**-**	**-**	**-**	**-**	**-**	**-**
France	**2**	**34**	**36**	**78**	**35**	**113**	**149**
Germany	**-**	**28**	**28**	**1**	**-**	**1**	**29**
Luxembourg	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Netherlands	**-**	**7**	**7**	**81**	**64**	**145**	**152**
United Kingdom	**228**	**145**	**373**	**615**	**95**	**710**	**1,083**
Total Europe	**337**	**273**	**610**	**930**	**210**	**1,140**	**1,750**
United States	**-**	**1,362**	**1,362**	**352**	**2**	**354**	**1,716**
Other, predominately Asia	**-**	**246**	**246**	**562**	**33**	**595**	**841**
Total	**337**	**1,881**	**2,218**	**1,844**	**245**	**2,089**	**4,307**

In addition to the exposures held by the shareholder-backed business, the Group held the following banks' securities at 31 December 2011 within its with-profits funds.

	Bank debt securities - participating funds						
	Senior debt			Subordinated debt			
	Covered £m	Senior £m	Total senior debt £m	Tier 2 £m	Tier 1 £m	Total subordinated debt £m	Total £m
Portugal	-	7	7	-	-	-	7
Ireland	-	-	-	-	-	-	-
Italy	-	45	45	49	2	51	96
Greece	5	-	5	-	-	-	5
Spain	137	-	137	1	-	1	138
	142	52	194	50	2	52	246
Austria	-	-	-	-	-	-	-
Belgium	-	-	-	-	-	-	-
France	-	80	80	47	17	64	144
Germany	-	7	7	-	-	-	7
Luxembourg	-	7	7	-	-	-	7
Netherlands	-	80	80	14	28	42	122
United Kingdom	319	385	704	772	74	846	1,550
Total Europe	461	611	1,072	883	121	1,004	2,076
United States	-	1,378	1,378	396	278	674	2,052
Other, predominately	1	384	385	341	20	361	746
Total	462	2,373	2,835	1,620	419	2,039	4,874

iv) Other possible impacts of a eurozone crisis

Other knock on impacts of a eurozone crisis may represent some risk to the Group, both in terms of financial market impact and potential operational issues. These third order exposures are intrinsically more difficult to quantify. However, as well as the monitoring routines noted above, Prudential has also developed tools to identify the Group's exposure to counterparties at risk (including contingent credit exposures), and has in place Group-wide processes to facilitate the management of such risks should they materialise.

In respect of operational risks, we have strong investment operations, counterparty risk and change management capabilities and we are confident in our ability to manage the transition to a new eurozone regime if events require us to do so.

v) Loans

Of the total Group loans of £9.7 billion at 31 December 2011, the following are held by shareholder-backed operations.

	2011			2010		
	Mortgage loans £bn	Other loans £bn	Total £bn	Mortgage loans £bn	Other loans £bn	Total £bn
Asia insurance operations[(i)]	-	0.4	0.4	-	0.5	0.5
US insurance operations[(ii)]	3.6	0.6	4.2	3.6	0.6	4.2
UK insurance operations[(iii)]	1.1	-	1.1	1.0	-	1.0
Asset management operations[(iv)]	-	1.3	1.3	-	1.4	1.4
Total loans held by shareholder-backed operations	4.7	2.3	7.0	4.6	2.5	7.1

(i) The majority of Asia insurance operations loans are commercial loans held by the Malaysian operation that are rated investment grade by two local rating agencies.

(ii) All commercial mortgage loans held by US insurance operations are collateralised by properties. The US commercial mortgage loan portfolio does not include any single-family residential mortgage loans and therefore is not exposed to the risk of defaults associated with residential sub-prime mortgage loans. Jackson incurred impairments of £28 million on its commercial mortgage book (2010: £12 million). Other loans represents policy loans.

(iii) The majority of mortgage loans held by UK insurance operations are mortgage loans collateralised by properties.

(iv) Relates to bridging loan finance managed by Prudential Capital.

vi) Counterparty credit risk

The Group enters into a variety of exchange traded and over-the-counter derivative financial instruments, including futures, options, forward currency contracts and swaps such as interest rate swaps, cross-currency swaps, swaptions and credit default swaps.

All over-the-counter derivative transactions, with the exception of some Asian transactions, are conducted under standardised ISDA

(International Swaps and Derivatives Association Inc) master agreements and the Group has collateral agreements between the individual Group entities and relevant counterparties in place under each of these market master agreements.

The Group's exposure to derivative counterparty credit risk is subject to the same framework of Group-wide operational limits and monitoring as our invested credit risk. Where appropriate, we will reduce our exposure, purchase credit protection or make use of additional collateral arrangements to control our levels of counterparty credit risk.

c Insurance risk

The processes of determining the price of our products and reporting the results of our long-term business operations require us to make a number of assumptions. In common with other industry players, the profitability of our businesses depends on a mix of factors including mortality and morbidity trends, persistency, investment performance, unit cost of administration and new business acquisition expenses.

We continue to conduct rigorous research into longevity risk using data from our substantial annuity portfolio. The assumptions that Prudential makes about future expected levels of mortality are particularly relevant in its UK annuity business. The attractiveness of reinsurance is regularly evaluated. It is used as a risk management tool where it is appropriate and attractive to do so.

Prudential's persistency assumptions reflect recent experience for each relevant line of business, and any expectations of future persistency. Persistency risk is mitigated by appropriate training and sales processes and managed proactively post sale. Where appropriate, allowance is also made for the relationship – either assumed or historically observed – between persistency and investment returns, and for the resulting additional risk.

d Liquidity risk

The parent company has significant internal sources of liquidity which are sufficient to meet all of our expected requirements for the foreseeable future without having to make use of external funding. In aggregate the Group has £2.1 billion of undrawn committed facilities, expiring between 2013 and 2017. In addition, the Group has access to liquidity via the debt capital markets. For example, Prudential plc issued US$550 million perpetual subordinated Tier 1 securities in January 2011. Prudential also has in place an unlimited commercial paper programme and has maintained a consistent presence as an issuer in this market for the last decade. Liquidity uses and sources have been assessed at the Group and at a business unit level under base case and stressed assumptions. The liquidity resources available and the subsequent Liquidity Coverage Ratio (LCR) have been assessed to be sufficient under both sets of assumptions.

B.2 Non-financial risk

Prudential is exposed to operational, business environment and strategic risk in the course of running its businesses.

With regard to operational risk, the Group is dependent on processing a large number of complex transactions across numerous diverse products, and is subject to a number of different legal and regulatory, including tax, regimes. Prudential also has a significant number of third-party relationships that are important to the distribution and processing of our products, both as market counterparties and as business partners. This results in reliance upon the operational performance of these outsourcing partners.

Prudential's systems and processes incorporate controls that are designed to manage and mitigate the operational risks associated with its activities. The Prudential Group Governance Manual was developed to make a key contribution to the sound system of internal control that the Group is expected to maintain under the UK Corporate Governance Code and the Hong Kong Code on Corporate Governance Practices. Group Head Office and business units confirm that they have implemented the necessary controls to evidence compliance with the Manual.

The Group has an operational risk management framework in place that facilitates both the qualitative and quantitative analysis of operational risk exposures. The output of this framework, in particular management information on key operational risk and control assessments, scenario analysis, internal incidents and external incidents, is reported by the business units and presented to the Group Operational Risk Committee. This information also supports business decision-making and lessons-learned activities; the ongoing improvement of the control environment; and determination of the adequacy of Prudential's corporate insurance programme.

With regard to business environment risk, the Group has a wide-ranging programme of active and constructive engagement with governments, policymakers and regulators in our key markets and with relevant international institutions. Such engagement is undertaken both directly and indirectly via trade associations. The Group has procedures in place to monitor and track political and regulatory developments. Where appropriate, the Group provides submissions and technical input to officials and others, either via submissions to formal consultations or through interactions with officials.

With regard to strategic risk, both business units and the Group Head Office are required to adopt a forward-looking approach to risk management by performing risk assessments as part of the annual strategic planning process. This supports the identification of potential threats and the initiatives needed to address them, as well as competitive opportunities. The impact on the underlying businesses and/or Group-wide risk profile is also considered to ensure that strategic initiatives are within the Group's risk appetite.

Solvency II represents a regulatory risk due to the uncertainty of what the rules will be when finalised, their potential impacts, and the timing of their introduction. The risks are that the Group may not be able to respond sufficiently quickly to the strategic implication of the change given levels of uncertainty around the content and timing; operational risk in terms of the scale and

complexity of the delivery and uncertainty over timelines; and the additional capital that the Group may be required to hold. Solvency II is covered in more detail in the Capital Management section below.

B.3 Risk factors
Our disclosures covering risk factors can be found at the end of this document.

C. Capital management
C.1 Regulatory capital (IGD)
Prudential is subject to the capital adequacy requirements of the European Union (EU) Insurance Groups Directive (IGD) as implemented by the Financial Services Authority (FSA) in the UK. The IGD capital adequacy requirements involve aggregating surplus capital held in our regulated subsidiaries, from which Group borrowings, except those subordinated debt issues that qualify as capital, are deducted. No credit for the benefit of diversification is permitted under this approach.

Our capital position remains strong. We have continued to place emphasis on maintaining the Group's financial strength through optimising the balance between writing profitable new business, conserving capital and generating cash. We estimate that our IGD capital surplus is £4.0 billion at 31 December 2011 (before taking into account the 2011 final dividend), with available capital covering our capital requirements 2.75 times. This compares to a capital surplus of £4.3 billion at the end of 2010 (before taking into account the 2010 final dividend).

The movements during 2011 mainly comprise:

- Net capital generation mainly through operating earnings (in-force releases less investment in new business, net of tax) of £1.5 billion;

Offset by:

- Investment market related impacts of £0.6 billion;
- Final 2010 dividend of £0.4 billion and interim 2011 dividend of £0.2 billion;
- External financing costs and other central costs, net of tax, of £0.5 billion; and
- Net impact of £0.1 billion arising from issuance of the $550 million perpetual subordinated Tier 1 securities in January 2011 and repayment of the €500 million subordinated notes in December 2011

We continue to have further options available to us to manage available and required capital. These could take the form of increasing available capital (for example, through financial reinsurance) or reducing required capital (for example, through the mix and level of new business) and the use of other risk mitigation measures such as hedging and reinsurance.

In addition to our strong capital position, on a statutory (Pillar 1) basis, the total credit reserve for the UK shareholder annuity funds also protects our capital position in excess of the IGD surplus. This credit reserve as at 31 December 2011 was £2.0 billion. This credit risk allowance represents 33 per cent of the bond portfolio spread over swap rates, compared to 43 per cent as at 31 December 2010.

Stress testing
As at 31 December 2011, stress testing of our IGD capital position to various events has the following results:

- An instantaneous 20 per cent fall in equity markets from 31 December 2011 levels would reduce the IGD surplus by £350 million;
- A 40 per cent fall in equity markets (comprising an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period) would reduce the IGD surplus by £900 million;
- A 100 bps reduction (subject to a floor of zero) in interest rates would reduce the IGD surplus by £650 million; and
- Credit defaults of ten times the expected level would reduce IGD surplus by £500 million.

We believe that the results of these stress tests, together with the Group's strong underlying earnings capacity, our established hedging programmes and our additional areas of financial flexibility, demonstrate that we are in a position to withstand significant deterioration in market conditions.

We also use an economic capital assessment to monitor our capital requirements across the Group, allowing for realistic diversification benefits and continue to maintain a strong position. This assessment provides valuable insights into our risk profile.

C.2 Solvency II
The European Union (EU) is developing a new solvency framework for insurance companies, referred to as 'Solvency II'. The Solvency II Directive, which sets out the new framework, was formally approved by the Economic and Financial Affairs Council in November 2009 and is anticipated to be transposed into local regulations and take effect for supervisors from 2013, with implementation currently anticipated from 2014. The new approach is based on the concept of three pillars – minimum capital requirements, supervisory review of firms' assessments of risk, and enhanced disclosure requirements.

Specifically, Pillar 1 covers the quantitative requirements around own funds, valuation rules for assets and liabilities and capital requirements. Pillar 2 provides the qualitative requirements for risk management, governance and controls, including the

requirement for insurers to submit an Own Risk and Solvency Assessment (ORSA) which will be used by the regulator as part of the supervisory review process. Pillar 3 deals with the enhanced requirements for supervisory reporting and public disclosure.

A key aspect of Solvency II is that the assessment of risks and capital requirements are intended to be aligned more closely with economic capital methodologies. Companies may be allowed to make use of internal economic capital models if approved by the local regulator.

The European Parliament is currently discussing the Omnibus II Directive which, once approved, will amend certain aspects of the Solvency II Directive, including the anticipated implementation date as described above. The Omnibus II Directive is expected to be finalised during 2012.

In addition the European Commission is continuing to develop, in consultation with stakeholders including industry, detailed rules that complement the high-level principles in the Solvency II Directive, referred to as 'implementing measures'. These are not expected to be finalised until later in 2012.Further guidance and technical standards are also currently being developed by the European Insurance and Occupational Pensions Authority (EIOPA). These are expected to be subject to a formal consultation and are unlikely to be finalised before early 2013.

There remains significant uncertainty regarding the outcome from this process. In particular, the Solvency II rules relating to the determination of the liability discount rate and to the treatment of US business remain unclear and Prudential's capital position is sensitive to these outcomes. With reference to the liability discount rate, solutions to remove artificial volatility from the balance sheet have been suggested by policymakers as the regulations continue to evolve. These solutions, along with transitional arrangements for the treatment of the US business, are continuing to be considered by the European Parliament as part of the process to reach agreement on the Omnibus II Directive. There is a risk that the effect of the final measures could be adverse for Prudential, including potentially that a significant increase in capital may be required to support its business and that Prudential may be placed at a competitive disadvantage to other European and non-European financial services groups. Prudential is actively participating in shaping the outcome through our involvement in industry bodies and trade associations, including the Chief Risk Officer and Chief Financial Officer Forums, together with the Association of British Insurers (ABI) and Insurance Europe (formerly known as the Comité Européen des Assurances).

Having assessed the requirements of Solvency II, an implementation programme was initiated with dedicated teams to manage the required work across the Group. The activity of the local Solvency II teams is being coordinated centrally to achieve consistency in the understanding and application of the requirements. We are continuing our preparations to adopt the regime when it eventually arrives and are undertaking in parallel an evaluation of the possible actions to mitigate its effects. Prudential regularly reviews its range of options to maximise the strategic flexibility of the Group. This includes consideration of optimising the Group's domicile, including as a possible response to an adverse outcome on Solvency II.

Over the coming months we will be progressing our implementation and remaining in regular contact with the FSA as we continue to engage in the 'pre-application' stage of the approval process for the internal model.

C.3 Capital allocation

Prudential's approach to capital allocation takes into account a range of factors, especially risk adjusted returns on capital, the impact of alternative capital measurement bases (accounting, regulatory, economic and ratings agency assessments), tax efficiency, and wider strategic objectives.

We optimise capital allocation across the Group by using a consistent set of capital performance metrics across all business units to ensure meaningful comparison. Capital utilisation, return on capital and new business value creation are measured at a product level. The use of these capital performance metrics is embedded into our decision-making processes for product design and product pricing.

Our capital performance metrics are based on economic capital, which provides a view of our capital requirements across the Group, allowing for realistic diversification benefits. Economic capital also provides valuable insights into our risk profile and is used both for risk measurement and capital management.

C.4 Risk mitigation and hedging

We manage our actual risk profile against our tolerance of risk. To do this, we maintain risk registers that include details of the risks we have identified and of the controls and mitigating actions we employ in managing them. Any mitigation strategies involving large transactions such as a material derivative transaction are subject to review at Group level before implementation.

We use a range of risk management and mitigation strategies. The most important of these include: adjusting asset portfolios to reduce investment risks (such as duration mismatches or overweight counterparty exposures); using derivatives to hedge market risks; implementing reinsurance programmes to manage insurance risk; implementing corporate insurance programmes to limit the impact of operational risks; and revising business plans where appropriate.

Other corporate information

Products and drivers of insurance operations' profits

Overview of the Group's principal activities

Prudential plc is the holding company of the Prudential Group. The principal activity of our subsidiary operations is the provision of financial services to individuals and businesses in Asia, the US and UK. We offer a wide range of retail financial products and services, and asset management services, throughout these territories. The retail financial products and services principally include life insurance, pensions and annuities as well as collective investment schemes.

Asia

The life insurance products offered by Prudential Corporation Asia include with-profits (participating) and non-participating term, whole life and endowment and unit-linked policies often combined with protection riders and typically with regular premium payments.

In 2011, the new business profit mix in our Asian insurance business was derived 60 per cent (2010: 59 per cent) from health and protection products, 27 per cent (2010: 32 per cent) from unit-linked products and 13 per cent (2010: 9 per cent) from non-linked products.

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. Accident and health products provide mortality or morbidity benefits and include health, disablement, critical illness and accident cover. These products are commonly offered as supplements to main life policies, but can also be sold separately.

Policyholder and insurer share the profits from participating policies (typically in a 90:10 ratio) in the same way as with-profits business in the UK. With unit-linked products, shareholders receive the profits arising from managing the policy, its investments and the insurance risk. Policyholders within the underlying unitised fund receive investment gains. The profits from accident and health and non-participating products come from any surplus remaining after paying policy benefits.

Unit-linked products tend to have higher profits on the EEV basis of reporting than traditional non-linked products, as expenses and charges are better matched and solvency capital requirements are lower. At the end of 2011, we were offering unit-linked products in all markets except Thailand.

In Malaysia and Indonesia, Prudential also offers life insurance policies that are constructed to comply with Islamic principles otherwise known as Takaful. The main principles are policyholders co-operate amongst 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.

In addition to the life products described above, we offer mutual fund investment products in India, Taiwan, Japan, Singapore, Malaysia, Hong Kong, Korea, Vietnam and China, thus enabling customers to participate in debt, equity and money market investments. We are also licensed in the United Arab Emirates. Eastspring Investments (our asset management business in Asia) earns a fee based on assets under management.

United States

Jackson's product offerings include variable, fixed and fixed index annuities, as well as life insurance and institutional products.

Annuities

Annuity products are long-term individual retirement products, which offer tax-deferred accumulation on the funds invested until proceeds are withdrawn from the policy.

Fixed annuities are used for asset accumulation in retirement planning and for providing income in retirement and offer flexible payout options. The contract holder pays us 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. The interest rate may be reset on each contract anniversary, subject to a guaranteed minimum, in line with state regulations. When the annuity matures, the contract holder is paid either the amount in the contract holder account or staggered payments in the form of an immediate annuity – similar to a UK annuity in payment.

Policyholder behaviour is relevant when looking at profits for fixed annuity contracts. The relevant factors are the potential for surrenders when interest rates rise and, in a low interest environment, the influence of the minimum guarantees required by state law. 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. Our profits on fixed annuities come primarily from the spread between the return earned on investments and the interest credited to the contract holder's account, less expenses.

Fixed index annuities are similar to fixed annuities, in that the contract holder pays a premium that is credited to the contract holder's account, and also in that interest is periodically credited to the contract holder's account. An annual minimum interest rate

is guaranteed, although actual interest credited may be higher and is linked to an equity index over the product's index option period. Profit comes primarily from the spread between the return earned on investments and the amounts credited to the contract holder's account, less expenses, which include the costs of hedging the equity component of the interest credited to the contract. The net hedge results are reflected in short-term fluctuations. Fixed index annuities are subject to early surrender charges for the first five to twelve years of the contract. During the surrender charge period, the contract holder may cancel the contract for the surrender value. The fixed index book provides natural offsetting equity exposure to the guarantees issued in connection with our variable annuity products, which allows for efficient hedging of the net equity exposure.

Variable annuities are tax-advantaged, deferred annuities where the rate of return depends upon the performance of the underlying investment portfolio, similar in principle to UK unit-linked products. They are also used for asset accumulation in retirement planning and to provide income in retirement.

The contract holder can allocate the premiums between a variety of variable sub-accounts, with a choice of fund managers and/or guaranteed fixed-rate options. As with a unit-linked fund, the contract holder's premiums allocated to the variable accounts are held separately from Jackson's general account assets. 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 nine 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 and also offers a choice of guaranteed benefit options within their variable annuity product portfolio, which customers can elect and pay for. These options include the guaranteed minimum death benefit (GMDB), which guarantees that, upon death of the owner, the 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. Variations of the GMWBs are offered whereby the guaranteed base can be increased, either through step-ups to a more recent market value of the account, or through bonuses offered if withdrawals are delayed for a particular number of years. Additional charges are assessed for these features. GMABs generally provide a guarantee for a return of a certain amount of principal after a specified period. This benefit was eliminated from Jackson's product offerings in 2011. 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. Jackson stopped offering GMIBs in 2009, 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 hedging and the eventual payment of benefits guarantees. The net hedge results are reflected in short-term fluctuations. 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 in a cost-effective manner our equity exposure. Profits in the variable annuity book of business will continue to be subject to the impact of market movements on both sales and allocations to the variable accounts and the effects of the economic hedging programme. While risk is hedged 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. Management continues to believe that, on a long-term economic basis, the equity exposure remains well managed.

Life insurance
Jackson also sells several types of life insurance including term life, universal life and variable universal life. Term life provides protection for a defined period of time and a benefit that is payable to a designated beneficiary upon the insured's death. 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 with the ability for the policyholder account to be invested in type of separate account funds. The Jackson life insurance book has also delivered consistent profitability, driven primarily by favourable mortality experience.

Institutional products
Jackson's institutional products division markets institutional products such as traditional Guaranteed Investment Contracts (GICs), Funding Agreements and Medium Term Note (MTN) funding agreements. The institutional product offerings also include Jackson's funding agreements issued to the Federal Home Loan Bank. Institutional products are distributed directly to investors, through investment banks, or through funding agreement brokers. Jackson sold no institutional products during 2010 or 2009, as available capital was directed to support higher-margin variable annuity sales. In 2011, Jackson re-entered the institutional market on a limited and selective basis, taking advantage of the high returns available at particular times during the year.

United Kingdom
In common with other UK long-term insurance companies, Prudential UK's products are structured as either with-profits (or participating) products, or non-participating products including annuities in payment and unit-linked products. Depending on 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, Onshore Bonds or Flexible Investment Bonds) or regular premium (for example, certain pension products). Prudential UK's primary with-profits sub-fund is part of The Prudential Assurance Company Limited (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. This is analogous to a dividend from PAC's long-term fund, and is dependent upon the bonuses credited or declared on policies in that year. Prudential's with-profits policyholders currently receive 90 per cent of the distribution from the main with-profits sub-fund as bonus additions to their policies, while shareholders receive 10 per cent as a statutory transfer.

The Defined Charge Participating Sub-Fund (DCPSF) forms part of the PAC long-term fund. It is comprised of the accumulated investment content of premiums paid in respect of the defined charge participating with-profits business issued in France and the defined charge participating with-profits business reassured into PAC from Prudential International Assurance plc and Canada Life (Europe) Assurance Ltd. It also includes the portfolio of with-profits annuity policies acquired from Equitable Life in 2007. All profits in this fund accrue to policyholders in the DCPSF.

The profits from almost all of the 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 these 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.

Description of EEV basis reporting

Prudential's results are prepared on two accounting bases – the supplementary EEV basis, and the IFRS basis for the financial statements. Over the life of any given product, the total profit recognised will be the same under either the IFRS or the EEV basis. However, the two methods recognise the emergence of that profit in different ways, with profits emerging earlier under the EEV basis than under IFRS. This section explains how EEV differs from IFRS and why it is used.

In broad terms, IFRS profits for long-term business reflect the aggregate of statutory transfers from UK-style with-profits funds and profit on a traditional accounting basis for other long-term business. By their nature, the products sold by the life insurance industry are long-term, as insurance companies commit to service these products for many years into the future. The profit on these insurance sales is generated over this long-term period. In our view, the result under IFRS does not properly reflect the inherent value of these future profits, as it focuses instead on the amounts accruing to shareholders in the current year.

In May 2004 the CFO Forum, representing the Chief Financial Officers of 19 European insurers, published the European Embedded Value Principles (expanded by the Additional Guidance of EEV Disclosures published in October 2005), that provide consistent definitions, a framework for setting actuarial assumptions, and a more explicit approach to the underlying methodology and disclosures. So for example:

- The allowance for risk is explicit for EEV through: (i) an allowance for the cost of capital (at the higher of economic capital and the local statutory minimum) (ii) stochastic or other appropriate modelling of financial options and guarantees to ensure that an allowance for their cost is irrespective of their value at the balance sheet date, and (iii) an explicit allowance in the risk discount rate for financial and non-financial risks;
- EEV specifically allows for the look-through into profits arising in shareholder service companies, most notably the profit arising in investment management companies from managing the insurance companies funds for covered business;
- There are extensive disclosures required for EEV on all aspects of the calculations, including the methodology adopted and the analysis of return.

It is thought that the EEV basis not only provides a good indication of the value being added by management in a given accounting period, but also helps demonstrate whether shareholder capital is being deployed to best effect. Indeed insurance companies in many countries use comparable bases of accounting for management purposes.

The EEV basis is a value-based method of reporting in that it reflects the change in value of the business over the accounting period. This value is called the shareholders' funds on the EEV basis which, at a given point in time, is the value of future profits expected to arise from the current book of long-term insurance business plus the net worth of the company. In determining these expected profits, full allowance is made for the risks attached to their emergence and the associated cost of capital, and takes into account recent experience in assessing likely future persistency, mortality and expenses.

The change in value is typically analysed into the following components:

- the value added from new business sold during the year;
- the change in value from existing business already in place at the start of the year;
- short-term fluctuations in investment returns;
- change in economic assumptions;
- change in the time value of cost of options and guarantees and economic assumption changes;
- other items (for example, profit from other Group operations, tax, foreign exchange, exceptional items); and
- dividends.

The value added from new business – defined as the present value of the future profits arising from new business written in the year – is a key metric used in the management of our business. The change in value of business in force at the start of the year demonstrates how the existing book is being managed. Together, these metrics provide management and shareholders with valuable information about the underlying development of the Group's business and the success or otherwise of management actions.

EEV basis results are prepared by first of all setting 'best estimate' assumptions, by product, for all relevant factors including expenses, surrender levels and mortality. Economic assumptions as to future investment returns and inflation are generally based on a combination of market data and long-term assumptions. These assumptions are used to project future cash flows. The present value of the future cash flows is then calculated using a discount rate which reflects both the time value of money and the risks associated with the cash flows. The risk discount rate is determined by adding a risk margin to the appropriate risk free rate of return. The actual outcome may differ from that projected, in which case the effect will be reflected in the experience variances for that year.

The assumptions used for the EEV basis of accounting are set out in the notes that accompany the supplementary EEV basis information. An indication of the sensitivity of the results to changes in key assumptions is also provided within that information.

Corporate governance

The directors confirm that Prudential has complied with the provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Hong Kong Listing Rules throughout the period other than in respect of the Terms of Reference of the Remuneration Committee as regards making recommendations to the Board in respect of the remuneration of the non-executive directors. It would be inconsistent with the principles of the UK Code for the Remuneration Committee to be involved in setting the fees of non-executive directors.

The Company also confirms that it has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than required by Appendix 10 of the Hong Kong Listing Rules and that the directors of the Company have complied with this code of conduct throughout the period.

The directors also confirm that the financial results contained in this document have been reviewed by the Group Audit Committee.

The directors of Prudential plc confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

- The directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

IFRS Disclosure and Additional Unaudited Financial Information
PRUDENTIAL PLC 2011 RESULTS

International Financial Reporting Standards (IFRS) basis results

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STATUTORY BASIS RESULTS

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED INCOME STATEMENT

Year ended 31 December	2011 £m	2010 £m
Gross premiums earned	**25,706**	24,568
Outward reinsurance premiums	**(429)**	(357)
Earned premiums, net of reinsurance [note C]	**25,277**	24,211
Investment return	**9,360**	21,769
Other income	**1,869**	1,666
Total revenue, net of reinsurance	**36,506**	47,646
Benefits and claims	**(31,060)**	(40,608)
Outward reinsurers' share of benefit and claims	**746**	335
Movement in unallocated surplus of with-profits funds	**1,025**	(245)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(29,289)**	(40,518)
Acquisition costs and other expenditure [note H]	**(5,005)**	(4,799)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(286)**	(257)
Total charges, net of reinsurance	**(34,580)**	(45,574)
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)**	**1,926**	2,072
Tax credit (charge) attributable to policyholders' returns	**17**	(611)
Profit before tax attributable to shareholders [note C]	**1,943**	1,461
Tax charge [note J]	**(432)**	(636)
Less: tax attributable to policyholders' returns	**(17)**	611
Tax charge attributable to shareholders' returns** [note J]	**(449)**	(25)
Profit for the year	**1,494**	1,436
Attributable to:		
Equity holders of the Company	**1,490**	1,431
Non-controlling interests	**4**	5
Profit for the year	**1,494**	1,436

Earnings per share (in pence)	2011	2010
Based on profit attributable to the equity holders of the Company: [note K]		
Basic	**58.8 p**	56.7 p
Diluted	**58.7 p**	56.6 p

Dividends per share (in pence)	2011	2010
Dividends relating to reporting year: [note L]		
Interim dividend	**7.95 p**	6.61 p
Final dividend	**17.24p**	17.24 p
Total	**25.19p**	23.85 p
Dividends declared and paid in reporting year: [note L]		
Current year interim dividend	**7.95 p**	6.61 p
Final / second interim dividend for prior year	**17.24 p**	13.56 p
Total	**25.19 p**	20.17 p

* This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders. The 2010 profit before tax is stated after £377 million of pre-tax costs of the terminated AIA transaction. See note I.

** The 2010 tax charge attributable to shareholders' return included an exceptional tax credit of £158 million which primarily related to the impact of a settlement agreed with the UK tax authorities.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2011 £m	2010 £m
Profit for the year	**1,494**	1,436
Other comprehensive income:		
Exchange movements on foreign operations and net investment hedges:		
Exchange movements arising during the year	**(32)**	217
Related tax	**(68)**	34
	(100)	251
Available-for-sale securities:		
Unrealised valuation movements on securities of US insurance operations classified as available-for-sale:		
Unrealised holding gains arising during the year	**912**	1,170
Deduct net (gains) / add back net losses included in the income statement on disposal and impairment	**(101)**	51
Total [note T]	**811**	1,221
Related change in amortisation of deferred income and acquisition costs	**(331)**	(496)
Related tax	**(168)**	(247)
	312	478
Other comprehensive income for the year, net of related tax	**212**	729
Total comprehensive income for the year	**1,706**	2,165
Attributable to:		
Equity holders of the Company	**1,702**	2,160
Non-controlling interests	**4**	5
Total comprehensive income for the year	**1,706**	2,165

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2011							
Year ended 31 December 2011	**Share capital £m**	**Share premium £m**	**Retained earnings £m**	**Translation reserve £m**	**Available -for-sale securities reserve £m**	**Shareholders' equity £m**	**Non-controlling interests £m**	**Total equity £m**
Reserves								
Profit for the year	-	-	**1,490**	-	-	**1,490**	**4**	**1,494**
Other comprehensive income								
Exchange movements on foreign operations and net investment hedges, net of related tax	-	-	-	**(100)**	-	**(100)**	-	**(100)**
Unrealised valuation movements, net of related change in amortisation of deferred income and acquisition costs and related tax	-	-	-	-	**312**	**312**	-	**312**
Total other comprehensive income	-	-	-	**(100)**	**312**	**212**	-	**212**
Total comprehensive income for the year	-	-	**1,490**	**(100)**	**312**	**1,702**	**4**	**1,706**
Dividends	-	-	**(642)**	-	-	**(642)**	-	**(642)**
Reserve movements in respect of share-based payments	-	-	**44**	-	-	**44**	-	**44**
Change in non-controlling interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds	-	-	-	-	-	-	**(5)**	**(5)**
Share capital and share premium								
New share capital subscribed	-	**17**	-	-	-	**17**	-	**17**
Treasury shares								
Movement in own shares in respect of share-based payment plans	-	-	**(30)**	-	-	**(30)**	-	**(30)**
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	-	-	**(5)**	-	-	**(5)**	-	**(5)**
Net increase / (decrease) in equity	-	**17**	**857**	**(100)**	**312**	**1,086**	**(1)**	**1,085**
At beginning of year	**127**	**1,856**	**4,982**	**454**	**612**	**8,031**	**44**	**8,075**
At end of year	**127**	**1,873**	**5,839**	**354**	**924**	**9,117**	**43**	**9,160**

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2010							
	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Available -for-sale securities reserve £m	Shareholders' equity £m	Non-controlling interests £m	Total equity £m
Reserves								
Profit for the year	-	-	1,431	-	-	1,431	5	1,436
Other comprehensive income								
Exchange movements on foreign operations and net investment hedges, net of related tax	-	-	-	251	-	251	-	251
Unrealised valuation movements, net of related change in amortisation of deferred income and acquisition costs and related tax	-	-	-	-	478	478	-	478
Total other comprehensive income	-	-	-	251	478	729	-	729
Total comprehensive income for the year	-	-	1,431	251	478	2,160	5	2,165
Dividends	-	-	(511)	-	-	(511)	-	(511)
Reserve movements in respect of share-based payments	-	-	37	-	-	37	-	37
Change in non-controlling interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds	-	-	-	-	-	-	7	7
Share capital and share premium								
New share capital subscribed (including shares issued in lieu of cash dividends)	-	75	-	-	-	75	-	75
Reserve movements in respect of shares issued in lieu of cash dividends	-	(62)	62	-	-	-	-	-
Treasury shares								
Movement in own shares in respect of share-based payment plans	-	-	(4)	-	-	(4)	-	(4)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	-	-	3	-	-	3	-	3
Net increase in equity	-	13	1,018	251	478	1,760	12	1,772
At beginning of year	127	1,843	3,964	203	134	6,271	32	6,303
At end of year	127	1,856	4,982	454	612	8,031	44	8,075

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2011

	2011 £m	2010 £m
Assets		
Intangible assets attributable to shareholders:		
Goodwill[note O]	**1,465**	1,466
Deferred acquisition costs and other intangible assets[note P]	**5,069**	4,667
Total	**6,534**	6,133
Intangible assets attributable to with-profits funds:		
In respect of acquired subsidiaries for venture fund and other investment purposes	**178**	166
Deferred acquisition costs and other intangible assets	**89**	110
Total	**267**	276
Total	**6,801**	6,409
Other non-investment and non-cash assets:		
Property, plant and equipment	**748**	554
Reinsurers' share of insurance contract liabilities	**1,647**	1,344
Deferred tax assets[note J]	**2,276**	2,188
Current tax recoverable	**546**	555
Accrued investment income	**2,710**	2,668
Other debtors	**987**	903
Total	**8,914**	8,212
Investments of long-term business and other operations:		
Investment properties	**10,757**	11,247
Investments accounted for using the equity method	**70**	71
Financial investments*:		
Loans[note R]	**9,714**	9,261
Equity securities and portfolio holdings in unit trusts	**87,349**	86,635
Debt securities[note S]	**124,498**	116,352
Other investments	**7,509**	5,779
Deposits	**10,708**	9,952
Total	**250,605**	239,297
Properties held for sale	**3**	257
Cash and cash equivalents	**7,257**	6,631
Total assets[note M]	**273,580**	260,806

* Included within financial investments are £7,843 million (2010: £8,708 million) of lent securities.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December

	2011 £m	2010 £m
Equity and liabilities		
Equity		
Shareholders' equity	**9,117**	8,031
Non-controlling interests	**43**	44
Total equity	**9,160**	8,075
Liabilities		
Policyholder liabilities and unallocated surplus of with-profits funds:		
Insurance contract liabilities	**180,363**	171,291
Investment contract liabilities with discretionary participation features	**29,745**	25,732
Investment contract liabilities without discretionary participation features	**16,967**	17,704
Unallocated surplus of with-profits funds	**9,215**	10,253
Total	**236,290**	224,980
Core structural borrowings of shareholder-financed operations:		
Subordinated debt	**2,652**	2,718
Other	**959**	958
Total [note U]	**3,611**	3,676
Other borrowings:		
Operational borrowings attributable to shareholder-financed operations [note V]	**3,340**	3,004
Borrowings attributable to with-profits operations [note V]	**972**	1,522
Other non-insurance liabilities:		
Obligations under funding, securities lending and sale and repurchase agreements	**3,114**	4,199
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**3,840**	3,372
Deferred tax liabilities [note J]	**4,211**	4,224
Current tax liabilities	**930**	831
Accruals and deferred income	**736**	707
Other creditors	**2,544**	2,321
Provisions	**529**	729
Derivative liabilities	**3,054**	2,037
Other liabilities	**1,249**	1,129
Total	**20,207**	19,549
Total liabilities	**264,420**	252,731
Total equity and liabilities [note M]	**273,580**	260,806

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011	2011 £m	2010 £m
Cash flows from operating activities		
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)* [note (i)]	**1,926**	2,072
Non-cash movements in operating assets and liabilities reflected in profit before tax:		
Investments	**(8,854)**	(24,594)
Other non-investment and non-cash assets	**(1,038)**	(1,161)
Policyholder liabilities (including unallocated surplus)	**10,874**	24,287
Other liabilities (including operational borrowings)	**(845)**	1,332
Interest income and expense and dividend income included in result before tax	**(7,449)**	(7,514)
Other non-cash items [note (ii)]	**18**	139
Operating cash items:		
Interest receipts	**6,365**	6,277
Dividend receipts	**1,302**	1,412
Tax paid	**(561)**	(302)
Net cash flows from operating activities	**1,738**	1,948
Cash flows from investing activities		
Purchases of property, plant and equipment	**(124)**	(93)
Proceeds from disposal of property, plant and equipment	**10**	4
Acquisition of subsidiaries, net of cash balance [note (iii)]	**(53)**	(145)
Net cash flows from investing activities	**(167)**	(234)
Cash flows from financing activities		
Structural borrowings of the Group:		
Shareholder-financed operations [notes (iv) and W:]		
Issue of subordinated debt, net of costs	**340**	-
Redemption of senior debt	**(333)**	-
Bank loan	-	250
Interest paid	**(286)**	(251)
With-profits operations [notes (v) and Y:]		
Interest paid	**(9)**	(9)
Equity capital [note (vi):]		
Issues of ordinary share capital	**17**	13
Dividends paid	**(642)**	(449)
Net cash flows from financing activities	**(913)**	(446)
Net increase in cash and cash equivalents	**658**	1,268
Cash and cash equivalents at beginning of year	**6,631**	5,307
Effect of exchange rate changes on cash and cash equivalents	**(32)**	56
Cash and cash equivalents at end of year	**7,257**	6,631

Notes

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

(ii) Other non-cash items consist of the adjustment of non-cash items to profit before tax together with, other net items, net purchases of treasury shares and other net movements in equity.

(iii) The acquisition of subsidiaries in 2011 related to the PAC with-profits fund's purchase of Earth and Wind and Alticom venture investments with an outflow of £53 million. In 2010 the acquisition of United Overseas Bank Life Assurance Limited (UOB) resulted in an outflow of cash from investing activities of £133 million with the remaining outflow of £12 million relating to the PAC with-profits fund purchase of Meterserve.

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

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

(vi) Cash movements in respect of equity capital in 2010 exclude scrip dividends. The scrip dividend alternative has been replaced by the Dividend Re-investment Plan (DRIP) from the 2010 final dividend.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

NOTES ON THE IFRS BASIS RESULTS

A Basis of preparation and audit status

The statutory basis results included in this announcement have been extracted from the audited financial statements of the Group for the year ended 31 December 2011. These statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU) as required by EU law (IAS Regulation EC1606/2032). EU-endorsed IFRSs may differ from IFRSs issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2011, there were no unendorsed standards effective for the two years ended 31 December 2011 affecting the consolidated financial information of the Group and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Group. The auditors have reported on the 2011 statutory accounts. The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2011 or 2010 but is derived from these accounts.

Statutory accounts for 2010 have been delivered to the registrar of companies, and those for 2011 will be delivered following the Company's Annual General Meeting. The auditors have reported on these accounts. Their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

B Significant accounting policies

The accounting policies applied by the Group in determining the IFRS basis results in this report are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2010, except for the adoption of the new accounting pronouncements in 2011 as described below.

Accounting pronouncements adopted in 2011

The Group has adopted the following accounting pronouncements in 2011 but their adoption has had no material impact on the results and financial position of the Group:

- Improvements to IFRSs (2010), which includes minor changes to seven IFRSs;
- Amendments to IAS 12, 'Income taxes';
- Amendments to IAS 24, 'Related party disclosures';
- Amendments to IFRIC 14, 'Prepayment of a minimum funding requirement'; and
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'.

This is not intended to be a complete list of accounting pronouncements effective in 2011 as only those that could have an impact upon the Group's financial statements have been discussed.

Adoption of altered US GAAP requirements for Group IFRS reporting in 2012

In October 2010, the Emerging Issues Task Force of the US Financial Accounting Standards Board issued Update No 2010-26 on 'Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts'. The update was issued to address perceived diversity by companies preparing financial statements in accordance with US GAAP as regards the types of acquisition costs being deferred. Under US GAAP, costs that can be deferred and amortised are those that 'vary with and are primarily related to the acquisition of insurance contracts'. The Update requires insurers to capitalise only those incremental costs directly related to acquiring a contract for financial statements for reporting periods starting after 15 December 2011. All other indirect acquisition expenses are required to be charged to the income statement as incurred expenses. Accordingly, the main impact of the Update is to disallow insurers from deferring costs that are not directly related to successful sales.

Under the Group's IFRS reporting, Prudential has the option to either continue with its current basis of measurement or improve its accounting policy under IFRS 4 to acknowledge the issuance of the Update. Prudential has chosen to continue with its current basis of measurement for reporting of its 2011 results and improve its policy in 2012 to apply the US GAAP update on the retrospective basis to the results of its US insurance operation Jackson National Life. The reason and timing for the change is to achieve consistency with the basis expected to be applied by peer competitor companies in the US market in their US GAAP financial statements. To ensure consistency it is also intended to make the change on the retrospective basis in 2012 for the Asian operations that historically have effectively applied US GAAP for measuring insurance assets and liabilities.

The effect of the change is as follows:

	Year ended 31 December 2011			Year ended 31 December 2010		
	As reported under current policy £m	Effect of change £m	Under new policy from 1 Jan 2012 £m	As reported under current policy £m	Effect of change £m	Under new policy from 1 Jan 2012 £m
Profit after tax and non controlling interests	**1,490**	**(75)**	**1,415**	1,431	(125)	1,306
Shareholders' equity	**9,117**	**(553)**	**8,564**	8,031	(510)	7,521

C Segment disclosure – income statement

	2011 £m	2010 £m
Asian operations		
Insurance operations [note E(i)]	**709**	536
Development expenses	**(5)**	(4)
Total Asian insurance operations after development expenses	**704**	532
Eastspring Investments	**80**	72
Total Asian operations	**784**	604
US operations		
Jackson (US insurance operations) [note E(ii)]	**694**	833
Broker-dealer and asset management	**24**	22
Total US operations	**718**	855
UK operations		
UK insurance operations: [note E (iii)]		
Long-term business	**683**	673
General insurance commission [note (i)]	**40**	46
Total UK insurance operations	**723**	719
M&G	**357**	284
Total UK operations	**1,080**	1,003
Total segment profit	**2,582**	2,462
Other income and expenditure		
Investment return and other income	**22**	30
Interest payable on core structural borrowings	**(286)**	(257)
Corporate expenditure [note H]	**(219)**	(223)
Total	**(483)**	(450)
RPI to CPI inflation measure change on defined benefit pension schemes [note (ii)]	**42**	-
Solvency II implementation costs	**(55)**	(45)
Restructuring costs [note (iii)]	**(16)**	(26)
Operating profit based on longer-term investment returns	**2,070**	1,941
Short-term fluctuations in investment returns on shareholder-backed business [note F]	**(148)**	(123)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes [note (iv)]	**21**	(10)
Costs of terminated AIA transaction [note I]	**-**	(377)
Gain on dilution of Group holdings [note G]	**-**	30
Profit before tax attributable to shareholders	**1,943**	1,461

Notes

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

(ii) During 2011 the Group altered its inflation measure basis for future statutory increases to pension payments for certain tranches of its UK defined benefit pension schemes. This reflects the UK Government's decision to replace the basis of indexation from RPI with CPI. This resulted in a credit to the operating profit before tax of £42 million.

(iii) Restructuring costs are incurred in the UK as part of EEV covered business and represent one-off expenses incurred in securing expense savings. 2011: £16 million (2010: £26 million).

(iv) The shareholders' share of actuarial and other gains and losses on defined benefit pension schemes reflects the aggregate of actual less expected returns on scheme assets, experience gains and losses, the effect of changes in assumptions and altered provisions for deficit funding, where relevant.

Determining operating segments and performance measure of operating segments

The Group's operating segments determined in accordance with IFRS 8, are as follows:

Insurance operations
- Asia
- US (Jackson)
- UK

Asset management operations
- M&G (including Prudential Capital)
- Eastspring investments (the new brand name for Asian asset management)
- US broker-dealer and asset management (including Curian)

The Group's operating segments are also its reportable segments with the exception of Prudential Capital which has been incorporated into the M&G operating segment for the purposes of segment reporting.

The performance measure of operating segments utilised by the Company is IFRS operating profit attributable to shareholders based on longer-term investment returns. This measure excludes the recurrent items of short-term fluctuations in investment returns and the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes. In addition for 2010 this measure excluded costs associated with the terminated AIA transaction and gain arising upon the dilution of the Group's holding in PruHealth. Operating earnings per share is based on operating profit based on longer-term investment returns, after tax and non-controlling interests.

Segment results that are reported to the Group Executive Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are mainly in relation to the Group Head Office and the Asian Regional Head Office.

Except in the case of the assets backing the UK annuity business, unit-linked and US variable annuity separate account liabilities, operating profit based on longer-term investment returns for shareholder-financed business is determined on the basis of expected longer-term investment returns. In the case of assets backing the UK annuity business, unit-linked and US variable annuity separate account liabilities, the basis of determining operating profit based on longer-term investment returns is as follows:

- Assets backing UK annuity business liabilities. For UK annuity business, policyholder liabilities are determined by reference to current interest rates. The value movements of the assets covering liabilities are closely correlated with the related change in liabilities. Accordingly, asset value movements are recorded within the 'operating results based on longer-term investment returns'. Policyholder liabilities include a margin for credit risk. Variations between actual and best estimate expected impairments are recorded as a component of short-term fluctuations in investment returns.

- Assets backing unit-linked and US variable annuity business separate account liabilities. For such business, the policyholder unit liabilities are directly reflective of the asset value movements.
  Accordingly, the operating results based on longer-term investment returns reflect the current period value movements in unit liabilities and the backing assets.

In the case of other shareholder-financed business, the measurement of operating profit based on longer-term investment returns reflects the particular features of long-term insurance business where assets and liabilities are held for the long-term and for which the accounting basis for insurance liabilities under current IFRS is not generally conducive to demonstrating trends in underlying performance of life businesses exclusive of the effects of short-term fluctuations in market conditions. In determining the profit on this basis, the following key elements are applied to the results of the Group's shareholder-financed operations.

(a) Debt and equity-type securities
Longer-term investment returns for both debt and equity-type securities comprise longer-term actual income receivable for the period (interest/dividend income) and longer-term capital returns.

In principle, for debt securities, the longer-term capital returns comprise two elements. The first element is a risk margin reserve (RMR) based charge for the expected level of defaults for the period, which is determined by reference to the credit quality of the portfolio. The difference between impairment losses in the reporting period and the RMR charge to the operating result is reflected in short-term fluctuations in investment returns. The second element is for the amortisation of interest-related realised gains and losses to operating results based on longer-term investment returns to the date when sold bonds would have otherwise matured.

The shareholder-backed operation for which the distinction between impairment losses and interest-related realised gains and losses is in practice relevant to a significant extent is Jackson. Jackson has used the ratings by Nationally Recognised Statistical Ratings Organisations (NRSRO) or ratings resulting from the regulatory ratings detail issued by the National Association of Insurance Commissioners (NAIC) developed by external third parties such as PIMCO or Black Rock Solutions to determine the

average annual RMR. Further details of the RMR charge, as well as the amortisation of interest related realised gains and losses, for Jackson are shown in note F(b).

For debt securities backing non-linked shareholder-financed business of the UK insurance operations (other than the annuity business) and of the Asian insurance operations, the realised gains and losses are principally interest related. Accordingly, all realised gains and losses to date for these operations are being amortised over the period to the date those securities would otherwise have matured, with no explicit RMR charge.

At 31 December 2011 the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £462 million (31 December 2010: £373 million).

For equity-type securities, the longer-term rates of return are estimates of the long-term trend investment return for income and capital having regard to past performance, current trends and future expectations. Equity-type securities held for shareholder-financed operations other than the UK annuity business, unit-linked and US variable annuity are of significance for the US and Asian insurance operations. Different rates apply to different categories of equity-type securities.

As at 31 December 2011, the equity-type securities for US insurance non-separate account operations amounted to £902 million (31 December 2010: £852 million). For these operations, the longer term rates of return for income and capital applied in 2011 ranged from 5.9 per cent to 7.5 per cent for equity-type securities such as common and preferred stock and portfolio holdings in mutual funds and from 7.9 per cent to 9.5 per cent for certain other equity-type securities such as investments in limited partnerships and private equity funds (2010: 6.5 per cent to 7.9 per cent and 8.5 per cent to 9.9 per cent, respectively).

For Asian insurance operations, investments in equity securities held for non-linked shareholder-financed operations amounted to £590 million as at 31 December 2011 (31 December 2010: £506 million). Of this balance, £88 million (31 December 2010: £101 million) related to the Group's 7.37 per cent (31 December 2010: 8.66 per cent) stake in China Life Insurance Company of Taiwan. This £88 million (31 December 2010: £101 million) investment is in the nature of a trade investment for which the determination of longer-term investment returns is on the basis as described in note (e) below. For the investments representing the other equity securities which had year end balances of £502 million (31 December 2010: £405 million), the rates of return applied in the years 2011 and 2010 ranged from 1.7 per cent to 13.8 per cent with the rates applied varying by territory.

The longer-term rates of return discussed above for equity-type securities are determined after consideration by the Group's in-house economists of long-term expected real government bond returns, equity risk premium and long-term inflation. These rates are broadly stable from period to period but may be different between countries, reflecting, for example, differing expectations of inflation in each territory. The assumptions are for returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations.

(b) US variable and fixed index annuity business

The following value movements for Jackson's variable and fixed index annuity business are excluded from operating profit based on longer-term investment returns:

- Fair value movements for equity-based derivatives;
- Fair value movements for embedded derivatives for Guaranteed Minimum Withdrawal Benefit (GMWB) 'not for life' and fixed index annuity business, and Guaranteed Minimum Income Benefit (GMIB) reinsurance (see note);
- Movements in accounts carrying value of GMDB and GMWB 'for life' liabilities, for which, under the 'grandfathered' US GAAP applied under IFRS, for Jackson insurance assets and liabilities the measurement basis gives rise to a muted impact of current period market movements;
- Fee assessments and claim payments, in respect of guarantee liabilities; and
- Related changes to amortisation of deferred acquisition costs for each of the above items.

Note: US operations – Embedded derivatives for variable annuity guarantee features
The Guaranteed Minimum Income Benefit (GMIB) liability, which is fully reinsured, subject to a deductible and annual claim limits, is accounted for in accordance with FASB ASC Subtopic 944-80 Financial Services – Insurance – Separate Accounts (formerly SOP 03-1) under IFRS using 'grandfathered' US GAAP. As the corresponding reinsurance asset is net settled, it is considered to be a derivative under IAS 39 and the asset is therefore recognised at fair value. As the GMIB benefit is economically reinsured the mark to market element of the reinsurance asset is included as a component of short-term fluctuations in investment returns.

(c) Other derivative value movements
Generally, derivative value movements are excluded from operating results based on longer-term investment returns (unless those derivative value movements broadly offset changes in the accounting value of other assets and liabilities included in operating profit). The principal example of non-equity based derivatives (for example interest rate swaps and swaptions) whose value movements are excluded from operating profit arises in Jackson. Non-equity based derivatives are primarily held by Jackson as part of a broadly-based hedging programme for features of Jackson's bond portfolio (for which value movements are booked in the statement of comprehensive income rather than the income statement), product liabilities (for which US GAAP

accounting as grandfathered under IFRS 4 does not fully reflect the economic features being hedged), and the interest rate exposure attaching to equity based embedded derivatives..

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

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

Examples where such bifurcation is necessary are:

(i) Asia
- *Vietnamese participating business*

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

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

- *Non-participating business*

Bifurcation for the effect of determining the movement in the carrying value of liabilities to be included in operating results based on longer-term investment returns, and the residual element for the effect of using year end rates is included in short-term fluctuations and in the income statement.

- *Guaranteed Minimum Death Benefit (GMDB) product features*

For unhedged GMDB liabilities accounted for under IFRS using 'grandfathered' US GAAP, such as in the Japanese business, the change in carrying value is determined under FASB ASC subtopic 944-80, Financial Services – Insurance – Separate Accounts (formerly SOP 03-1), which partially reflects changes in market conditions. Under the company's segmental basis of reporting the operating profit reflects the change in liability based on longer-term market conditions with the difference between the charge to the operating result and the movement reflected in the total result included in short-term fluctuations in investment returns.

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

The exception is for the impact on credit risk provisioning of actual downgrades during the period. As this feature arises due to short-term market conditions, the effect of downgrades, if any, in a particular period, on the overall provisions for credit risk is included in the category of short-term fluctuations in investment returns.

The effects of other changes to credit risk provisioning are included in the operating result, as is the net effect of changes to the valuation rate of interest due to portfolio rebalancing to align more closely with the Group's internal benchmark.

(e) Fund management and other non-insurance businesses
For these businesses it is inappropriate to include returns in the operating result on the basis described above. Instead, it is appropriate to generally include realised gains and losses (including impairments) in the operating result with unrealised gains and losses being included in short-term fluctuations. For this purpose impairments are calculated as the credit loss determined by comparing the projected cash flows discounted at the original effective interest rate to the carrying value. In some instances it may also be appropriate to amortise realised gains and losses on derivatives and other financial instruments to operating results over a time period that reflects the underlying economic substance of the arrangements.

Additional segmental analysis of revenue

The additional segmental analyses of revenue from external customers excluding investment return and net of outward reinsurance premiums are as follows:

	2011				
	Asia	**US**	**UK**	**Intragroup**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Revenue from external customers:					
Insurance operations	**7,307**	**12,516**	**5,740**	**-**	**25,563**
Asset management	**290**	**653**	**923**	**(323)**	**1,543**
Unallocated corporate	**-**	**-**	**40**	**-**	**40**
Intragroup revenue eliminated on consolidation	**(93)**	**(68)**	**(162)**	**323**	**-**
Total revenue from external customers	**7,504**	**13,101**	**6,541**	**-**	**27,146**

	2010				
	Asia	**US**	**UK**	**Intragroup**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Revenue from external customers:					
Insurance operations	6,373	11,710	6,476	(10)	24,549
Asset management	248	597	768	(314)	1,299
Unallocated corporate	-	-	29	-	29
Intragroup revenue eliminated on consolidation	(77)	(72)	(175)	324	-
Total revenue from external customers	6,544	12,235	7,098	-	25,877

Revenue from external customers is made up of the following:

	2011	**2010**
	£m	**£m**
Earned premiums, net of reinsurance	**25,277**	24,211
Fee income from investment contract business and asset management (presented as 'Other income')	**1,869**	1,666
Total revenue from external customers	**27,146**	25,877

In their capacity as fund managers to fellow Prudential Group subsidiaries, M&G, Eastspring Investments and US asset management businesses generate fees for investment management and related services. These services are charged at appropriate arm's length prices, typically priced as a percentage of funds under management. Intragroup fees included within asset management revenue were earned by the following asset management segment:

	2011	**2010**
	£m	**£m**
Intragroup revenue generated by:		
M&G	**162**	165
Eastspring Investments	**93**	77
US broker-dealer and asset management (including Curian)	**68**	72
Total intragroup fees included within asset management segment	**323**	314

In 2010 a further £10 million of intragroup revenue was recorded between UK insurance operations for services, typically charged as a percentage of funds under management.

Revenue from external customers of Asian, US and UK insurance operations shown above are net of outwards reinsurance premiums of £226 million, £72 million, and £131 million respectively (2010: £146 million, £83 million and £128 million respectively).

D Profit before tax – Asset management operations

The profit included in the income statement in respect of asset management operations for the year is as follows:

	M&G £m	US £m	Eastspring Investments note (iv) £m	Total 2011 £m	Total 2010 £m
Revenue, (excluding revenue of consolidated investment funds and NPH broker-dealer fees)	**1,042**	**249**	**292**	**1,583**	1,423
Revenue of consolidated investment funds note (i)	**9**	**-**	**-**	**9**	11
NPH broker-dealer fees note (i)	**-**	**405**	**-**	**405**	369
Gross revenue	**1,051**	**654**	**292**	**1,997**	1,803
Charges, (excluding charges of consolidated investment funds and NPH broker-dealer fees)	**(710)**	**(225)**	**(212)**	**(1,147)**	(1,003)
Charges of consolidated investment funds note (i)	**(9)**	**-**	**-**	**(9)**	(11)
NPH broker-dealer fees note (i)	**-**	**(405)**	**-**	**(405)**	(369)
Gross charges	**(719)**	**(630)**	**(212)**	**(1,561)**	(1,383)
Profit before tax	**332**	**24**	**80**	**436**	420
Comprising:					
Operating profit based on longer-term investment returns note (ii)	**357**	**24**	**80**	**461**	378
Short-term fluctuations in investment returns note (iii)	**(29)**	**-**	**-**	**(29)**	47
Shareholder's share of actuarial gains and losses on defined benefit pension schemes	**4**	**-**	**-**	**4**	(5)
Profit before tax	**332**	**24**	**80**	**436**	420

Notes

(i) Under IFRS 8, disclosure details are required of segment revenue. The segment revenue of the Group's asset management operations is required to include two items that are for amounts which, reflecting their commercial nature, are also wholly reflected as charges within the income statement. After allowing for these charges, there is no effect on profit from these two items which are:

(a) Investment funds which are managed on behalf of third parties and are consolidated under IFRS in recognition of the control arrangements for the funds. The gains and losses of these funds are non-recourse to M&G and the Group, and

(b) NPH broker-dealer fees which represent commissions received, which are then paid on to the writing brokers on sales of investment products.

The presentation in the table above shows the amounts attributable to these two items so that the underlying revenue and charges can be seen.

(ii) M&G operating profit based on longer-term investment returns:

	2011 £m	2010 £m
Asset management fee income	**702**	612
Other income	**4**	3
Staff costs	**(285)**	(263)
Other costs	**(141)**	(123)
Underlying profit before performance-related fees	**280**	229
Performance-related fees	**21**	17
Operating profit from asset management operations	**301**	246
Operating profit from Prudential Capital	**56**	38
Total M&G operating profit based on longer-term investment returns	**357**	284

The difference between the fees and other income shown above in respect of asset management operations, and the revenue figure for M&G shown (excluding consolidated investment funds) in the main table primarily relates to total revenue of Prudential Capital (including short-term fluctuations) of £96 million (2010: £136 million) and commissions which have been netted off in arriving at the fee income of £702 million (2010: £612 million) in the table above. The difference in the presentation of commission is aligned with how management reviews the business.

(iii) Short-term fluctuations in investment returns for M&G are primarily in respect of unrealised value movements on Prudential Capital's bond portfolio.

(iv) Included within Eastspring Investments revenue and charges are £44 million of commissions (2010: £60 million).

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

(i) Asian insurance operations

In 2011, IFRS operating profit based on longer-term investment returns for Asian insurance operations included a net £38 million credit arising from a small number of items that are not anticipated to reoccur in future periods. In 2010, one-off changes made to reserving assumptions resulted in a release from liabilities of £19 million.

(ii) US insurance operations

Accelerated amortisation of deferred acquisition costs

Jackson National Life has consistently applied its basis of amortising deferred acquisition costs. The basis involves a mean reversion technique for dampening the effects of short-term market movements on expected gross profits, against which deferred acquisition costs are amortised. To the extent that the mean reversion methodology does not fully dampen the effects of market returns there is a charge or credit for accelerated or decelerated amortisation. For 2011 there was a charge for accelerated amortisation of £232 million (2010: £11 million). Further details are explained in note P.

(iii) UK insurance operations

Annuity business: allowance for credit risk

For IFRS reporting, the results for UK shareholder-backed annuity business are particularly sensitive to the allowances made for credit risk. The allowance is reflected in the deduction from the valuation rate of interest for discounting projected future annuity payments to policyholders that would have otherwise applied. Since mid-2007 there has been a significant increase in the actual and perceived credit risk associated with corporate bonds as reflected in the significant widening that has occurred in corporate bond spreads. Although bond spreads over swap rates have narrowed from their peak in March 2009, they are still high compared with the levels seen in the years immediately preceding the start of the dislocated markets in 2007. The allowance that should therefore be made for credit risk remains a particular area of judgement.

The additional yield received on corporate bonds relative to swaps can be broken into the following constituent parts:

(a) the expected level of future defaults;
(b) the credit risk premium that is required to compensate for the potential volatility in default levels;
(c) the liquidity premium that is required to compensate for the lower liquidity of corporate bonds relative to swaps; and
(d) the mark-to-market risk premium that is required to compensate for the potential volatility in corporate bond spreads (and hence market values) at the time of sale.

The sum of (c) and (d) is often referred to as 'liquidity premium'.

The allowance for credit risk comprises (i) an amount for long-term best estimate defaults and (ii) additional provisions for credit risk premium, downgrade resilience, and short-term defaults.

The weighted components of the bond spread over swap rates for shareholder-backed fixed and linked annuity business for PRIL at 31 December 2011 and 31 December 2010, based on the asset mix at the relevant balance sheet date are shown below.

31 December 2011	**Pillar 1 regulatory basis (bps)**	**Adjustment from regulatory to IFRS basis (bps)**	**IFRS (bps)**
Bond spread over swap rates [note (i)]	**201**		**201**
Credit risk allowance			
Long-term expected defaults [note (ii)]	**15**	**-**	**15**
Additional provisions [note (iii)]	**51**	**(24)**	**27**
Total credit risk allowance	**66**	**(24)**	**42**
Liquidity premium	**135**	**24**	**159**

31 December 2010	**Pillar 1 regulatory basis (bps)**	**Adjustment from regulatory to IFRS basis (bps)**	**IFRS (bps)**
Bond spread over swap rates [note (i)]	160	-	160
Credit risk allowance			
Long-term expected defaults [note (ii)]	16	-	16
Additional provisions [note (iii)]	52	(26)	26
Total credit risk allowance	68	(26)	42
Liquidity premium	92	26	118

Notes

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

(ii) Long-term expected defaults are derived by applying Moody's data from 1970 to 2009 and the definition of the credit rating used is the second highest credit rating published by Moody's, Standard and Poor's and Fitch.

(iii) Additional provisions comprise credit risk premium, which is derived from Moody's data from 1970 to 2009, an allowance for a 1 notch downgrade of the portfolio subject to credit risk, and an additional allowance for short-term defaults.

The very prudent Pillar 1 regulatory basis reflects the overriding objective of maintaining sufficient provisions and capital to ensure payments to policyholders can be made. The approach for IFRS aims to establish liabilities that are closer to 'best estimate'.

Movement in the credit risk allowance for PRIL for the year ended 31 December 2011

The movement during 2011 of the average basis points allowance for PRIL on Pillar 1 regulatory and IFRS bases are as follows:

	Pillar 1 Regulatory basis (bps) Total	IFRS (bps) Total
Total allowance for credit risk at 31 December 2010	**68**	**42**
Credit rating changes	**2**	**2**
Asset trading	**(1)**	**(1)**
Asset mix (effect of market value movements)	**(2)**	**(1)**
New business and other	**(1)**	**-**
Total allowance for credit risk at 31 December 2011	**66**	**42**

In prior periods, surplus from favourable default experience has been retained within short-term allowances for credit risk on both the Pillar 1 and IFRS bases. For full year 2011 the retention of such surpluses continues to be applied to IFRS but not for Pillar 1.

Overall the movement has led to the credit allowance for Pillar 1 purposes to be 33 per cent (2010: 43 per cent) of the bond spread over swap rates. For IFRS purposes it represents 20 per cent (2010: 26 per cent) of the bond spread over swap rates.

The reserves for credit risk allowance at 31 December 2011 for the UK shareholder annuity fund were as follows:

	Pillar 1 Regulatory basis Total £bn	IFRS Total £bn
PRIL	**1.8**	**1.2**
PAC non-profit sub-fund	**0.2**	**0.1**
Total	**2.0**	**1.3**

Mortality and other assumption changes

2011

In 2011, for the shareholder-backed business, the aggregate effect of assumption changes other than the allowance for credit risk described above was a net charge to the shareholder results of £9 million, comprising a number of individually small assumption changes.

2010

Prior to 31 December 2010, Prudential's annuity business liabilities were determined using the Continuous Mortality Investigation ('CMI') medium cohort projections with a floor. In November 2009 a new mortality projection model was released by the CMI. This new model was applied in determining the 31 December 2010 valuation results with calibration to reflect an appropriate view of future mortality improvement. In recognition of the trend in assumed mortality improvements the Company had in previous years included margins in its annuity liabilities. In determining the results for the year ended 31 December 2010 the appropriate level of these margins was reassessed.

The net effect of applying the new model, releases of margins, and changes to other related mortality assumption for shareholder-backed business was a credit of £8 million in the 2010 results. With a £38 million benefit from altered expense assumptions the overall credit for shareholder-backed business in 2010 was £46 million.

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

	2011 £m	2010 £m
Insurance operations:		
Asia [note (ii)]	**(92)**	114
US [note (iii)]	**(95)**	(378)
UK [note (iv)]	**159**	116
Other operations		
– Other [note (v)]	**(120)**	25
Total[note (i)]	**(148)**	(123)

Notes

(i) *General overview of defaults*
The Group did not experience any defaults on its shareholder-backed debt securities portfolio in 2011 and 2010.

(ii) *Asian insurance operations*
The fluctuations for Asian insurance operations of negative £92 million (2010: positive £114 million) in part reflects equity market falls in Taiwan and a partial reversal of unrealised gains recognised in prior years on the Group's 7.37 per cent (2010:8.66 per cent) stake in China Life Insurance Company of Taiwan.

(iii) *US insurance operations*
The short-term fluctuations in investment returns for US insurance operations comprise the following items:

	2011 £m	2010 £m
Short-term fluctuations relating to debt securities:		
Charges in the year		
Defaults	**-**	-
Losses on sales of impaired and deteriorating bonds	**(32)**	(99)
Bond write downs	**(62)**	(124)
Recoveries / reversals	**42**	10
Total charges in the year[note (a)]	**(52)**	(213)
Less: Risk margin charge included in operating profit based on longer-term investment returns[note (b)]	**70**	73
	18	(140)
Interest related realised gains:		
Arising in the year	**158**	224
Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns	**(84)**	(82)
	74	142
Related change to amortisation of deferred acquisition costs	**(4)**	(3)
Total short-term fluctuations related to debt securities	**88**	(1)
Derivatives (other than equity related): market value movement (net of related change to amortisation of deferred acquisition costs)[note (c)]	**472**	(15)
Net equity hedge results (principally guarantees and derivatives, net of related change to amortisation of deferred acquisition costs) [note (d)]	**(632)**	(365)
Equity type investments: actual less longer-term return (net of related change to amortisation of deferred acquisition costs)[C]	**-**	3
Other items (net of related change to amortisation of deferred acquisition costs)	**(23)**	-
Total	**(95)**	(378)

The short-term fluctuations shown in the table above are stated net of the related change to amortisation of deferred acquisition costs of £359 million (2010: £358 million) See note P.

Notes

(a) The charges on the debt securities of Jackson comprise the following:

	Defaults £m	Bond write downs £m	Losses on sale of impaired and deteriorating bonds £m	Recoveries/ reversals £m	Total 2011 £m	Total 2010 £m
Residential mortgage-backed securities:						
Prime (including agency)	**-**	**(19)**	**(6)**	**-**	**(25)**	(56)
Alt-A	**-**	**(2)**	**(5)**	**6**	**(1)**	(54)
Sub-prime	**-**	**-**	**(1)**	**1**	**-**	(13)
Total residential mortgage-backed securities	**-**	**(21)**	**(12)**	**7**	**(26)**	(123)
Corporate debt securities	**-**		**(18)**	**4**	**(14)**	(37)
Other	**-**	**(41)**	**(2)**	**31**	**(12)**	(53)
Total	**-**	**(62)**	**(32)**	**42**	**(52)**	(213)

(b) The risk margin reserve (RMR) charge for longer-term credit related losses included in operating profit based on longer-term investment returns of Jackson for 2011 is based on an average annual RMR of 25 basis points (2010: 26 basis points) on average book values of US$44.4 billion (2010: $44.2 billion) as shown below:

	2011				2010			
Moody's rating category (or equivalent under NAIC ratings of MBS)	**Average book value US$m**	**RMR %**	**Annual expected loss US$m**	**Annual expected loss £m**	**Average book value US$m**	**RMR %**	**Annual expected loss US$m**	**Annual expected loss £m**
A3 or higher	**21,255**	**0.08**	**(17)**	**(11)**	20,622	0.06	(12)	(8)
Baa1, 2 or 3	**20,688**	**0.26**	**(54)**	**(34)**	20,785	0.26	(53)	(34)
Ba1, 2 or 3	**1,788**	**1.04**	**(19)**	**(11)**	1,935	1.04	(20)	(13)
B1, 2 or 3	**474**	**3.01**	**(14)**	**(9)**	500	2.99	(15)	(10)
Below B3	**211**	**3.88**	**(8)**	**(5)**	321	3.88	(13)	(8)
Total	**44,416**	**0.25**	**(112)**	**(70)**	44,163	0.26	(113)	(73)
Related change to amortisation of deferred acquisition costs (see below)			**27**	**17**			28	18
Risk margin reserve charge to operating profit for longer-term credit related losses			**(85)**	**(53)**			(85)	(55)

Consistent with the basis of measurement of insurance assets and liabilities for Jackson's IFRS results, the charges and credits to operating profits based on longer-term investment returns are partially offset by related changes to amortisation of deferred acquisition costs.

(c) The gain of £472 million (2010: loss of £15 million) is principally for the value movement of non-equity freestanding derivatives held to manage interest rate exposures, duration matching and for the GMIB reinsurance asset that is considered to be a derivative under IAS 39.

Under IAS 39, unless hedge accounting is applied value movements on derivatives are recognised in the income statement. For the derivatives programme attaching to the fixed annuity and other general account business, the Group has continued its approach of not seeking to apply hedge accounting under IAS 39. This decision reflects the inherent constraints of IAS 39 for hedge accounting investments and life assurance assets and liabilities under 'grandfathered' US GAAP under IFRS 4.

(d) The amount of £632 million in 2011 (2010: £365 million) relates to the net equity hedge accounting effect of the equity-based derivatives and associated guarantee liabilities of Jackson's variable and fixed index annuity business. The details of the value movements excluded from operating profit based on longer-term investment returns are as described in note C. The principal movements are for (i) value for free standing and GMWB 'not for life' embedded derivatives, (ii) accounting values for GMDB and GMWB 'for life' guarantees and (iii) related changes to DAC amortisation. These movements include the effect of lower interest rates which were particularly significant in 2011. The value movements on derivatives held to manage this and other interest rate exposure are included in the £472 million (2010: loss of £15 million) described above in note (c).

In addition to the items discussed above, for US insurance operations, included within the statement of comprehensive income is an increase in net unrealised gains on debt securities classified as available-for-sale of £811 million (2010: increase in net unrealised gains of £1,221 million). Temporary market value movements do not reflect defaults or impairments. Additional details on the movement in the value of the Jackson portfolio are included in note T.

(iv) *UK insurance operations*

The short-term fluctuations gain for UK insurance operations of £159 million (2010: £116 million) principally reflect net investment gains arising in the period on fixed income assets backing the capital of the shareholder-backed annuity business.

(v) *Other operations*

Short-term fluctuations of other operations were negative £120 million (2010: positive £25 million) representing unrealised value movements on investments, including centrally held swaps to manage foreign exchange and certain macro-economic exposures of the Group.

G Changes to Group's holdings

2010

On 1 August 2010, Discovery Holdings of South Africa, the Group's joint venture partner in its investment in PruHealth, completed the acquisition of the entire share capital of Standard Life Healthcare, a wholly-owned subsidiary of the Standard Life Group, for £138 million. Discovery funded the purchase of the Standard Life Healthcare transaction, and contributed Standard Life Healthcare to PruHealth as a capital investment on completion. As a result of the transaction, Discovery increased their shareholding in PruHealth from the previous level of 50 per cent to 75 per cent, and Prudential's shareholding was reduced from 50 per cent of the previous joint venture structure to 25 per cent of the new structure with the much enlarged business.

As a result of this dilution in holding and the consequential loss of control, PruHealth was reclassified from a joint venture to an associate and the entity was no longer proportionally consolidated from the date of the transaction. In accordance with IAS 31 'Interests in joint ventures' a gain of £30 million arose in 2010 upon the dilution, representing the difference between the fair value of the enlarged 25 per cent investment still held and the book value of the original 50 per cent investment holding.

H Acquisition costs and other expenditure

	2011 £m	2010 £m
Acquisition costs incurred	**2,264**	2,024
Acquisition costs deferred less amortisation of acquisition costs	**(635)**	(918)
Administration costs and other expenditure	**3,524**	3,496
Movements in amounts attributable to external unit holders	**(148)**	197
Total acquisition costs and other expenditure	**5,005**	4,799

The acquisition costs as shown on the table above relate to policy acquisition costs. Acquisition costs from business combinations are included within other expenditure.

Included within total acquisition costs and other expenditure is depreciation of £95 million (2010: £70 million).

The total amounts for acquisition costs and other expenditure shown above includes Corporate Expenditure shown in note C (Segment disclosure – income statement).The charge for Corporate Expenditure comprises:

	2011 £m	2010 £m
Group head office		
Regular and project costs	**(156)**	(150)
Provision for property leases and other non-recurrent items	**(12)**	(25)
	(168)	(175)
Asia regional office		
Gross costs	**(86)**	(90)
Recharges to Asia operations	**35**	42
	(51)	(48)
Total	**(219)**	(223)

I Costs of terminated AIA transaction in 2010

The following costs were incurred in the first six months of 2010 in relation to the proposed, and subsequently terminated transaction, to purchase AIA Group Limited and related rights issue.

	2010 £m
AIG termination break fee	153
Underwriting fees	58
Costs associated with foreign exchange hedging	100
Adviser fees and other	66
Total costs before tax	377
Associated tax relief	(93)
Total costs after tax	284

Of the £377 million total costs before tax, the £100 million associated with foreign exchange hedging has been recorded within 'Investment return' and the other £277 million has been recorded as 'Other expenditure' within 'Acquisition costs and other expenditure' in the consolidated income statement.

J Tax

i Tax charge

The total tax charge comprises:

	2011			2010
Tax charge	**Current tax £m**	**Deferred tax £m**	**Total £m**	**Total £m**
UK tax	**(475)**	**455**	**(20)**	(313)
Overseas tax	**(267)**	**(145)**	**(412)**	(323)
Total tax charge*	**(742)**	**310**	**(432)**	(636)

*The 2010 tax charge attributable to shareholders' returns included an exceptional tax credit of £158 million which primarily related to the impact of a settlement agreed with the UK tax authorities.

The current tax charge of £742 million includes £16 million (2010: charge of £13 million) in respect of the tax charge for Hong Kong. The Hong Kong current tax charge is calculated as 16.5 per cent for all periods on either (i) five per cent of the net insurance premium or (ii) the estimated assessable profits, depending on the nature of the business written.

The total tax charge comprises tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders as shown below.

	2011			2010
Tax charge	**Current tax £m**	**Deferred tax £m**	**Total £m**	**Total £m**
Tax credit (charge) to policyholders' returns	**(410)**	**427**	**17**	(611)
Tax charge attributable to shareholders	**(332)**	**(117)**	**(449)**	(25)
Total tax charge	**(742)**	**310**	**(432)**	(636)

The principal reason for the reduction in the tax charge attributable to policyholders' returns relates to a decrease in deferred tax on unrealised gains and losses on investments.

The tax charge attributable to shareholders of £449 million for 2011 (2010: charge of £25 million) comprises:

	2011			2010
Tax charge attributable to shareholders	**Current tax £m**	**Deferred tax £m**	**Total £m**	**Total £m**
UK tax	**(135)**	**17**	**(118)**	187
Overseas tax	**(197)**	**(134)**	**(331)**	(212)
Total tax charge	**(332)**	**(117)**	**(449)**	(25)

An explanation of the movement in tax charge attributable to shareholders is shown in note (iii) below.

ii Deferred tax

The statement of financial position contains the following deferred tax assets and liabilities:

	2011		2010	
	Deferred tax assets £m	**Deferred tax liabilities £m**	**Deferred tax assets £m**	**Deferred tax liabilities £m**
Unrealised gains and losses on investments	**297**	**(1,566)**	449	(1,678)
Balances relating to investment and insurance contracts	**13**	**(949)**	11	(1,057)
Short-term timing differences	**1,513**	**(1,687)**	1,152	(1,477)
Capital allowances	**15**	**(9)**	16	(12)
Unused tax losses	**438**	–	560	–
Total	**2,276**	**(4,211)**	2,188	(4,224)

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

The taxation regimes applicable across the Group often apply separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. Accordingly, for the 2011 results and financial position at 31 December 2011 the possible tax benefit of

approximately £158 million (31 December 2010: £143 million), which may arise from capital losses valued at approximately £0.7 billion (31 December 2010: £0.5 billion), is sufficiently uncertain that it has not been recognised. In addition, a potential deferred tax asset of £147 million (31 December 2010: £298 million), which may arise from trading tax losses and other potential temporary differences totalling £0.6 billion (31 December 2010: £1.2 billion) is sufficiently uncertain that it has not been recognised. Of these, losses of £142 million will expire within the next 9 years. The remaining losses have no expiry date.

In the two tables that follow the Group has provided a further breakdown of the recognised deferred tax assets for both the short-term timing differences and unused tax losses split by business unit set out in the table at (ii) above. In addition we have detailed the period of estimated recoverability for each respective business unit. For these and each category of deferred tax asset recognised their recoverability against forecast taxable profits are not significantly impacted by any current proposed changes to future accounting standards.

Short-term timing differences	**2011 £m**	**Expected period of recoverability**
Asia	**65**	**3 to 5 years**
JNL	**1,206**	**70% to 90% within 10 years ***
UK Long Term Business	**141**	**1 to 7 years**
Other	**101**	**3 to 10 years**
Total	**1,513**	

* The remainder is expected to be recovered within 20 years

Unused tax losses	**2011 £m**	**Expected period of recoverability**
Asia	**28**	**3 to 5 years**
UK Long Term Business	**11**	**1 to 3 years**
Other	**399**	**1 to 3 years**
Total	**438**	

Under IAS 12, 'Income Taxes', deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on the tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting periods.

The UK government's tax rate change to 25 per cent (from the current 26 per cent which was effective from 1 April 2011) has had the effect of reducing the UK with-profits and shareholder-backed business element of the net deferred tax balances as at 31 December 2011 by £26 million. The tax change to 25 per cent is effective from 1 April 2012 but has been enacted at 31 December 2011.

The subsequent proposed phased rate changes to 23 per cent are expected to have the effect of reducing the UK with-profits and shareholder-backed business elements of the net deferred tax balances at 31 December 2011 by £45 million.

iii Reconciliation of tax charge on profit attributable to shareholders

2011	Asian insurance operations	US insurance operations	UK insurance operations	Other operations	Total
	£m (except for tax rates)				
Profit (loss) before tax attributable to shareholders:					
Operating profit based on longer-term investment returns [note (iii)]	**704**	**694**	**723**	**(51)**	**2,070**
Short-term fluctuations in investment returns	**(92)**	**(95)**	**159**	**(120)**	**(148)**
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**-**	**-**	**18**	**3**	**21**
Total	**612**	**599**	**900**	**(168)**	**1,943**
Expected tax rate:[note (i)]					
Operating profit based on longer-term investment returns [note (iii)]	**24%**	**35%**	**27%**	**27%**	**28%**
Short-term fluctuations in investment returns	**20%**	**35%**	**27%**	**27%**	**28%**
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**0%**	**0%**	**27%**	**27%**	**27%**
Expected tax (charge) credit based on expected tax rates:					
Operating profit based on longer-term investment returns [note (iii)]	**(169)**	**(243)**	**(195)**	**14**	**(593)**
Short-term fluctuations in investment returns	**18**	**33**	**(43)**	**32**	**40**
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**-**	**-**	**(5)**	**(1)**	**(6)**
Total	**(151)**	**(210)**	**(243)**	**45**	**(559)**
Variance from expected tax charge: [note (ii)]					
Operating profit based on longer-term investment returns [note (iii)]	**47**	**43**	**5**	**50**	**145**
Short-term fluctuations in investment returns	**(20)**	**-**	**8**	**(24)**	**(36)**
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**-**	**-**	**1**	**-**	**1**
Total	**27**	**43**	**14**	**26**	**110**
Actual tax (charge) credit:					
Operating profit based on longer-term investment return	**(122)**	**(200)**	**(190)**	**64**	**(448)**
Short-term fluctuations in investment returns	**(2)**	**33**	**(35)**	**8**	**4**
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**-**	**-**	**(4)**	**(1)**	**(5)**
Gain on dilution of Group's holdings	**-**	**-**	**-**	**-**	**-**
Total	**(124)**	**(167)**	**(229)**	**71**	**(449)**
Actual tax rate:					
Operating profit based on longer-term investment returns	**17%**	**29%**	**26%**	**125%**	**22%**
Total profit	**20%**	**28%**	**25%**	**42%**	**23%**

2010	Asian insurance operations	US insurance operations	UK insurance operations	Other operations	Total
	£m (except for tax rates)				
Profit (loss) before tax attributable to shareholders:					
Operating profit based on longer-term investment returns [note (iii)]	532	833	719	(143)	1,941
Short-term fluctuations in investment returns	114	(378)	116	25	(123)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	(5)	(5)	(10)
Costs of terminated AIA transaction	-	-	-	(377)	(377)
Gain on dilution of Group's holdings	-	-	30	-	30
Total	646	455	860	(500)	1,461
Expected tax rate: [note (i)]					
Operating profit based on longer-term investment returns [note (iii)]	22%	35%	28%	28%	29%
Short-term fluctuations in investment returns	25%	35%	28%	28%	52%
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	28%	28%	20%
Costs of terminated AIA transaction	-	-	-	28%	28%
Gain on dilution of Group's holdings	-	-	28%	-	28%
Expected tax (charge) credit based on expected tax rates:					
Operating profit based on longer-term investment returns [note (iii)]	(117)	(292)	(201)	40	(570)
Short-term fluctuations in investment returns	(29)	132	(32)	(7)	64
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	1	1	2
Costs of terminated AIA transaction	-	-	-	106	106
Gain on dilution of Group's holdings	-	-	(8)	-	(8)
Total	(146)	(160)	(240)	140	(406)
Variance from expected tax charge: [note (ii)]					
Operating profit based on longer-term investment returns [note (iii)]	59	43	18	237	357
Short-term fluctuations in investment returns	21	-	-	7	28
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	-	1	1
Costs of terminated AIA transaction	-	-	-	(13)	(13)
Gain on dilution of Group's holdings	-	-	8	-	8
Total	80	43	26	232	381
Actual tax (charge) credit:					
Operating profit based on longer-term investment returns, excluding exceptional tax credit [note (iii)]	(58)	(249)	(183)	119	(371)
Exceptional tax credit*	-	-	-	158	158
Operating profit based on longer-term investment return	(58)	(249)	(183)	277	(213)
Short-term fluctuations in investment returns	(8)	132	(32)	-	92
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	1	2	3
Costs of terminated AIA transaction	-	-	-	93	93
Gain on dilution of Group's holdings	-	-	-	-	-
Total	(66)	(117)	(214)	372	(25)
Actual tax rate:					
Operating profit based on longer-term investment returns	11%	30%	25%	194%	11%
Total profit	10%	26%	25%	74%	2%
Actual tax rate (excluding exceptional tax credit*):					
Operating profit based on longer-term investment returns	11%	30%	25%	83%	19%
Total profit	10%	26%	25%	43%	13%

* The tax charge attributable to shareholders' return included an exceptional tax credit of £158 million which primarily related to the impact of a settlement agreed with the UK tax authorities.

Notes

(i) *Expected tax rates for profit (loss) attributable to shareholders:*

- The expected tax rates shown in the table above reflect the corporation tax rates generally applied to taxable profits of the relevant country jurisdictions.
- For Asian operations the expected tax rates reflect the corporation tax rates weighted by reference to the source of profits of operations contributing to the aggregate business result.
- The expected tax rate for Other operations reflects the mix of business between UK and overseas operations, which are taxed at a variety of rates. The rates will fluctuate from year to year dependent on the mix of profits.

(ii) *For 2011 and 2010, the principal variances arise from a number of factors, including:*

(a) Asian long-term operations

For 2011 and 2010, profits in certain countries which are not taxable along with utilising brought forward tax losses on which no deferred tax assets were previously recognised partly offset by the inability to fully recognise deferred tax assets on losses being carried forward. The increase in the overall Asia tax rate from 2010 to 2011 primarily reflects recent fiscal developments in Indonesia affecting the life insurance industry.

(b) Jackson

For 2011 and 2010, the benefit reflects the deduction from taxable income of a proportion of dividends received attributable to the variable annuity business.

(c) UK insurance operations

For 2011 the benefit reflects the effect of the reduction in UK corporation tax rate on deferred tax liabilities and the different tax bases of UK life business, partially offset by routine revisions to prior period tax returns. For 2010, the benefit arises from routine revisions to prior period tax returns and the different tax bases of UK life business.

(d) Other operations

For 2011 the settlement of outstanding issues with HMRC at an amount below that previously provided, partly offset by prior year adjustments arising from the revisions of prior period tax returns. For 2010, an exceptional tax credit which primarily related to the impact of the settlement agreed with the UK tax authorities and the ability to recognise a deferred tax credit on various tax losses which we were previously unable to recognise, partly offset by the inability to fully recognise a tax credit in respect of non deductible capital costs incurred in relation to the terminated AIA transaction.

(iii) Operating profit based on longer-term investment returns is net of attributable restructuring costs and development expenses. Related tax charges are determined on the basis of current taxation legislation.

K Supplementary analysis of earnings per share

	2011					
	Before tax note C **£m**	**Tax** note J **£m**	**Non-controlling interests £m**	**Net of tax and non-controlling interests £m**	**Basic earnings per share Pence**	**Diluted earnings per share Pence**
Based on operating profit based on longer-term investment return	**2,070**	**(448)**	**(4)**	**1,618**	**63.9 p**	**63.8 p**
Short-term fluctuations in investment returns on shareholder-backed business	**(148)**	**4**	**-**	**(144)**	**(5.7)p**	**(5.7)p**
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**21**	**(5)**	**-**	**16**	**0.6 p**	**0.6 p**
Based on profit for the year	**1,943**	**(449)**	**(4)**	**1,490**	**58.8 p**	**58.7 p**

	2010					
	Before tax note C **£m**	**Tax** note J **£m**	**Non-controlling interests £m**	**Net of tax and non-controlling interests £m**	**Basic earnings per share Pence**	**Diluted earnings per share Pence**
Based on operating profit based on longer-term investment returns, excluding exceptional tax credit	1,941	(371)	(5)	1,565	62.0 p	61.9 p
Exceptional tax credit*	-	158	-	158	6.3 p	6.3 p
Based on operating profit based on longer-term investment return	1,941	(213)	(5)	1,723	68.3 p	68.2 p
Short-term fluctuations in investment returns on shareholder-backed business	(123)	92	-	(31)	(1.2)p	(1.2)p
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(10)	3	-	(7)	(0.3)p	(0.3)p
Costs of terminated AIA transaction	(377)	93	-	(284)	(11.3)p	(11.3)p
Gain on dilution of Group's holdings	30	-	-	30	1.2 p	1.2 p
Based on profit for the year including exceptional tax credit	1,461	(25)	(5)	1,431	56.7 p	56.6 p

* The tax charge attributable to shareholders' return included an exceptional tax credit of £158 million which primarily related to the impact of a settlement agreed with the UK tax authorities.

Earnings per share are calculated based on earnings attributable to ordinary shareholders, after related tax and non-controlling interests.

The weighted average number of shares for calculating earnings per share:

	2011 (in millions)	**2010 (in millions)**
Weighted average number of shares for calculation of:		
Basic earnings per share	**2,533**	2,524
Diluted earnings per share	**2,538**	2,529

L Dividend

Dividends per share (in pence)	2011	2010
Dividends relating to reporting year:		
Interim dividend	**7.95 p**	6.61 p
Final dividend	**17.24p**	17.24 p
Total	**25.19p**	23.85 p
Dividends declared and paid in reporting year:		
Current year interim dividend	**7.95 p**	6.61 p
Final/second interim dividend for prior year	**17.24 p**	13.56 p
Total	**25.19 p**	20.17 p

Dividend per share
Interim dividends are recorded in the period in which they are paid. Final dividends are recorded in the period in which they are approved by shareholders. The final dividend for the year ended 31 December 2010 of 17.24 pence per ordinary share was paid to eligible shareholders on 26 May 2011 and the 2011 interim dividend of 7.95 pence per ordinary share was paid to eligible shareholders on 22 September 2011.

The 2011 final dividend of 17.24 pence per ordinary share will be paid on 24 May 2012 in sterling to shareholders on the principal register and the Irish branch register at 6.00 p.m. BST on Friday, 30 March 2012 (the 'Record Date'), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30 p.m. Hong Kong time on the Record Date (HK Shareholders). Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about five days after the payment date of the dividend to shareholders on the principal register. The final dividend will be paid on or about 31 May 2012 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte.) Limited (CDP) at 5.00 p.m. Singapore time on the Record Date (SG Shareholders). The dividend payable to the HK Shareholders will be translated using the exchange rate quoted by the WM Company at the close of business on 12 March 2012. The exchange rate at which the dividend payable to the SG Shareholders will be translated into SG$ will be determined by CDP. The dividend will distribute an estimated £439 million of shareholders' funds.

In line with 2010, shareholders on the principal register and Irish branch register will be able to participate in a Dividend Reinvestment Plan.

M Statement of financial position – analysis of Group position by segment and business type

(i) Group statement of financial position analysis

To explain more comprehensively the assets, liabilities and capital of the Group's businesses, it is appropriate to provide analyses of the Group's statement of financial position by operating segment and type of business.

Position at 31 December 2011:

	Insurance operations								
By operating segment	UK £m	US £m	Asia £m	Total insurance operations £m	Asset management operations £m	Unallocated to a segment (central operations) £m	Intra-group eliminations £m	2011 Group total £m	2010 Group total £m
Assets									
Intangible assets attributable to shareholders:									
Goodwill [note O]	-	-	235	235	1,230	-	-	1,465	1,466
Deferred acquisition costs and other intangible assets [note P]	113	3,900	1,027	5,040	16	13	-	5,069	4,667
Total	113	3,900	1,262	5,275	1,246	13	-	6,534	6,133
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes	178	-	-	178	-	-	-	178	166
Deferred acquisition costs and other intangible assets	6	-	83	89	-	-	-	89	110
Total	184	-	83	267	-	-	-	267	276
Total	297	3,900	1,345	5,542	1,246	13	-	6,801	6,409
Deferred tax assets [note J]	231	1,392	115	1,738	129	409	-	2,276	2,188
Other non investment and non-cash assets	4,771	1,542	1,024	7,337	1,000	4,532	(6,231)	6,638	6,024
Investment of long term business and other operations: [note (i)]									
Investment properties	10,712	35	10	10,757	-	-	-	10,757	11,247
Investments accounted for using the equity method	70	-	-	70	-	-	-	70	71
Financial investments:									
Loans [note R]	3,115	4,110	1,233	8,458	1,256	-	-	9,714	9,261
Equity securities and portfolio holdings in unit trusts	36,722	38,036	11,997	86,755	594	-	-	87,349	86,635
Debt securities [note S]	77,953	27,022	17,681	122,656	1,842	-	-	124,498	116,352
Other investments	4,568	2,376	470	7,414	78	17	-	7,509	5,779
Deposits	9,287	167	1,165	10,619	89	-	-	10,708	9,952
Total investments	142,427	71,746	32,556	246,729	3,859	17	-	250,605	239,297
Properties held for sale	-	3	-	3	-	-	-	3	257
Cash and cash equivalents	2,965	271	1,977	5,213	1,735	309	-	7,257	6,631
Total assets	150,691	78,854	37,017	266,562	7,969	5,280	(6,231)	273,580	260,806

	Insurance operations								
	UK	US	Asia	Total insurance operations	Asset management operations	Unallocated to a segment (central operations)	Intra-group eliminations	2011 Group total	2010 Group total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
By operating segment									
Equity and liabilities									
Equity									
Shareholders' equity	**2,581**	**4,271**	**2,349**	**9,201**	**1,783**	**(1,867)**	**-**	**9,117**	8,031
Non-controlling interests	**33**	**-**	**5**	**38**	**5**	**-**	**-**	**43**	44
Total equity	**2,614**	**4,271**	**2,354**	**9,239**	**1,788**	**(1,867)**	**-**	**9,160**	8,075
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Insurance contract liabilities	**82,732**	**67,278**	**30,353**	**180,363**	**-**	**-**	**-**	**180,363**	171,291
Investment contract liabilities with discretionary participation features	**29,348**	**-**	**397**	**29,745**	**-**	**-**	**-**	**29,745**	25,732
Investment contract liabilities without discretionary participation features	**14,944**	**1,911**	**112**	**16,967**	**-**	**-**	**-**	**16,967**	17,704
Unallocated surplus of with-profits funds	**9,165**	**-**	**50**	**9,215**	**-**	**-**	**-**	**9,215**	10,253
Total policyholder liabilities and unallocated surplus of with-profits funds	**136,189**	**69,189**	**30,912**	**236,290**	**-**	**-**	**-**	**236,290**	224,980
Core structural borrowings of shareholder financed operations:									
Subordinated debt	**-**	**-**	**-**	**-**	**-**	**2,652**	**-**	**2,652**	2,718
Other	**-**	**160**	**-**	**160**	**250**	**549**	**-**	**959**	958
Total [note U]	**-**	**160**	**-**	**160**	**250**	**3,201**	**-**	**3,611**	3,676
Operational borrowings attributable to shareholder financed operations [note V]	**103**	**127**	**141**	**371**	**13**	**2,956**	**-**	**3,340**	3,004
Borrowings attributable to with-profits operations [note V]	**972**	**-**	**-**	**972**	**-**	**-**	**-**	**972**	1,522
Other non-insurance liabilities:									
Obligations under funding, securities lending and sale and repurchase agreements	**1,945**	**1,169**	**-**	**3,114**	**-**	**-**	**-**	**3,114**	4,199
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**2,043**	**18**	**1,101**	**3,162**	**678**	**-**	**-**	**3,840**	3,372
Deferred tax liabilities [note J]	**1,349**	**2,093**	**513**	**3,955**	**5**	**251**	**-**	**4,211**	4,224
Current tax liabilities [note J]	**553**	**-**	**116**	**669**	**106**	**155**	**-**	**930**	831
Accruals and deferred income	**321**	**-**	**103**	**424**	**290**	**22**	**-**	**736**	707
Other creditors [note (ii)]	**2,829**	**548**	**660**	**4,037**	**4,493**	**245**	**(6,231)**	**2,544**	2,321
Provisions	**266**	**13**	**47**	**326**	**133**	**70**	**-**	**529**	729
Derivative liabilities	**1,298**	**887**	**480**	**2,665**	**182**	**207**	**-**	**3,054**	2,037
Other liabilities	**209**	**379**	**590**	**1,178**	**31**	**40**	**-**	**1,249**	1,129
Total	**10,813**	**5,107**	**3,610**	**19,530**	**5,918**	**990**	**(6,231)**	**20,207**	19,549
Total liabilities	**148,077**	**74,583**	**34,663**	**257,323**	**6,181**	**7,147**	**(6,231)**	**264,420**	252,731
Total equity and liabilities	**150,691**	**78,854**	**37,017**	**266,562**	**7,969**	**5,280**	**(6,231)**	**273,580**	260,806

Notes

(i) Within other non-investment and non-cash assets are premiums receivable of £265 million (2010: £196 million) which are all due within one year except for a small number of products where charges are levied against premiums in future years.

(ii) Other creditors amounts are due within one year.

Further segmental analysis:
The non-current assets of the Group comprise goodwill, intangible assets other than DAC and present value of acquired in-force business and property, plant and equipment included within 'other non-investment and non-cash assets'. Items defined as financial instruments or related to insurance contracts are excluded. The Group's total non-current assets at 31 December comprise:

	2011 £m	2010 £m
UK including insurance operations, M&G and Central operations	**1,906**	1,708
US	**144**	131
Asia*	**681**	615
Total	**2,731**	2,454

* No individual country in Asia held non-current assets at the end of the year which exceeds 10 per cent of the Group total.

(ii) Group statement of financial position - additional analysis by business type

	Shareholder-backed business							
	Participating funds £m	Unit-linked and variable annuity £m	Non-linked business £m	Asset management operations £m	Unallocated to a segment (central operations) £m	Intra-group eliminations £m	2011 Group total £m	2010 Group total £m
Assets								
Intangible assets attributable to shareholders:								
Goodwill [note O]	-	-	**235**	**1,230**	-	-	**1,465**	1,466
Deferred acquisition costs and other intangible assets [note P]	-	-	**5,040**	**16**	**13**	-	**5,069**	4,667
Total	-	-	**5,275**	**1,246**	**13**	-	**6,534**	6,133
Intangible assets attributable to with-profits funds:								
In respect of acquired subsidiaries for venture fund and other investment purposes	**178**	-	-	-	-	-	**178**	166
Deferred acquisition costs and other intangible assets	**89**	-	-	-	-	-	**89**	110
Total	**267**	-	-	-	-	-	**267**	276
Total	**267**	-	**5,275**	**1,246**	**13**	-	**6,801**	6,409
Deferred tax assets [note J]	**101**	**2**	**1,635**	**129**	**409**	-	**2,276**	2,188
Other non investment and non-cash assets	**2,622**	**457**	**4,258**	**1,000**	**4,532**	**(6,231)**	**6,638**	6,024
Investment of long term business and other operations:								
Investment properties	**8,461**	**682**	**1,614**	-	-	-	**10,757**	11,247
Investments accounted for using the equity method	-	-	**70**	-	-	-	**70**	71
Financial investments:								
Loans [note R]	**2,747**	-	**5,711**	**1,256**	-	-	**9,714**	9,261
Equity securities and portfolio holdings in unit trusts	**26,047**	**59,890**	**818**	**594**	-	-	**87,349**	86,635
Debt securities [note S]	**57,232**	**8,861**	**56,563**	**1,842**	-	-	**124,498**	116,352
Other investments	**4,423**	**113**	**2,878**	**78**	**17**	-	**7,509**	5,779
Deposits	**7,207**	**1,544**	**1,868**	**89**	-	-	**10,708**	9,952
Total investments	**106,117**	**71,090**	**69,522**	**3,859**	**17**	-	**250,605**	239,297
Properties held for sale	-	-	**3**	-	-	-	**3**	257
Cash and cash equivalents	**2,564**	**1,245**	**1,404**	**1,735**	**309**	-	**7,257**	6,631
Total assets	**111,671**	**72,794**	**82,097**	**7,969**	**5,280**	**(6,231)**	**273,580**	260,806

	Shareholder-backed business							
	Participating funds £m	Unit-linked and variable annuity £m	Non-linked business £m	Asset management operations £m	Unallocated to a segment (central operations) £m	Intra-group eliminations £m	2011 Group total £m	2010 Group total £m
Equity and liabilities								
Equity								
Shareholders' equity	**-**	**-**	**9,201**	**1,783**	**(1,867)**	**-**	**9,117**	8,031
Non-controlling interests	**33**	**-**	**5**	**5**	**-**	**-**	**43**	44
Total equity	**33**	**-**	**9,206**	**1,788**	**(1,867)**	**-**	**9,160**	8,075
Liabilities								
Policyholder liabilities and unallocated surplus of with-profits funds:								
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	**93,569**	**71,129**	**62,377**	**-**	**-**	**-**	**227,075**	214,727
Unallocated surplus of with-profits funds	**9,215**	**-**	**-**	**-**	**-**	**-**	**9,215**	10,253
Total policyholder liabilities and unallocated surplus of with-profits funds	**102,784**	**71,129**	**62,377**	**-**	**-**	**-**	**236,290**	224,980
Core structural borrowings of shareholder-financed operations: [note U]								
Subordinated debt	**-**	**-**	**-**	**-**	**2,652**	**-**	**2,652**	2,718
Other	**-**	**-**	**160**	**250**	**549**	**-**	**959**	958
Total	**-**	**-**	**160**	**250**	**3,201**	**-**	**3,611**	3,676
Operational borrowings attributable to shareholder financed operations [note V]	**-**	**1**	**370**	**13**	**2,956**	**-**	**3,340**	3,004
Borrowings attributable to with-profits operations [note V]	**972**	**-**	**-**	**-**	**-**	**-**	**972**	1,522
Deferred tax liabilities	**1,215**	**33**	**2,707**	**5**	**251**	**-**	**4,211**	4,224
Other non-insurance liabilities	**6,667**	**1,631**	**7,277**	**5,913**	**739**	**(6,231)**	**15,996**	15,325
Total liabilities	**111,638**	**72,794**	**72,891**	**6,181**	**7,147**	**(6,231)**	**264,420**	252,731
Total equity and liabilities	**111,671**	**72,794**	**82,097**	**7,969**	**5,280**	**(6,231)**	**273,580**	260,806

N Statement of financial position – analysis of segment by business type

i UK insurance operations

Overview

- In order to show the statement of financial position by reference to the differing degrees of policyholder and shareholder economic interest of the different types of fund and business, the analysis below is structured to show separately assets and liabilities of the Scottish Amicable Insurance Fund (SAIF), the PAC with-profits sub-fund (WPSF), unit-linked assets and liabilities and annuity (principally PRIL) and other long-term business.

- £92.6 billion of the £142.4 billion of investments are held by SAIF and the PAC WPSF. Shareholders are exposed only indirectly to value movements on these assets.

		PAC with-profits fund note (i)			Other funds and subsidiaries				
By operating segment	Scottish Amicable Insurance Fund note (ii) £m	Excluding Prudential Annuities Limited £m	Prudential Annuities Limited note (iii) £m	Total note (iv) £m	Unit-linked assets and liabilities £m	Annuity and other long-term business £m	Total £m	2011 Total £m	2010 Total £m
Assets									
Intangible assets attributable to shareholders:									
Deferred acquisition costs and other intangible assets	-	-	-	-	-	**113**	**113**	**113**	120
Total	-	-	-	-	-	**113**	**113**	**113**	120
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes	-	**178**	-	**178**	-	-	-	**178**	166
Deferred acquisition costs	-	**6**	-	**6**	-	-	-	**6**	13
Total	-	**184**	-	**184**	-	-	-	**184**	179
Total	-	**184**	-	**184**	-	**113**	**113**	**297**	299
Deferred tax assets	-	**99**	**2**	**101**	-	**130**	**130**	**231**	214
Other non investment and non-cash assets	**413**	**1,799**	**107**	**1,906**	**364**	**2,088**	**2,452**	**4,771**	4,631
Investment of long term business and other operations:									
Investment properties	**571**	**7,164**	**726**	**7,890**	**682**	**1,569**	**2,251**	**10,712**	11,212
Investments accounted for using the equity method	-	-	-	-	-	**70**	**70**	**70**	69
Financial investments:									
Loans note R	**143**	**1,752**	**78**	**1,830**	-	**1,142**	**1,142**	**3,115**	2,302
Equity securities and portfolio holdings in unit trusts	**2,448**	**20,685**	**170**	**20,855**	**13,394**	**25**	**13,419**	**36,722**	40,519
Debt securities note S	**4,349**	**37,696**	**5,633**	**43,329**	**6,115**	**24,160**	**30,275**	**77,953**	74,304
Other investments note (v)	**281**	**3,550**	**306**	**3,856**	**87**	**344**	**431**	**4,568**	3,998
Deposits	**693**	**6,155**	**236**	**6,391**	**966**	**1,237**	**2,203**	**9,287**	9,022
Total investments	**8,485**	**77,002**	**7,149**	**84,151**	**21,244**	**28,547**	**49,791**	**142,427**	141,426
Properties held for sale	-	-	-	-	-	-	-	-	254
Cash and cash equivalents	**112**	**1,636**	**191**	**1,827**	**666**	**360**	**1,026**	**2,965**	2,839
Total assets	**9,010**	**80,720**	**7,449**	**88,169**	**22,274**	**31,238**	**53,512**	**150,691**	149,663

	PAC with-profits fund note (i)				Other funds and subsidiaries				
	Scottish Amicable Insurance Fund note (ii) £m	Excluding Prudential Annuities Limited £m	Prudential Annuities Limited note (iii) £m	Total note (iv) £m	Unit-linked assets and liabilities £m	Annuity and other long-term business £m	Total £m	2011 Group Total £m	2010 Group Total £m
Equity and liabilities									
Equity									
Shareholders' equity	-	-	-	-	-	**2,581**	**2,581**	**2,581**	2,148
Non-controlling interests	-	**33**	-	**33**	-	-	-	**33**	35
Total equity	-	**33**	-	**33**	-	**2,581**	**2,581**	**2,614**	2,183
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	**8,555**	**67,098**	**5,323**	**72,421**	**21,281**	**24,767**	**46,048**	**127,024**	125,530
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds) note (vi)	-	**7,743**	**1,422**	**9,165**	-	-	-	**9,165**	10,187
Total	**8,555**	**74,841**	**6,745**	**81,586**	**21,281**	**24,767**	**46,048**	**136,189**	135,717
Operational borrowings attributable to shareholder financed operations	-	-	-	-	**1**	**102**	**103**	**103**	162
Borrowings attributable to with-profits funds	**17**	**955**	-	**955**	-	-	-	**972**	1,522
Deferred tax liabilities	**41**	**691**	**135**	**826**	-	**482**	**482**	**1,349**	1,738
Other non-insurance liabilities	**397**	**4,200**	**569**	**4,769**	**992**	**3,306**	**4,298**	**9,464**	8,341
Total liabilities	**9,010**	**80,687**	**7,449**	**88,136**	**22,274**	**28,657**	**50,931**	**148,077**	147,480
Total equity and liabilities	**9,010**	**80,720**	**7,449**	**88,169**	**22,274**	**31,238**	**53,512**	**150,691**	149,663

Notes

(i) The WPSF mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). The WPSF's profits are apportioned 90 per cent to its policyholders and 10 per cent to shareholders as surplus for distribution is determined via the annual actuarial valuation. For the purposes of this table and subsequent explanation, references to the WPSF also include, for convenience, the amounts attaching to the Defined Charges Participating Sub-fund which comprises 3.4 per cent of the total assets of the WPSF and includes the with-profits annuity business transferred to Prudential from the Equitable Life Assurance Society on 1 December 2007 (with assets of approximately £1.7 billion). Profits to shareholders on this with-profits annuity business emerge on a 'charges less expenses' basis and policyholders are entitled to 100 per cent of the investment earnings.

(ii) The fund is solely for the benefit of policyholders of SAIF. Shareholders have no interest in the profits of this fund although they are entitled to asset management fees on this business. SAIF is a separate sub-fund within the PAC long-term business fund.

(iii) Wholly-owned subsidiary of the PAC WPSF that writes annuity business. The closing liabilities are significantly lower than in 2010 due to a recapture of business by the PAC WPSF.

(iv) Excluding policyholder liabilities of the Hong Kong branch of PAC.

(v) Other investments comprise:

	2011 £m	2010 £m
Derivative assets*	**1,461**	926
Partnerships in investment pools and other**	**3,107**	3,072
	4,568	3,998

* In the UK, Prudential uses derivatives to reduce equity and credit risk, interest rate and currency exposures, and to facilitate efficient portfolio management. After derivative liabilities of £1,298 million (2010: £792 million), which are also included in the statement of financial position, the overall derivative position was a net asset of £163 million (2010: £134 million).

** Partnerships in investment pools and other comprise mainly investments held by the PAC with-profits fund. These investments are primarily investments in limited partnerships and additionally, investments in property funds.

(vii) *Unallocated surplus of with-profits funds*

Prudential's long-term business written in the UK comprises predominantly life insurance policies under which the policyholders are entitled to participate in the returns of the funds supporting these policies. Business similar to this type is also written in certain of the Group's Asian operations, subject to local market and regulatory conditions. Such policies are called with-profits policies. Prudential maintains with-profits funds within the Group's long-term business funds, which segregate the assets and liabilities and accumulate the returns related to that with-profits business. The amounts accumulated in these with-profits funds are available to provide for future policyholder benefit provisions and for bonuses to be distributed to with-profits policyholders. The bonuses, both annual and final, reflect the right of the with-profits policyholders to participate in the financial performance of the with-profits funds. Shareholders' profits with respect to bonuses declared on with-profits business correspond to the shareholders' share of the cost of bonuses as declared by the Board of Directors. The shareholders' share currently represents one-ninth of the cost of bonuses declared for with-profits policies.

The unallocated surplus represents the excess of assets over policyholder liabilities for the Group's with-profits funds. As allowed under IFRS 4, the Group has opted to continue to record unallocated surplus of with-profits funds wholly as a liability. The annual excess (shortfall) of income over expenditure of the with-profits funds, after declaration and attribution of the cost of bonuses to policyholders and shareholders, is transferred to (from) the unallocated surplus each year through a (charge) credit to the income statement. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders. The balance of the unallocated surplus is determined after full provision for deferred tax on unrealised appreciation of investments.

ii US insurance operations

	2011			2010
	Variable annuity separate account assets and liabilities note (i) £m	Fixed annuity, GIC and other business note (i) £m	Total £m	Total £m
Assets				
Intangible assets attributable to shareholders:				
Deferred acquisition costs and other intangibles	-	**3,900**	**3,900**	3,559
Total	-	**3,900**	**3,900**	3,559
Deferred tax assets	-	**1,392**	**1,392**	1,391
Other non-investment and non-cash assets	-	**1,542**	**1,542**	1,225
Investments of long-term business and other operations:				
Investment properties	-	**35**	**35**	26
Financial investments:				
Loans[note R]	-	**4,110**	**4,110**	4,201
Equity securities and portfolio holdings in unit trusts[note (iv)]	**37,833**	**203**	**38,036**	31,501
Debt securities[note U]	-	**27,022**	**27,022**	26,366
Other investments[note (ii)]	-	**2,376**	**2,376**	1,199
Deposits	-	**167**	**167**	212
Total investments	**37,833**	**33,913**	**71,746**	63,505
Properties held for sale	-	**3**	**3**	3
Cash and cash equivalents	-	**271**	**271**	232
Total assets	**37,833**	**41,021**	**78,854**	69,915
Equity and liabilities				
Equity				
Shareholders' equity	-	**4,271**	**4,271**	3,815
Total equity	-	**4,271**	**4,271**	3,815
Liabilities				
Policyholder:				
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	**37,833**	**31,356**	**69,189**	60,523
Total	**37,833**	**31,356**	**69,189**	60,523
Core structural borrowings of shareholder-financed operations	-	**160**	**160**	159
Operational borrowings attributable to shareholder-financed operations	-	**127**	**127**	90
Deferred tax liabilities	-	**2,093**	**2,093**	1,776
Other non-insurance liabilities	-	**3,014**	**3,014**	3,552
Total liabilities	**37,833**	**36,750**	**74,583**	66,100
Total equity and liabilities	**37,833**	**41,021**	**78,854**	69,915

Notes

(i) Assets and liabilities attaching to variable annuity business that are not held in the separate account are shown within other business.

(ii) Other investments comprise:

	2011 £m	2010 £m
Derivative assets*	**1,677**	645
Partnerships in investment pools and other**	**699**	554
	2,376	1,199

* In the US, Prudential uses derivatives to reduce interest rate risk, to facilitate efficient portfolio management to match liabilities under annuity policies, and for certain equity-based product management activities. After taking account of the derivative liability of £887 million (2010: £799 million), which is also included in the statement of financial position, the derivative position for US operations is a net asset of £790 million (2010: net liability of £154 million).

** Partnerships in investment pools and other comprise primarily investments in limited partnerships. These include interests in the PPM America Private Equity Fund and diversified investments in 167 (2010: 161) other partnerships by independent money managers that generally invest in various equities and fixed income loans and securities.

(iii) Changes in shareholders' equity

	2011	2010
	£m	£m
Operating profit based on longer-term investment returns [note C]	**694**	833
Short-term fluctuations in investment returns [note F]	**(95)**	(378)
Profit before shareholder tax	**599**	455
Tax [note J]	**(167)**	(117)
Profit for the year	**432**	338

	2011	2010
	£m	£m
Profit for the year (as above)	**432**	338
Items recognised in other comprehensive income:		
Exchange movements	**42**	85
Unrealised valuation movements on securities classified as available-for sale:		
Unrealised holding gains arising during the year	**912**	1,170
Deduct net (gains) / add back net losses included in the income statement	**(101)**	51
Total unrealised valuation movements	**811**	1,221
Related change in amortisation of deferred income and acquisition costs [note P]	**(331)**	(496)
Related tax	**(168)**	(247)
Total other comprehensive income	**354**	563
Total comprehensive income for the year	**786**	901
Dividends, interest payments to central companies and other movements	**(330)**	(97)
Net increase in equity	**456**	804
Shareholders' equity at beginning of year	**3,815**	3,011
Shareholders' equity at end of year	**4,271**	3,815

(iv) Equity securities and portfolio holdings in unit trusts includes investments in mutual funds, the majority of which are equity based.

iii Asian insurance operations

	2011				2010
	With-profits business note (i)	**Unit-linked assets and liabilities**	**Other**	**Total**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Assets					
Intangible assets attributable to shareholders:					
Goodwill	**-**	**-**	**235**	**235**	236
Deferred acquisition costs and other intangible assets	**-**	**-**	**1,027**	**1,027**	962
Total	**-**	**-**	**1,262**	**1,262**	1,198
Intangible assets attributable to with-profits funds:					
Deferred acquisition costs and other intangible assets	**83**	**-**	**-**	**83**	97
Deferred tax assets	**-**	**2**	**113**	**115**	98
Other non-investment and non-cash assets	**303**	**93**	**628**	**1,024**	788
Investments of long-term business and other operations:					
Investment properties	**-**	**-**	**10**	**10**	9
Investments accounted for using the equity method	**-**	**-**	**-**	**-**	2
Financial investments:					
Loans note R	**774**	**-**	**459**	**1,233**	1,340
Equity securities and portfolio holdings in unit trusts	**2,744**	**8,663**	**590**	**11,997**	14,464
Debt securities note S	**9,554**	**2,746**	**5,381**	**17,681**	14,108
Other investments	**286**	**26**	**158**	**470**	382
Deposits	**123**	**578**	**464**	**1,165**	638
Total investments	**13,481**	**12,013**	**7,062**	**32,556**	30,943
Cash and cash equivalents	**625**	**579**	**773**	**1,977**	1,601
Total assets	**14,492**	**12,687**	**9,838**	**37,017**	34,725
Equity and liabilities					
Equity					
Shareholders' equity	**-**	**-**	**2,349**	**2,349**	2,149
Non-controlling interests	**-**	**-**	**5**	**5**	5
Total equity	**-**	**-**	**2,354**	**2,354**	2,154
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds:					
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	**12,593**	**12,015**	**6,254**	**30,862**	28,674
Unallocated surplus of with-profits funds note (ii)	**50**	**-**	**-**	**50**	66
Total	**12,643**	**12,015**	**6,254**	**30,912**	28,740
Operational borrowings attributable to shareholders-financed operations	**-**	**-**	**141**	**141**	189
Deferred tax liabilities	**348**	**33**	**132**	**513**	495
Other non-insurance liabilities	**1,501**	**639**	**957**	**3,097**	3,147
Total liabilities	**14,492**	**12,687**	**7,484**	**34,663**	32,571
Total equity and liabilities	**14,492**	**12,687**	**9,838**	**37,017**	34,725

Note

(i) The statement of financial position for with-profits business comprises the with-profits assets and liabilities of the Hong Kong, Malaysia and Singapore with-profits operations. Assets and liabilities of other participating business are included in the column for 'Other business'.

(ii) For the purposes of the presentation of unallocated surplus of with-profits within the statement of financial position, the Hong Kong branch balance is reported within the unallocated surplus of the PAC with-profits sub-fund of the UK insurance operations.

iv Asset management operations

	M&G note (i) £m	US £m	Eastspring Investments £m	Total 2011 £m	Total 2010 £m
Assets					
Intangible assets:					
Goodwill [note (iii)]	**1,153**	**16**	**61**	**1,230**	1,230
Deferred acquisition costs and other intangibles assets	**12**	**1**	**3**	**16**	13
Total	**1,165**	**17**	**64**	**1,246**	1,243
Other non-investment and non-cash assets[note (iii)]	**868**	**179**	**82**	**1,129**	1,118
Financial investments:					
Loans[note R]	**1,256**	**-**	**-**	**1,256**	1,418
Equity securities and portfolio holdings in unit trusts	**587**	**-**	**7**	**594**	151
Debt securities[note S]	**1,834**	**-**	**8**	**1,842**	1,574
Other investments	**72**	**1**	**5**	**78**	59
Deposits	**30**	**28**	**31**	**89**	80
Total financial investments[note (iii)]	**3,779**	**29**	**51**	**3,859**	3,282
Cash and cash equivalents	**1,533**	**45**	**157**	**1,735**	1,436
Total assets	**7,345**	**270**	**354**	**7,969**	7,079
Equity and liabilities					
Equity					
Shareholders' equity	**1,382**	**129**	**272**	**1,783**	1,787
Non-controlling interests	**5**	**-**	**-**	**5**	4
Total equity	**1,387**	**129**	**272**	**1,788**	1,791
Liabilities					
Core structural borrowing of shareholder-financed operations	**250**	**-**	**-**	**250**	250
Intra-group debt represented by operational borrowings at Group level [note (ii)]	**2,956**	**-**	**-**	**2,956**	2,560
Net asset value attributable to external holders of consolidated unit trusts and similar funds [note (iii)]	**678**	**-**	**-**	**678**	458
Other non-insurance liabilities[note (iv)]	**2,074**	**141**	**82**	**2,297**	2,020
Total liabilities	**5,958**	**141**	**82**	**6,181**	5,288
Total equity and liabilities	**7,345**	**270**	**354**	**7,969**	7,079

Notes

(i) M&G includes those assets and liabilities in respect of Prudential Capital.

(ii) Intra group debt represented by operational borrowings at Group level

Operational borrowings for M&G are in respect of Prudential Capital's short-term fixed income security programme and comprise:

	2011 £m	2010 £m
Commercial paper	**2,706**	2,311
Medium-term notes	**250**	249
Total intra-group debt represented by operational borrowings at Group level	**2,956**	2,560

(iii) *Consolidated investment funds*

The M&G statement of financial position shown above includes investment funds which are managed on behalf of third-parties. In respect of these funds, the statement of financial position includes the following, which are non-recourse to M&G and the Group:

	2011 £m	2010 £m
Cash and cash equivalents	**348**	304
Total investments	**415**	167
Other net assets and liabilities	**(85)**	(13)
Net asset value attributable to external unit holders	**(678)**	(458)
Shareholders' equity	**-**	-

(iv) Other non-insurance liabilities consists primarily of intra-group balances, derivatives, liabilities and other creditors.

O Goodwill attributable to shareholders

	2011 £m	2010 £m
Cost		
At 1 January	**1,586**	1,430
Acquisition of UOB Life Assurance Limited in Singapore	**-**	141
Exchange differences	**(1)**	15
At 31 December	**1,585**	1,586
Aggregate impairment	**(120)**	(120)
Net book amount at 31 December	**1,465**	1,466

Goodwill attributable to shareholders comprises:

	2011 £m	2010 £m
M&G	**1,153**	1,153
Other	**312**	313
	1,465	1,466

'Other' represents goodwill amounts allocated to entities in Asia and US operations. Other goodwill amounts are not individually material.

P Deferred acquisition costs and other intangible assets attributable to shareholders

Significant costs are incurred in connection with acquiring new insurance business. Except for acquisition costs of with-profits contracts of the UK regulated with-profits funds, which are accounted for under the realistic FSA regimes, these costs are accounted for in a way that is consistent with the principles of the ABI SORP with deferral and amortisation against margins in future revenues on the related insurance policies. In general, this deferral is presentationally shown by an explicit carrying value for deferred acquisition costs (DAC) in the balance sheet. However, in some Asian operations the deferral is implicit through the reserving methodology. The recoverability of the explicitly and implicitly deferred acquisition costs is measured and are deemed impaired if the projected margins are less than the carrying value. To the extent that the future margins differ from those anticipated, then an adjustment to the carrying value will be necessary.

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

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

	2011 £m	2010 £m
Deferred acquisition costs related to insurance contracts as classified under IFRS 4	**4,640**	4,316
Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	**107**	110
	4,747	4,426
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF)	**64**	70
Other intangibles*	**258**	171
	322	241
Total of deferred acquisition costs and other intangible assets	**5,069**	4,667 *

* At 31 December 2010 as previously published, tangible assets included computer software with a net book value of £58 million, which in these financial statements have been more appropriately classified as other intangible assets. These amounts have been transferred to other intangible assets and the comparative balances have been adjusted accordingly. This is only a presentational adjustment with no impact on the Group's results or shareholders' equity.

	Deferred acquisition costs						
	UK £m	US note (i) £m	Asia £m	Asset management £m	PVIF and Other intangibles £m	Total 2011 £m	Total 2010 £m
Balance at 1 January	**116**	**3,543**	**758**	**9**	**241**	**4,667**	4,097
Additions	**16**	**890**	**256**	**7**	**120**	**1,289**	1,162
Acquisitions of subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	12
Amortisation to the income statement:							
Operating profit	**(21)**	**(619)**	**(242)**	**(4)**	**(35)**	**(921)**	(595)
Amortisation related to short-term fluctuations in investment returns	**-**	**359**	**-**	**-**	**-**	**359**	358
	(21)	**(260)**	**(242)**	**(4)**	**(35)**	**(562)**	(237)
Exchange differences	**-**	**38**	**(28)**	**-**	**(2)**	**8**	141
Change in shadow DAC related to movement in unrealised appreciation of Jackson's securities classified as available-for-sale	-	**(331)**	-	-	-	**(331)**	(496)
Disposals	-	-	-	-	**(2)**	**(2)**	(5)
Dilution of Group's holdings	-	-	-	-	-	-	(7)
Balance at 31 December	**111**	**3,880**	**744**	**12**	**322**	**5,069**	4,667

Note

(i) The DAC amount in respect of US insurance operations includes:

	2011 £m	2010 £m
Variable annuity business	**3,860**	2,834
Other business	**886**	1,229
Cumulative shadow DAC	**(866)**	(520)
Total DAC for US operations	**3,880**	3,543

Overview of the deferral and amortisation of acquisition costs for Jackson

Under IFRS 4, the Group applies grandfathered US GAAP for measuring the insurance assets and liabilities of Jackson. In the case of Jackson term business, acquisition costs are deferred and amortised in line with expected premiums. For annuity and interest-sensitive life business, acquisition costs are deferred and amortised in line with a combination of historical and future expected gross profits on the relevant contracts. For fixed and indexed annuity and interest-sensitive life business, the key assumption is the long-term spread between the earned rate on investments and the rate credited to policyholders, which is based on an annual spread analysis. Expected gross profits also depend on mortality assumptions, assumed unit costs and terminations other than deaths (including the related charges), all of which are based on a combination of actual experience of Jackson, industry experience and future expectations. A detailed analysis of actual mortality, lapse and expense experience is performed using internally developed experience studies.

As with fixed and indexed annuity and interest-sensitive life business, acquisition costs for Jackson's variable annuity products are amortised in line with the emergence of profits. The measurement of the amortisation in part reflects current period fees (including those for guaranteed minimum death, income, or withdrawal benefits) earned on assets covering liabilities to policyholders, and the historical and expected level of future gross profits which depends on the assumed level of future fees, as well as components related to mortality, lapse and expense.

Mean reversion technique

Under US GAAP (as grandfathered under IFRS 4) the projected gross profits, against which acquisition costs are amortised, reflect an assumed long-term level of investment return from the separate accounts which, for Jackson, is 8.4 per cent after deduction of net external fund management fees. This is applied to the period end level of separate account assets after application of a mean reversion technique that removes a portion of the effect of levels of short-term variability in current market returns.

Under the mean reversion technique applied by Jackson, the projected level of return for each of the next five years is adjusted from period to period so that in combination with the actual rates of return for the preceding two years and the current year, the 8.4 per cent annual return is realised on average over the entire eight year period. Projected returns after the mean reversion period revert back to the 8.4 per cent assumption.

However, to ensure that the methodology does not over anticipate a reversion to trend following adverse markets, the mean reversion technique has a cap and floor feature whereby the projected returns in each of the next five years can be no more than 15 per cent per annum and no less than 0 per cent per annum (both after deduction of net external fund management fees) in each year. The capping feature was relevant in late 2008, 2009 and 2010 due to the very sharp market falls in 2008. At 31 December 2011, the projected rate of return for the next five years is now less than 8.4 per cent. If Jackson had not applied the mean reversion methodology and had instead applied a constant 8.4 per cent from asset values at 31 December 2011, the Jackson DAC balance would increase by approximately £38 million from £3,880 million to £3,918 million (31 December 2010 decrease of £80 million from £3,543 million to £3,463 million).

Sensitivity of amortisation charge

In 2008, the application of the mean reversion technique benefited the results by £110 million. In 2009 and 2010, whilst the cap was in effect, the credit of £ 39 million for decelerated amortisation and the charge of £11 million for accelerated amortisation reflected the difference between market returns for the period and the assumed level of 15 per cent.

For 2011, the separate account return (net of all fees) was approximately negative four per cent. The DAC amortisation charge included in operating profit includes £232 million of accelerated amortisation. This amount reflects the combined effect of

(i) the separate account performance in the year as it compares with the assumed level for the year; and
(ii) the reduction in the previously assumed future rates of return for the upcoming 5 years from 15 per cent, to a level somewhat below the middle of the corridor (of 0 and 15 per cent), so that in combination with the historical returns, the 8- year average in the mean reversion calculation is the 8.4 per cent long-term assumption.

The reduction in assumed future rates reflects in large part the elimination from the calculation in 2011, of the negative 2008 returns. Setting aside other complications and the growth in the book, the 2011 accelerated amortisation can be broadly equated as 'paying back' the benefit experienced in 2008.

However, as explained in note B it is the Company's intention to adopt the US Financial Accounting Standards Board requirements in EITF Update No 2010 -26 on 'Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts' from 1 January 2012 into Prudential's Group IFRS reporting for the results of Jackson and those Asian operations that use US GAAP for measuring insurance assets and liabilities. Under the Update insurers are required to capitalise only those incremental costs directly related to acquiring a contract from 1 January 2012. This change has two principal effects on the 2011 and 2010 results which are to be retrospectively adjusted in the 2012 Group financial statements.

(i) Charging of acquisition costs for business written in the year that can no longer be deferred.

For 2011 and 2010, £156 million and £158 million of acquisition costs will be charged to the operating results of Jackson for these years. These charges are for the non-incremental acquisition costs for new business written in these years, as shown in note Y, representing 12 per cent of APE of £1,251 million and 14 per cent of £ 1,164 million, respectively.

(ii) Reduced amortisation charge for retrospectively adjusted deferred acquisition costs

On application of the Update, Jackson's

(i) deferred acquisition costs balance for business in force at 31 December 2011 will be retrospectively reduced by 20 per cent, from £3,880 million to £3,095 million.

(ii) amortisation charge to the 2011 operating profit based on longer-term investment returns is retrospectively adjusted by 18 per cent from £619 million (comprising £387 million core charge and £232 million accelerated amortisation) to £506 million (comprising £316 million core charge and £190 million accelerated amortisation). The core charge alters from representing 29 per cent to
- 24 per cent of operating profit, based on longer-term investment returns before DAC amortisation *and* the charge for acquisition costs for business written in the year that can no longer be deferred, and
- 27 per cent of operating profit, based on longer-term investment returns before DAC amortisation but after the charge for acquisition costs for business written in the year that can no longer be deferred.

(iii) the amortisation charge to the 2010 operating profit based on longer-term investment returns is retrospectively adjusted by 16 per cent from £334 million (comprising £323 million core charge and £11 million accelerated amortisation) to £280 million (comprising £271 million core charge and £9 million accelerated amortisation). The core charge alters from representing 28 per cent to
- 23 per cent of operating profit based on longer-term investment returns before DAC amortisation *and* the charge for acquisition costs for business written in the year that can no longer be deferred, and
- 27 per cent of operating profit, based on longer-term investment returns before DAC amortisation but after the charge for acquisition costs for business written in the year that can no longer be deferred.

For 2012, the impact of application of the Update on the new business strain for non-incremental acquisition costs and amortisation charge to operating profits based on longer-term investment returns and the DAC balance in the statement of financial position is expected to follow a broadly similar pattern to those described above.

On the assumption that market returns for 2012 are within the range of negative 15 per cent to positive 15 per cent, the estimated effect on the amortisation charge, under the new DAC basis described above, is a range from acceleration of £100 million to deceleration of £100 million

Q Valuation bases for Group assets

The accounting carrying values of the Group's assets reflect the requirements of IFRS. For financial investments the basis of valuation reflects the Group's application of IAS 39 'Financial Instruments: Recognition and Measurement' as described further below. The basis applied for the assets section of the statement of financial position at 31 December 2011 is summarised below:

	2011			2010		
	At fair value £m	Cost / Amortised cost note (i) £m	Total £m	At fair value £m	Cost / Amortised cost note (i) £m	Total £m
Intangible assets attributable to shareholders:						
Goodwill (note O)	-	1,465	1,465	-	1,466	1,466
Deferred acquisition costs and other intangible assets (note P)	-	5,069	5,069	-	4,667	4,667
Total	-	6,534	6,534	-	6,133	6,133
Intangible assets attributable to with-profits funds:						
In respect of acquired subsidiaries for venture fund and other investment purposes	-	178	178	-	166	166
Deferred acquisition costs and other intangible assets	-	89	89		110	110
Total	-	267	267	-	276	276
Total	-	6,801	6,801	-	6,409	6,409
Other non-investment and non-cash assets:						
Property, plant and equipment	-	748	748	-	554	554
Reinsurers' share of insurance contract liabilities	-	1,647	1,647	-	1,344	1,344
Deferred tax assets (note J)	-	2,276	2,276	-	2,188	2,188
Current tax recoverable	-	546	546	-	555	555
Accrued investment income	-	2,710	2,710	-	2,668	2,668
Other debtors	-	987	987	-	903	903
Total	-	8,914	8,914	-	8,212	8,212
Investments of long-term business and other operations:note (ii)						
Investment properties	10,757	-	10,757	11,247	-	11,247
Investments accounted for using the equity method	-	70	70	-	71	71
Loans (note R)	279	9,435	9,714	227	9,034	9,261
Equity securities and portfolio holdings in unit trusts	87,349	-	87,349	86,635	-	86,635
Debt securities (note S)	124,498	-	124,498	116,352	-	116,352
Other investments	7,509	-	7,509	5,779	-	5,779
Deposits	-	10,708	10,708	-	9,952	9,952
Total	230,392	20,213	250,605	220,240	19,057	239,297
Properties held for sale	3	-	3	257	-	257
Cash and cash equivalents	-	7,257	7,257	-	6,631	6,631
Total assets	230,395	43,185	273,580	220,497	40,309	260,806
Percentage of Group total assets	84%	16%	100%	85%	15%	100%

Notes

(i) Assets carried at cost or amortised cost are subject to impairment testing where appropriate under IFRS requirements. This category also includes assets which are valued by reference to specific IFRS standards such as reinsurers' share of insurance contract liabilities, deferred tax assets and investments accounted for under the equity method.

(ii) Realised gains and losses on the Group's investments for 2011 amounted to a net gain of £4.3 billion (2010: £3.1 billion)

Determination of fair value

The fair values of the financial assets and liabilities of the Group have been determined on the following bases.

The fair values of the financial instruments for which fair valuation is required under IFRS are determined by the use of current market bid prices for exchange-quoted investments, or by using quotations from independent third-parties, such as brokers and pricing services or by using appropriate valuation techniques. Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades and financial investments for which markets are no longer active as a result of market conditions e.g. market illiquidity. The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation. These techniques may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments. When determining the inputs into the valuation techniques used priority is given to publicly available prices from independent sources when available, but overall the source of

pricing is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date.

The fair value estimates are made at a specific point in time, based upon available market information and judgments about the financial instruments, including estimates of the timing and amount of expected future cash flows and the credit standing of counterparties. Such estimates do not reflect any premium or discount that could result from offering for sale at one time the Group's entire holdings of a particular financial instrument, nor do they consider the tax impact of the realisation of unrealised gains or losses from selling the financial instrument being fair valued. In some cases the disclosed value cannot be realised in immediate settlement of the financial instrument.

The loans and receivables have been shown net of provisions for impairment. The fair value of loans has been estimated from discounted cash flows expected to be received. The rate of discount used was the market rate of interest.

The estimated fair value of derivative financial instruments reflects the estimated amount the Group would receive or pay in an arm's length transaction. This amount is determined using quoted prices if exchange listed, quotations from independent third-parties or valued internally using standard market practices. In accordance with the Group's risk management framework, all internally generated valuations are subject to assessment against external counterparties' valuations.

For investment contracts in the US with fixed and guaranteed terms the fair value is determined based on the present value of future cash flows discounted at current interest rates.

The fair value of other financial liabilities is determined using discounted cash flows of the amounts expected to be paid.

Level 1, 2 and 3 fair value measurement hierarchy of Group financial instruments

The table below includes financial instruments carried at fair value analysed by level of the IFRS 7 defined fair value hierarchy. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement.

The classification criteria and its application to Prudential can be summarised as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 1 includes financial instruments where there is clear evidence that the valuation is based on a quoted publicly traded price in an active market (e.g. exchange listed equities, mutual funds with quoted prices and exchange traded derivatives.)

Level 2 – inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 2 includes investments where a direct link to an actively traded price is not readily apparent, but which are valued using inputs which are largely observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using independent pricing services or third-party broker quotes. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

Pricing services, where available, are used to obtain the third-party broker quotes. Where pricing services providers are used, a single valuation is obtained and applied.

When prices are not available from pricing services, quotes are sourced directly from brokers. Prudential seeks to obtain a number of quotes from different brokers so as to obtain the most comprehensive information available on their executability. Where quotes are sourced directly from brokers, the price used in the valuation is normally selected from one of the quotes based on a number of factors, including the timeliness and regularity of the quotes and the accuracy of the quotes considering the spreads provided. The selected quote is the one which best represents an executable quote for the security at the measurement date.

Generally, no adjustment is made to the prices obtained from independent third parties. Adjustment is made in only limited circumstances, where it is determined that the third-party valuations obtained do not reflect fair value (e.g. either because the value is stale and/or the values are extremely diverse in range). These are usually securities which are distressed or that could be subject to a debt restructure or where reliable market prices are no longer available due to an inactive market or market dislocation. In these instances, prices are derived using internal valuation techniques including those as described above in this note with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The techniques used require a number of assumptions relating to variables such as credit risk and interest rates. Examples of such variables include an average credit spread based on the corporate bond universe and the relevant duration of the asset being valued. Prudential measures the input assumptions based

on the best available information at the measurement dates. Securities valued in such manner are classified as level 3 where these significant inputs are not based on observable market data.

Of the total level 2 debt securities of £94,378 million at 31 December 2011 (31 December 2010: £89,948 million), £6,847 million are valued internally (31 December 2010: £6,638 million). The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

Level 3 – Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Level 3 includes investments which are internally valued or subject to a significant number of unobservable assumptions (e.g. private equity funds and certain derivatives which are bespoke or long dated).

At 31 December 2011 the Group held £4,565 million (2010: £4,573 million), two per cent of the fair valued financial investments, net of derivative liabilities (2010: two per cent), within level 3. Of these amounts £3,732 million (2010: £3,705 million) was held by the Group's participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments. At 31 December 2011, the £3,732 million (2010: £3,705 million) represented 4.3 per cent (2010: 4.2 per cent) of the total level 3 fair valued financial instruments, net of derivative liabilities of the participating funds.

Of the £800 million level 3 fair valued financial investments, net of derivative liabilities at 31 December 2011 (2010: £866 million), which support non-linked shareholder-backed business (representing 1.3 per cent of the total fair valued financial investments net of derivative liabilities backing this business (2010: 1.6 per cent)), £757 million of net assets are externally valued and £43 million of net liabilities are internally valued (2010: net assets of £728 million and £138 million respectively). Internal valuations, which represent 0.1 per cent of the total fair valued financial investments net of derivative liabilities supporting non-linked shareholder-backed business at 31 December 2011 (2010: 0.2 per cent), are inherently more subjective than external valuations.

	31 December 2011			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Equity securities and portfolio holdings in unit trusts	**24,001**	**1,762**	**284**	**26,047**
Debt securities	**13,298**	**43,279**	**655**	**57,232**
Other investments (including derivative assets)	**252**	**1,378**	**2,793**	**4,423**
Derivative liabilities	**(214)**	**(1,127)**	**-**	**(1,341)**
Total financial investments, net of derivative liabilities	**37,337**	**45,292**	**3,732**	**86,361**
Percentage of total	**43%**	**53%**	**4%**	**100%**
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	**59,662**	**198**	**30**	**59,890**
Debt securities	**4,160**	**4,698**	**3**	**8,861**
Other investments (including derivative assets)	**18**	**95**	**-**	**113**
Derivative liabilities	**(2)**	**(7)**	**-**	**(9)**
Total financial investments, net of derivative liabilities	**63,838**	**4,984**	**33**	**68,855**
Percentage of total	**93%**	**7%**	**0%**	**100%**
Non-linked shareholder-backed				
Loans	**-**	**279**	**-**	**279**
Equity securities and portfolio holdings in unit trusts	**1,175**	**176**	**61**	**1,412**
Debt securities	**11,753**	**46,401**	**251**	**58,405**
Other investments (including derivative assets)	**30**	**2,237**	**706**	**2,973**
Derivative liabilities	**(78)**	**(1,408)**	**(218)**	**(1,704)**
Total financial investments, net of derivative liabilities	**12,880**	**47,685**	**800**	**61,365**
Percentage of total	**21%**	**78%**	**1%**	**100%**
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	**-**	**279**	**-**	**279**
Equity securities and portfolio holdings in unit trusts	**84,838**	**2,136**	**375**	**87,349**
Debt securities	**29,211**	**94,378**	**909**	**124,498**
Other investments (including derivative assets)	**300**	**3,710**	**3,499**	**7,509**
Derivative liabilities	**(294)**	**(2,542)**	**(218)**	**(3,054)**
Total financial investments, net of derivative liabilities	**114,055**	**97,961**	**4,565**	**216,581**
Borrowings attributable to the with-profits fund held at fair value	**-**	**(39)**	**-**	**(39)**
Investment contracts liabilities without discretionary participation features held at fair value	**-**	**(15,056)**	**-**	**(15,056)**
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**(2,586)**	**(805)**	**(449)**	**(3,840)**
Other financial liabilities held at fair value	**-**	**(281)**	**-**	**(281)**
Total financial instruments at fair value	**111,469**	**81,780**	**4,116**	**197,365**
Percentage of total	**57%**	**41%**	**2%**	**100%**

	31 December 2010			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Analysis of financial investment, net of derivative liabilities by business type				
With-profits				
Equity securities and portfolio holdings in unit trusts	29,675	1,281	415	31,371
Debt securities	11,114	41,375	772	53,261
Other investments (including derivative assets)	137	1,207	2,543	3,887
Derivative liabilities	(56)	(626)	(25)	(707)
Total financial investments, net of derivative liabilities	40,870	43,237	3,705	87,812
Percentage of total	47%	49%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	54,272	2	-	54,274
Debt securities	3,784	5,268	2	9,054
Other investments (including derivative assets)	43	88	-	131
Total financial investments, net of derivative liabilities	58,099	5,358	2	63,459
Percentage of total	92%	8%	0%	100%
Non-linked shareholder-backed				
Loans	-	227	-	227
Equity securities and portfolio holdings in unit trusts	808	21	161	990
Debt securities	10,389	43,305	343	54,037
Other investments (including derivative assets)	52	1,146	563	1,761
Derivative liabilities	(80)	(1,049)	(201)	(1,330)
Total financial investments, net of derivative liabilities	11,169	43,650	866	55,685
Percentage of total	20%	78%	2%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	-	227	-	227
Equity securities and portfolio holdings in unit trusts	84,755	1,304	576	86,635
Debt securities	25,287	89,948	1,117	116,352
Other investments (including derivative assets)	232	2,441	3,106	5,779
Derivative liabilities	(136)	(1,675)	(226)	(2,037)
Total financial investments, net of derivative liabilities	110,138	92,245	4,573	206,956
Borrowings attributable to the with-profits fund held at fair value	-	(82)	-	(82)
Investment contracts liabilities without discretionary participation features held at fair value	-	(15,822)	-	(15,822)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(2,099)	(894)	(379)	(3,372)
Total financial instruments at fair value	108,039	75,447	4,194	187,680
Percentage of total	58%	40%	2%	100%

R Loans portfolio

Loans are accounted for at amortised cost net of impairment except for certain mortgage loans of the UK insurance operations which have been designated at fair value through profit and loss as this loan portfolio is managed and evaluated on a fair value basis. The amounts included in the statement of financial position are analysed as follows:

	2011 £m	2010 £m
Insurance operations		
UK[note(i)]	**3,115**	2,302
US[note (ii)]	**4,110**	4,201
Asia[note (iii)]	**1,233**	1,340
Asset management operations		
M&G[note (iv)]	**1,256**	1,418
Total	**9,714**	9,261

Notes

(i) *UK insurance operations*

The loans of the Group's UK insurance operations comprise:

	2011 £m	2010 £m
SAIF and PAC WPSF		
Mortgage loans*	**1,036**	256
Policy loans	**20**	21
Other loans**	**917**	993
Total SAIF and PAC WPSF loans	**1,973**	1,270
Shareholder-backed		
Mortgage loans*	**1,137**	1,027
Other loans	**5**	5
Total shareholder-backed loans	**1,142**	1,032
Total UK insurance operations loans	**3,115**	2,302

* The mortgage loans are collateralised by properties. By carrying value, 96 per cent of the £1,137 million held for shareholder-backed business relates to lifetime (equity release) mortgage business which has an average loan to property value of 27 per cent.

** Other loans held by the PAC WPSF are all commercial loans and comprise mainly syndicated loans.

(ii) *US insurance operations*

The loans of the Group's US insurance operations comprise:

	2011 £m	2010 £m
Mortgage loans[+]	**3,559**	3,641
Policy loans[++]	**551**	548
Other loans	**-**	12
Total US insurance operations loans	**4,110**	4,201

[+] All of the mortgage loans are commercial mortgage loans which are collateralised by properties. The property types are mainly industrial, multi-family residential, suburban office, retail and hotel. The breakdown by property type is as follows:

	2011 %	2010 %
Industrial	**28**	31
Multi-family residential	**23**	18
Office	**19**	19
Retail	**19**	21
Hotels	**11**	10
Other	**-**	1
	100	100

The US insurance operations' commercial mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the risk of defaults associated with residential sub-prime mortgage loans. The average loan size is £6.6 million (2010: £6.6 million). The portfolio has a current estimated average loan to value of 68 per cent (2010: 73 per cent) which provides significant cushion to withstand substantial declines in value.

At 31 December 2011, Jackson had mortgage loans with a carrying value of £87 million where the contractual terms of the agreements had been restructured. In addition to the regular impairment review afforded all loans in the portfolio, restructured loans are also reviewed for impairment. An impairment will be recorded if the expected cash flows under the newly restructured terms discounted at the original yield (the pre-structured interest rate) are below the carrying value of the loan.

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

(iii) *Asian insurance operations*

The loans of the Group's Asian insurance operations comprise:

	2011 £m	2010 £m
Mortgage loans[‡]	**31**	25
Policy loans[‡]	**572**	528
Other loans[‡‡]	**630**	787
Total Asia insurance operations loans	**1,233**	1,340

[‡] The mortgage and policy loans are secured by properties and life insurance policies respectively.

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

(iv) *M&G*

The M&G loans relate to loans and receivables managed by Prudential Capital. These assets are generally secured but have no external credit ratings. Internal ratings prepared by the Group's asset management operations, as part of the risk management process, are:

	2011 £m	2010 £m
Loans and receivables internal ratings:		
A+ to A-	**129**	213
BBB+ to BBB-	**1,000**	873
BB+ to BB-	**89**	219
B+ to B-	**38**	113
Total M&G loans	**1,256**	1,418

All loans in the portfolio are currently paying interest on scheduled coupon dates and no interest has been capitalised or deferred. All loans are in compliance with their covenants at the 31 December 2011. The loans in the portfolio generally have ratchet mechanisms included within the loan agreements at inception so that margins increase over time to encourage early repayment or have had margins increased to reflect revised commercial terms.

S Debt securities portfolio

Debt securities are carried at fair value. The amounts included in the statement of financial position are analysed as follows, with further information relating to the credit quality of the Group's debt securities at 31 December 2011 provided in the notes below.

	2011 £m	2010 £m
Insurance operations		
UK [note(i)]	**77,953**	74,304
US [note (ii)]	**27,022**	26,366
Asia [note (iii)]	**17,681**	14,108
Asset management operations[note (iv)]	**1,842**	1,574
Total	**124,498**	116,352

(i) UK insurance operations

	PAC with-profits sub-fund				Other funds and subsidiaries			UK insurance operations	
	Scottish Amicable Insurance Fund £m	Excluding Prudential Annuities Limited £m	Prudential Annuities Limited £m	Total £m	Unit-linked assets £m	PRIL £m	Other annuity and long-term business £m	2011 Total £m	2010 Total £m
S&P – AAA	**578**	**4,292**	**585**	**4,877**	**699**	**3,302**	**472**	**9,928**	18,833
S&P – AA+ to AA-	**554**	**3,323**	**645**	**3,968**	**792**	**3,008**	**325**	**8,647**	6,885
S&P – A+ to A-	**1,104**	**10,257**	**1,318**	**11,575**	**1,444**	**6,525**	**826**	**21,474**	21,508
S&P – BBB+ to BBB-	**1,014**	**9,551**	**541**	**10,092**	**917**	**3,186**	**537**	**15,746**	12,848
S&P – Other	**311**	**2,461**	**62**	**2,523**	**142**	**174**	**25**	**3,175**	3,403
	3,561	**29,884**	**3,151**	**33,035**	**3,994**	**16,195**	**2,185**	**58,970**	63,477
Moody's – Aaa	**263**	**2,350**	**1,169**	**3,519**	**1,411**	**2,153**	**599**	**7,945**	765
Moody's – Aa1 to Aa3	**26**	**180**	**33**	**213**	**88**	**269**	**55**	**651**	360
Moody's – A1 to A3	**41**	**456**	**125**	**581**	**51**	**290**	**45**	**1,008**	632
Moody's – Baa1 to Baa3	**56**	**516**	**109**	**625**	**74**	**236**	**39**	**1,030**	949
Moody's – Other	**16**	**152**	**6**	**158**	**37**	**24**	**7**	**242**	233
	402	**3,654**	**1,442**	**5,096**	**1,661**	**2,972**	**745**	**10,876**	2,939
Fitch	**20**	**185**	**80**	**265**	**26**	**163**	**18**	**492**	630
Other	**366**	**3,973**	**960**	**4,933**	**434**	**1,776**	**106**	**7,615**	7,258
Total UK debt securities	**4,349**	**37,696**	**5,633**	**43,329**	**6,115**	**21,106**	**3,054**	**77,953**	74,304

Where no external ratings are available, internal ratings produced by the Group's asset management operation, which are prepared on the Company's assessment of a comparable basis to external ratings, are used where possible. The £7,615 million total debt securities held at 31 December 2011 (2010: £7,258 million) which are not externally rated are either internally rated or unrated. These are analysed as follows:

	2011 £m	2010 £m
Internal ratings or unrated:		
AAA to A-	**2,726**	2,210
BBB to B-	**3,773**	3,861
Below B- or unrated	**1,116**	1,187
Total	**7,615**	7,258

The majority of unrated debt security investments were held in SAIF and the PAC with-profits fund and relate to convertible debt and other investments which are not covered by ratings analysts nor have an internal rating attributed to them. Of the £1,882 million PRIL and other annuity and long-term business investments which are not externally rated, £9 million were internally rated AAA, £114 million AA, £590 million A, £887 million BBB, £92 million BB and £190 million were internally rated B+ and below or unrated.

During the year Standard and Poor's withdrew its ratings of debt securities issued by a number of Sovereigns. Where these are no longer available Moody's ratings have been used. This primarily impacts the UK and Asia insurance operations.

(ii) *US insurance operations*

US insurance operations held total debt securities with a carrying value of £27,022 million at 31 December 2011 (2010: £26,366 million). The table below provides information relating to the credit risk of the aforementioned debt securities.

Summary	2011 £m	2010 £m
Corporate and government security and commercial loans:		
Government	**2,163**	2,440
Publicly traded and SEC Rule 144A securities	**16,281**	14,747
Non-SEC Rule 144A securities	**3,198**	3,044
Total	**21,642**	20,231
Residential mortgage-backed securities (RMBS)	**2,591**	2,784
Commercial mortgage-backed securities (CMBS)	**2,169**	2,375
Other debt securities	**620**	976
Total US debt securities	**27,022**	26,366

The following table summarises the securities detailed above by rating as at 31 December 2011 using Standard and Poor's (S&P), Moody's, Fitch and implicit ratings of mortgage-backed securities (MBS) based on NAIC valuations:

	2011 £m	2010 £m
S&P – AAA	**133**	4,187
S&P – AA+ to AA-	**4,476**	801
S&P – A+ to A-	**6,382**	5,156
S&P – BBB+ to BBB-	**8,446**	8,202
S&P – Other	**999**	866
	20,436	19,212
Moody's – Aaa	**62**	34
Moody's – Aa1 to Aa3	**15**	32
Moody's – A1 to A3	**29**	36
Moody's – Baa1 to Baa3	**67**	73
Moody's – Other	**17**	135
	190	310
Implicit ratings of MBS based on NAIC valuations (see below)		
NAIC 1	**2,577**	3,083
NAIC 2	**147**	181
NAIC 3-6	**368**	232
	3,092	3,496
Fitch	**184**	176
Other *	**3,120**	3,172
Total US debt securities	**27,022**	26,366

In the table above, with the exception of some mortgage-backed securities, S&P ratings have been used where available. For securities where S&P ratings are not immediately available, those produced by Moody's and then Fitch have been used as an alternative.

For some mortgage-backed securities within Jackson, the table above includes these securities using the regulatory ratings detail issued by the NAIC. These regulatory ratings levels were established by external third parties (PIMCO for residential mortgage-backed securities and BlackRock Solutions for commercial mortgage-backed securities).

* The amounts within Other which are not rated by S&P, Moody or Fitch, nor are MBS securities using the revised regulatory ratings, have the following NAIC classifications:

	2011 £m	2010 £m
NAIC 1	**1,258**	1,193
NAIC 2	**1,792**	1,849
NAIC 3-6	**70**	130
	3,120	3,172

(iii) Asia insurance operations

	With-profits business £m	Unit-linked assets £m	Other £m	2011 Total £m	2010 Total £m
S&P – AAA	**1,259**	**38**	**126**	**1,423**	2,934
S&P – AA+ to AA-	**2,161**	**83**	**1,599**	**3,843**	2,138
S&P – A+ to A-	**1,560**	**564**	**931**	**3,055**	2,843
S&P – BBB+ to BBB-	**1,032**	**104**	**315**	**1,451**	913
S&P – Other	**786**	**707**	**644**	**2,137**	1,773
	6,798	**1,496**	**3,615**	**11,909**	10,601
Moody's – Aaa	**818**	**222**	**449**	**1,489**	65
Moody's – Aa1 to Aa3	**47**	**61**	**20**	**128**	115
Moody's – A1 to A3	**191**	**17**	**96**	**304**	130
Moody's – Baa1 to Baa3	**109**	**4**	**18**	**131**	95
Moody's – Other	**34**	**9**	**16**	**59**	49
	1,199	**313**	**599**	**2,111**	454
Fitch	**189**	**60**	**102**	**351**	49
Other	**1,368**	**877**	**1,065**	**3,310**	3,004
Total Asia debt securities	**9,554**	**2,746**	**5,381**	**17,681**	14,108

The following table analyses debt securities of 'Other business' which are not externally rated:

	2011 Total £m	2010 Total £m
Government bonds	**244**	350
Corporate bonds rated as investment grade by local external ratings agencies	**776**	666
Structured deposits issued by banks which are rated, but specific deposits are not	**-**	5
Other	**45**	22
	1,065	1,043

(iv) *Asset Management Operations*

Of the total debt securities at 31 December 2011 of £1,842 million, the following amounts were held by M&G.

	2011 £m	2010 £m
M&G		
AAA to A- by Standard and Poor's or Aaa rated by Moody's	**1,547**	1,468
Other	**287**	92
Total M&G debt securities	**1,834**	1,560

(v) ***Group exposure to holdings in asset-backed securities***

The Group's exposure to holdings in asset-backed securities, which comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), CDO funds and other asset-backed securities (ABS), at 31 December 2011 is as follows:

	2011 £m	2010 £m
Shareholder-backed operations (excluding assets held in unit-linked funds):		
UK insurance operations note (a)	**1,358**	1,181
US insurance operations note (b)	**5,380**	6,135
Asian insurance operations note (c)	**176**	113
Other operations note (d)note (iv)	**594**	437
	7,508	7,866
With-profits operations:		
UK insurance operations note (a)	**5,351**	5,237
Asian insurance operations note (c)	**454**	435
	5,805	5,672
Total	**13,313**	13,538

Notes

(a) UK insurance operations

The UK insurance operations' exposure to asset-backed securities at 31 December 2011 comprises:

	2011 £m	2010 £m
Shareholder-backed business (2011: 38% AAA, 18% AA)[(i)]	**1,358**	1,181
With-profits operations (2011: 58% AAA, 9% AA)[(ii)]	**5,351**	5,237
Total	**6,709**	6,418

[(i)]All of the exposure of the shareholder-backed business relates to the UK market and primarily relates to investments held by PRIL.
[(ii)]Exposure of the with-profits operations relates to exposure to:

	2011 £m	2010 £m
UK market	**4,037**	3,685
US market	**1,314**	1,552
	5,351	5,237

(b) US insurance operations

US insurance operations' exposure to asset-backed securities at 31 December 2011 comprises:

	2011 £m	2010 £m
RMBS Sub-prime (2011: 20% AAA, 4% AA)	**207**	224
Alt-A (2011: 12% AAA, 4% AA)	**310**	415
Prime including agency (2011: 3% AAA, 76% AA)	**2,074**	2,145
CMBS (2011: 35% AAA, 12% AA)	**2,169**	2,375
CDO funds (2011: 16% AAA, 0% AA)*, including £nil million exposure to sub-prime	**44**	162
Other ABS (2011: 23% AAA, 17% AA), including £6.6 million exposure to sub-prime	**576**	814
Total	**5,380**	6,135

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

(c) Asian insurance operations

The Asian insurance operations' exposure to asset-backed securities is primarily held by the with-profits operations. The £454 million (2010: £435 million) asset-backed securities exposure of the Asian with-profit operations comprises:

	2011 £m	2010 £m
CMBS	**149**	251
CDO funds and ABS	**305**	184
Total	**454**	435

The £454 million (2010: £435 million) includes £398 million (2010: £341 million) held by investment funds consolidated under IFRS in recognition of the control arrangements for those funds and include an amount not owned by the Group with a corresponding liability of £20 million (2010: £7 million) on the statement of financial position for net asset value attributable to external unit-holders in respect of these funds, which are non-recourse to the Group. Of the £454 million, 75 per cent (2010: £435 million, 43 per cent) are investment graded by Standard and Poor's.

(d) Other operations

Other operations' exposure to asset-backed securities at 31 December 2010 is held by Prudential Capital and comprises:

	2011 £m	2010 £m
RMBS: Prime (2011: 91% AAA, 9% AA)	**340**	197
CMBS (2011: 27% AAA, 16% AA)	**146**	184
CDO funds and other ABS - all without sub-prime exposure (2011: 98% AAA)	**108**	56
Total	**594**	437

(vi) *Group sovereign debt exposure*

Sovereign debt represented 16 per cent or £9.2 billion of the debt portfolio backing shareholder business at 31 December 2011. 43 per cent of this was rated AAA and 94 per cent investment grade. Of the Group's holdings in Continental Europe of £690 million, 87 per cent was AAA rated. Shareholder exposure to the eurozone sovereigns of Portugal, Italy, Ireland, Greece and Spain (PIIGS) is £44 million. The Group does not have any sovereign debt exposure to Greece, Portugal, Ireland or France.

The exposure of the Group's shareholder and with-profits funds to sovereign debt (including credit default swaps that are referenced to sovereign debt) at 31 December 2011 is as follows.

	Shareholder sovereign debt £m	With-profits sovereign debt £m
Continental Europe		
Italy	43	52
Spain	1	33
	44	85
Germany	598	602
Other Europe (principally Isle of Man and Belgium)	48	62
	690	749
United Kingdom	3,254	2,801
United States	2,448	2,615
Other, predominately Asia	2,850	332
Total	9,242	6,497

Exposure to bank debt securities

The Group held the following direct exposures to banks' debt securities of shareholder-backed business at 31 December 2011.

	Bank debt securities - shareholder-backed business						
	Senior debt			Subordinated debt			
	Covered £m	Senior £m	Total senior debt £m	Tier 2 £m	Tier 1 £m	Total subordinated debt £m	Total £m
Portugal	-	24	24	-	-	-	24
Ireland	-	13	13	-	-	-	13
Italy	-	11	11	56	14	70	81
Greece	-	-	-	-	-	-	-
Spain	107	11	118	90	2	92	210
	107	59	166	146	16	162	328
Austria	-	-	-	9	-	9	9
Belgium	-	-	-	-	-	-	-
France	2	34	36	78	35	113	149
Germany	-	28	28	1	-	1	29
Luxembourg	-	-	-	-	-	-	-
Netherlands	-	7	7	81	64	145	152
United Kingdom	228	145	373	615	95	710	1,083
Total Europe	337	273	610	930	210	1,140	1,750
United States	-	1,362	1,362	352	2	354	1,716
Other, predominantly Asia	-	246	246	562	33	595	841
Total	337	1,881	2,218	1,844	245	2,089	4,307

In addition to the exposures held by the shareholder-backed business, the Group held the following banks' securities at 31 December 2011 within its with-profits funds.

	Bank debt securities - participating funds						
	Senior debt			Subordinated debt			
	Covered £m	Senior £m	Total senior debt £m	Tier 2 £m	Tier 1 £m	Total subordinated debt £m	Total £m
Portugal	-	7	7	-	-	-	7
Ireland	-	-	-	-	-	-	-
Italy	-	45	45	49	2	51	96
Greece	5	-	5	-	-	-	5
Spain	137	-	137	1	-	1	138
	142	52	194	50	2	52	246
Austria	-	-	-	-	-	-	-
Belgium	-	-	-	-	-	-	-
France	-	80	80	47	17	64	144
Germany	-	7	7	-	-	-	7
Luxembourg	-	7	7	-	-	-	7
Netherlands	-	80	80	14	28	42	122
United Kingdom	319	385	704	772	74	846	1,550
Total Europe	461	611	1,072	883	121	1,004	2,076
United States	-	1,378	1,378	396	278	674	2,052
Other, predominantly	1	384	385	341	20	361	746
Total	462	2,373	2,835	1,620	419	2,039	4,874

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

i Valuation basis

Under IAS 39, unless categorised as 'held to maturity' or 'loans and receivables' debt securities are required to be fair valued. Where available, quoted market prices are used. However, where securities do not have an externally quoted price based on regular trades or where markets for the securities are no longer active as a result of market conditions, IAS 39 requires that valuation techniques be applied. IFRS 7 requires classification of the fair values applied by the Group into a three level hierarchy. At 31 December 2011, 0.1 per cent of Jackson's debt securities were classified as level 3 (31 December 2010: 0.3 per cent) comprising of fair values where there are significant inputs which are not based on observable market data.

ii Accounting presentation of gains and losses

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

However, for debt securities classified as 'available-for-sale', unless impaired, fair value movements are recognised in other comprehensive income. Realised gains and losses, including impairments, recorded in the income statement are as shown in note F of this report. This classification is applied for most of the debt securities of the Group's US insurance operations.

iii 2011 movements in unrealised gains and losses

In 2011 there was a movement in the statement of financial position value for debt securities classified as available-for-sale from a net unrealised gain of £1,210 million to a net unrealised gain of £2,057 million. The gross unrealised gain in the statement of financial position increased from £1,580 million at 31 December 2010 to £2,303 million at 31 December 2011, while the gross unrealised loss decreased from £370 million at 31 December 2010 to £246 million at 31 December 2011.
These features are included in the table shown below of the movements in the values of available-for-sale securities.

Available for sale securities

	2011	Changes in Unrealised appreciation**	Foreign exchange translation	2010
		Reflected as part of movement in consolidated statement of comprehensive income		
	£m	£m	£m	£m
Assets fair valued at below book value				
Book value*	**2,455**			4,372
Unrealised (loss) / gain[notes (iv)(a) and (b)]	**(246)**	**122**	**2**	(370)
Fair value (as included in statement of financial position)	**2,209**			4,002
Assets fair valued at or above book value				
Book value*	**22,504**			20,743
Unrealised gain /(loss)	**2,303**	**689**	**34**	1,580
Fair value (as included in statement of financial position)	**24,807**			22,323
Total				
Book value*	**24,959**			25,115
Net unrealised gain/(loss)	**2,057**	**811**	**36**	1,210
Fair value (as included in statement of financial position)***	**27,016**			26,325

* Book value represents cost/amortised cost of the debt securities.
** Translated at the average rate of $1.6037: £1.
*** Debt securities for US operations included in the statement of financial position at 31 December 2011 and as referred to in note S, comprise:

	2011 £m	2010 £m
Available-for-sale	**27,016**	26,325
Consolidated investment funds classified as fair value through profit and loss	**6**	41
	27,022	26,366

iv Debt securities classified as available-for-sale in an unrealised loss position

The following tables show some key attributes of those securities that are in an unrealised loss position at 31 December 2011.

(a) Fair value of available-for-sale securities as a percentage of book value

The following table shows the fair value of the debt securities in a gross unrealised loss position for various percentages of book value:

	2011		2010	
	Fair value £m	Unrealised loss £m	Fair value £m	Unrealised loss £m
Between 90% and 100%	**1,829**	**(60)**	3,390	(102)
Between 80% and 90%	**172**	**(28)**	273	(44)
Below 80% note(d)	**208**	**(158)**	339	(224)
Total	**2,209**	**(246)**	4,002	(370)

Included within the table above are amounts relating to sub-prime and Alt-A securities of:

	2011		2010	
	Fair value £m	Unrealised loss £m	Fair value £m	Unrealised loss £m
Between 90% and 100%	**142**	**(7)**	98	(6)
Between 80% and 90%	**58**	**(11)**	55	(9)
Below 80% note(d)	**69**	**(35)**	56	(25)
Total	**269**	**(53)**	209	(40)

(b) Unrealised losses by maturity of available-for-sale securities

	2011 £m	2010 £m
Less than 1 year	**-**	-
1 year to 5 years	**(7)**	(6)
5 years to 10 years	**(28)**	(47)
More than 10 years	**(28)**	(49)
Mortgage-backed and other debt securities	**(183)**	(268)
Total*	**(246)**	(370)

*These relate to assets with a fair market value and book value of £2,209 million (2010: £4,002 million) and £2,455 million (2010: £4,372 million) respectively.

(c) Age analysis of unrealised losses for the years indicated for available-for-sale securities

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

	2011			2010		
	Non investment grade £m	Investment grade £m	Total £m	Non investment grade £m	Investment grade £m	Total £m
Less than 6 months	**(11)**	**(31)**	**(42)**	(3)	(67)	(70)
6 months to 1 year	**(7)**	**(8)**	**(15)**	(2)	-	(2)
1 year to 2 years	**(5)**	**(1)**	**(6)**	(13)	(20)	(33)
2 years to 3 years	**(7)**	**(10)**	**(17)**	(27)	(55)	(82)
More than 3 years	**(61)**	**(105)**	**(166)**	(58)	(125)	(183)
Total	**(91)**	**(155)**	**(246)**	(103)	(267)	(370)

At 31 December 2011, the gross unrealised losses in the statement of financial position for the sub-prime and Alt-A securities in an unrealised loss position were £53 million (2010: £40 million). Of these losses £10 million (2010: £1 million) relate to securities that have been in an unrealised loss position for less than one year and £43 million (2010: £39 million) to securities that have been in an unrealised loss position for more than one year.

(d) Available-for-sale securities whose fair value were below 80 per cent of the book value

As shown in the table (a) above, £158 million of the £246 million of gross unrealised losses at 31 December 2011 (2010: £224 million of the £370 million of gross unrealised losses) related to securities whose fair value was below 80 per cent of the book value. The analysis of the £158 million (2010: £224 million), by category of debt securities and by age analysis indicating the length of time for which their fair value was below 80 per cent of the book value, is as follows:

	2011		2010	
Category analysis	**Fair value £m**	**Unrealised loss £m**	**Fair value £m**	**Unrealised loss £m**
Residential mortgage-backed securities				
Prime (including agency)	**38**	**(16)**	88	(39)
Alt - A	**12**	**(3)**	15	(4)
Sub-prime	**58**	**(32)**	41	(20)
	108	**(51)**	144	(63)
Commercial mortgage-backed securities.	**6**	**(29)**	8	(29)
Other asset-backed securities	**65**	**(58)**	123	(105)
Total structured securities	**179**	**(138)**	275	(197)
Corporates	**29**	**(20)**	64	(27)
Total	**208**	**(158)**	339	(224)

Age analysis of fair value being below 80 per cent for the period indicated:

	2011		2010	
Age analysis	**Fair value £m**	**Unrealised loss £m**	**Fair value £m**	**Unrealised loss £m**
Less than 3 months	**15**	**(5)**	-	(1)
3 months to 6 months	**45**	**(15)**	-	-
More than 6 months	**148**	**(138)**	339	(223)
	208	**(158)**	339	(224)

U Net core structural borrowings of shareholder-financed operations

	2011 £m	2010 £m
Core structural borrowings of shareholder-financed operations:		
Perpetual subordinated capital securities (Innovative Tier 1)[note (i)]	**1,823**	1,463
Subordinated notes (Lower Tier 2)[note (i)]	**829**	1,255
Subordinated debt total	**2,652**	2,718
Senior debt[note (ii)]		
2023	**300**	300
2029	**249**	249
Holding company total[note (iii)]	**3,201**	3,267
PruCap bank loan[note (iii)]	**250**	250
Jackson surplus notes (Lower Tier 2)[note (ii)]	**160**	159
Total (per consolidated statement of financial position)	**3,611**	3,676
Less: Holding company cash and short-term investments (recorded within the consolidated statement of financial position)[note (iv)]	**(1,200)**	(1,232)
Net core structural borrowings of shareholder-financed operations	**2,411**	2,444

Notes

(i) These debt classifications are consistent with the treatment of capital for regulatory purposes, as defined in the FSA handbook. In January 2011, the Company issued US$550 million 7.75 per cent Tier 1 subordinated debt, primarily to retail investors. The proceeds, net of costs, were US$539 million (£340 million) and have been used to finance the repayments of the €500 million Tier 2 subordinated debt in December 2011.
The Group has designated US$2.85 billion (2010: US$2.3 billion) of its Tier 1 subordinated debt as a net investment hedge under IAS 39 to hedge the currency risks related to the net investment in Jackson.

(ii) The senior debt ranks above subordinated debt in the event of liquidation.

(iii) The £250 million PruCap bank loan was made in December 2010 in two tranches: £135 million maturing in June 2014, currently drawn at a cost of twelve month £LIBOR plus 1.2 per cent and £115 million maturing on 20 December 2012, currently drawn at a cost of twelve month £LIBOR plus 0.99 per cent.

(iv) Including central finance subsidiaries.

V Other borrowings

	2011 £m	2010 £m
Operational borrowings attributable to shareholder-financed operations note (i)		
Borrowings in respect of short-term fixed income securities programmes	**2,956**	2,560
Non-recourse borrowings of US operations	**21**	80
Other borrowings note (ii)	**363**	364
Total	**3,340**	3,004

	2011 £m	2010 £m
Borrowings attributable to with-profits operations		
Non-recourse borrowings of consolidated investment funds	**747**	1,287
£100m 8.5% undated subordinated guaranteed bonds of the Scottish Amicable Insurance Fund	**100**	100
Other borrowings (predominantly obligations under finance leases)	**125**	135
Total	**972**	1,522

Notes

(i) In addition to the debt listed above, £200 million Floating Rate Notes were issued by Prudential plc in October 2011 which mature in April 2012. These Notes have been wholly subscribed by a Group subsidiary and accordingly have been eliminated on consolidation in the Group financial statements. These notes were originally issued in October 2008 and have been reissued upon their maturity.

(ii) Other borrowings include mainly amounts whose repayment to the lender is contingent upon future surpluses emerging from certain contracts specified under the arrangement. If insufficient surplus emerges on the contracts, there is no recourse to other assets of the Group and the liability is not payable to the degree of shortfall. Further, the Group has chosen to designate as a fair value hedge under IAS 39 certain fixed to floating rate swaps which hedge the fair value exposures to interest rate movements of these borrowings.

W Defined benefit pension schemes

The Group liability in respect of defined benefit pension schemes is as follows:

	2011 £m	2010 £m
Economic position:		
Deficit, gross of deferred tax, based on scheme assets held, including investments in Prudential insurance policies:		
Attributable to the PAC with-profits fund (i.e. absorbed by the liability for unallocated surplus)	**(41)**	(106)
Attributable to shareholder-backed operations (i.e. shareholders' equity)	**(23)**	(114)
Economic deficit	**(64)**	(220)
Exclude: investments in Prudential insurance liabilities (offset on consolidation in the Group financial statements against insurance liabilities)	**(165)**	(227)
Deficit under IAS 19 included in Provisions in the statement of financial position	**(229)**	(447)

The Group business operations operate a number of pension schemes. The largest defined benefit scheme is the principal UK scheme, namely the Prudential Staff Pension Scheme (PSPS). In the UK, the Group also operates two smaller defined benefit schemes for employees in respect of Scottish Amicable and M&G. For all three schemes the projected unit method was used for the most recent full actuarial valuations. There is also a small defined benefit pension scheme in Taiwan.

The underlying position on an economic basis reflects the assets (including investments in Prudential policies that are offset against liabilities to policyholders on the Group consolidation) and the liabilities of the schemes. The investments in Prudential policies comprise £112 million (2010: £118 million) for PSPS and £165 million (2010: £227 million) for the M&G pension scheme.

Separately, the economic financial position also includes the effect of the application of IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. Under IFRIC 14, for PSPS, where the Group does not have unconditional right of refund to any surplus in the scheme due to constraints in the trust deed to prevent the company access, the surplus is not recognised. Additionally, the Group has to recognise a liability for committed deficit funding obligation to PSPS. Accordingly, at 31 December 2011, the Group has not recognised the underlying PSPS surplus of £1,588 million, gross of deferred tax (2010: £485 million) and has recognised a liability for deficit funding to 30 June 2012 for PSPS of £19 million gross of deferred tax (2010: £47 million).

Defined benefit schemes in the UK are generally required to be subject to full actuarial valuation every three years in order to assess the appropriate level of funding for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds. The last completed actuarial valuation of PSPS was as at 5 April 2008 by CG Singer, Fellow of the Institute of Actuaries, of Towers Watson Limited (previously Watson Wyatt Limited). This valuation demonstrated the scheme to be 106 per cent funded by reference to the Scheme Solvency Target that forms the basis of the scheme's statutory funding objective. No formal deficit plan was required. However, in recognition of the fall in value of the Scheme's investments between 5 April 2008 and the completion of the actuarial valuation in 2009, an additional funding akin to deficit funding was agreed by the Trustees. The total contributions being currently made by the Group into the scheme, representing the annual accrual cost and deficit funding, are £50 million per annum. Deficit funding for PSPS is apportioned in the ratio of 70/30 between the PAC with-profits 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. The current contributions will continue to be made until the next valuation as at 5 April 2011 is finalised later in 2012. In 2011, total contributions paid in the year including expenses and augmentations were £54 million (2010: £55 million).

The last completed actuarial valuation of the Scottish Amicable Pension Scheme as at 31 March 2008 by Jonathan Seed, Fellow of the Faculty of Actuaries, of Xafinity Consulting, demonstrated the scheme to be 91 per cent funded. 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. During 2010, the Group agreed to pay additional funding of £5.8 million per annum from October 2010 until the conclusion of the next formal valuation, or until the funding level reaches 90 per cent, whichever is the earlier. The actuarial valuation as at 31 March 2011 will be finalised later in 2012. The IAS 19 deficit of the Scottish Amicable Pension Scheme at 31 December 2011 of £55 million (2010: £146 million) has been allocated approximately 50 per cent to the PAC with-profits fund and 50 per cent to the shareholders' fund.

The last completed actuarial valuation of the M&G pension scheme as at 31 December 2008 by Paul Belok, Fellow of the Institute of Actuaries, of AON Hewitt Limited (previously AON Consulting Limited), was finalised in January 2010 and demonstrated the scheme to be 76 per cent funded. Based on this valuation, deficit funding amounts designed to eliminate the actuarial deficit over a five year period have been 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. During 2011, the Group agreed to pay an additional funding of £1.2 million per annum from January 2012, until the conclusion of the next formal valuation as at 31 December 2011 which is currently in progress. The IAS 19 surplus of the M&G pension scheme on an economic basis at 31 December 2011 was £10 million (2010: deficit of £27 million). As described above, as at 31 December 2011, the M&G pension scheme has invested £165 million in Prudential policies (2010: £227 million). After excluding these investments that are offset against liabilities to policyholders, the IAS 19 basis position of the scheme is a deficit of £155 million (2010: £254 million).

i Assumptions

The actuarial assumptions used in determining benefit obligations and the net periodic benefit costs for the years ended 31 December were as follows:

	2011 %	2010 %
Discount rate*	**4.7**	5.45
Rate of increase in salaries	**2.9**	5.55
Rate of inflation**		
Retail price index (RPI)	**2.9**	3.55
Consumer price index (CPI)	**1.9**	n/a
Rate of increase of pensions in payment for inflation:		
Guaranteed (maximum 5%)***	**2.5**	3.55
Guaranteed (maximum 2.5%)***	**2.5**	2.5
Discretionary***	**2.5**	2.5
Expected returns on plan assets	**5.1**	5.9

* The discount rate has been determined by reference to an 'AA' corporate bond index adjusted, where applicable, to allow for the difference in duration between the index and the pension liabilities.

** The rate of inflation for the year ended 31 December 2011 reflects the long-term assumption for the UK RPI or CPI depending on the tranche of the schemes. For prior periods it reflects the long term assumption for the UK RPI. See explanation below.

*** The rates of 2.5 per cent are those for PSPS. Assumed rates of increase of pensions in payments for inflation for all other schemes are 2.9 per cent in 2011 (2010: 3.55 per cent).

The calculations are based on current actuarially calculated mortality estimates with a specific allowance made for future improvements in mortality. The specific allowance for 2011 and 2010 is in line with a custom calibration of the 2009 mortality model from the Continuous Mortality Investigation Bureau of the Institute and Faculty of Actuaries ('CMI').

The tables used for PSPS immediate annuities in payment at 31 December 2011 and 2010 were:

Male: 108.6 per cent PNMA00 with improvements in line with a custom calibration of the CMI's 2009 mortality model, with a long-term mortality improvement rate of 1.75 per cent per annum; and
Female: 103.4per cent PNFA00 with improvements in line with a custom calibration of the CMI's 2009 mortality model, with a long-term mortality improvement rate of 1.00 per cent per annum.

In July 2010, the UK Government announced plans to use the CPI in place of the RPI in its determination of the statutory minimum pension increases for private sector occupational pension schemes. In December 2010, the Government published the statutory revaluation order for 2011 which confirms the change to use CPI. Further, in December 2010, the Government consulted on the impact of the switch from RPI to CPI on the private sector occupational pension schemes. In its response following the consultation published in June 2011, the Government confirmed that it would not introduce legislation to override scheme rules which provide for pension increases/revaluation on a basis that is higher than the statutory minimum.

For the Group's UK defined benefit schemes, the pensions in deferment and/or pensions in payment for certain tranches of these schemes are subject to statutory increases in accordance with the schemes rules and were therefore affected by the Government's decision to change the indexation from RPI to CPI. Other tranches, where RPI is specified in the scheme rules, were unaffected.

During 2011, the pension schemes communicated to their members the changes in basis from RPI to CPI in light of the Government announcement. The impact of this change in 2011 was an accounting benefit of £42 million to the Group's operating profit based on longer-term investment returns and profit attributable to shareholders before tax and £31 million to shareholders' equity. There was no impact on the results for the year ended 31 December 2010.

ii Estimated pension scheme deficit – economic basis

Movements on the pension scheme deficit (determined on the economic basis) are as follows, with the effect of the application of IFRIC 14 being shown separately:

	2011				
		(Charge) credit to income statement			
	Surplus (deficit) in scheme at 1 January 2011 £m	Operating results (based on longer-term investment returns) (note a) £m	Actuarial and other gains and losses (note b) £m	Contributions paid £m	Surplus (deficit) in scheme at 31 Dec 2011 (note c) £m
All schemes					
Underlying position (without the effect of IFRIC 14)					
Surplus	**312**	**256**	**882**	**93**	**1,543**
Less: amount attributable to PAC with-profits fund	**(264)**	**(171)**	**(607)**	**(41)**	**(1,083)**
Shareholders' share:					
Gross of tax surplus	**48**	**85**	**275**	**52**	**460**
Related tax	**(13)**	**(22)**	**(68)**	**(14)**	**(117)**
Net of shareholders' tax	**35**	**63**	**207**	**38**	**343**
Effect of IFRIC 14					
Derecognition of surplus and set up of additional funding obligation	**(532)**	**(229)**	**(846)**	**-**	**(1,607)**
Less: amount attributable to PAC with-profits fund	**370**	**162**	**592**	**-**	**1,124**
Shareholders' share:					
Gross of tax (deficit)	**(162)**	**(67)**	**(254)**	**-**	**(483)**
Related tax	**44**	**16**	**63**	**-**	**123**
Net of shareholders' tax	**(118)**	**(51)**	**(191)**	**-**	**(360)**
With the effect of IFRIC 14					
(Deficit) surplus	**(220)**	**27**	**36**	**93**	**(64)**
Less: amount attributable to PAC with-profits fund	**106**	**(9)**	**(15)**	**(41)**	**41**
Shareholders' share:					
Gross of tax (deficit) surplus	**(114)**	**18**	**21**	**52**	**(23)**
Related tax	**31**	**(6)**	**(5)**	**(14)**	**6**
Net of shareholders' tax	**(83)**	**12**	**16**	**38**	**(17)**

Notes

(a) The components of the credit (charge) to operating results (comprising amounts attributable to the PAC with-profits fund and shareholder-backed operations) are as follows:

	2011 £m	2010 £m
Current service cost	**(35)**	(38)
Negative past service cost - RPI to CPI inflation measure change[note (i)]	**282**	-
Finance (expense) income:		
Interest on pension scheme liabilities	**(299)**	(294)
Expected return on assets	**308**	325
Total credit (charge) without the effect IFRIC 14	**256**	(7)
Effect of IFRIC 14 for pension schemes	**(229)**	(38)
Total credit (charge) after the effect of IFRIC 14 as shown above, reflected in the Group's operating profit based on longer-term investment returns[note (ii)]	**27**	(45)

Notes

(i) RPI to CPI inflation measure change
The £282 million credit shown above comprises £216 million for PSPS and £66 million for other schemes. As noted earlier, the PSPS scheme surplus is not recognised for accounting purposes due to the application of IFRIC 14. The £66 million for other schemes (as shown in the table below) is allocated as £24 million to PAC with-profits fund and £42 million to shareholders referred to in note C.

(ii) The net credit (charge) to operating profit (comprising amounts attributable to the PAC with-profits fund and shareholder-backed operations) of £27 million (2010: (£45 million)) is made up of the following:

	2011	2010
	£m	£m
Underlying IAS 19 charge for other pension schemes	**(17)**	(18)
Cash costs for PSPS	**(20)**	(23)
Unwind of discount on opening provision for deficit funding for PSPS	**(2)**	(4)
Negative past service cost - RPI to CPI inflation measure change (note (i) to table above)	**66**	-
	27	(45)

Consistent with the derecognition of the Company's interest in the underlying IAS 19 surplus of PSPS, the charge to operating profit based on longer-term investment returns for PSPS reflects the cash cost of contributions for ongoing service of active members. In addition, the charge to the operating results also includes a charge for the unwind of discount on the opening provision for deficit funding for PSPS.

b The components of the credit (charge) for actuarial and other gains and losses (comprising amounts attributable to the PAC with-profits fund and shareholder-backed operations) are as follows:

	2011	2010
	£m	£m
Actual less expected return on assets	**982**	306
Losses on changes of assumptions for plan liabilities	**(414)**	(411)
Experience gains (losses) on liabilities	**314**	(4)
Total credit (charge) without the effect of IFRIC 14	**882**	(109)
Effect of IFRIC 14 for pension schemes	**(846)**	94
Actuarial and other gains and losses after the effect of IFRIC 14	**36**	(15)

The net charge for actuarial and other gains and losses is recorded within the income statement but, within the segmental analysis of profit, the shareholders' share of actuarial and other gains and losses (i.e. net of allocation of the share to the PAC with-profits funds) is excluded from operating profit based on longer-term investment returns.

The 2011 actuarial gains of £882 million (gross of allocation of share to the PAC with-profits funds and before the application of IFRIC 14) primarily reflects the effect of the excess of market returns over long-term assumptions and experience gains on liabilities which are partially offset by the effect of changes in economic assumptions.

Consistent with the derecognition of the Company's interest in the underlying IAS 19 surplus of PSPS, the actuarial gains and losses do not include those of PSPS. In addition, as a result of applying IFRIC 14, the Group has recognised a provision for deficit funding in respect of PSPS. The change in 2011 in relation to this provision was £(4) million (2010: £nil) and is recognised as other gains and losses within the £36 million of actuarial and other gains and losses shown above.

c On the 'economic basis', after including the underlying assets represented by the investments in Prudential insurance policies as scheme assets, the underlying statements of financial position of the schemes at 31 December were:

	2011	2010
	£m	£m
Equities	**483**	825
Bonds	**5,954**	4,203
Properties	**317**	228
Cash-like investments	**409**	748
Total value of assets	**7,163**	6,004
Present value of benefit obligations	**(5,620)**	(5,692)
	1,543	312
Effect of the application of IFRIC 14 for pension schemes:		
Derecognition of PSPS surplus	**(1,588)**	(485)
Adjust for obligation deficit funding of PSPS	**(19)**	(47)
Pre-tax deficit	**(64)**	(220)

(iii) Sensitivity of the pension scheme liabilities to key variables

The total underlying Group pension scheme liabilities of £5,620 million (2010: £5,692 million) comprise £4,844 million (2010: £4,866 million) for PSPS and £776 million (2010: £826 million) for the other schemes. The table below shows the sensitivity of the underlying PSPS and the other scheme liabilities at 31 December 2011 and 2010 to changes in discount rate, inflation rates and mortality rates

		2011	
Assumption	**Change in assumption**	**Impact on scheme liabilities on IAS 19 basis**	
Discount rate	**Decrease by 0.2% from 4.7% to 4.5%**	**Increase in scheme liabilities by:**	
		PSPS	**3.3%**
		Other schemes	**4.8%**
Discount rate	**Increase by 0.2% from 4.7% to 4.9%**	**Decrease in scheme liabilities by:**	
		PSPS	**3.1%**
		Other schemes	**4.5%**
Rate of inflation	**RPI: Decrease by 0.2% from 2.9% to 2.7%**	**Decrease in scheme liabilities by:**	
	CPI: Decrease by 0.2% from 1.9% to 1.7%	**PSPS**	**0.6%**
	with consequent reduction in salary increases	**Other schemes**	**4.1%**
Mortality rate	**Increase life expectancy by 1 year**	**Increase in scheme liabilities by:**	
		PSPS	**2.7%**
		Other schemes	**2.4%**

		2010	
Assumption	**Change in assumption**	**Impact on scheme liabilities on IAS 19 basis**	
Discount rate	Decrease by 0.2% from 5.45% to 5.25%	Increase in scheme liabilities by:	
		PSPS	3.6%
		Other schemes	5.2%
Discount rate	Increase by 0.2% from 5.45% to 5.65%	Decrease in scheme liabilities by:	
		PSPS	3.5%
		Other schemes	4.8%
Rate of inflation	RPI: Decrease by 0.2% from 3.55% to 3.35%	Decrease in scheme liabilities by:	
	with consequent reduction in salary increases	PSPS	1.0%
		Other schemes	4.9%
Mortality rate	Increase life expectancy by 1 year	Increase in scheme liabilities by:	
		PSPS	2.1%
		Other schemes	2.6%

The sensitivity of the underlying pension scheme liabilities to changes in discount, inflation and mortality rates as shown above does not directly equate to the impact on the profit or loss attributable to shareholders or shareholders' equity due to the effect of the application of IFRIC 14 on PSPS and the allocation of a share of the interest in financial position of the PSPS and Scottish Amicable schemes to the PAC with-profits fund as described above.

The sensitivity to the changes in the key variables as shown in the table above has no significant impact on the pension costs included in the Group's operating results. This is due to the pension costs charged in each of the periods presented being derived largely from market conditions at the beginning of the period. After applying IFRIC 14 and to the extent attributable to shareholders, any residual impact from the changes to these variables is reflected as actuarial gains and losses on defined benefit pension schemes within the supplementary analysis of profits. The relevance of this is described further below.

For PSPS, the underlying surplus of the scheme of £1,588 million (2010: £485 million) has not been recognised under IFRIC 14. Any change in the underlying scheme liabilities to the extent that it is not sufficient to alter PSPS into a liability in excess of the deficit funding provision will not have an impact on the Group's results and financial position. Based on the underlying financial position of PSPS as at 31 December 2011, none of the changes to the underlying scheme liabilities for the changes in the variables shown in the table above have had an impact on the Group's 2011 results and financial position.

In the event that a change in the PSPS scheme liabilities results in a deficit position for the scheme which is recognisable, the deficit recognised affects the Group's results and financial position only to the extent of the amounts attributable to shareholder operations. The amounts attributable to the PAC with-profits fund are absorbed by the liability for unallocated surplus and have no direct effect on the profit or loss attributable to shareholders or shareholders' equity.

The deficit of the Scottish Amicable pension scheme has been allocated approximately 50 per cent to the PAC with-profits fund and 50 per cent to the shareholders. Accordingly, half of the changes to its scheme liabilities, which at 31 December 2011 were £527 million (2010: £572 million), due to the changes in the variables shown in the table above would have had an impact on the Group's shareholder results and financial position.

X Policyholder liabilities

Analysis of movement in policyholder liabilities and unallocated surplus of with-profits funds

Group insurance operations

	Insurance operations			
	UK	**US**	**Asia**	**Total**
	£m	**£m**	**£m**	**£m**
Policyholder liabilities	116,229	48,311	21,858	186,398
Unallocated surplus of with-profits funds	9,966	-	53	10,019
At 1 January 2010	126,195	48,311	21,911	196,417
Premiums	7,890	11,735	4,308	23,933
Surrenders	(3,779)	(3,598)	(2,241)	(9,618)
Maturities/Deaths	(7,303)	(769)	(498)	(8,570)
Net flows	(3,192)	7,368	1,569	5,745
Shareholders transfers post tax	(223)	-	(24)	(247)
Investment-related items and other movements	13,172	3,464	2,235	18,871
Foreign exchange translation differences	(208)	1,380	2,081	3,253
Dilution of Group's holdings	(27)	-	-	(27)
Acquisition of UOB Life Assurance Limited	-	-	968	968
As at 31 December 2010 / 1 January 2011	**135,717**	**60,523**	**28,740**	**224,980**
Comprising:				
- Policyholder liabilities	**125,530**	**60,523**	**28,674**	**214,727**
- Unallocated surplus of with-profits funds	**10,187**	**-**	**66**	**10,253**
At 1 January 2011	**135,717**	**60,523**	**28,740**	**224,980**
Premiums	**6,988**	**12,914**	**5,079**	**24,981**
Surrenders	**(4,255)**	**(4,270)**	**(2,237)**	**(10,762)**
Maturities/Deaths	**(7,813)**	**(820)**	**(664)**	**(9,297)**
Net flows	**(5,080)**	**7,824**	**2,178**	**4,922**
Shareholders transfers post tax	**(216)**	**-**	**(30)**	**(246)**
Investment-related items and other movements	**5,862**	**136**	**365**	**6,363**
Foreign exchange translation differences	**(94)**	**706**	**(341)**	**271**
At 31 December 2011	**136,189**	**69,189**	**30,912**	**236,290**
Comprising:				
- Policyholder liabilities	**127,024**	**69,189**	**30,862**	**227,075**
- Unallocated surplus of with-profits funds	**9,165**	**-**	**50**	**9,215**
Average policyholder liability balances*				
2011	**126,277**	**64,856**	**29,768**	**220,901**
2010	120,880	54,417	25,750	201,047

* Averages have been based on opening and closing balances and adjusted for acquisition and disposals in the period and exclude unallocated surplus of with-profits funds.

The items above represent the amount attributable to changes in policyholder liabilities and unallocated surplus of with-profits funds as a result of each of the components listed.

The policyholder liabilities shown include investment contracts without discretionary participation features (as defined in IFRS 4) and their full movement in the year. The items above are shown gross of reinsurance.

The analysis above represents the impact of premiums, claims and investment movements on policyholders' liabilities. It does not represent premiums, claims and investment movements as reported in the income statement, for example the premiums shown above will exclude any deductions for fees/charges and claims represent the policyholder liabilities provision released rather than the claim amount paid to the policyholder.

UK insurance operations

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of UK insurance operations is as follows:

		Other shareholder-backed funds and subsidiaries		
	SAIF and PAC with-profits sub-fund £m	Unit-linked liabilities £m	Annuity and other long-term business £m	Total £m
At 1 January 2010	87,495	19,035	19,665	126,195
Comprising:				
- Policyholder liabilities	77,529	19,035	19,665	116,229
- Unallocated surplus of with-profits funds	9,966	-	-	9,966
Premiums	3,311	2,301	2,278	7,890
Surrenders	(2,453)	(1,272)	(54)	(3,779)
Maturities/Deaths	(5,079)	(726)	(1,498)	(7,303)
Net flows [note (a)]	(4,221)	303	726	(3,192)
Shareholders transfers post tax	(223)	-	-	(223)
Switches	(236)	236	-	-
Investment-related items and other movements [note (b)]	9,165	2,097	1,910	13,172
Dilution of Group's holdings	-	-	(27)	(27)
Foreign exchange translation differences	(207)	-	(1)	(208)
At 31 December 2010 / 1 January 2011	**91,773**	**21,671**	**22,273**	**135,717**
Comprising:				
- Policyholder liabilities	**81,586**	**21,671**	**22,273**	**125,530**
- Unallocated surplus of with-profits funds	**10,187**	**-**	**-**	**10,187**
Premiums	**3,413**	**1,854**	**1,721**	**6,988**
Surrenders	**(2,285)**	**(1,851)**	**(119)**	**(4,255)**
Maturities/Deaths	**(5,551)**	**(655)**	**(1,607)**	**(7,813)**
Net flows [note (a)]	**(4,423)**	**(652)**	**(5)**	**(5,080)**
Shareholders transfers post tax	**(216)**	**-**	**-**	**(216)**
Switches	**(237)**	**237**	**-**	**-**
Investment-related items and other movements [note (b)]	**3,338**	**25**	**2,499**	**5,862**
Foreign exchange translation differences	**(94)**	**-**	**-**	**(94)**
At 31 December 2011	**90,141**	**21,281**	**24,767**	**136,189**
Comprising:				
- Policyholder liabilities	**80,976**	**21,281**	**24,767**	**127,024**
- Unallocated surplus of with-profits funds	**9,165**	**-**	**-**	**9,165**
Average policyholder liability balances*				
2011	**81,281**	**21,476**	**23,520**	**126,277**
2010	79,558	20,353	20,969	120,880

*Averages have been based on opening and closing balances and exclude unallocated surplus of with-profits funds.

Notes

(a) Net outflows increased from £3,192 million in 2010 to £5,080 million in 2011, principally as a result of stock transfer activity within the unit-linked business (2011 saw a large transfer out, while 2010 benefitted from a large transfer in) and a lower level of bulk annuity transactions in 2011.

(b) Investment-related items and other movements of £5,862 million was lower than the £13,172 benefit seen in 2010 principally as a result of weaker performance of UK equity markets in 2011.

US insurance operations

	Variable annuity separate account liabilities £m	Fixed annuity, GIC and other business £m	Total £m
At 1 January 2010	20,639	27,672	48,311
Premiums	7,420	4,315	11,735
Surrenders	(1,403)	(2,195)	(3,598)
Maturities/Deaths	(259)	(510)	(769)
Net flows	5,758	1,610	7,368
Transfers from general to separate account	1,411	(1,411)	-
Investment-related items and other movements	2,875	589	3,464
Foreign exchange translation differences note (a)	520	860	1,380
At 31 December 2010 / 1 January 2011	**31,203**	**29,320**	**60,523**
Premiums	**9,176**	**3,738**	**12,914**
Surrenders	**(1,898)**	**(2,372)**	**(4,270)**
Maturities/Deaths	**(300)**	**(520)**	**(820)**
Net flows note (b)	**6,978**	**846**	**7,824**
Transfers from general to separate account	**957**	**(957)**	**-**
Investment-related items and other movements note (c)	**(1,735)**	**1,871**	**136**
Foreign exchange translation differences	**430**	**276**	**706**
At 31 December 2011	**37,833**	**31,356**	**69,189**
Average policyholder liability balances			
2011	**34,518**	**30,338**	**64,856**
2010	25,921	28,496	54,417

* Averages have been based on opening and closing balances.

Notes

(a) Movements in the year have been translated at an average rate of 1.60 (2010: 1.55). The closing balance has been translated at closing rate of 1.55 (2010: 1.57). Differences upon retranslation are included in foreign exchange translation differences of £706 million (2010: £1,380 million).

(b) Net flows for the year were £7,824 million compared with £7,368 million in 2010, driven largely by increased new business volumes for the variable annuity business.

(c) Negative investment-related items and other movements in variable annuity separate account liabilities of £1,735 million in 2011 principally reflects the negative separate account return in the year including reductions to liabilities for fees levied, versus a significant increase in the equity market in 2010. This is offset by an increase in fixed annuity, GIC and other business investment and other movements primarily related to increase in the value of the value of embedded derivatives and interest credited to policyholder accounts in the year.

Asia insurance operations

	With-profits business £m	Unit-linked liabilities £m	Other £m	Total £m
At 1 January 2010	8,861	9,717	3,333	21,911
Comprising:				
- Policyholder liabilities	8,808	9,717	3,333	21,858
- Unallocated surplus of with-profits funds	53	–	–	53
Premiums				
New business	141	1,072	452	1,665
In-force	897	1,130	616	2,643
	1,038	2,202	1,068	4,308
Surrenders[note (c)]	(441)	(1,572)	(228)	(2,241)
Maturities/Deaths	(326)	(40)	(132)	(498)
Net flows [note (b)]	271	590	708	1,569
Shareholders transfers post tax	(24)	-	-	(24)
Investment-related items and other movements	693	1,405	137	2,235
Foreign exchange translation differences [note (a)]	719	1,009	353	2,081
Acquisition of UOB Life Assurance Limited [note (e)]	504	3	461	968
At 31 December 2010 / 1 January 2011	**11,024**	**12,724**	**4,992**	**28,740**
Comprising:				
- Policyholder liabilities	**10,958**	**12,724**	**4,992**	**28,674**
- Unallocated surplus of with-profits funds	**66**	**–**	**–**	**66**
Premiums				
New business	**162**	**1,136**	**723**	**2,021**
In-force	**1,110**	**1,163**	**785**	**3,058**
	1,272	**2,299**	**1,508**	**5,079**
Surrenders[note (c)]	**(502)**	**(1,490)**	**(245)**	**(2,237)**
Maturities/Deaths	**(431)**	**(39)**	**(194)**	**(664)**
Net flows [note (b)]	**339**	**770**	**1,069**	**2,178**
Shareholders transfers post tax	**(30)**	**-**	**-**	**(30)**
Investment-related items and other movements [note (d)]	**1,274**	**(1,154)**	**245**	**365**
Foreign exchange translation differences[note (a)]	**36**	**(325)**	**(52)**	**(341)**
At 31 December 2011	**12,643**	**12,015**	**6,254**	**30,912**
Comprising:				
- Policyholder liabilities	**12,593**	**12,015**	**6,254**	**30,862**
- Unallocated surplus of with-profits funds	**50**	**-**	**-**	**50**
Average policyholder liability balances*				
2011	**11,775**	**12,370**	**5,623**	**29,768**
2010	10,135	11,222	4,393	25,750

**Averages have been based on opening and closing balances and adjusted for acquisition and disposals in the period and exclude unallocated surplus of with-profits funds.

Notes

(a) Movements in the period have been translated at the average exchange rate for the year ended 31 December 2011. The closing balance has been translated at the closing spot rates as at 31 December 2011. Differences upon retranslation are included in foreign exchange translation differences.

(b) Net flows have increased by £609 million from £1,569 million in 2010 to £2,178 million in 2011 primarily reflecting increased flows from new business and the growth in the in-force book.

(c) The rate of surrenders for unit-linked and other shareholder business (expressed as a percentage of opening liabilities) was 9.8 per cent compared with 13.8 per cent in 2010.

(d) The investment-related and other items and other movements for unit-linked business of negative £1,154 million in 2011 was mainly driven from Asia equity market losses in the 2nd half of 2011.

(e) The acquisition of UOB Life Assurance Limited reflects the liabilities acquired at the date of acquisition.

Duration of policyholder liabilities

	2011				2010			
	UK insurance operations note (i)	**US insurance operations** note (ii)	**Asian insurance operations** note (iii)	**Total**	**UK insurance operations** note (i)	**US insurance operations** note (ii)	**Asian insurance operations** note (iii)	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Insurance contract liabilities	**82,732**	**67,278**	**30,353**	**180,363**	84,152	58,641	28,498	171,291
Investment contract liabilities with discretionary participation features	**29,348**	**-**	**397**	**29,745**	25,613	-	119	25,732
Investment contract liabilities without discretionary participation features	**14,944**	**1,911**	**112**	**16,967**	15,765	1,882	57	17,704
	127,024	**69,189**	**30,862**	**227,075**	125,530	60,523	28,674	214,727

The tables above show the carrying value of the policyholder liabilities. Separately, the Group uses cash flow projections of expected benefit payments as part of the determination of the value of in-force business when preparing EEV basis results. The tables in the accompanying notes below show the maturity profile of the cash flows used for that purpose for insurance contracts, as defined by IFRS, i.e. those containing significant insurance risk, and investment contracts, which do not.

The cash flow projections of expected benefit payments used in the maturity profile tables below are from value of in-force business and exclude the value of future new business, including vesting of internal pension contracts. The maturity tables have been prepared on a discounted basis.

Notes

(i) UK insurance operations

	With-profits business			**Annuity business (Insurance contracts)**			**Other**			**Total**
2011	**Insurance contracts £m**	**Investment contracts £m**	**Total £m**	**PAL £m**	**PRIL £m**	**Total £m**	**Insurance contracts £m**	**Investments contracts £m**	**Total £m**	**£m**
Policyholders liabilities	**46,288**	**29,365**	**75,653**	**5,323**	**18,236**	**23,559**	**12,885**	**14,927**	**27,812**	**127,024**
	%	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Expected maturity:										
0 to 5 years	**47**	**32**	**41**	**25**	**25**	**25**	**34**	**28**	**31**	**35**
5 to 10 years	**24**	**26**	**25**	**22**	**22**	**22**	**25**	**22**	**24**	**24**
10 to 15 years	**13**	**19**	**16**	**18**	**18**	**18**	**18**	**18**	**18**	**17**
15 to 20 years	**8**	**14**	**10**	**13**	**13**	**13**	**11**	**12**	**11**	**11**
20 to 25 years	**5**	**7**	**6**	**9**	**10**	**9**	**7**	**9**	**7**	**7**
over 25 years	**3**	**2**	**2**	**13**	**12**	**13**	**5**	**11**	**9**	**6**

	With-profits business			**Annuity business (insurance contracts)**			**Other**			**Total**
2010	**Insurance contracts £m**	**Investment contracts £m**	**Total £m**	**PAL £m**	**PRIL £m**	**Total £m**	**Insurance contracts £m**	**Investments contracts £m**	**Total £m**	**£m**
Policyholders liabilities	43,691	25,613	69,304	12,282	16,442	28,724	11,737	15,765	27,502	125,530
	%	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Expected maturity:										
0 to 5 years	46	31	40	32	29	30	35	29	32	36
5 to 10 years	25	25	25	25	23	24	26	21	23	24
10 to 15 years	13	19	16	18	17	18	18	20	19	17
15 to 20 years	7	14	10	12	13	12	10	11	11	11
20 to 25 years	4	8	6	7	8	8	6	8	7	7
over 25 years	5	3	3	6	10	8	5	11	8	5

Notes

(a) The cash flow projections of expected benefit payments used in the maturity profile table above are from value of in-force business and exclude the value of future new business, including vesting of internal pension contracts.

(b) Benefit payments do not reflect the pattern of bonuses and shareholder transfers in respect of the with-profits business.

(c) Investment contracts under Other comprise certain unit-linked and similar contracts accounted for under IAS 39 and IAS 18.

(d) For business with no maturity term included within the contracts, for example with-profits investment bonds such as Prudence Bonds, an assumption is made as to likely duration based on prior experience.

(ii) US Insurance operations

	2011			2010		
	Fixed annuity and other business (including GICs and similar contracts)	Variable annuity	Total	Fixed annuity and other business (including GICs and similar contracts)	Variable annuity	Total
	£m	£m	£m	£m	£m	£m
Policyholder liabilities	**31,356**	**37,833**	**69,189**	29,320	31,203	60,523
	%	%	%	%	%	%
Expected maturity:						
0 to 5 years	**47**	**47**	**47**	50	50	50
5 to 10 years	**27**	**30**	**29**	27	29	28
10 to 15 years	**11**	**13**	**12**	11	12	12
15 to 20 years	**6**	**6**	**6**	5	6	5
20 to 25 years	**5**	**2**	**3**	3	2	3
Over 25 years	**4**	**2**	**3**	4	1	2

(iii) Asian insurance operations

	2011	2010
	£m	£m
Policyholder liabilities	**30,862**	28,674
Expected maturity:	**%**	%
0 to 5 years	**22**	24
5 to 10 years	**19**	20
10 to 15 years	**15**	15
15 to 20 years	**13**	12
20 to 25 years	**10**	10
Over 25 years	**21**	19

Y Sensitivity analysis

Sensitivity of IFRS basis profit or loss and shareholders' equity to market and other risks

1 Overview of risks by business unit

The financial and insurance assets and liabilities attaching to the Group's life assurance business are, to varying degrees, subject to market and insurance risk and other changes of experience assumptions that may have a material effect on IFRS basis profit or loss and shareholders' equity.

Market risk is the risk that the fair value or future cash flows of a financial instrument or, in the case of liabilities of insurance contracts, their carrying value will fluctuate because of changes in market prices. Market risk comprises three types of risk, namely:

- Currency risk: due to changes in foreign exchange rates;
- Interest rate risk: due to changes in market interest rates; and
- Other price risk: due to fluctuations in market prices (other than those arising from interest rate risk or currency risk).

Policyholder liabilities relating to the Group's life assurance businesses are also sensitive to the effects of other changes in experience, or expected future experience, such as for mortality, other insurance risk and lapse risk.

Three key points are to be noted, namely:

- The Group's with-profit and unit-linked funds absorb most market risk attaching to the funds' investments. Except for second order effects, for example on asset management fees and shareholders' share of cost of bonuses for with-profits business, shareholder results are not directly affected by market value movements on the assets of these funds;
- The Group's shareholder results are most sensitive to market risks for assets of the shareholder-backed business; and
- The main exposures of the Group's IFRS basis results to market risk for its life assurance operations on investments of the shareholder-backed business are for debt securities.

The most significant items for which the IFRS basis shareholders' profit or loss and shareholders' equity for the Group's life assurance business is sensitive to these variables are shown in the following tables. The distinction between direct and indirect exposure is not intended to indicate the relative size of the sensitivity.

Type of business	Market and credit risk Investments/derivatives	Liabilities / unallocated surplus	Other exposure	Insurance and lapse risk
UK insurance operations				
With-profits business (including Prudential Annuities Limited)	Net neutral direct exposure	(Indirect exposure only)	Investment performance subject to smoothing through declared bonuses	Persistency risk to future shareholder transfers
SAIF sub-fund	Net neutral direct exposure	(Indirect exposure only)	Asset management fees earned by M&G	
Unit-linked business	Net neutral direct exposure	(Indirect exposure only)	Investment performance through asset management fees	Persistency risk
Shareholder-backed annuity business	Asset/liability mismatch risk Credit risk for assets covering liabilities and shareholder capital Interest rate risk for assets in excess of liabilities i.e. assets representing shareholder capital			Mortality experience and assumptions for longevity
US insurance operations				
All business	Currency risk			Persistency risk
Variable annuity business	Net effect of market risk arising from incidence of guarantee features and variability of asset management fees offset by derivative hedging programme			
Fixed indexed annuity business	Derivative hedge programme to the extent not fully hedged against liability and fund performance	Incidence of equity participation features		
Fixed indexed annuities, Fixed annuities and GIC business	Credit risk Interest rate risk Profit and loss and shareholders' equity are volitile for these risks as they affect the values of derivatives and embedded derivatives and impairment losses. In addition, shareholders' equity is volatile for the incidence of these risks on unrealised appreciation of fixed income securities classified as available-for-sale under IAS 39		Spread difference between earned rate and rate credited to policyholders	Lapse risk, but the effects of extreme events are mitigated by the application of market value adjustments and by the use of swaption contracts
Asian insurance operations section				
All business	Currency risk			Mortality and morbidity risk Persistency risk
With-profits business	Net neutral direct exposure	(Indirect exposure only)	Investment performance subject to smoothing through declared bonuses	
Unit-linked business	Net neutral direct exposure	(Indirect exposure only)	Investment performance through asset management fees	
Non-participating business	Interest rate and price risk	Interest rates for those operations where the basis of insurance liabilities is sensitive to current market movements		

a UK insurance operations
The risks to which the IFRS basis results of the UK insurance operations are sensitive are asset/liability matching, mortality experience and payment assumptions for shareholder-backed annuity business. Further details are described below.

i With-profits business
(a) SAIF
Shareholders have no interest in the profits of SAIF but are entitled to the asset management fees paid on the assets of the fund.

(b) With-profits sub-fund business
For with-profits business (including non-participating business of PAL which is owned by the WPSF) adjustments to liabilities and any related tax effects are recognised in the Group's income statement. However, except for any impact on the annual declaration of bonuses, shareholders' profit for with-profits business is unaffected. This is because IFRS basis profits for with-profits business, which are determined on the same basis as on the grandfathered UK GAAP, solely reflect one-ninth of the cost of bonuses declared for the year.

The main factors that influence the determination of bonus rates are the return on the investments of the fund, the effect of inflation, taxation, the expenses of the fund chargeable to policyholders and the degree to which investment returns are smoothed. Mortality and other insurance risk are relatively minor factors.

Unallocated surplus represents the excess of assets over policyholder liabilities of the fund. As unallocated surplus of the WPSF is recorded as a liability, movements in its value do not affect shareholders' profits or equity.

The level of unallocated surplus is particularly sensitive to the level of investment returns on the portion of the life fund assets that represents the surplus.

ii Shareholder-backed annuity business
Profits from shareholder-backed annuity business are most sensitive to:

- The extent to which the duration of the assets held closely matches the expected duration of the liabilities under the contracts. Assuming close matching, the impact of short-term asset value movements as a result of interest rate movements will broadly offset changes in the value of liabilities caused by movements in valuation rates of interest;
- Actual versus expected default rates on assets held;
- The difference between long-term rates of return on corporate bonds and risk-free rates;
- The variance between actual and expected mortality experience;
- The extent to which changes to the assumed rate of improvements in mortality give rise to changes in the measurement of liabilities; and
- Changes in renewal expense levels.

A decrease in assumed mortality rates of one per cent would decrease gross profits by approximately £64 million (2010: £53 million). A decrease in credit default assumptions of five basis points would increase gross profits by £137 million (2010: £119 million). A decrease in renewal expenses (excluding asset management expenses) of five per cent would increase gross profits by £25 million (2010: £23 million). The effect on profits would be approximately symmetrical for changes in assumptions that are directionally opposite to those explained above.

iii Unit-linked and other business
Unit-linked and other business represents a comparatively small proportion of the in-force business of the UK insurance operations.

Profits from unit-linked and similar contracts primarily arise from the excess of charges to policyholders, for management of assets under the Company's stewardship, over expenses incurred. The former is most sensitive to the net accretion of funds under management as a function of new business and lapse and timing of death. The accounting impact of the latter is dependent upon the amortisation of acquisition costs in line with the emergence of margins (for insurance contracts) and amortisation in line with service provision (for the investment management component of investment contracts). By virtue of the design features of most of the contracts which provide low levels of mortality cover, the profits are relatively insensitive to changes in mortality experience.

iv Shareholder exposure to interest rate risk and other market risk
At 31 December 2011 pension annuity liabilities accounted for 98 per cent (2010: 98 per cent) of UK shareholder-backed business liabilities. For pension annuity business, liabilities are exposed to interest rate risk. However, the net exposure to the PAC WPSF (for PAL) and shareholders (for annuity liabilities of PRIL and the non-profit sub-fund) is very substantially ameliorated by virtue of the close matching of assets with appropriate duration. The level of matching from period to period can vary depending on management actions and economic factors so it is possible for a degree of mis-matching profits or losses to arise.

The close matching by the Group of assets of appropriate duration to annuity liabilities is based on maintaining economic and regulatory capital. The measurement of liabilities under capital reporting requirements and IFRS is not the same with contingency reserves and some other margins for prudence within the assumptions required under the FSA regulatory solvency basis not included for IFRS reporting purposes. As a result shareholders' equity is higher than regulatory capital and therefore more sensitive to interest rate and credit risk.

b US insurance operations

Total profit is very sensitive to market risk on the assets covering liabilities other than variable annuity business segregated in the separate accounts.
As with other shareholder-backed business the profit or loss for Jackson is presented by distinguishing the result for the year between an operating result based on longer-term investment returns and short-term fluctuations in investment returns. In this way the most significant direct effect of market changes that have taken place to the Jackson result are separately identified. The principal determinants of variations in operating profit based on longer-term returns are:

- Growth in the size of assets under management covering the liabilities for the contracts in force;
- Variations in fees and other income, offset by variations in market value adjustment payments and, where necessary, strengthening of liabilities;
- Spread returns for the difference between investment returns and rates credited to policyholders; and
- Amortisation of deferred acquisition costs.

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

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

For variable annuity business, the key assumption is the expected long-term level of separate account returns, which for 2011 and 2010 was 8.4 per cent. The impact of using this return is reflected in two principal ways, namely;

(i) Through the projected expected gross profits which are used to determine the amortisation of deferred acquisition costs. This is applied through the use of a mean reversion technique which is described in more detail in note P and;
(ii) The required level of provision for guaranteed minimum death benefit claims.

c Asian insurance operations

Many of the territories in Asia are exposed to mortality/morbidity risk and provision is made within policyholder liabilities on a prudent regulatory basis to cover the potential exposure. If these prudent assumptions were strengthened by five per cent (estimated at one in ten year shock) then it is estimated that post tax profit would be impacted by approximately £27 million (2010: £21 million). Mortality/morbidity has a symmetrical effect on portfolio and so a weakening of mortality/morbidity assumptions would have an approximately equal and opposite similar impact.

i Risks other than currency translation

With-profits business
Similar principles to those explained for UK with-profits business apply to profit emergence for the Asian with-profits business.

Correspondingly, the profit emergence reflects bonus declaration and is relatively insensitive to period by period fluctuations in insurance risk or interest rate movements.

Unit-linked business
As for the UK insurance operations, the profits and shareholders' equity related to the Asian operations is primarily driven by charges related to invested funds. The sensitivity of profits and shareholders' equity to changes in insurance risk and to interest rate risk are not material.

2 IFRS shareholder results – Exposures for market and other risk

2.1 Key Group exposures

Detailed analyses of sensitivity of IFRS basis profit or loss and shareholders' equity to key market and other risks are provided in notes 2.2(a) to (e). The sensitivity analyses provided show the effect on profit or loss and shareholders' equity to changes in the relevant risk variables, all of which are reasonably possible at the relevant balance sheet date. In the analysis of exposure to interest rate risk, given the low interest rate environment, certain of the sensitivities to a decrease of 2 per cent include the effect of reducing the rate to zero where rates are lower than 2 per cent.

The IFRS operating profit based on longer-term investment returns for UK insurance operations has high potential sensitivity for changes to longevity assumptions affecting the carrying value of liabilities to policyholders for UK shareholder-backed annuity business. In addition, at the total IFRS profit level the result is particularly sensitive to temporary value movements on assets backing US and Asia policyholder liabilities (which in general are measured on a basis that is insensitive to current market movements) and shareholder equity.

For Jackson at the level of operating profit based on longer-term investment returns, the results are sensitive to market conditions to the extent of income earned on spread-based products and second order equity-based exposure in respect of variable annuity asset management fees. Further information is given below under the US insurance operations section of market and credit risk.

Jackson's derivative programme is used to manage interest rate risk associated with a broad range of products and substantially mitigate equity market risk attaching to its equity-based products. Movements in equity markets, interest rates and credit spreads materially affect the carrying value of derivatives which are used to manage the liabilities to policyholders and backing investment assets. Combined with the use of US GAAP measurement (as grandfathered under IFRS 4) for the insurance contracts assets and liabilities which is largely insensitive to current period market movements, the Jackson total profit (i.e. including short-term fluctuations in investment returns) is very sensitive to market movements. In addition to these effects the Jackson shareholders' equity is sensitive to the impact of interest rate and credit spread movements on the value of fixed income securities. Movements in unrealised appreciation on these securities are included as movement in shareholders' equity (i.e. outside the income statement).

For Asian operations, the operating profit based on longer-term investment returns is mainly affected by the impact of market levels on unit-linked business persistency, and other insurance risk.

At the total IFRS profit level the Asian result is affected by short-term value movements on the asset portfolio for non-linked shareholder-backed business.

M&G profits are affected primarily by movements in the growth in funds under management and by the effect of any impairments on the loan book and fair value movements on debt securities held by Prudential Capital.

In addition, total profits and shareholders' equity are sensitive to market value movements and centrally held swaps. These are used to manage foreign currency and other macroeconomic exposures.

2.2 Market and credit risk

a UK insurance operations

(i) With-profits business

UK business of PAC with-profits fund

Shareholder results of UK with-profits business are sensitive to market risk only through the indirect effect of investment performance on declared policyholder bonuses.

The investment assets of the PAC with-profits fund are subject to market risk. Changes in their carrying value, net of related changes to asset-share liabilities of with-profit contracts, (which reflect the accumulation of income and outgo that are relevant to each policy type including investment income and appreciation), affect the level of unallocated surplus of the fund. As unallocated surplus is accounted for as a liability under IFRS, movements in its value do not affect shareholders' profit or equity.

The shareholder results of the UK with-profits fund correspond to the shareholders' share of the cost of bonuses declared on the with-profits business. This currently corresponds to one-ninth of the cost of bonuses declared.

Investment performance is a key driver of bonuses, and hence the shareholders' share of cost of bonuses. Due to the 'smoothed' basis of bonus declaration the sensitivity to investment performance in a single year is low relative to the movements in the period to period performance. However, over multiple periods it is important.

Prudential Annuities Limited (PAL)

PAL writes annuity business. However, as PAL is owned by the PAC with-profits sub-fund, changes in the carrying value of PAL's assets and liabilities are reflected in the liability for unallocated surplus which as described above, do not affect shareholder results.

Scottish Amicable Insurance Fund (SAIF)
SAIF is a ring-fenced fund in which, apart from asset management fees, shareholders have no interest. Accordingly, the Group's IFRS profit and equity are insensitive to the direct effects of market risk attaching to SAIF's assets and liabilities.

(ii) Shareholder-backed business
The factors that may significantly affect the IFRS results of UK shareholder-backed business are the mortality experience and assumptions, credit risk attaching to the annuity business of Prudential Retirement Income Limited and the PAC non-profit sub-fund. The sensitivity to market risk for the main constituents elements of the shareholder-backed business of the UK insurance operations is as follows:

Prudential Retirement Income Limited (PRIL)
The assets covering PRIL's liabilities are principally debt securities and other investments that are held to match the expected duration and payment characteristics of the policyholder liabilities. These liabilities are valued for IFRS reporting purposes by applying discount rates that reflect the market rates of return attaching to the covering assets.

Except to the extent of any asset/liability duration mismatch which is reviewed regularly, and exposure to credit risk, the sensitivity of the Group's results to market risk for movements in the carrying value of PRIL's liabilities and covering assets is broadly neutral on a net basis.

The main market risk sensitivity for PRIL arises from interest rate risk on the debt securities which substantially represent shareholders' equity. This shareholders' equity comprises the net assets held within the long-term fund of the company that cover regulatory basis liabilities that are not recognised for IFRS reporting purposes, for example contingency reserves, and shareholder capital held outside the long-term fund.

The principal items affecting the IFRS results for PRIL are mortality experience and assumptions, and credit risk.

PAC non-profit sub-fund
The PAC non-profit sub-fund principally comprises annuity business previously written by Scottish Amicable Life, unit-linked and other non-participating business.

The financial assets covering the liabilities for those types of business are subject to market risk. However, for the annuity business the same considerations as described above for PRIL apply, whilst the liabilities of the unit-linked business change in line with the matching linked assets. Other liabilities of the PAC non-profit sub-fund are broadly insensitive to market risk.

Other shareholder-backed unit-linked business
Due to the matching of policyholder liabilities to attaching asset value movements the UK unit-linked business is not directly affected by market or credit risk. The principal factor affecting the IFRS results is investment performance through asset management fees.

The estimated sensitivity of the UK non-linked shareholder-backed business (principally pension annuities business) to a movement in interest rates is as follows:

	2011 £m				**2010 £m**			
	A decrease of 2%	**A decrease of 1%**	**An increase of 1%**	**An increase of 2%**	**A decrease of 2%**	**A decrease of 1%**	**An increase of 1%**	**An increase of 2%**
Carrying value of debt securities and derivatives	**7,676**	**3,426**	**(2,820)**	**(5,178)**	6,547	2,938	(2,434)	(4,481)
Policyholder liabilities	**(6,842)**	**(3,060)**	**2,510**	**4,593**	(5,977)	(2,723)	2,109	3,929
Related deferred tax effects	**(208)**	**(91)**	**77**	**146**	(154)	(58)	88	149
Net sensitivity of profit after tax and shareholders' equity	**626**	**275**	**(233)**	**(439)**	416	157	(237)	(403)

In addition the shareholder-backed portfolio of UK non-linked insurance operations covering liabilities and shareholders' equity includes equity securities and investment property. Excluding any second order effects on the measurement of the liabilities for future cash flows to the policyholder, a fall in their value would have given rise to the following effects on pre-tax profit, profit after tax, and shareholders' equity.

	2011 £m		**2010 £m**	
	A decrease of 20%	**A decrease of 10%**	**A decrease of 20%**	**A decrease of 10%**
Pre-tax profit	**(319)**	**(160)**	(302)	(151)
Related deferred tax effects	**80**	**40**	82	41
Net sensitivity of profit after tax and shareholders' equity	**(239)**	**(120)**	(220)	(110)

A 10 or 20 per cent increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above. The market risk sensitivities shown above reflect the impact of temporary market

movements and, therefore, the primary effect of such movements would, in the Group's segmental analysis of profits, be included within the short-term fluctuations in investment returns.

In the equity risk sensitivity analysis shown above, the Group has considered the impact of an instantaneous 20 per cent fall in equity markets. If equity markets were to fall by more than 20 per cent, the Group believes that this would not be an instantaneous fall but rather this would be expected to occur over a period of time during which the Group would be able to put in place mitigating management actions.

b US insurance operations (Jackson)

The IFRS basis results of Jackson are highly sensitive to market risk on the assets covering liabilities other than variable annuity business segregated in the separate accounts.

Invested assets covering liabilities (other than the separate accounts) and related capital comprise principally debt securities classified as available-for-sale. Value movements for these securities are reflected as movements in shareholders' equity through the statement of comprehensive income. Other invested assets and derivatives are carried at fair value with the value movements reflected in the income statement.

By contrast, the IFRS insurance liabilities for business written by Jackson, by the application of grandfathered GAAP under IFRS 4, are measured on US GAAP bases which with the exception of certain items covered by the equity hedging programme, are generally insensitive to temporary changes in market conditions or the short-term returns on the attaching asset portfolios.

These differences in carrying value of debt securities, other invested assets, derivatives and insurance liabilities give rise to potentially significant volatility in the IFRS income statement and shareholders' equity. As with other shareholder-backed business the profit or loss for Jackson is presented by distinguishing the result for the year between an operating result based on longer-term investment returns and short-term fluctuations in investment returns. In this way the most significant direct effect of market changes that have taken place to the Jackson result are separately identified.

Excluding these short-term effects, the factors that most significantly affect the Jackson IFRS operating result based on long-term investment returns are:

- Variable annuity business –effect of market risk arising from the variability of asset management fees
- Fixed annuity and fixed index annuity business – the spread differential between the earned rate and the rate credited to policyholders.
    - Amortisation of deferred acquisition costs.

The estimated sensitivity of Jackson's profit and shareholders' equity to equity and interest rate risks provided below is net of the related changes in amortisation of DAC. The effect on the related changes in amortisation of DAC provided is based on the current 'grandfathered' US GAAP DAC basis but does not include any effect from an acceleration or deceleration of amortisation of DAC. Note B provides explanation of the new US GAAP DAC basis intended to be adopted by the Company from 1 January 2012. Note P above provides an explanation of the dynamics that affect the amortisation charge and an indicative sensitivity for the 2012 results on the new US GAAP DAC basis.

i Exposure to equity risk

Variable annuity contract related

Jackson issues variable contracts through its separate accounts for which investment income and investment gains and losses accrue to, and investment risk is borne by, the contract holder (traditional variable annuities). It also issues variable annuity and life contracts through separate accounts where it contractually guarantees to the contract holder (variable contracts with guarantees) either a) return of no less than deposits made to the contract adjusted for any partial withdrawals, b) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return, or c) the highest contract value on a specified anniversary date adjusted for any withdrawals following the contract anniversary. These guarantees include benefits that are payable in the event of death (GMDB), annuitisation (GMIB), at specified dates during the accumulation period (GMWB) or at the end of a specified period (GMAB).

At 31 December 2011 and 2010, Jackson had variable annuity contracts with guarantees, for which the net amount at risk ('NAR') is generally the amount of guaranteed benefit in excess of current account value, as follows:

31 December 2011

	Minimum return	Account value £m	Net amount at risk £m	Weighted average attained age	Period until expected annuitisation
Return of net deposits plus a minimum return					
GMDB	**0-6%**	**31,571**	**2,914**	**64.2 years**	
GMWB - Premium only	**0%**	**2,325**	**195**		
GMWB*	**0-5%**	**2,582**	**582***		
GMAB - Premium only	**0%**	**54**	**2**		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		**4,002**	**678**	**63.7 years**	
GMWB - Highest anniversary only		**1,855**	**423**		
GMWB*		**735**	**217***		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	**0-6%**	**2,098**	**479**	**66.1 years**	
GMIB	**0-6%**	**1,661**	**575**		**4.2 years**
GMWB*	**0-8%****	**21,902**	**2,263***		

31 December 2010

	Minimum return	Account value £m	Net amount at risk £m	Weighted average attained age	Period until expected annuitisation
Return of net deposits plus a minimum return					
GMDB	0-6%	25,540	2,106	64.0 years	
GMWB - Premium only	0%	2,742	149		
GMWB*	0-5%**	1,996	415*		
GMAB - Premium only	0%	48	1		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		3,742	466	63.3 years	
GMWB - Highest anniversary only		2,010	343		
GMWB*		852	196*		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	1,768	311	65.7 years	
GMIB	0-6%	1,933	418		5.1 years
GMWB*	0-8%**	15,025	672*		

* Amounts shown for GMWB comprise sums for the 'not for life' portion (where the guaranteed withdrawal base less the account value equals to the net amount at risk (NAR)), and a 'for life' portion (where the NAR has been estimated as the present value of future expected benefit payment remaining after the amount of the 'not for life' guaranteed benefits is zero).

** Ranges shown based on simple interest. The upper limits of five per cent, or eight per cent simple interest are approximately equal to 4.1 per cent and six per cent respectively, on a compound interest basis over a typical 10-year bonus period. For example 1 + 10 x 0.5 is similar to 1.041 growing at a compound rate of 4.01 per cent for a further 9 years.

Account balances of contracts with guarantees were invested in variable separate accounts as follows:

	2011 £m	2010 £m
Mutual fund type:		
Equity	**28,902**	23,841
Bond	**4,251**	3,417
Balanced	**3,846**	3,345
Money market	**677**	451
Total	**37,676**	31,054

Jackson is exposed to equity risk through the options embedded in the fixed indexed liabilities and GMDB and GMWB guarantees included in certain VA benefits as illustrated above. This risk is managed using an equity hedging programme to minimise the risk of a significant economic impact as a result of increases or decreases in equity market levels while taking advantage of naturally offsetting exposures in Jackson's operations. Jackson purchases external futures and options that hedge the risks inherent in these products, while also considering the impact of rising and falling separate account fees.

As a result of this hedging programme, if the equity markets were to increase further in the future, the net effect of Jackson's free-standing derivatives would decrease in value. However, over time, this movement would be broadly offset by increased separate account fees and reserve decreases, net of the related changes to amortisation of deferred acquisition costs. Due to the nature of the free-standing and embedded derivatives, this hedge, while highly effective on an economic basis, may not completely mute in the financial reporting the immediate impact of equity market movements as the free-standing derivatives reset immediately while the hedged liabilities reset more slowly and fees are recognised prospectively. The net effect of opposite impacts would be observed if the equity markets were to decrease.

At 31 December 2011, based on the hedges in place at that time, the estimated sensitivity of Jackson's pre-tax profit for VA business, net of related changes in amortisation of DAC (excluding the impact on future separate account fees), profit after tax and shareholders' equity to immediate increases and decreases in equity markets is as follows:

	2011 £m				2010 £m			
	Decrease of 20%	Decrease of 10%	Increase of 10%	Increase of 20%	Decrease of 20%	Decrease of 10%	Increase of 10%	Increase of 20%
Pre-tax profit, net of related changes in amortisation of DAC (excluding impact on future separate account fees)	**267**	**149**	**(195)**	**(447)**	159	90	(98)	(178)
Related deferred tax effects	**(93)**	**(52)**	**68**	**156**	(56)	(31)	34	62
Net sensitivity of profit after tax and shareholders' equity	**174**	**97**	**(127)**	**(291)**	103	59	(64)	(116)

The above table provides sensitivity movements as at a point in time while the actual impact on financial results would vary contingent upon the volume of new product sales and lapses, changes to the derivative portfolio, correlation of market returns and various other factors including volatility, interest rates and elapsed time.

Other exposure to equity risk

In addition to the exposure explained above, Jackson is also exposed to equity risk from its holding of equity securities, partnerships in investment pools and other financial derivatives.

A range of reasonably possible movements in the value of equity securities, partnerships in investment pools and other financial derivatives have been applied to Jackson's holdings at 31 December 2011 and 2010. The table below shows the sensitivity to a 10 and 20 per cent fall in value and the impact that this would have on pre-tax profit, net of related changes in amortisation of DAC, profit after tax and shareholders' equity.

	2011 £m		2010 £m	
	Decrease of 20%	Decrease of 10%	Decrease of 20%	Decrease of 10%
Pre-tax profit, net of related changes in amortisation of DAC	**(121)**	**(61)**	(143)	(72)
Related deferred tax effects	**42**	**21**	50	25
Net sensitivity of profit after tax and shareholders' equity	**(79)**	**(40)**	(93)	(47)

A 10 or 20 per cent increase in their value is estimated to have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above.

In the equity risk sensitivity analysis shown above, the Group has considered the impact of an instantaneous 20 per cent fall in equity markets. If equity markets were to fall by more than 20 per cent, the Group believes that this would not be an

instantaneous fall but rather this would be expected to occur over a period of time during which the Group would be able to put in place mitigating management actions.

ii Exposure to interest rate risk

Notwithstanding the market risk exposure previously described, except in the circumstances of interest rate scenarios where the guarantee rates included in contract terms are higher than crediting rates that can be supported from assets held to cover liabilities, the accounting measurement of fixed annuity liabilities of Jackson products is not generally sensitive to interest rate risk. This position derives from the nature of the products and the US GAAP basis of measurement. The GMWB features attaching to variable annuity business (other than 'for-life') represents embedded derivatives which are fair valued and so will be sensitive to changes in interest rate.

Debt securities and related derivatives are marked to fair value. Value movements on derivatives, again net of related changes to amortisation of DAC and deferred tax, are recorded within profit and loss. Fair value movements on debt securities, net of related changes to amortisation of DAC and deferred tax, are recorded within other comprehensive income. The estimated sensitivity of these items and policyholder liabilities to a one per cent and two per cent decrease and increase in interest rates at 31 December 2011 and 2010 is as follows:

	2011 £m				2010 £m			
	A 2% decrease	**A 1% decrease**	**A 1% increase**	**A 2% increase**	**A 2% decrease**	**A 1% decrease**	**A 1% increase**	**A 2% increase**
Profit and loss								
Direct effect								
Derivatives value change	**1,549**	**736**	**(592)**	**(1,078)**	842	363	(277)	(529)
Policyholder liabilities	**(925)**	**(446)**	**395**	**753**	(547)	(243)	219	416
Related effect on amortisation of DAC	**(151)**	**(69)**	**36**	**48**	47	23	(34)	(63)
Pre-tax profit effect	**473**	**221**	**(161)**	**(277)**	342	143	(92)	(176)
Related effect on charge for deferred tax	**(166)**	**(77)**	**56**	**97**	(120)	(50)	32	62
Net profit effect	**307**	**144**	**(105)**	**(180)**	222	93	(60)	(114)
Other comprehensive income								
Direct effect on carrying value of debt securities	**2,679**	**1,513**	**(1,513)**	**(2,679)**	2,663	1,454	(1,454)	(2,663)
Related effect on amortisation of DAC	**(1,144)**	**(646)**	**646**	**1,144**	(1,174)	(641)	641	1,174
Related effect on movement in deferred tax	**(537)**	**(303)**	**303**	**537**	(521)	(285)	285	521
Net effect	**998**	**564**	**(564)**	**(998)**	968	528	(528)	(968)
Total net effect on shareholders' equity	**1,305**	**708**	**(669)**	**(1,178)**	1,190	621	(588)	(1,082)

These sensitivities are shown only for interest rates in isolation and do not include other movements in credit risk that may affect credit spreads and valuations of debt securities.

iii Currency translation

Consistent with the Group's accounting policies, the profits of the Group's US operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. For 2011, the rates were US$1.60 (2010: $1.55) and US$1.55 (2010: $1.57) to £1 sterling, respectively. A 10 per cent increase or decrease in these rates would reduce or increase profit before tax attributable to shareholders, profit for the year and shareholders' equity attributable to US insurance operations respectively as follows:

		A 10% increase in exchange rates		A 10% decrease in exchange rates	
		2011 £m	**2010 £m**	**2011 £m**	**2010 £m**
Profit before tax attributable to shareholders	note (i)	**(54)**	(41)	**66**	50
Profit for the year		**(39)**	(31)	**48**	37
Shareholders' equity attributable to US insurance operations		**(388)**	(347)	**475**	424

Note

(i) Sensitivity on profit before tax i.e. aggregate of the operating profit based on longer-term investment returns and short-term fluctuations in investment returns.

In addition, the total profit (loss) for Jackson is affected by the level of impairment losses on the debt securities portfolio, net effect of market risk arising from the incidence and valuation of guarantee features, guaranteed benefit payments and equity index participation features, offset by variability of benefit related fees and equity derivative hedging performance, short-term value movements on derivatives held to manage the fixed annuity and other general account business, and other temporary value movements on portfolio investments classified as fair value through profit and loss.

c Asian insurance operations

For Asian with-profits business the same features apply as described above for UK with-profits business. Similarly, as for other parts of the Group, for unit-linked business the main factor affecting IFRS basis results is investment performance through asset management fees.

The sensitivity of the IFRS basis results of the Group's Asian operations to market risk is primarily restricted to the non-participating business.

This sensitivity is primarily reflected through the volatility of asset returns coupled with the fact that the accounting carrying value of liabilities to policyholders are only partially sensitive to changed market conditions. As for UK shareholder-backed operations and Jackson, the IFRS profit is distinguished in the Group's segmental analysis so as to distinguish operating profits based on longer-term investment return and short-term fluctuations in investment returns.

i Interest rate risk

Asian operations offer a range of insurance and investment products, predominately with-profits and non-participating term, whole life endowment and unit-linked. Excluding with-profit and unit-linked business, the results of the Asian business are sensitive to the vagaries of routine movements in interest rates.

For the purposes of analysing sensitivity to variations in interest rates, it has been determined for the majority of territories that a movement of one per cent in the 10 year government bond rate can be considered reasonably possible. At 31 December 2011, 10 year government bond rates vary from territory to territory and range from 0.99 per cent to 12.88 per cent (2010: 1.1 per cent to 12.25 per cent). Exception to this arises in Japan and Taiwan where reasonably possible interest rate movements have been determined as 0.5 per cent (2010: Japan and Taiwan 0.5 per cent). These reasonably possible changes would have the following impact:

	2011 £m	**2010 £m**
	Decrease of 1% note (i)	**Decrease of 1%** note (i)
Pre-tax profit	**73**	110
Related deferred tax (where applicable)	**(22)**	(41)
Net effect on profit and shareholders' equity	**51**	69

Note

(i) One per cent sensitivity (except for Japan and Taiwan (0.5 per cent)) has been used in all territories (2010: one per cent except Japan and Taiwan 0.5 per cent)
The pre-tax impacts, if they arose, would mostly be recorded within the category short-term fluctuations in investments returns in the Group's segmental analysis of profit before tax.

At 31 December 2011, an increase in the rates of one per cent (2010: one per cent except Japan and Taiwan 0.5 per cent) is estimated to have the effect of decreasing pre-tax profit by £159 million (2010: £112 million). After adjusting these results for deferred tax the reasonable possible effect on shareholders' equity is a decrease of £125 million (2010: £82 million).

ii Equity price risk

The non-linked shareholder business has limited exposure to equity and property investment (£600 million at 31 December 2011). Generally changes in equity and property investment values are not directly offset by movements in policyholder liabilities. However for the Vietnam business, to the extent that equity investment appreciation is realised through sales of securities then policyholders' liabilities are adjusted to the extent that policyholders participate.

The estimated sensitivity to a 10 and 20 per cent change in equity and property prices for shareholder-backed Asian other business, which would be reflected in the short-term fluctuation component of the Group's segmental analysis of profit before tax, at 31 December 2011 and 2010 would be as follows:

	2011 £m		**2010 £m**	
	Decrease of 20%	**Decrease of 10%**	**Decrease of 20%**	**Decrease of 10%**
Pre-tax profit	**(120)**	**(60)**	(103)	(52)
Related deferred tax (where applicable)	**24**	**12**	10	5
Net effect on profit and shareholders' equity	**(96)**	**(48)**	(93)	(47)

A 10 or 20 per cent increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above. The market risk sensitivities shown above reflect the impact of temporary market movements and, therefore, the primary effect of such movements would, in the Group's segmental analysis of profits, be included within the short-term fluctuations in investment returns.

In the equity risk sensitivity analysis shown above, the Group has considered the impact of an instantaneous 20 per cent fall in equity markets. If equity markets were to fall by more than 20 per cent, the Group believes that this would not be an instantaneous fall but rather this would be expected to occur over a period of time during which the Group would be able to put in place mitigating management actions.

iii Currency translation

Consistent with the Group's accounting policies, the profits of the Asian insurance operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period.

A 10 per cent increase or decrease in these rates would have reduced or increased profit before tax attributable to shareholders, profit for the year and shareholders' equity, excluding goodwill, attributable to Asian operations respectively as follows:

	A 10% increase in exchange rates		A 10% decrease in exchange rates	
	2011 £m	**2010 £m**	**2011 £m**	**2010 £m**
Profit before tax attributable to shareholders [note (i)]	**(57)**	(65)	**70**	80
Profit for the year	**(46)**	(58)	**56**	71
Shareholders' equity, excluding goodwill, attributable to Asian operations	**(228)**	(193)	**278**	236

Note

(i) Sensitivity on profit (loss) before tax i.e. aggregate of the operating profit based on longer-term investment returns and short-term fluctuations in investment returns.

d Asset management operations

i Currency translation

Consistent with the Group's accounting policies, the profits of Eastspring Investments and asset management operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. The rates for the most significant operations are shown in note 6.

A 10 per cent increase in the relevant exchange rates would have reduced reported profit before tax attributable to shareholders and shareholders' equity, excluding goodwill attributable to Eastspring Investments and US asset management operations, by £9 million (2010: £9 million) and £30 million (2010: £28 million) respectively.

ii Sensitivities to other financial risks for asset management operations

The principal sensitivities to other financial risk of the Group's asset management operations are credit risk on the bridging loan portfolio of the Prudential Capital operation and the indirect effect of changes to market values of funds under management. Due to the nature of the asset management operations there is limited direct sensitivity to movements in interest rates. Total debt securities held at 31 December 2011 by asset management operations were £1,842 million (2010: £1,574 million), the majority of which are held by the Prudential Capital operation. Debt securities held by M&G and Prudential Capital are in general variable rate bonds and so market value is limited in sensitivity to interest rate movements and consequently any change in interest rates would not have a material impact on profit or shareholder's equity. The Group's asset management operations do not hold significant investments in property or equities.

e Other operations

The Group holds certain derivatives that are used to manage foreign currency movements and macroeconomic exposures. The fair value of these derivatives is sensitive to the combined effect of movements in exchange rates, interest rate and inflation rate. The possible permutations cover a wide range of scenarios. For indicative purposes, a reasonably possible range of fair value movements could be plus or minus £75 million.

3 Insurance and lapse risk

The features described above cover the main sensitivities of shareholders' profit and loss and equity for market and credit risk. Lapse and longevity risk may also be a key determination of IFRS basis results with variable impacts.

In the UK, adverse persistency experience can affect the level of profitability from with-profits and unit-linked business. For with-profits business in any given year, the amount represented by the shareholders' share of cost of bonus may only be marginally affected. However, altered persistency trends may affect future expected shareholder transfers.

By contrast, Group IFRS operating profit is particularly sensitive to longevity outlook that results in changes of assumption for the UK shareholder-backed annuity business.

Jackson is sensitive to lapse risk. However, Jackson uses swaption derivatives to ameliorate the effect of a sharp rise in interest rates, which would be the most likely cause of a sudden change in policyholder behaviour.

In Asia adverse persistency experience can impact the IFRS profitability of certain business written in the region. This risk is managed at a business unit level through monthly monitoring of experience and the implementation of management actions as necessary. These actions could include product enhancements, increased management focus on premium collection as well as other customer retention efforts. The potential financial impact of lapses is often mitigated through the specific features of the products, e.g. surrender charges.

Impact of diversification on risk exposure
The Group enjoys significant diversification benefits. This arises because not all risk scenarios will happen at the same time and across all geographic regions. The Group tests the sensitivities of results to different correlation factors such as:

Correlation across geographic regions
- Financial risk factors
- Non-financial risk factors

Correlation across risk factors
- Longevity risk
- Expenses
- Persistency
- Other risks

The effect of Group diversification is to significantly reduce the aggregate standalone volatility risk to IFRS operating profit based on longer-term investment returns. The effect is almost wholly explained by the correlations across risk types, in particular longevity risk.

Z Share capital, share premium and own shares

	Number of ordinary shares	Share capital £m	Share premium £m
Issued shares of 5p each fully paid:			
At 1 January 2010	2,532,227,471	127	1,843
Shares issued under share option schemes	2,455,227	-	13
Shares issued in lieu of cash dividends	10,911,808	-	62
Reserve movements in respect of shares issued in lieu of cash dividends	-	-	(62)
At 31 December 2010	**2,545,594,506**	**127**	**1,856**
Shares issued under share option schemes	**2,444,824**	**-**	**17**
At 31 December 2011	**2,548,039,330**	**127**	**1,873**

Amounts recorded in share capital represent the nominal value of the shares issued. The difference between the proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued is credited to the share premium account. Shares issued in lieu of cash dividends in 2010 were considered to take the legal form of bonus issue shares and were accounted for as such.

At 31 December 2011, there were options outstanding under Save As You Earn schemes to subscribe for shares as follows:

	Number of shares to subscribe for	Share price range from	Share price range to	Exercisable by year
31 December 2011	**13,329,709**	**288p**	**572p**	**2017**
31 December 2010	12,802,482	288p	572p	2016

Transactions by Prudential plc and its subsidiaries in Prudential plc shares

The Group buys and sells Prudential plc ('own shares') either in relation to its employee share schemes or via transactions undertaken by authorised investment funds that the Group is deemed to control. Further information about these transactions is set out below.

The cost of own shares of £109 million as at 31 December 2011 (2010: £75 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans and savings-related share option schemes. At 31 December 2011, 8.1 million (2010: 4.5 million) Prudential plc shares with a market value of £52 million (2010: £30 million) were held in such trusts. Of this total, 8.0 million (2010: 4.4 million) shares were held in trusts under employee incentive plans.

In 2011, the Company purchased the following number of shares in respect of employee incentive plans.

	Number of shares Purchased (in millions)*	Cost £m
2011	**8.2**	**54.7**
2010	5.7	32.2

*The maximum number of shares held in 2011 was 8.1 million which was at the end of the period.

Of the total shares held in trust 0.1 million (2010: 0.1 million) shares were held by a qualifying employee share ownership trust. These shares are expected to be fully distributed in the future on maturity of savings-related share option schemes.

The shares purchased each month are as follows:

2011	Number of shares	Share Price Low	Share Price High	Cost
		£	£	£
January	**12,723**	**6.83**	**6.83**	**86,834**
February	**11,688**	**7.13**	**7.13**	**83,376**
March	**2,106,702**	**7.04**	**7.14**	**15,253,240**
April	**263,361**	**7.40**	**7.49**	**1,960,300**
May	**174,614**	**7.46**	**7.53**	**1,307,410**
June	**1,418,209**	**7.07**	**7.18**	**10,141,069**
July	**98,334**	**6.89**	**7.34**	**683,084**
August	**1,520,620**	**5.77**	**6.32**	**9,051,804**
September	**19,273**	**5.85**	**6.00**	**115,022**
October	**15,385**	**6.07**	**6.07**	**93,310**
November	**110,951**	**6.15**	**6.33**	**692,501**
December	**2,456,692**	**6.07**	**6.55**	**15,226,106**
2011 Total	**8,208,552**			**54,694,056**

The shares purchased each month are as follows:

2010	Number of shares	Share Price Low	Share Price High	Cost
		£	£	£
January	9,338	6.38	6.38	59,530
February	11,638	5.68	5.68	66,046
March	3,908,274	5.16	6.09	20,884,460
April	11,129	5.63	5.63	62,601
May	14,638	5.59	5.59	81,753
June	190,991	5.26	5.66	1,075,712
July	13,457	5.14	5.14	69,102
August	10,016	5.86	5.86	58,644
September	13,727	5.25	5.84	78,539
October	11,634	6.37	6.37	74,108
November	385,321	5.74	6.49	2,244,770
December	1,153,611	6.04	6.65	7,445,358
2010 Total	5,733,774			32,200,623

The Group has consolidated a number of authorised investment funds where it is deemed to control these funds under IFRS. Some of these funds hold shares in Prudential plc. The total number of shares held by these funds at 31 December 2011 was 8.6 million (2010: 9.8 million) and the cost of acquiring these shares of £52 million (2010: £47 million) is included in the cost of own shares. The market value of these shares as at 31 December 2011 was £54 million (2010: £65 million).

During 2011, these funds made net disposals of 1,171,635 Prudential shares (2010: net disposals of 833,618) for a net increase of £4.8 million to book cost (2010: net decrease of £3 million).

All share transactions were made on an exchange other than the Stock Exchange of Hong Kong.

Other than set out above the Group did not purchase, sell or redeem any Prudential plc listed securities during 2011 or 2010.

AA Acquisition of subsidiaries

The PAC with-profits fund, via its venture fund holdings and as part of its investment portfolio, made acquisitions during the period. These were acquisitions for a 100 per cent interest of Earth & Wind Energias Renovables S.L., a company which invests in solar panel parks, in March 2011 and a 100 per cent interest of Alticom Holdings B.V., a company investing in telecommunication towers, in June 2011. The Earth & Wind portfolio of solar panel parks was further expanded with the acquisition of a 100 per cent interest in Promociones Fotovoltaicas Betula SL, Promociones Fotovoltaicas Castanea SL, Promociones Fotovoltaicas Corylus SL and Promociones Fotovoltaicas Fagus SL in July 2011 and a 50 per cent controlling interest in Sarinena Solar S.L in October 2011.

As these transactions are within the with-profits fund, they have no impact on shareholders' profit or equity for the year ended 31 December 2011. The impact on the Group's consolidated revenue, including investment returns, is not material. Had the acquisitions been effected at 1 January 2011, the revenue and profit of the Group for the year ended 31 December 2011 would not have been materially different.

A summary of the consideration, goodwill and net assets acquired relating to these four acquisitions is provided in the table below:

	2011 Total £m
Cash consideration paid	**67**
Net assets acquired:	
Property, plant and equipment	**190**
Other non-investment and non-cash assets	**16**
Cash and cash equivalents	**14**
Borrowings attributable to with-profits funds	**(114)**
Derivative liabilities	**(2)**
Other non-insurance liabilities	**(49)**
Fair value of net assets acquired	**55**
Total goodwill arising on acquisition attributable to the with-profits fund	**12**

The acquisition costs associated with these transactions were expensed as incurred and totalled less than £1.7 million. Goodwill represents management's expectation of future income streams and is not allowable for tax.

AB Associates and joint ventures

The Group had one associate at 31 December 2011 (31 December 2010: three) that was accounted for under the equity method. The Group's share of the profit and loss of this associate during the period was a loss of £3 million (full year 2010: a loss of £6 million). This is reflected in the Group's profit after tax attributable to equity holders during the period.

In addition to the above the Group has associates that are carried at fair value through profit and loss, as allowed under IAS 28, that comprise investments in Open-Ended Investment Companies (OEICs), unit trusts, funds holding collateralised debt obligations, property unit trusts, and venture capital investments of the PAC with-profits funds where the Group has significant influence.

The Group owns a number of joint ventures. Joint ventures represent activities over which the Group exercises joint control through contractual agreement with one or more parties. The Group's significant joint ventures, which are accounted for using proportionate consolidation, comprise following interests:

Investment	% held	Principal activity	Country
CITIC Prudential Life Insurance Company Limited	50	Life assurance	China
CITIC-Prudential Fund Management Company Limited	49	Asset management	China
ICICI Prudential Asset Management Company Limited	49	Asset management	India
Prudential BSN Takaful Berhad	49	General and life insurance	Malaysia
BOCI-Prudential Asset Management Limited	36	Asset management	China (Hong Kong)
ICICI Prudential Life Insurance Company Limited	26	Life assurance	India

In addition, the Group has joint ventures relating to property investments with a 50 per cent interest, which are also accounted for using proportionate consolidation.

Joint ventures contributed £54 million (31 December 2010: £60 million) to profit after tax attributable to equity holders during the period.

AC Contingencies

An update to the Group's contingencies which has occurred since 31 December 2010 is set out below.

Unclaimed Property Provision
Jackson has received industry-wide regulatory enquiries with respect to claims settlement practices and compliance with unclaimed property laws. To date, only one state (New York) has requested a formal search for potential unreported claims. Any regulatory audits, related examination activity and internal reviews may result in additional payments to beneficiaries, escheatment of funds (i.e. reversion of funds to the state) deemed abandoned under state laws, administrative penalties and changes in Jackson's procedures for the identification of unreported claims and handling of escheatable property. Based on its current analysis, at 31 December 2011, Jackson accrued £16 million for these unreported claims. Additionally, regulators and state legislators are considering proposals that would require life insurance companies to take additional steps to identify unreported deceased policy and contract holders. Currently, there does not appear to be a consensus among state insurance regulators and state unclaimed property administrators regarding a life insurer's obligations in connection with identifying unreported deaths of its policy and contract holders.

The Group is involved in other litigation and regulatory issues. Whilst the outcome of such litigation and regulatory issues cannot be predicted with certainty, the Company believes that their ultimate outcome will not have a material adverse effect on the Group's financial condition, results of operations, or cash flows.

AD Post balance sheet events

On 22 February 2012, M&G completed transactions to (i) exchange bonus share rights for equity holdings with the employees of PPM South Africa and (ii) the sale of a 10 per cent holding in the majority of the business to Thesele Group, a minority shareholder, for cash. Following these transactions M&G's holding in the majority of the business reduced from 75 per cent to 47 per cent. Under IFRS requirements the divestment is accounted for as the disposal of the 75 per cent holding and an acquisition of a 47 per cent holding at fair value. As a consequence of the IFRS application, the transactions give rise to a gain on dilution of approximately £40 million. This amount will be accounted for in the Group 2012 supplementary analysis of profit as a gain on dilution excluded from the Group's IFRS operating profit based on longer-term investment returns.

Additional Unaudited Financial Information (IFRS, New Business and Value of in-force)

1 Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver

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

i **Spread income** represents the difference between net investment income (or premium income in the case of the UK annuities new business) and amounts credited to policyholder accounts. It excludes the longer-term investment return on assets in excess of those covering shareholder-backed policyholder liabilities, which has been separately disclosed as **expected return on shareholder assets**.

ii **Fee income** represents profits driven by net investment performance, being asset management fees that vary with the size of the underlying policyholder funds net of investment management expenses.

iii **With-profits** business represents the shareholders' transfer from the with-profits fund in the period.

iv **Insurance margin** primarily represents profits derived from the insurance risks of mortality, morbidity and persistency.

v **Margin on revenues** primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses.

vi **Acquisition costs and administration expenses** represent expenses incurred in the period attributable to shareholders. It excludes items such as restructuring costs and Solvency II costs which are not included in the segment profit for insurance as well as items that are more appropriately included in other source of earnings lines (e.g. investment expenses are netted off investment income as part of spread income or fee income as appropriate).

vii **DAC adjustments** comprises DAC amortisation for the period, excluding amounts related to short-term fluctuations, net of costs deferred in respect of new business.

Analysis of pre-tax IFRS operating profit by source

	2011				
	Asia	**US**	**UK**	**Unallocated**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Spread income	**88**	**730**	**247**	**-**	**1,065**
Fee income	**131**	**680**	**59**	**-**	**870**
With-profits	**38**	**-**	**293**	**-**	**331**
Insurance margin	**477**	**232**	**27**	**-**	**736**
Margin on revenues	**1,199**	**-**	**226**	**-**	**1,425**
Expenses					
Acquisition costs	**(766)**	**(890)**	**(127)**	**-**	**(1,783)**
Administration expenses	**(503)**	**(412)**	**(128)**	**-**	**(1,043)**
DAC adjustments	**14**	**271**	**(5)**	**-**	**280**
Expected return on shareholder assets	**26**	**83**	**91**	**-**	**200**
Long-term business operating profit	**704**	**694**	**683**	**-**	**2,081**
Asset management operating profit	**80**	**24**	**357**	**-**	**461**
GI commission	**-**	**-**	**40**	**-**	**40**
RPI to CPI inflation measure change on defined benefit schemes	**-**	**-**	**-**	**42**	**42**
Other income and expenditure*	**-**	**-**	**-**	**(554)**	**(554)**
Total operating profit based on longer-term investment returns	**784**	**718**	**1,080**	**(512)**	**2,070**

** Including restructuring and Solvency II implementation costs.*

	2010 **				
	Asia	**US**	**UK**	**Unallocated**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Spread income	70	692	251	-	1,013
Fee income	122	506	60	-	688
With-profits	32	-	310	-	342
Insurance margin	392	188	12	-	592
Margin on revenues	1,018	-	194	-	1,212
Expenses					
Acquisition costs	(656)	(851)	(138)	-	(1,645)
Administration expenses	(467)	(344)	(113)	-	(924)
DAC adjustments	2	517	(1)	-	518
Expected return on shareholder assets	19	125	98	-	242
Long-term business operating profit	532	833	673	-	2,038
Asset management operating profit	72	22	284	-	378
GI commission	-	-	46	-	46
Other income and expenditure*	-	-	-	(521)	(521)
Total operating profit based on longer-term investment returns	604	855	1,003	(521)	1,941

* Including restructuring and Solvency II implementation costs.

** Following the reduction in 2010 of the Group's interest in the PruHealth and PruProtect businesses from 50 per cent to 25 per cent, the profits of these businesses have been shown as a single line in the insurance margin line in 2011, consistent with associate accounting principles. 2010 has been amended in light of this change.

Margin analysis of long-term insurance business

The following analysis expresses certain of the Group's sources of operating profit as a margin of policyholder liabilities or other suitable driver. Details of the Group's average policyholder liability balances are given in note X.

	Total					
	2011			2010 **		
Long-term business	Profit £m	Average Liability * £m	Margin bps	Profit £m	Average Liability * £m	Margin bps
Spread income	**1,065**	**57,417**	**185**	1,013	53,894	188
Fee income	**870**	**68,298**	**127**	688	56,822	121
With-profits	**331**	**93,056**	**36**	342	89,693	38
Insurance margin	**736**			592		
Margin on revenues	**1,425**			1,212		
Expenses						
Acquisition costs**	**(1,783)**	**3,681**	**(48)%**	(1,645)	3,492	(47)%
Administration expenses	**(1,043)**	**125,715**	**(83)**	(924)	110,716	(83)
DAC adjustments	**280**			518		
Expected return on shareholder assets	**200**			242		
Operating profit	**2,081**			2,038		

* The average liability balance is generally calculated as the average of the opening and closing liability balances as this is seen as a good proxy for average balances throughout the year. Given the volatility in the year, the calculation of average liabilities has been refined for Jackson in two ways: (i) the average for both the general and the separate account balances is now derived from month-end balances throughout the year as opposed to opening and closing balances only, and (ii) liabilities held in the general account for variable annuity living and death guaranteed benefits have been excluded from the calculation of the average as no spread income is earned on these balances. The 2010 balances for Jackson have been amended for consistency albeit impacts are minimal.

** The ratio for acquisition costs is calculated as a percentage of APE including with-profits sales and Japan (2011: £nil; 2010: £7 million). Acquisition costs include only those relating to shareholders.

*** Following the reduction in 2010 of the Group's interest in the PruHealth and PruProtect businesses from 50 per cent to 25 per cent, the profits of these businesses have been shown as a single line in the insurance margin line consistent with associate accounting principles. The UK's 2010 analysis has been amended in light of this change.

	Asia					
	2011			2010		
Long-term business	Profit £m	Average Liability £m	Margin bps	Profit £m	Average Liability £m	Margin bps
Spread income	**88**	**5,623**	**157**	70	4,393	159
Fee income	**131**	**12,370**	**106**	122	11,222	109
With-profits	**38**	**11,775**	**32**	32	10,135	32
Insurance margin	**477**			392		
Margin on revenues	**1,199**			1,018		
Expenses						
Acquisition costs*	**(766)**	**1,660**	**(46)%**	(656)	1,508	(44)%
Administration expenses	**(503)**	**17,993**	**(280)**	(467)	15,615	(299)
DAC adjustments	**14**			2		
Expected return on shareholder assets	**26**			19		
Operating profit	**704**			532		

* The ratio for acquisition costs is calculated as a percentage of APE including with-profits sales and Japan (2011: £nil; 2010: £7 million). Acquisition costs include only those relating to shareholders.

Analysis of Asian IFRS operating profit drivers

- ***Spread income*** has increased by £18 million from £70 million in 2010 to £88 million in 2011, an increase of 26 per cent that predominantly reflects the growth of the Asian non-linked policyholder liabilities.

- ***Fee income*** has increased by £9 million from £122 million in 2010 to £131 million in 2011, broadly in line with the movement in unit-linked liabilities following continued positive net flows into unit linked business.

- ***Insurance margin*** has increased by £85 million from £392 million in 2010 to £477 million in 2011 predominantly reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products. 2011 includes £38 million (2010: £19 million) of non-recurring items reflecting assumption changes and other items that are not expected to reoccur in future periods.

- ***Margin on revenues*** has increased by £181 million to £1,199 million in 2011 reflecting the on-going growth in the size of the portfolio. During the year the new business mix has moved towards those countries that levy higher premium charges (e.g. Indonesia).

- ***Acquisition costs*** have increased by 17 per cent from £656 million in 2010 to £766 million in 2011, ahead of the 10 per cent increase in sales. This trend is distorted by the changes in country mix, particularly by the reduction of sales in India. Excluding India, acquisition costs were 21 per cent higher compared to a 18 per cent increase in sales. The analysis above use shareholder acquisition costs as a proportion of total APE. If with-profits sales were excluded from the denominator the acquisition cost ratio would become 59 per cent (2010: 53 per cent). (Excluding India 2011: 61 per cent, 2010: 58 per cent).

- ***Administration expenses*** have increased from £467 million in 2010 to £503 million in 2011. The administration expense ratio has improved from 299 bps in 2010 to 280 bps in 2011 as we continue to see the benefits of operational leverage.

- ***Expected return on shareholder assets*** has increased by £7 million to £26 million principally reflecting higher shareholder assets and lower investment expenses in the period.

	US					
	2011			2010		
Long-term business	Profit £m	Average Liability* £m	Margin bps	Profit £m	Average Liability* £m	Margin bps
Spread income	**730**	**28,274**	**258**	692	28,532	243
Fee income	**680**	**34,452**	**197**	506	25,247	200
With-profits	**-**			-		
Insurance margin	**232**			188		
Margin on revenues	**-**			-		
Expenses						
Acquisition costs**	**(890)**	**1,275**	**(70)%**	(851)	1,164	(73)%
Administration expenses	**(412)**	**62,726**	**(66)**	(344)	53,779	(64)
DAC adjustments	**271**			517		
Expected return on shareholder assets	**83**			125		
Operating profit	**694**			833		

* The average liability balance is generally calculated as the average of the opening and closing liability balances as this is seen as a good proxy for average balances throughout the year. Given the volatility in the year, the calculation of average liabilities has been refined for Jackson in two ways: (i) the average for both the general and the separate account balances is now derived from month-end balances throughout the year as opposed to opening and closing balances only, and (ii) liabilities held in the general account for variable annuity living and death guaranteed benefits have been excluded from the calculation of the average as no spread income is earned on these balances. The 2010 balances have been amended for consistency albeit impacts are minimal.

** The ratio for acquisition costs is calculated as a percentage of total APE.

Analysis of US IFRS operating profit drivers

- ***Spread income*** benefited by £113 million in 2011 from the effect of transactions entered into in 2011 and 2010 to more closely match the overall asset and liability duration (2010: £108 million). Excluding this effect, the spread margin would have been 218 bps (2010: 205 bps). The reported spread margin increased from 243 bps in 2010 to 258 bps in 2011. This is despite the downward pressure on yields caused by the low interest rate environment, the effect of which continues to be mitigated by reductions in crediting rates.

- ***Fee income*** has increased by 34 per cent to £680 million in 2011, broadly in line with the growth in separate account balances. The growth in account balances during 2011 reflected the strong net flows from variable annuity business.

- ***Insurance margin*** represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Positive net flows into variable annuity business with life contingent and other guarantee fees have primarily resulted in an improvement in the margin from £188 million in 2010 to £232 million in 2011.

- ***Acquisition costs*** have increased in absolute terms compared to 2010 due largely to the significant increase in sales volumes. However, acquisition costs as a percentage of total APE is slightly lower at 70 per cent in 2011, with the decrease attributable to a reduced rate of marketing costs and lower average commissions.

- ***Administration expenses*** increased to £412 million in 2011 compared to £344 million in 2010, primarily as a result of higher asset based commission paid on the larger 2011 separate account balance. These asset based commissions paid upon policy anniversary dates are treated as an administration expense in this analysis as opposed to a cost of acquisition and are offset by higher fees. The administration cost was marginally higher at 66 bps (2010: 64 bps). Excluding trail commission amounts, the resulting administration expense ratio would be 46 bps (2010: 48 bps).

- ***DAC adjustments*** decreased by £246 million to £271 million in 2011 compared to £517 million in 2010. This mainly reflects additional DAC amortisation of approximately £166 million related to the reversal of the benefit received in 2008 from the mean reversion formula as well as accelerated DAC amortisation of £66 million as separate account returns were lower than 2010.

Long-term business	UK 2011 Profit £m	2011 Average Liability £m	2011 Margin bps	UK 2010 ** Profit £m	2010 ** Average Liability £m	2010 ** Margin bps
Spread income	**247**	**23,520**	**105**	251	20,969	120
Fee income	**59**	**21,476**	**27**	60	20,353	29
With-profits	**293**	**81,281**	**36**	310	79,558	39
Insurance margin	**27**			12		
Margin on revenues	**226**			194		
Expenses						
Acquisition costs*	**(127)**	**746**	**(17)%**	(138)	820	(17)%
Administration expenses	**(128)**	**44,996**	**(28)**	(113)	41,322	(27)
DAC adjustments	**(5)**			(1)		
Expected return on shareholder assets	**91**			98		
Operating profit	**683**			673		

* The ratio for acquisition costs is calculated as a percentage of APE including with-profits sales. Acquisition costs include only those relating to shareholders.

** Following the reduction in 2010 of the Group's interest in the PruHealth and PruProtect businesses from 50 per cent to 25 per cent, the profits of these businesses have been shown as a single line in the insurance margin line in 2011, consistent with associate accounting principles. 2010 has been amended in light of this change.

Analysis of UK IFRS operating profit drivers

- ***Spread income*** remains broadly unchanged from 2010 at £247 million (2010: £251 million). The margin has fallen from 120 bps to 105 bps principally due to 2010 benefiting from higher bulk annuity sales, partly offset by the benefit of portfolio restructuring undertaken in the year and higher yields being achieved on new individual annuity business.

- ***Insurance margin*** has increased from £12 million in 2010 to £27 million in 2011, principally driven by an improvement in the profitability of PruHealth and PruProtect.

- ***Margin on revenues*** represents premiums charges for expenses and other sundry net income received by the UK. Higher amounts were recorded in 2011 (£226 million) compared to 2010 (£194 million) reflecting higher sundry income and an increase in premiums from shareholder-backed retail business in 2011 as compared to 2010.

- ***Acquisition costs*** as a percentage of new business sales has remained constant with 2010 at 17 per cent.

  The ratio above expresses the percentage of shareholder acquisition costs as a percentage of total APE sales. It is therefore impacted by the level of with-profit sales in the year. Acquisition costs as a percentage of shareholder–backed new business sales were 33 per cent in 2011 (30 per cent in 2010), due in part to the beneficial effect in 2010 of the higher level of bulk annuity transactions, which had a relatively modest level of acquisition costs.

- ***Administration expenses*** have increased by £15 million to £128 million in 2011 primarily as a result of increased project expenditure, resulting in a marginally higher administration expense ratio of 28 bps in 2011 (2010: 27 bps).

- ***Expected return on shareholder asset*** has fallen from £98 million in 2010 to £91 million in 2011 following a reduction in assumed longer-term yields on assets backing shareholder capital.

2 Asian operations – analysis of IFRS operating profit by territory

Operating profit based on longer-term investment returns for Asian operations are analysed as follows:

	2011 £m	2010 £m
China	**11**	5
Hong Kong	**69**	51
India	**43**	24
Indonesia	**212**	157
Japan	**2**	(6)
Korea	**17**	12
Malaysia	**104**	97
Philippines	**5**	2
Singapore	**167**	129
Taiwan bancassurance business	**1**	(4)
Thailand	**4**	2
Vietnam	**35**	43
Other	**1**	5
Non-recurrent items[note (ii)]	**38**	19
Total insurance operations [note (i)]	**709**	536
Development expenses	**(5)**	(4)
Total long-term business operating profit	**704**	532
Eastspring Investments	**80**	72
Total Asian operations	**784**	604

Notes

(i) *Analysis of operating profit between new and in-force business*

The result for insurance operations comprises amounts in respect of new business and business in-force as follows:

	2011 £m	2010 £m
New business strain (excluding Japan)	**(54)**	**(56)**
Japan	**-**	**(1)**
New business strain (including Japan)	**(54)**	**(57)**
Business in force	**763**	**593**
Total	**709**	**536**

(ii) Non-recurrent items of £38 million in 2011 (2010: £19 million) represents a small number of items that are not anticipated to re-occur in subsequent periods.

(iii) The IFRS new business strain corresponds to approximately three per cent of new business APE premiums for 2011 (2010: approximately four per cent of new business APE).

The strain reflects the aggregate of the pre-tax regulatory basis strain to net worth after IFRS adjustments for deferral of acquisition costs and deferred income where appropriate.

3 Analysis of asset management operating profit based on longer-term investment returns

	2011				
	M&G[(i)]	**Eastspring Investments[(i)]**	**PruCap**	**US**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Operating income before performance-related fees	**706**	**196**	**122**	**249**	**1,273**
Performance-related fees	**21**	**6**	-	-	**27**
Operating income*	**727**	**202**	**122**	**249**	**1,300**
Operating expense	**(426)**	**(122)**	**(66)**	**(225)**	**(839)**
Operating profit based on longer-term investment returns	**301**	**80**	**56**	**24**	**461**
Average funds under management (FUM)**	**£199.8 bn**	**£51.1 bn**			
Margin based on operating income**	**36 bps**	**40 bps**			
Cost / income ratio***	**60%**	**62%**			

	2010				
	M&G[(i)]	**Eastspring Investments[(i)]**	**PruCap**	**US**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Operating income before performance-related fees	615	185	88	229	1,117
Performance-related fees	17	6	-	-	23
Operating income*	632	191	88	229	1,140
Operating expense	(386)	(119)	(50)	(207)	(762)
Operating profit based on longer-term investment returns	246	72	38	22	378
Average funds under management (FUM)**	£186.5 bn	£47.2 bn			
Margin based on operating income**	34 bps	40 bps			
Cost / income ratio***	63%	64%			

(i) M&G and Eastspring Investments can be further analysed as follows:

	M&G					
	Operating income*					
	Retail £m	**Margin of FUM**‡ bps**	**Institutional† £m**	**Margin of FUM** bps**	**Total £m**	**Margin of FUM** bps**
2011	**416**	**96**	**311**	**20**	**727**	**36**
2010	345	93	287	19	632	34

	Eastspring Investments					
	Operating income*					
	Retail £m	**Margin of FUM** bps**	**Institutional† £m**	**Margin of FUM** bps**	**Total £m**	**Margin of FUM** bps**
2011	**120**	**64**	**82**	**25**	**202**	**40**
2010	119	62	71	26	191	40

* Operating income is net of commissions and includes performance related fees, and for M&G carried interest on private equity investments.

** Margin represents operating income as a proportion of the related funds under management (FUM). Opening and closing internal and external funds managed by the respective entity have been used to derive the average. Any funds held by the Group's insurance operations which are managed by third parties outside of the Prudential Group are excluded from these amounts.

*** Cost / income ratio is calculated as cost as a percentage of income excluding performance related fees.

† Institutional includes internal funds.

‡ As noted above, the margins on operating income are based on the average of the opening and closing FUM balances. For M&G, if a monthly average FUM had been used, the retail margins would have been 95 bps for 2011 and 2010.

4 IFRS shareholders' funds summary by business unit and net asset value per share

i Shareholders' fund summary

	2011 £m	2010 £m
Asian operations		
Insurance operations		
Net assets of operation	**2,114**	1,913
Acquired goodwill	**235**	236
Total	**2,349**	2,149
Eastspring Investments		
Net assets of operation	**211**	197
Acquired goodwill	**61**	61
Total	**272**	258
Total	**2,621**	2,407
US operations		
Jackson (net of surplus note borrowings)	**4,271**	3,815
Broker-dealer and asset management operations:		
Net assets of operation	**113**	106
Acquired goodwill	**16**	16
Total	**129**	122
Total	**4,400**	3,937
UK operations		
Insurance operations		
Long-term business operations	**2,552**	2,115
Other	**29**	33
Total	**2,581**	2,148
M&G		
Net assets of operation	**229**	254
Acquired goodwill	**1,153**	1,153
Total	**1,382**	1,407
Total	**3,963**	3,555
Other operations		
Holding company net borrowings	**(2,001)**	(2,035)
Shareholders' share of provision for future deficit funding of the Prudential Staff Pension Scheme (net of tax)	**(5)**	(10)
Other net assets	**139**	177
Total	**(1,867)**	(1,868)
Total of all operations	**9,117**	8,031

ii Net asset value per share

	2011 £m	2010 £m
Closing shareholders' equity	**9,117**	8,031
Net asset value per share attributable to equity shareholders[note (i)]	**358 p**	315 p

Note

(i) Based on the closing issued share capital as at 31 December 2011 of 2,548 million shares (2010: 2,546 million shares).

5 Funds under management

i Summary

	2011 £bn	2010 £bn
Business area		
Asian operations	**32.6**	30.9
US operations	**71.9**	63.6
UK operations	**146.3**	145.2
Internal funds under management	**250.8**	239.7
External funds [note (i)]	**99.8**	100.4
Total funds under management	**350.6**	340.1

Note

(i) External funds shown above for 2011 of £99.8 billion (2010: £100.4 billion) comprise £111.2 billion (2011: £111.4 billion) in respect of investment products, as published in the New Business schedules (see schedule 7) less £11.4 billion (2010: £11.0 billion) that are classified within internal funds.

(ii) Internal funds under management – analysis by business area

	Asian operations		US operations		UK operations		Total	
	2011 £bn	2010 £bn	2011 £bn	2010 £bn	2011 £bn	2010 £bn	2011 £bn	2010 £bn
Investment properties[note (i)]	**-**	-	**0.1**	0.1	**10.9**	11.5	**11.0**	11.6
Equity securities	**12.0**	14.5	**38.1**	31.5	**37.3**	40.7	**87.4**	86.7
Debt securities	**17.7**	14.1	**27.0**	26.4	**79.8**	75.9	**124.5**	116.4
Loans and receivables	**2.4**	1.3	**4.3**	4.2	**13.7**	3.8	**20.4**	9.3
Other investments	**0.5**	1.0	**2.4**	1.4	**4.6**	13.3	**7.5**	15.7
Total	**32.6**	30.9	**71.9**	63.6	**146.3**	145.2	**250.8**	239.7

Note

(i) As included in the investments section of the consolidated statement of financial position at 31 December 2011 except for £0.2 billion (2010: £0.4 billion) investment properties which are held-for-sale or occupied by the Group and, accordingly under IFRS, are included in other statement of financial position captions.

6 Effect of foreign currency translation on results

i Rates of exchange

The profit and loss accounts of foreign subsidiaries are translated at average exchange rates for the year. Assets and liabilities of foreign subsidiaries are translated at closing exchange rates. Foreign currency borrowings that have been used to provide a hedge against Group equity investments in overseas subsidiaries are also translated at closing exchange rates. The impact of these translations is recorded as a component of the movement in shareholders' equity.

The following translation rates have been applied:

Local currency: £	**Closing 2011**	**Average 2011**	**Closing 2010**	**Average 2010**
Hong Kong	**12.07**	**12.48**	12.17	12.01
Indonesia	**14,091.80**	**14,049.41**	14,106.51	14,033.41
Malaysia	**4.93**	**4.90**	4.83	4.97
Singapore	**2.02**	**2.02**	2.01	2.11
India	**82.53**	**74.80**	70.01	70.66
Vietnam	**32,688.16**	**33,139.22**	30,526.26	29,587.63
USA	**1.55**	**1.60**	1.57	1.55

ii Effect of rate movements on results

IFRS basis results	**As published 2011** note (i) **£m**	**Memorandum 2010** note (i) **£m**
Asian operations:		
Long-term operations	**709**	533
Development expenses	**(5)**	(4)
Total Asian insurance operations after development costs	**704**	529
Eastspring Investments	**80**	73
Total Asia operations	**784**	602
US operations		
Jackson	**694**	803
Broker-dealer, asset management and Curian operations	**24**	21
Total US operations	**718**	824
UK operations		
Long-term business	**683**	673
General insurance commission	**40**	46
Total UK insurance operations	**723**	719
M&G	**357**	284
Total UK operations	**1,080**	1,003
Total segment profit	**2,582**	2,429
Other income and expenditure	**(483)**	(449)
RPI to CPI inflation measure change on defined benefit pension schemes	**42**	-
Solvency II implementation costs	**(55)**	(45)
Restructuring costs	**(16)**	(26)
Operating profit based on longer-term investment returns	**2,070**	1,909
Shareholders' equity	**9,117**	8,007

EEV basis results	As published 2011 note (i) £m	Memorandum 2010 (notes (i) and (ii)) **£m**
Asian operations:		
New business:		
Excluding Japan	**1,076**	900
Japan	**-**	(1)
Total	**1,076**	899
Business in force	**688**	539
Long-term operations	**1,764**	1,438
Eastspring Investments	**80**	73
Development expenses	**(5)**	(4)
Total Asia operations	**1,839**	1,507
US operations		
New business	**815**	734
Business in force	**616**	672
Jackson	**1,431**	1,406
Broker-dealer, asset management and Curian operations	**24**	21
Total US operations	**1,455**	1,427
UK operations		
New business	**260**	365
Business in force	**593**	571
Long-term business	**853**	936
General insurance commission	**40**	46
Total insurance	**893**	982
M&G	**357**	284
Total UK operations	**1,250**	1,266
Other income and expenditure	**(536)**	(493)
RPI to CPI inflation measure change on defined benefit pension schemes	**45**	-
Solvency II implementation costs	**(56)**	(46)
Restructuring costs	**(19)**	(28)
Operating profit based on longer-term investment returns	**3,978**	3,633
Shareholders' funds	**19,637**	18,135

Notes

(i) The 'as published' operating profit for 2011 and 'memorandum' operating profit for 2010 have been calculated by applying average 2011 exchange rates (CER).
The 'as published' shareholders' funds for 2011 and memorandum' shareholders' funds for 2010 have been calculated by applying closing period end 2011 exchange rates.

7 New Business Schedules

BASIS OF PREPARATION

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

The format of the schedules is consistent with the distinction between insurance and investment products as applied for previous financial reporting periods. Products categorised as insurance refer to those classified as contracts of long-term insurance business for regulatory reporting purposes, i.e. falling within one of the classes of insurance specified in part II of Schedule 1 to the Regulated Activities Order under FSA regulations.

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

Asia 2010 comparative APE new business sales and new business profit exclude the Japanese insurance operations which ceased writing new business from 15 February 2010.

New business premiums for regular premium products are shown on an annualised basis. Internal vesting business is classified as new business where the contracts include an open market option.

Investment products referred to in the tables for funds under management are unit trusts, mutual funds and similar types of retail fund management arrangements. These are unrelated to insurance products that are classified as investment contracts under IFRS 4, as described in the preceding paragraph, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business.

In determining the EEV basis value of new business written in the period policies incept, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for statutory basis reporting.

Notes to Schedules 7(a) – 7(f)

(1a) Insurance and investment new business for overseas operations has been calculated using average exchange rates. The applicable rate for Jackson is 1.60.

(1b) Insurance and investment new business for overseas operations for 2010 has been calculated using constant exchange rates. The applicable rate for Jackson is 1.60.

(2) New business values are all presented pre-tax.

(3) Annual Equivalents, calculated as regular new business contributions plus ten per cent of single new business contributions, are subject to roundings. PVNBPs are calculated as equalling single premiums plus the present value of expected premiums of new regular premium business. In determining the present value, allowance is made for lapses and other assumptions applied in determining the EEV new business profit.

(4) Balance includes segregated and pooled pension funds, private finance assets and other institutional clients. Other movements reflect the net flows arising from the cash component of a tactical asset allocation fund managed by PPM South Africa.

(5) New business in India is included at Prudential's 26 per cent interest in the India life operation.

(6) Balance Sheet figures have been calculated at the closing exchange rate.

(7) Sales are converted using the year to date average exchange rate applicable at the time. The sterling results for individual quarters represent the difference between the year to date reported sterling results at successive quarters and will include foreign exchange movements from earlier periods.

(8) New business in China is included at Prudential's 50 per cent interest in the China life operation.

(9) Mandatory Provident Fund (MPF) product sales in Hong Kong are included at Prudential's 36 per cent interest in Hong Kong MPF operation.

Schedule 7(a) – Reported Exchange Rates
Prudential plc – NEW BUSINESS –2011
INSURANCE OPERATIONS

	Single			Regular			Annual Equivalents[3]			PVNBP		
	2011 YTD £m	2010 YTD £m	+/- (%)	2011 YTD £m	2010 YTD £m	+/- (%)	2011 YTD £m	2010 YTD £m	+/- (%)	2011 YTD £m	2010 YTD £m	+/- (%)
Group Insurance Operations												
Asia – ex India[1a] [7]	**1,321**	1,019	30%	**1,426**	1,211	18%	**1,559**	1,313	19%	**8,444**	6,911	22%
India[1a] [7] [5]	**135**	85	59%	**88**	180	(51%)	**101**	188	(46%)	**466**	582	(20%)
Asia	**1,456**	1,104	32%	**1,514**	1,391	9%	**1,660**	1,501	11%	**8,910**	7,493	19%
US[1a] [7]	**12,562**	11,417	10%	**19**	22	(14%)	**1,275**	1,164	10%	**12,720**	11,572	10%
UK	**4,871**	5,656	(14%)	**259**	254	2%	**746**	820	(9%)	**6,111**	6,842	(11%)
Group Total	**18,889**	18,177	4%	**1,792**	1,667	7%	**3,681**	3,485	6%	**27,741**	25,907	7%
Group Total - ex India	**18,754**	18,092	4%	**1,704**	1,487	15%	**3,580**	3,297	9%	**27,275**	25,325	8%
Asian Insurance Operations[1a] [7]												
Hong Kong	**180**	107	68%	**313**	276	13%	**331**	287	15%	**2,023**	1,693	19%
Indonesia	**250**	141	77%	**338**	269	26%	**363**	283	28%	**1,435**	1,011	42%
Malaysia	**79**	58	36%	**215**	198	9%	**223**	204	9%	**1,225**	1,153	6%
Philippines	**95**	64	48%	**20**	17	18%	**30**	23	30%	**153**	108	42%
Singapore	**371**	318	17%	**198**	143	38%	**235**	175	34%	**1,855**	1,357	37%
Thailand	**11**	15	(27%)	**26**	25	4%	**27**	26	4%	**102**	100	2%
Vietnam	**1**	1	-	**42**	41	2%	**42**	41	2%	**143**	148	(3%)
SE Asia Operations inc. Hong Kong	**987**	704	40%	**1,152**	969	19%	**1,251**	1,039	20%	**6,936**	5,570	25%
China[8]	**46**	103	(55%)	**54**	48	13%	**59**	58	2%	**294**	336	(13%)
Korea	**71**	66	8%	**94**	89	6%	**101**	96	5%	**542**	486	12%
Taiwan	**217**	146	49%	**126**	105	20%	**148**	120	23%	**672**	519	29%
Total Asia Operations - ex India	**1,321**	1,019	30%	**1,426**	1,211	18%	**1,559**	1,313	19%	**8,444**	6,911	22%
India[1a] [7] [5]	**135**	85	59%	**88**	180	(51%)	**101**	188	(46%)	**466**	582	(20%)
Total Asia Operations	**1,456**	1,104	32%	**1,514**	1,391	9%	**1,660**	1,501	11%	**8,910**	7,493	19%
US Insurance Operations[1a] [7]												
Fixed Annuities	**472**	836	(44%)	**-**	-	N/A	**47**	84	(44%)	**472**	836	(44%)
Fixed Index Annuities	**934**	1,089	(14%)	**-**	-	N/A	**93**	109	(15%)	**934**	1,089	(14%)
Life	**10**	11	(9%)	**19**	22	(14%)	**20**	23	(13%)	**168**	166	1%
Variable Annuities	**10,909**	9,481	15%	**-**	-	N/A	**1,091**	948	15%	**10,909**	9,481	15%
Wholesale	**237**	-	N/A	**-**	-	N/A	**24**	-	N/A	**237**	-	N/A
Total US Insurance Operations	**12,562**	11,417	10%	**19**	22	(14%)	**1,275**	1,164	10%	**12,720**	11,572	10%
UK & Europe Insurance Operations												
Direct and Partnership Annuities	**328**	593	(45%)	**-**	-	N/A	**33**	59	(44%)	**328**	593	(45%)
Intermediated Annuities	**241**	221	9%	**-**	-	N/A	**24**	22	9%	**241**	221	9%
Internal Vesting Annuities	**1,223**	1,235	(1%)	**-**	-	N/A	**122**	124	(2%)	**1,223**	1,235	(1%)
Total Individual Annuities	**1,792**	2,049	(13%)	**-**	-	N/A	**179**	205	(13%)	**1,792**	2,049	(13%)
Corporate Pensions	**184**	228	(19%)	**215**	198	9%	**233**	221	5%	**1,224**	1,099	11%
On-shore Bonds	**1,779**	1,660	7%	**-**	-	N/A	**178**	166	7%	**1,781**	1,660	7%
Other Products	**780**	774	1%	**44**	56	(21%)	**122**	133	(8%)	**978**	1,089	(10%)
Wholesale	**336**	945	(64%)	**-**	-	N/A	**34**	95	(64%)	**336**	945	(64%)
Total UK & Europe Insurance Ops	**4,871**	5,656	(14%)	**259**	254	2%	**746**	820	(9%)	**6,111**	6,842	(11%)
Group Total	**18,889**	18,177	4%	**1,792**	1,667	7%	**3,681**	3,485	6%	**27,741**	25,907	7%
Group Total - ex India	**18,754**	18,092	4%	**1,704**	1,487	15%	**3,580**	3,297	9%	**27,275**	25,325	8%

The Prudential's European operation is based in Ireland and sells products into Jersey, Guernsey, Isle of Man, Gibraltar, Cyprus, Malta, Belgium, Spain and UK.

Schedule 7(b) – Current Exchange Rates
Prudential plc – NEW BUSINESS –2011
INSURANCE OPERATIONS

	Single			Regular			Annual Equivalents[3]			PVNBP		
	2011 YTD £m	2010 YTD £m	+/- (%)	2011 YTD £m	2010 YTD £m	+/- (%)	2011 YTD £m	2010 YTD £m	+/- (%)	2011 YTD £m	2010 YTD £m	(%)
Group Insurance Operations												
Asia – ex India[1b] [7]	**1,321**	1,037	27%	**1,426**	1,209	18%	**1,559**	1,313	19%	**8,444**	6,930	22%
India[1b] [7] [5]	**135**	80	69%	**88**	170	(48%)	**101**	178	(43%)	**466**	550	(15%)
Asia	**1,456**	1,117	30%	**1,514**	1,379	10%	**1,660**	1,491	11%	**8,910**	7,480	19%
US[1b] [7]	**12,562**	11,003	14%	**19**	21	(10%)	**1,275**	1,121	14%	**12,720**	11,153	14%
UK	**4,871**	5,656	(14%)	**259**	254	2%	**746**	820	(9%)	**6,111**	6,842	(11%)
Group Total	**18,889**	17,776	6%	**1,792**	1,654	8%	**3,681**	3,432	7%	**27,741**	25,475	9%
Group Total - ex India	**18,754**	17,696	6%	**1,704**	1,484	15%	**3,580**	3,254	10%	**27,275**	24,925	9%
Asian Insurance Operations[1b] [7]												
Hong Kong	**180**	103	75%	**313**	266	18%	**331**	276	20%	**2,023**	1,629	24%
Indonesia	**250**	140	79%	**338**	269	26%	**363**	283	28%	**1,435**	1,010	42%
Malaysia	**79**	59	34%	**215**	201	7%	**223**	207	8%	**1,225**	1,170	5%
Philippines	**95**	65	46%	**20**	17	18%	**30**	23	30%	**153**	108	42%
Singapore	**371**	332	12%	**198**	149	33%	**235**	183	28%	**1,855**	1,418	31%
Thailand	**11**	15	(27%)	**26**	25	4%	**27**	26	4%	**102**	100	2%
Vietnam	**1**	1	0%	**42**	37	14%	**42**	37	14%	**143**	132	8%
SE Asia Operations inc. Hong Kong	**987**	715	38%	**1,152**	964	20%	**1,251**	1,035	21%	**6,936**	5,567	25%
China[8]	**46**	104	(56%)	**54**	48	13%	**59**	59	0%	**294**	339	(13%)
Korea	**71**	67	6%	**94**	89	6%	**101**	96	5%	**542**	488	11%
Taiwan	**217**	151	44%	**126**	108	17%	**148**	123	20%	**672**	536	25%
Total Asia Operations - ex India	**1,321**	1,037	27%	**1,426**	1,209	18%	**1,559**	1,313	19%	**8,444**	6,930	22%
India[1b] [7] [5]	**135**	80	69%	**88**	170	(48%)	**101**	178	(43%)	**466**	550	(15%)
Total Asia operations	**1,456**	1,117	30%	**1,514**	1,379	10%	**1,660**	1,491	11%	**8,910**	7,480	19%
US Insurance Operations[1b] [7]												
Fixed Annuities	**472**	806	(41%)	**-**	-	N/A	**47**	81	(42%)	**472**	806	(41%)
Fixed Index Annuities	**934**	1,049	(11%)	**-**	-	N/A	**93**	105	(11%)	**934**	1,049	(11%)
Life	**10**	10	0%	**19**	21	(10%)	**20**	21	(5%)	**168**	160	5%
Variable Annuities	**10,909**	9,138	19%	**-**	-	N/A	**1,091**	914	19%	**10,909**	9,138	19%
Wholesale	**237**	-	N/A	**-**	-	N/A	**24**	-	N/A	**237**	-	N/A
Total US Insurance Operations	**12,562**	11,003	14%	**19**	21	(10%)	**1,275**	1,121	14%	**12,720**	11,153	14%
UK & Europe Insurance Operations												
Direct and Partnership Annuities	**328**	593	(45%)	**-**	-	N/A	**33**	59	(44%)	**328**	593	(45%)
Intermediated Annuities	**241**	221	9%	**-**	-	N/A	**24**	22	9%	**241**	221	9%
Internal Vesting Annuities	**1,223**	1,235	(1%)	**-**	-	N/A	**122**	124	(2%)	**1,223**	1,235	(1%)
Total Individual Annuities	**1,792**	2,049	(13%)	**-**	-	N/A	**179**	205	(13%)	**1,792**	2,049	(13%)
Corporate Pensions	**184**	228	(19%)	**215**	198	9%	**233**	221	5%	**1,224**	1,099	11%
On-shore Bonds	**1,779**	1,660	7%	**-**	-	N/A	**178**	166	7%	**1,781**	1,660	7%
Other Products	**780**	774	1%	**44**	56	(21%)	**122**	133	(8%)	**978**	1,089	(10%)
Wholesale	**336**	945	(64%)	**-**	-	N/A	**34**	95	(64%)	**336**	945	(64%)
Total UK & Europe Insurance Ops	**4,871**	5,656	(14%)	**259**	254	2%	**746**	820	(9%)	**6,111**	6,842	(11%)
Group Total	**18,889**	17,776	6%	**1,792**	1,654	8%	**3,681**	3,432	7%	**27,741**	25,475	9%
Group Total – ex India	**18,754**	17,696	6%	**1,704**	1,484	15%	**3,580**	3,254	10%	**27,275**	24,925	9%

Schedule 7(c) - Reported Exchange Rates
PRUDENTIAL PLC - NEW BUSINESS - 2011
TOTAL INSURANCE NEW BUSINESS APE - BY QUARTER

	2010				2011			
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m	Q3 £m	Q4 £m
Group Insurance Operations								
Asia – ex India[1a][7]	**286**	**308**	**305**	**414**	**336**	**360**	**378**	**485**
India[1a][7][5]	**73**	**46**	**48**	**21**	**31**	**16**	**26**	**28**
Asia	**359**	**354**	**353**	**435**	**367**	**376**	**404**	**513**
US[1a][7]	**255**	**305**	**290**	**314**	**322**	**350**	**316**	**287**
UK	**193**	**189**	**166**	**272**	**199**	**210**	**160**	**177**
Group Total	**807**	**848**	**809**	**1,021**	**888**	**936**	**880**	**977**
Group Total - ex India	**734**	**802**	**761**	**1,000**	**857**	**920**	**854**	**949**
Asian Insurance Operations[1a][7]								
Hong Kong	68	62	65	92	77	**74**	78	**102**
Indonesia	61	68	59	95	74	**84**	81	**124**
Malaysia	36	41	52	75	44	**47**	59	**73**
Philippines	5	5	6	7	6	**8**	8	**8**
Singapore	33	42	43	57	47	**56**	60	**72**
Thailand	5	8	7	6	5	**6**	9	**7**
Vietnam	8	10	10	13	8	**11**	10	**13**
SE Asia Operations inc. Hong Kong	**216**	**236**	**242**	**345**	**261**	**286**	**305**	**399**
China[8]	14	13	15	16	18	**17**	11	**13**
Korea	22	24	23	27	28	**27**	26	**20**
Taiwan	34	35	25	26	29	**30**	36	**53**
Total Asian Insurance Operations - ex India	**286**	**308**	**305**	**414**	**336**	**360**	**378**	**485**
India[1a][7][5]	73	46	48	21	31	16	26	**28**
Total Asian Insurance Operations	**359**	**354**	**353**	**435**	**367**	**376**	**404**	**513**
US Insurance Operations[1a][7]								
Fixed Annuities	18	24	24	18	13	**10**	10	**14**
Fixed Index Annuities	30	30	24	25	20	**22**	26	**25**
Life	6	5	6	6	5	**6**	5	**4**
Variable Annuities	201	246	236	265	284	**305**	262	**240**
Wholesale	-	-	-	-	-	**7**	13	**4**
Total US Insurance Operations	**255**	**305**	**290**	**314**	**322**	**350**	**316**	**287**
UK & Europe Insurance Operations								
Direct and Partnership Annuities	20	16	14	9	10	**8**	8	**6**
Intermediated Annuities	6	6	5	5	5	**7**	6	**6**
Internal Vesting annuities	33	31	29	31	27	**29**	32	**34**
Total Individual Annuities	**59**	**53**	**48**	**45**	**42**	**44**	**47**	**46**
Corporate Pensions	60	62	48	51	78	**69**	43	**43**
On-shore Bonds	33	36	41	56	43	**41**	43	**51**
Other Products	40	38	27	28	36	**28**	27	**31**
Wholesale	1	-	2	92	-	**28**	-	**6**
Total UK & Europe Insurance Operations	**193**	**189**	**166**	**272**	**199**	**210**	**160**	**177**
Group Total	**807**	**848**	**809**	**1,021**	**888**	**936**	**880**	**977**
Group Total – ex India	**734**	**802**	**761**	**1,000**	**857**	**920**	**854**	**949**

Schedule 7(d) - Current Exchange Rates
PRUDENTIAL PLC - NEW BUSINESS – 2011
TOTAL INSURANCE NEW BUSINESS APE - BY QUARTER

	2010				2011			
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m	Q3 £m	Q4 £m
Group Insurance Operations								
Asia – ex India[1b)(7)]	293	300	306	414	336	360	378	485
India[1b) (7) (5)]	70	41	47	20	31	16	26	28
Asia	363	341	353	434	367	376	404	513
US[1b) (7)]	248	285	280	308	322	350	316	287
UK	193	189	166	272	199	210	160	177
Group Total	**804**	**815**	**799**	**1,014**	**888**	**936**	**880**	**977**
Group Total - ex India	**734**	**774**	**752**	**994**	**857**	**920**	**854**	**949**
Asian Insurance Operations[1b)(7)]								
Hong Kong	66	57	63	90	77	74	78	102
Indonesia	62	66	59	96	74	84	81	124
Malaysia	39	41	51	76	44	47	59	73
Philippines	5	5	6	7	6	8	8	8
Singapore	35	44	46	58	47	56	60	72
Thailand	6	7	7	6	5	6	9	7
Vietnam	7	9	9	12	8	11	10	13
SE Asia Operations inc. Hong Kong	**220**	**229**	**241**	**345**	**261**	**286**	**305**	**399**
China[8]	14	13	15	17	18	17	11	13
Korea	22	23	24	27	28	27	26	20
Taiwan	37	35	26	25	29	30	36	53
Total Asian Insurance Operations - ex India	**293**	**300**	**306**	**414**	**336**	**360**	**378**	**485**
India[1b) (7) (5)]	70	41	47	20	31	16	26	28
Total Asian Insurance Operations	**363**	**341**	**353**	**434**	**367**	**376**	**404**	**513**
US Insurance Operations[1b) (7)]								
Fixed Annuities	18	22	23	18	13	10	10	14
Fixed Index Annuities	29	28	24	24	20	22	26	25
Life	6	5	5	5	5	6	5	4
Variable Annuities	195	230	228	261	284	305	262	240
Wholesale	-	-	-	-	-	7	13	4
Total US Insurance Operations	**248**	**285**	**280**	**308**	**322**	**350**	**316**	**287**
UK & Europe Insurance Operations								
Direct and Partnership Annuities	20	16	14	9	10	8	8	6
Intermediated Annuities	6	6	5	5	5	7	6	6
Internal Vesting annuities	33	31	29	31	27	29	32	34
Total Individual Annuities	**59**	**53**	**48**	**45**	**42**	**44**	**47**	**46**
Corporate Pensions	60	62	48	51	78	69	43	43
On-shore Bonds	33	36	41	56	43	41	43	51
Other Products	40	38	27	28	36	28	27	31
Wholesale	1	-	2	92	-	28	-	6
Total UK & Europe Insurance Operations	**193**	**189**	**166**	**272**	**199**	**210**	**160**	**177**
Group Total	**804**	**815**	**799**	**1,014**	**888**	**936**	**880**	**977**
Group Total – ex India	**734**	**774**	**752**	**994**	**857**	**920**	**854**	**949**

Schedule 7(e) - Reported Exchange Rates
PRUDENTIAL PLC - NEW BUSINESS – 2011
INVESTMENT OPERATIONS - BY QUARTER

	2010				2011			
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m	Q3 £m	Q4 £m
Group Investment Operations								
Opening FUM	89,780	96,746	96,015	104,451	111,374	112,807	115,216	**107,056**
Net Flows	1,203	3,173	1,802	2,712	1,633	1,660	(163)	**1,376**
- Gross Inflows	24,173	27,182	25,727	29,887	27,689	25,178	19,318	**17,522**
- Redemptions	(22,970)	(24,009)	(23,925)	(27,175)	(26,056)	(23,518)	(19,481)	**(16,146)**
Other Movements	5,763	(3,904)	6,634	4,211	(200)	749	(7,997)	**2,737**
Total Group Investment Operations	**96,746**	**96,015**	**104,451**	**111,374**	**112,807**	**115,216**	**107,056**	**111,169**
M&G								
Retail								
Opening FUM	31,059	34,069	33,724	38,232	42,506	44,018	45,603	**41,427**
Net Flows	1,454	1,922	1,742	2,298	1,310	1,486	(172)	**1,271**
- Gross Inflows	4,190	4,450	3,986	5,285	5,474	4,900	4,322	**4,353**
- Redemptions	(2,736)	(2,528)	(2,244)	(2,987)	(4,164)	(3,414)	(4,494)	**(3,082)**
Other Movements	1,556	(2,267)	2,766	1,976	202	99	(4,004)	**1,530**
Closing FUM	**34,069**	**33,724**	**38,232**	**42,506**	**44,018**	**45,603**	**41,427**	**44,228**
Institutional[4]								
Opening FUM	39,247	42,155	41,946	44,694	46,820	47,364	47,747	**45,921**
Net Flows	435	863	(206)	597	367	(241)	(116)	**480**
- Gross Inflows	2,151	2,581	1,630	2,099	1,445	1,571	2,105	**1,811**
- Redemptions	(1,716)	(1,718)	(1,836)	(1,502)	(1,078)	(1,812)	(2,221)	**(1,331)**
Other Movements	2,473	(1,072)	2,954	1,529	177	624	(1,710)	**1,319**
Closing FUM	42,155	41,946	44,694	46,820	47,364	47,747	45,921	**47,720**
Total M&G Investment Operations	**76,224**	**75,670**	**82,926**	**89,326**	**91,382**	**93,350**	**87,348**	**91,948**
Eastspring Investments								
Equity/Bond/Other[9]								
Opening FUM	13,122	14,923	14,497	15,825	16,358	14,943	14,565	**13,404**
Net Flows	166	1,031	446	103	64	(272)	713	**(252)**
- Gross Inflows	1,713	3,414	3,248	3,423	2,031	1,911	2,088	**1,147**
- Redemptions	(1,547)	(2,383)	(2,802)	(3,320)	(1,967)	(2,183)	(1,375)	**(1,399)**
Other Movements	1,635	(1,457)	882	430	(1,479)	(106)	(1,874)	**(145)**
Closing FUM[6]	**14,923**	**14,497**	**15,825**	**16,358**	**14,943**	**14,565**	**13,404**	**13,007**
Third Party Institutional Mandates								
Opening FUM	1,450	1,549	1,604	1,680	1,807	1,909	1,986	**1,783**
Net Flows	5	125	(39)	-	150	46	62	**122**
- Gross Inflows	12	137	14	12	236	100	84	**227**
- Redemptions	(7)	(12)	(53)	(12)	(86)	(54)	(22)	**(105)**
Other Movements	94	(70)	115	127	(48)	31	(265)	**124**
Closing FUM[6]	**1,549**	**1,604**	**1,680**	**1,807**	**1,909**	**1,986**	**1,783**	**2,029**
MMF								
Opening FUM	4,902	4,050	4,244	4,020	3,883	4,573	5,315	**4,521**
Net Flows	(857)	(768)	(141)	(286)	(258)	641	(650)	**(245)**
- Gross Inflows	16,107	16,600	16,849	19,068	18,503	16,696	10,719	**9,984**
- Redemptions	(16,964)	(17,368)	(16,990)	(19,354)	(18,761)	(16,055)	(11,369)	**(10,229)**
Other Movements	5	962	(83)	149	948	101	(144)	**(91)**
Closing FUM[6]	**4,050**	**4,244**	**4,020**	**3,883**	**4,573**	**5,315**	**4,521**	**4,185**
Total Eastspring Investments	**20,522**	**20,345**	**21,525**	**22,048**	**21,425**	**21,866**	**19,708**	**19,221**
US								
Curian Capital - FUM[6]	**2,708**	**2,781**	**3,038**	**3,457**	**3,873**	**4,268**	**4,291**	**4,705**

Schedule 7(f) - Reported Exchange Rates
PRUDENTIAL PLC - NEW BUSINESS – 2011
TOTAL INSURANCE NEW BUSINESS PROFIT AND MARGIN (% APE AND % PVNBP)

	2010				2011			
	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m
Annual Equivalent[3]								
Total Asian Insurance Operations - ex India	286	594	899	1,313	336	696	1,074	**1,559**
India	73	119	167	188	31	47	73	**101**
Total Asian Insurance Operations	359	713	1,066	1,501	367	743	1,147	**1,660**
Total US Insurance Operations	255	560	850	1,164	322	672	988	**1,275**
Total UK & Europe Insurance Operations	193	382	548	820	199	409	569	**746**
Group Total	**807**	**1,655**	**2,464**	**3,485**	**888**	**1,824**	**2,704**	**3,681**
Group Total - ex India	**734**	**1,536**	**2,297**	**3,297**	**857**	**1,777**	**2,631**	**3,580**
New business profit[2]								
Total Asian Insurance Operations - ex India	170	372	588	864	207	455	704	**1,056**
India	13	24	33	38	6	10	15	**20**
Total Asian Insurance Operations	183	396	621	902	213	465	719	**1,076**
Total US Insurance Operations	175	361	532	761	220	458	622	**815**
Total UK & Europe Insurance Operations	69	135	192	365	65	146	194	**260**
Group Total	**427**	**892**	**1,345**	**2,028**	**498**	**1,069**	**1,535**	**2,151**
New business margin (% of APE)								
Total Asian Insurance Operations - ex India	59%	63%	65%	66%	62%	65%	66%	**68%**
India	19%	20%	20%	20%	18%	21%	21%	**20%**
Total Asian Insurance Operations	51%	56%	58%	60%	58%	63%	63%	**65%**
Total US Insurance Operations	69%	64%	63%	65%	68%	68%	63%	**64%**
Total UK & Europe Insurance Operations	36%	35%	35%	45%	33%	36%	34%	**35%**
Group Total	**53%**	**54%**	**55%**	**58%**	**56%**	**59%**	**57%**	**58%**
PVNBP[3]								
Total Asian Insurance Operations - ex India	1,389	2,987	4,613	6,911	1,761	3,690	5,865	**8,444**
India	192	329	458	582	174	249	356	**466**
Total Asian Insurance Operations	1,581	3,316	5,071	7,493	1,935	3,939	6,221	**8,910**
Total US Insurance Operations	2,538	5,569	8,457	11,572	3,206	6,689	9,858	**12,720**
Total UK & Europe Insurance Operations	1,557	3,081	4,463	6,842	1,551	3,264	4,603	**6,111**
Group Total	**5,676**	**11,966**	**17,991**	**25,907**	**6,692**	**13,892**	**20,682**	**27,741**
Group Total - ex India	**5,484**	**11,637**	**17,533**	**25,325**	**6,518**	**13,643**	**20,326**	**27,275**
New business profit[2]								
Total Asian Insurance Operations - ex India	170	372	588	864	207	455	704	**1,056**
India	13	24	33	38	6	10	15	**20**
Total Asian Insurance Operations	183	396	621	902	213	465	719	**1,076**
Total US Insurance Operations	175	361	532	761	220	458	622	**815**
Total UK & Europe Insurance Operations	69	135	192	365	65	146	194	**260**
Group Total	**427**	**892**	**1,345**	**2,028**	**498**	**1,069**	**1,535**	**2,151**
New business margin (% of PVNBP)								
Total Asian Insurance Operations - ex India	12.2%	12.5%	12.7%	12.5%	11.8%	12.3%	12.0%	**12.5%**
India	6.8%	7.3%	7.2%	6.5%	3.4%	4.0%	4.2%	**4.3%**
Total Asian Insurance Operations	11.6%	11.9%	12.2%	12.0%	11.0%	11.8%	11.6%	**12.1%**
Total US Insurance Operations	6.9%	6.5%	6.3%	6.6%	6.9%	6.8%	6.3%	**6.4%**
Total UK & Europe Insurance Operations	4.4%	4.4%	4.3%	5.3%	4.2%	4.5%	4.2%	**4.3%**
Group Total	**7.5%**	**7.5%**	**7.5%**	**7.8%**	**7.4%**	**7.7%**	**7.4%**	**7.8%**

8 Adoption of altered US GAAP requirements to Group IFRS reporting in 2012

Change to accounting policy for deferral of acquisition costs for operations applying US GAAP measurement principles to insurance assets and liabilities from 1 January 2012

Background

Under the Group's accounting policies the measurement of insurance assets and liabilities reflects the application of UK GAAP under the Modified Statutory Basis (MSB). This has been applied from when the Company first adopted IFRS in 2005, subject to subsequent policy improvements under IFRS 4. The MSB in turn is based on the codification in the 2003 ABI Statement of Recommended Practise which, subject to various restrictions, permits the use of local bases for overseas operations. Accordingly, since 2005, the insurance assets and liabilities of the Group's US operations have been measured using US GAAP. This basis has also been explicitly applied to those Asian operations (namely India, Japan, Taiwan and Vietnam) where the local regulatory basis is not appropriate as a starting point for deriving MSB compliant results.

In October 2010, the Emerging Issues Task Force of the US Financial Accounting Standards Board issued Update No 2010-26 on 'Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts'. The update was issued to address perceived diversity by companies preparing financial statements in accordance with US GAAP as regards the types of acquisition costs being deferred. Under US GAAP, costs that can be deferred and amortised are those that 'vary with and are primarily related to the acquisition of insurance contracts'. The Update requires insurers to capitalise only those incremental costs directly related to acquiring a contract for financial statements for reporting periods starting after 15 December 2011. All other indirect acquisition expenses are required to be charged to the income statement as incurred expenses. Accordingly, the main impact of the Update is to disallow insurers from deferring costs that are not directly related to successful sales.

Under the Update, US insurers preparing financial statements under US GAAP can choose to make a prospective or a retrospective application. Under the prospective basis the change is confined to the income statement from the date of adoption to incorporate the additional charge for non deferrable expenses for the activity of the reporting period. No changes are made to the results of comparative periods.

By contrast, under retrospective application, the deferred acquisition costs balances in the statement of financial position for comparative periods are reset so as to only defer those costs permitted by the Update. In the income statement the net effect of the Update reflects;
(i) as for the prospective basis, the additional charge for non deferrable expenses for the activity of the reporting period offset by
(ii) a reduced charge for DAC amortisation reflecting the lower level of expenses that could be deferred on prior period activity.

Under the Group's IFRS reporting, Prudential has the option to either continue with its current basis of measurement or improve its accounting policy under IFRS4 to acknowledge the issuance of the Update. Prudential has chosen to continue with its current basis of measurement for reporting of its 2011 results and improve its policy in 2012 to apply the US GAAP update on the retrospective basis to the results of its US insurance operation Jackson National Life. The reason and timing for the change is to achieve consistency with the basis expected to be applied by peer competitor companies in the US market in their US GAAP financial statements. To ensure consistency it is also intended to make the change on the retrospective basis in 2012 for the Asian operations that historically have effectively applied US GAAP for measuring insurance assets and liabilities.

Effect of change of policy in 2012

The results impact of the policy improvement to adopt the Update in 2012 is summarised in the tables shown below which provides additional information to the detail shown in the audited IFRS disclosure.

Effect of policy improvement in 2012 on comparative results for 2011 and full year 2010

Analysis of profit and earnings per share	Year ended 31 December 2011			6 months ended 30 June 2011			Year ended 31 December 2010		
	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Analysis of profit									
Operating profit based on longer-term investment returns									
Asian insurance operations [note (a)]	704	-	704	324	(2)	322	532	(10)	522
US insurance operations [note (b)]	694	(43)	651	368	(28)	340	833	(105)	728
Other operations	672	-	672	366		366	576		576
Total	2,070	(43)	2,027	1,058	(30)	1,028	1,941	(115)	1,826
Short-term fluctuations in investment returns	(148)	(72)	(220)	113	(20)	93	(123)	(75)	(198)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	21	-	21	(7)	-	(7)	(10)	-	(10)
Costs of terminated AIA transaction							(377)	-	(377)
Gain on dilution of Group holdings							30	-	30
Profit before tax attributable to shareholders (including actual investment returns)	1,943	(115)	1,828	1,164	(50)	1,114	1,461	(190)	1,271
Tax attributable to shareholders - operating profit									
Excluding, for 2010, exceptional tax credit									
Asian insurance operations	(122)	-	(122)	(39)	1	(38)	(58)	2	(56)
US insurance operations	(200)	15	(185)	(110)	10	(100)	(249)	37	(212)
Other operations	(126)	-	(126)	(91)	-	(91)	(64)	-	(64)
	(448)	15	(433)	(240)	11	(229)	(371)	39	(332)
Exceptional 2010 tax credit related primarily to the impact of settlement agreed with the UK tax authorities				-	-	-	158	-	158
Total	(448)	15	(433)	(240)	11	(229)	(213)	39	(174)
Tax attributable to shareholders - non-operating profit	(1)	25	24	(61)	7	(54)	188	26	214
Non-controlling interests - operating	(4)	-	(4)	(2)	-	(2)	(5)	-	(5)
Profit after tax and non-controlling interests	1,490	(75)	1,415	861	(32)	829	1,431	(125)	1,306

Analysis of profit and earnings per share

	Year ended 31 December 2011			6 months ended 30 June 2011			Year ended 31 December 2010		
	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Operating profit after tax and non-controlling interests									
Excluding, for 2010, exceptional tax credit	1,618	(28)	1,590	816	(19)	797	1,565	(76)	1,489
Exceptional 2010 tax credit	-			-	-	-	158	-	158
Total	1,618	(28)	1,590	816	(19)	797	1,723	(76)	1,647
Earnings per Share (p)									
Operating (basic) - excluding, for 2010, exceptional tax credit (p)	63.9	(1.1)	62.8	32.2	(0.8)	31.4	62.0	(3.0)	59.0
Operating (diluted) - excluding, for 2010, exceptional tax credit (p)	63.8	(1.1)	62.7	32.1	(0.8)	31.3	61.9	(3.0)	58.9
Total (diluted) (p)	58.7	(3.0)	55.7	33.9	(1.3)	32.6	56.6	(4.9)	51.7

Notes on effect of change on operating profit based on longer-term investment returns

a Asian insurance operations									
New business									
Acquisition costs on new contracts not able to be deferred		(16)			(10)			(20)	
Business in force at beginning of period									
Reduction in amortisation on reduced DAC balance		16			8			10	
Total		-			(2)			(10)	
arising in the following insurance operations:									
India		4			(2)			1	
Japan		-			-			-	
Taiwan		1			(1)			(3)	
Vietnam		(5)			(3)			(8)	
Total		-			(2)			(10)	
b US insurance operations									
New business									
Acquisition costs on new contracts not able to be deferred		(156)			(80)			(159)	
Business in force at beginning of period									
Reduction in amortisation on reduced DAC balance		113			52			54	
Total		(43)			(28)			(105)	

Changes in equity and balance sheet	Year ended 31 December 2011			6 months ended 30 June 2011			Year ended 31 December 2010		
	As reported under current policy £m	Effect of change £m	Under new policy from 1 Jan 2012 £m	As reported under current policy £m	Effect of change £m	Under new policy from 1 Jan 2012 £m	As reported under current policy £m	Effect of change £m	Under new policy from 1 Jan 2012 £m
Changes in shareholders' equity									
Profit for the year net of non controlling interests	1,490	(75)	1,415	861	(32)	829	1,431	(125)	1,306
Exchange movements on foreign operations and net investment hedges, net of related tax	(32)	(5)	(37)	(75)	13	(62)	251	(14)	237
Available-for-sale securities									
US operations classified as available-for sale	811	-	811	237	-	237	1,221	-	1,221
income and acquisition costs	(331)	56	(275)	(97)	26	(71)	(496)	86	(410)
Related tax	(168)	(19)	(187)	(49)	(8)	(57)	(247)	(31)	(278)
Total comprehensive income for the year net of non-controlling interests	1,770	(43)	1,727	877	(1)	876	2,160	(84)	2,076
Dividends	(642)	-	(642)	(439)	-	(439)	(511)	-	(511)
New share capital and other movements	(42)	-	(42)	32	-	32	111	-	111
Net increase in shareholders 'equity	1,086	(43)	1,043	470	(1)	469	1,760	(84)	1,676
At beginning of year	8,031	(510)	7,521	8,031	(510)	7,521	6,271	(426)	5,845
At end of year	9,117	(553)	8,564	8,501	(511)	7,990	8,031	(510)	7,521

Changes in equity and balance sheet	Year ended 31 December 2011			6 months ended 30 June 2011			Year ended 31 December 2010		
	As reported under current policy £m	Effect of change £m	Under new policy from 1 Jan 2012 £m	As reported under current policy £m	Effect of change £m	Under new policy from 1 Jan 2012 £m	As reported under current policy £m	Effect of change £m	Under new policy from 1 Jan 2012 £m
Balance sheet									
Assets									
Deferred acquisition costs attributable to shareholders									
Insurance operations									
Asia	744	(50)	694	741	(52)	690	758	(52)	706
US	3,880	(785)	3,095	3,639	(717)	2,922	3,543	(714)	2,829
UK	111	-	111	115	-	115	116	-	116
Asset management	12	-	12	9	-	9	9	-	9
	4,747	(835)	3,912	4,504	(769)	3,736	4,426	(766)	3,660
Investments and other assets	268,833	-	268,833	264,962	-	264,962	256,380	-	256,380
Total assets	273,580	(835)	272,745	269,466	(769)	268,697	260,806	(766)	260,040
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds	236,290	-	236,290	232,304	-	232,304	224,980	-	224,980
Core structural borrowings of shareholder-financed operations	3,611		3,611	3,998	-	3,998	3,676	-	3,676
Deferred tax liabilities	4,211	(282)	3,929	4,194	(258)	3,936	4,224	(256)	3,968
Other liabilities	20,308	-	20,308	20,423	-	20,423	19,851	-	19,851
Total liabilities	264,420	(282)	264,138	260,919	(258)	260,661	252,731	(256)	252,475
Equity									
Shareholders' equity									
Asian insurance operations	2,349	(43)	2,306	2,269	(45)	2,224	2,149	(45)	2,104
US insurance operations	4,271	(510)	3,761	3,764	(466)	3,298	3,815	(465)	3,350
Rest of Group	2,497	-	2,497	2,468	-	2,468	2,067	-	2,067
	9,117	(553)	8,564	8,501	(511)	7,990	8,031	(510)	7,521
Non-controlling interests	43	-	43	46	-	46	44	-	44
Total equity	9,160	(553)	8,607	8,547	(511)	8,036	8,075	(510)	7,565
Total liabilities and equity	273,580	(835)	272,745	269,466	(769)	268,697	260,806	(766)	260,040

9. Reconciliation of expected transfer of fair value of in-force (VIF) and required capital business of free surplus

Expected transfer of value of in-force (VIF) and required capital business to free surplus

The tables below show how the VIF generated by the in-force long-term business and the associated required capital is modelled as emerging into free surplus over the next 40 years. Although a small amount (1 per cent) of the Group's embedded value emerges after this date, analysis of cash flows emerging in the early years is considered most meaningful. The modelled cash flows use the same methodology underpinning the Group's embedded value reporting and so are subject to the same assumptions and sensitivities.

In addition to showing the amounts, both discounted and undiscounted, expected to be generated from all in-force business at 31 December 2011, the tables also present the expected future free surplus to be generated from the investment made in new business during 2011 over the same 40 year period.

Expected transfer of value of in-force (VIF) and required capital business to free surplus

	2011							
	Undiscounted expected generation from all in-force business at 31 December*				Undiscounted expected generation from 2011 long-term new business written*			
Expected period of emergence	Asia £m	US £m	UK £m	Total £m	Asia £m	US £m	UK £m	Total £m
2012	674	680	423	**1,777**	104	245	20	**369**
2013	647	485	502	**1,634**	123	103	21	**247**
2014	634	450	472	**1,556**	120	96	23	**239**
2015	595	480	437	**1,512**	92	16	18	**126**
2016	590	484	428	**1,502**	91	102	20	**213**
2017	564	438	412	**1,414**	84	61	20	**165**
2018	556	425	400	**1,381**	86	52	17	**155**
2019	541	425	389	**1,355**	87	103	17	**207**
2020	523	369	380	**1,272**	81	87	17	**185**
2021	512	318	372	**1,202**	83	73	17	**173**
2022	491	274	364	**1,129**	78	67	16	**161**
2023	482	226	360	**1,068**	74	51	16	**141**
2024	472	169	353	**994**	73	42	16	**131**
2025	465	156	345	**966**	69	38	16	**123**
2026	464	135	332	**931**	88	33	17	**138**
2027	463	112	327	**902**	66	27	16	**109**
2028	460	97	316	**873**	68	22	16	**106**
2029	449	85	306	**840**	62	18	16	**96**
2030	445	67	297	**809**	65	15	16	**96**
2031	437	57	283	**777**	70	10	17	**97**
2032-2036	2,035	177	1,185	**3,397**	294	27	79	**400**
2037-2041	1,869	(96)	894	**2,667**	260	(35)	81	**306**
2042-2046	1,737	-	488	**2,225**	242	-	54	**296**
2047-2051	1,597	-	282	**1,879**	242	-	36	**278**
Total free surplus expected to emerge in the next 40 years	17,702	6,013	10,347	**34,062**	2,702	1,253	602	**4,557**

* The analysis excludes amounts incorporated into VIF at 31 December 2011 where there is no definitive timeframe for when the payments will be made or receipts received. In particular it excludes the value of the shareholders' interest in the estate. It also excludes any free surplus emerging after 2051.

The above amounts can be reconciled to the new business amounts as follows:

New business	2011			
	Asia £m	US £m	UK £m	Total £m
Undiscounted expected free surplus generation for years 2012-2051	2,702	1,253	602	**4,557**
Less: discount effect	(1,611)	(377)	(355)	**(2,343)**
Discounted expected free surplus generation for years 2012-2051	1,091	876	247	**2,214**
Discounted expected free surplus generation for years 2051+	32	-	2	**34**
Less: Free surplus investment in new business	(297)	(202)	(54)	**(553)**
Other items**	(15)	(144)	-	**(159)**
Post-tax EEV new business profit	811	530	195	**1,536**
Tax	265	285	65	**615**
Pre-tax EEV new business profit	1,076	815	260	**2,151**

** Other items represent the impact of the time value of options and guarantees on new business, foreign exchange effects and other non-modelled items. Foreign exchange effects arise as EEV new business profit amounts are translated at average exchange rates and expected free surplus generation uses year end closing rates.

The undiscounted expected free surplus generation from all in-force business at 31 December 2011 shown below can be reconciled to the amount that was expected to be generated as at 31 December 2010 as follows.

Group	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Other £m	Total £m
2010 expected free surplus generation for years 2011-2050	1,923	1,551	1,579	1,449	1,446	1,367	26,538	**35,853**
Less: Amounts expected to be realised in the current year	(1,923)	-	-	-	-	-	-	**(1,923)**
Add: Expected free surplus to be generated in year 2051 *	-	-	-	-	-	-	230	**230**
Foreign exchange differences	-	(11)	(13)	(11)	(9)	(8)	(64)	**(116)**
New business	-	369	247	239	126	213	3,363	**4,557**
Operating movements	-	16	19	18	-	3		
Non-operating and other movements	-	(148)	(198)	(139)	(51)	(73)	(3,986)	**(4,539)**
2011 expected free surplus generation for years 2012-2051	-	1,777	1,634	1,556	1,512	1,502	26,081	**34,062**

Asia	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Other £m	Total £m
2010 expected free surplus generation for years 2011-2050	635	598	573	558	554	554	14,472	**17,944**
Less: Amounts expected to be realised in the current year	(635)	-	-	-	-	-	-	**(635)**
Add: Expected free surplus to be generated in year 2051 *	-	-	-	-	-	-	192	**192**
Foreign exchange differences	-	(15)	(17)	(14)	(13)	(11)	(87)	**(157)**
New business	-	104	123	120	92	91	2,172	**2,702**
Operating movements	-	1	3	(4)	(18)	(21)		
Non-operating and other movements	-	(14)	(35)	(26)	(20)	(23)	(2,187)	**(2,344)**
2011 expected free surplus generation for years 2012-2051	-	674	647	634	595	590	14,562	**17,702**

US	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Other £m	Total £m
2010 expected free surplus generation for years 2011-2050	852	546	490	440	449	380	3,219	**6,376**
Less: Amounts expected to be realised in the current year	(852)	-	-	-	-	-	-	**(852)**
Add: Expected free surplus to be generated in year 2051 *	-	-	-	-	-	-	-	**-**
Foreign exchange differences	-	4	4	3	4	3	23	**41**
New business	-	245	103	96	16	102	691	**1,253**
Operating movements	-	(8)	(2)	7	4	16		
Non-operating and other movements	-	(107)	(110)	(96)	7	(17)	(499)	**(805)**
2011 expected free surplus generation for years 2012-2051	-	680	485	450	480	484	3,434	**6,013**

UK	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Other £m	Total £m
2010 expected free surplus generation for years 2011-2050	436	407	516	451	443	433	8,847	**11,533**
Less: Amounts expected to be realised in the current year	(436)	-	-	-	-	-	-	**(436)**
Add: Expected free surplus to be generated in year 2051 *	-	-	-	-	-	-	38	**38**
Foreign exchange differences	-	-	-	-	-	-	-	**-**
New business	-	20	21	23	18	20	500	**602**
Operating movements	-	23	18	15	14	8		
Non-operating and other movements	-	(27)	(53)	(17)	(38)	(33)	(1,300)	**(1,390)**
2011 expected free surplus generation for years 2012-2051	-	423	502	472	437	428	8,085	**10,347**

* Excluding 2011 new business.

At 31 December 2011 the total free surplus expected to be generated over the next five years (years 2012-2016 inclusive), using the same assumptions and methodology as underpin our embedded value reporting was £8.0 billion, an increase of £0.6 billion from the £7.4 billion expected over the same period at the end of 2010.

This increase reflected the new business written in 2011, which is expected to generate £1,194 million of free surplus over the next five years. Operating movements were positive £56 million, less than 1 per cent of our 2012-2016 free surplus expectation at the end of 2010. Market effects and foreign exchange movements reduced expected free surplus generation for the next five years by £609 million and £52 million respectively.

Market movements in Asia include the effect of lower fund earned rates in Indonesia, Singapore and Hong Kong where government yields have fallen by 165 bps, 110 bps and 140 bps respectively. In the US, lower US treasury bond yields have led to a reduction in the assumed variable annuity separate return which have had a consequential negative impact on the level of projected future fees. Market movements in the UK primarily reflect the adverse effect on with-profits bonus rates of lower assumed investment returns.

At 31 December 2011 the total free surplus expected to be generated on an undiscounted basis in the next forty years is £34 billion. Not withstanding the drag on future earnings caused by the market effects on fee and with-profits business referred to above, the expected free surplus generation over the next 40 years has increased. This reflects both our ability to write new business on very attractive economics and the robust management of the in-force book.

Actual underlying free surplus generated in 2011 from life business in-force at the end of 2010 was £2.2 billion inclusive of £0.2 billion of changes in operating assumption and experience variances. This compares with the expected 2011 realisation at the end of 2010 of £1.9 million. This can be analysed further as follows:

	Asia £m	US £m	UK £m	Total £m
Transfer to free surplus in 2011	597	754	511	**1,862**
Expected return on free assets	58	42	10	**110**
Operating variances	52	154	(38)	**168**
RPI to CPI inflation measure change on defined benefit pension schemes	-	-	20	**20**
Underlying free surplus generated from in-force life business in 2011	**707**	**950**	**503**	**2,160**
2011 free surplus expected to be generated at 31/12/2010	635	852	436	**1,923**

The equivalent discounted amounts of the undiscounted totals shown previously are outlined below:

	2011							
	Discounted expected generation from all in-force business at 31 December				Discounted expected generation from long-term 2011 new business written			
Expected period of emergence	Asia £m	US £m	UK £m	Total £m	Asia £m	US £m	UK £m	Total £m
2012	639	656	397	**1,692**	99	237	19	**355**
2013	565	441	438	**1,444**	107	94	19	**220**
2014	512	385	381	**1,278**	96	82	19	**197**
2015	448	388	338	**1,174**	68	13	14	**95**
2016	418	371	310	**1,099**	61	75	15	**151**
2017	375	317	279	**971**	53	43	14	**110**
2018	348	287	254	**889**	51	35	11	**97**
2019	317	269	231	**817**	48	64	10	**122**
2020	289	228	210	**727**	41	51	10	**102**
2021	267	186	192	**645**	40	40	9	**89**
2022	238	153	176	**567**	35	34	8	**77**
2023	220	117	162	**499**	32	24	8	**64**
2024	200	85	149	**434**	28	19	7	**54**
2025	184	74	136	**394**	25	16	7	**48**
2026	170	61	120	**351**	29	13	7	**49**
2027	169	49	111	**329**	24	10	6	**40**
2028	158	41	100	**299**	22	8	6	**36**
2029	145	34	90	**269**	20	6	5	**31**
2030	135	27	81	**243**	18	5	5	**28**
2031	125	22	71	**218**	19	3	5	**27**
2032-2036	498	69	232	**799**	68	7	18	**93**
2037-2041	347	7	115	**469**	47	(3)	14	**58**
2042-2046	246	-	35	**281**	34	-	7	**41**
2047-2051	171	-	12	**183**	26	-	4	**30**
Total discounted free surplus expected to emerge in the next 40 years	7,184	4,267	4,620	**16,071**	1,091	876	247	**2,214**

The above amounts can be reconciled to the Group's financial statements as follows:

	Total £m
Discounted expected generation from all in-force business for years 2012-2051	**16,071**
Discounted expected generation from all in-force business for years after 2051	**211**
Discounted expected generation from all in-force business at 31 December 2011	**16,282**
Add: Free surplus of life operations held at 31 December 2011	**2,839**
Less: Time value of guarantees	**(685)**
Other non-modelled items*	**1,214**
Total EEV of life operations	**19,650**

* These relate to items where there is no definitive timeframe for when the payments will be made or receipts received and are, consequently, excluded from the amounts incorporated into the tables above showing the expected generation of free surplus from in-force business at 31 December 2011. In particular it excludes the value of the shareholders' interest in the estate.

European Embedded Value (EEV) basis results

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European Embedded Value (EEV) basis results

Operating profit based on longer-term investment returns[note (i)]

Results analysis by business area

	Note	**2011**	2010 note (vi)
		£m	£m
Asian operations			
New business:			
Excluding Japan	2	**1,076**	902
Japan[note (v)]		**-**	(1)
Total		**1,076**	901
Business in force	3	**688**	549
Long-term business		**1,764**	1,450
Eastspring Investments		**80**	72
Development expenses		**(5)**	(4)
Total		**1,839**	1,518
US operations			
New business	2	**815**	761
Business in force	3	**616**	697
Long-term business		**1,431**	1,458
Broker-dealer and asset management		**24**	22
Total		**1,455**	1,480
UK operations			
New business	2	**260**	365
Business in force	3	**593**	571
Long-term business		**853**	936
General insurance commission		**40**	46
Total UK insurance operations		**893**	982
M&G		**357**	284
Total		**1,250**	1,266
Other income and expenditure			
Investment return and other income		**22**	30
Interest payable on core structural borrowings		**(286)**	(257)
Corporate expenditure		**(219)**	(223)
Unwind of expected asset management margin[note (ii)]		**(53)**	(44)
Total		**(536)**	(494)
RPI to CPI inflation measure change on defined benefit pension schemes[note (iii)]		**45**	-
Solvency II implementation costs[note (iv)]		**(56)**	(46)
Restructuring costs[note (iv)]		**(19)**	(28)
Operating profit based on longer-term investment returns[note (i)]		**3,978**	3,696
Analysed as profits (losses) from:			
New business:			
Excluding Japan	2	**2,151**	2,028
Japan[note (v)]		**-**	(1)
Total		**2,151**	2,027
Business in force	3	**1,897**	1,817
Long-term business		**4,048**	3,844
Asset management		**461**	378
Other results		**(531)**	(526)
Total		**3,978**	3,696

Notes

(i) EEV basis operating profit based on longer-term investment returns excludes the recurrent items of short-term fluctuations in investment returns, the mark to market value movements on core borrowings, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, and the effect of changes in economic assumptions. In addition for 2010, operating profit excluded costs associated with the terminated AIA transaction and the gain arising upon the dilution of the Group's holding in PruHealth. The amounts for these items are included in total EEV profit attributable to shareholders. The Company believes that operating profit, as adjusted for these items, better reflects underlying performance. Profit before tax and basic earnings per share include these items together with actual investment returns. This basis of presentation has been adopted consistently throughout these results.

(ii) The value of future profits or losses from asset management and service companies that support the Group's covered businesses are included in the profits for new business and the in-force value of the Group's long-term business. The results of the Group's asset management operations include the profits from the management of internal and external funds. For EEV basis reporting, Group shareholders' other income is adjusted to deduct the unwind of the expected margin for the year arising from the management of the assets of the covered business (as defined in note 1(a)). The deduction is on a basis consistent with that used for projecting the results for covered business. Group operating profit accordingly includes the variance between actual and expected profit in respect of covered business.

(iii) In 2011 the Group altered its inflation measure basis for future statutory increases to pension payments for certain tranches of its UK defined benefit pension schemes. This reflects the UK Government's decision to replace the basis of indexation from RPI with CPI. This resulted in a credit to operating profit for 2011 on an IFRS basis of £42 million and an additional £3 million recognised on the EEV basis.

(iv) Restructuring costs comprise the charge of £(16) million recognised on an IFRS basis and an additional £(3) million recognised on the EEV basis for the shareholders' share of restructuring costs incurred by the PAC with-profits fund. Solvency II implementation costs comprise the charge of £(55) million recognised on an IFRS basis and an additional £(1) million recognised on the EEV basis.

(v) For 2010, new business profits for the Group's Japanese insurance subsidiary, which ceased writing new business with effect from 15 February 2010, have been presented separately from those of the remainder of the Group.

(vi) The comparative results have been prepared using previously reported average exchange rates for the year.

Summarised consolidated income statement

	Note	**2011 £m**	2010 £m
Operating profit based on longer-term investment returns			
Asian operations		**1,839**	1,518
US operations		**1,455**	1,480
UK operations:			
UK insurance operations		**893**	982
M&G		**357**	284
		1,250	1,266
Other income and expenditure		**(536)**	(494)
RPI to CPI inflation measure change on defined benefit pension schemes		**45**	-
Solvency II implementation costs		**(56)**	(46)
Restructuring costs		**(19)**	(28)
Operating profit based on longer-term investment returns		**3,978**	3,696
Short-term fluctuations in investment returns	5	**(907)**	(30)
Mark to market value movements on core borrowings	9	**(14)**	(164)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes		**23**	(11)
Effect of changes in economic assumptions	6	**(158)**	(10)
Costs of terminated AIA transaction	4	**-**	(377)
Gain on dilution of Group holdings	13	**-**	3
Profit before tax attributable to shareholders (including actual investment returns)		**2,922**	3,107
Tax attributable to shareholders' profit	11	**(776)**	(530)
Profit for the year		**2,146**	2,577
Attributable to:			
Equity holders of the Company		**2,142**	2,573
Non-controlling interests		**4**	4
Profit for the year		**2,146**	2,577

Earnings per share (in pence)

	Note	**2011**	2010
Based on operating profit including longer-term investment returns, after related tax and non-controlling interests of £2,930 million (2010: £2,700 million*)	12	**115.7 p**	106.9 p
Based on profit after tax and non-controlling interests of £2,142 million (2010: £2,573 million)	12	**84.6 p**	101.9 p

* Operating earnings per share for 2010 has been determined after excluding an exceptional tax credit of £158 million which primarily related to the impact of a settlement agreed with the UK tax authorities - see note 11

Dividends per share (in pence)

	2011	2010
Dividends relating to reporting year:		
Interim dividend	**7.95 p**	6.61 p
Final dividend	**17.24p**	17.24 p
Total	**25.19p**	23.85 p
Dividends declared and paid in reporting year:		
Current year interim dividend	**7.95 p**	6.61 p
Final/second interim dividend for prior year	**17.24 p**	13.56 p
Total	**25.19 p**	20.17 p

Movement in shareholders' equity (excluding non-controlling interests)

	Note	**2011 £m**	2010 £m
Profit for the year attributable to equity shareholders		**2,142**	2,573
Items taken directly to equity:			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the year		**(90)**	659
Related tax		**(68)**	34
Dividends		**(642)**	(511)
New share capital subscribed (including shares issued in lieu of cash dividends)		**17**	75
Reserve movements in respect of share-based payments		**44**	37
Treasury shares:			
Movement in own shares in respect of share-based payment plans		**(30)**	(4)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		**(5)**	3
Mark to market value movements on Jackson assets backing surplus and required capital:			
Mark to market value movements arising during the year		**96**	105
Related tax		**(34)**	(37)
Net increase in shareholders' equity	10	**1,430**	2,934
Shareholders' equity at beginning of year (excluding non-controlling interests)	7,10	**18,207**	15,273
Shareholders' equity at end of year (excluding non-controlling interests)	7,10	**19,637**	18,207

		2011			2010		
Comprising:	Note	**Long-term business operations £m**	**Asset management and other operations £m**	**Total £m**	Long-term business operations £m	Asset management and other operations £m	Total £m
Asian operations:							
Net assets of operations		**8,510**	**211**	**8,721**	7,445	197	7,642
Acquired goodwill		**235**	**61**	**296**	236	61	297
	7	**8,745**	**272**	**9,017**	7,681	258	7,939
US operations:							
Net assets of operations		**5,082**	**113**	**5,195**	4,799	106	4,905
Acquired goodwill		**-**	**16**	**16**	-	16	16
	7	**5,082**	**129**	**5,211**	4,799	122	4,921
UK insurance operations:							
Net assets of operations	7	**6,058**	**29**	**6,087**	5,970	33	6,003
M&G:							
Net assets of operations		**-**	**229**	**229**	-	254	254
Acquired goodwill		**-**	**1,153**	**1,153**	-	1,153	1,153
	7	**-**	**1,382**	**1,382**	-	1,407	1,407
		6,058	**1,411**	**7,469**	5,970	1,440	7,410
Other operations:							
Holding company net borrowings at market value	9	**-**	**(2,188)**	**(2,188)**	-	(2,212)	(2,212)
Other net assets		**-**	**128**	**128**	-	149	149
	7	**-**	**(2,060)**	**(2,060)**	-	(2,063)	(2,063)
Shareholders' equity at end of year (excluding non-controlling interests)	7	**19,885**	**(248)**	**19,637**	18,450	(243)	18,207
Representing:							
Net assets		**19,650**	**(1,478)**	**18,172**	18,214	(1,473)	16,741
Acquired goodwill		**235**	**1,230**	**1,465**	236	1,230	1,466
		19,885	**(248)**	**19,637**	18,450	(243)	18,207

Net asset value per share (in pence)

	2011	2010
Based on EEV basis shareholders' equity of £19,637 million (2010: £18,207 million)	**771 p**	715 p
Number of issued shares at year end (millions)	**2,548**	2,546
Return on embedded value*	**16%**	18%

* Return on embedded value is based on EEV operating profit after related tax and non-controlling interests as a percentage of opening EEV basis shareholders' equity. The 2010 return has been determined after excluding an exceptional tax credit of £158 million, which primarily related to the impact of a settlement agreed with the UK tax authorities.

Summary statement of financial position

	Note	**2011**	2010
		£m	£m
Total assets less liabilities, before deduction for insurance funds		**243,760**	231,667
Less insurance funds:*			
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds		**(234,643)**	(223,636)
Less shareholders' accrued interest in the long-term business		**10,520**	10,176
		(224,123)	(213,460)
Total net assets	7,10	**19,637**	18,207
Share capital		**127**	127
Share premium		**1,873**	1,856
IFRS basis shareholders' reserves		**7,117**	6,048
Total IFRS basis shareholders' equity	7	**9,117**	8,031
Additional EEV basis retained profit	7	**10,520**	10,176
Total EEV basis shareholders' equity (excluding non-controlling interests)	7,10	**19,637**	18,207

* Including liabilities in respect of insurance products classified as investment contracts under IFRS 4.

Notes on the EEV basis results

1 Basis of preparation, methodology and accounting presentation

The EEV basis results have been prepared in accordance with the EEV Principles issued by the European Insurance CFO Forum in May 2004 and expanded by the Additional Guidance on EEV disclosures published in October 2005. Where appropriate, the EEV basis results include the effects of adoption of International Financial Reporting Standards (IFRS).

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles. The EEV basis results for 2011 and 2010 have been derived from the EEV basis results supplement to the Company's statutory accounts for 2011. The supplement included an unqualified audit report from the auditors.

(a) Covered business

The EEV results for the Group are prepared for 'covered business', as defined by the EEV Principles. Covered business represents the Group's long-term insurance business for which the value of new and in-force contracts is attributable to shareholders. The EEV basis results for the Group's covered business are then combined with the IFRS basis results of the Group's other operations.

The definition of long-term business operations is consistent with previous practice and comprises those contracts falling under the definition of long-term insurance business for regulatory purposes together with, for US operations, contracts that are in substance the same as guaranteed investment contracts (GICs) but do not fall within the technical definition. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management.

With two principal exceptions, covered business comprises the Group's long-term business operations. The principal exceptions are for the closed Scottish Amicable Insurance Fund (SAIF) and for the presentational treatment of the financial position of the Group's principal defined benefit pension scheme, the Prudential Staff Pension Scheme (PSPS). A small amount of UK group pensions business is also not modelled for EEV reporting purposes.

SAIF is a ring-fenced sub-fund of the Prudential Assurance Company (PAC) long-term fund, established by a Court approved Scheme of Arrangement in October 1997. SAIF is closed to new business and the assets and liabilities of the fund are wholly attributable to the policyholders of the fund.

The PSPS deficit funding liability attaching to the shareholder-backed business is included in the total for Other operations, reflecting the fact that the deficit funding is being paid for by the parent company, Prudential plc. The changes in financial position of the Scottish Amicable and M&G pension scheme are reflected in the EEV results for UK insurance operations and Other operations respectively.

(b) Methodology

(i) Embedded value

Overview

The embedded value is the present value of the shareholders' interest in the earnings distributable from assets allocated to covered business after sufficient allowance has been made for the aggregate risks in that business. The shareholders' interest in the Group's long-term business comprises:

- present value of future shareholder cash flows from in-force covered business (value of in-force business), less deductions for:
  - the cost of locked-in required capital,
  - the time value of cost of options and guarantees,
- locked-in required capital, and
- shareholders' net worth in excess of required capital (free surplus).

The value of future new business is excluded from the embedded value.

Notwithstanding the basis of presentation of results (as explained in note 1(c)(iv)) no smoothing of market or account balance values, unrealised gains or investment return is applied in determining the embedded value or profit before tax. Separately, the analysis of profit is delineated between operating profit based on longer-term investment returns and other constituent items, as explained in note 1(c)(i).

Valuation of in-force and new business

The embedded value results are prepared incorporating best estimate assumptions about all relevant factors including levels of future investment returns, expenses, persistency and mortality. These assumptions are used to project future cash flows. The present value of the future cash flows is then calculated using a discount rate which reflects both the time value of money and the non-diversifiable risks associated with the cash flows that are not otherwise allowed for.

Best estimate assumptions

Best estimate assumptions are used for the cash flow projections, where best estimate is defined as the mean of the distribution of future possible outcomes. The assumptions are reviewed actively and changes are made when evidence exists that material changes in future experience are reasonably certain.

Assumptions required in the calculation of the value of options and guarantees, for example relating to volatilities and correlations, or dynamic algorithms linking liabilities to assets, have been set equal to the best estimates and, wherever material and practical, reflect any dynamic relationships between the assumptions and the stochastic variables.

Principal economic assumptions
The EEV basis results for the Group's operations have been determined using economic assumptions where the long-term expected rates of return on investments and risk discount rates are set by reference to year end rates of return on government bonds (the 'active' basis).

Expected returns on equity and property asset classes are derived by adding a risk premium, based on the long-term view of Prudential's economists, to the risk-free rate.

The total profit that emerges over the lifetime of an individual contract as calculated using the embedded value basis is the same as that calculated under the IFRS basis. Since the embedded value basis reflects discounted future cash flows, under this methodology the profit emergence is advanced thus more closely aligning the timing of the recognition of profits with the efforts and risks of current management actions, particularly with regard to business sold during the year.

New Business
The contribution from new business represents profits determined by applying operating assumptions as at the end of the year.

In determining the new business contribution for UK immediate annuity business, which is interest rate sensitive, it is appropriate to use assumptions reflecting point of sale market conditions, consistent with how the business is priced. For other business within the Group, end of period economic assumptions are used.

Valuation movements on investments
With the exception of debt securities held by Jackson, investment gains and losses during the year (to the extent that changes in capital values do not directly match changes in liabilities) are included directly in the profit for the year and shareholders' equity as they arise.

The results for any covered business conceptually reflects the aggregate of the IFRS results and the movements on the additional shareholders' interest recognised on the EEV basis. Thus the start point for the calculation of the EEV results for Jackson, as for other businesses, reflects the market value movements recognised on the IFRS basis.

However, in determining the movements on the additional shareholders' interest, the basis for calculating the Jackson EEV result acknowledges that for debt securities backing liabilities the aggregate EEV results reflect the fact that the value of in-force business instead incorporates the discounted value of future spread earnings. This value is not affected generally by short-term market movements on securities that are broadly speaking held for the longer-term.

Fixed income securities backing the free surplus and required capital for Jackson are accounted for at fair value. However, consistent with the treatment applied under IFRS for Jackson securities classified as available-for-sale, movements in unrealised appreciation on these securities are accounted for in equity rather than in the income statement, as shown in the movement in shareholders' equity.

Cost of capital
A charge is deducted from the embedded value for the cost of capital supporting the Group's long-term business. This capital is referred to as required capital. The cost is the difference between the nominal value of the capital and the discounted value of the projected releases of this capital allowing for investment earnings (net of tax) on the capital.

The annual result is affected by the movement in this cost from year-to-year which comprises a charge against new business profit and generally a release in respect of the reduction in capital requirements for business in force as this runs off.

Where required capital is held within a with-profits long-term fund, the value placed on surplus assets in the fund is already discounted to reflect its release over time and no further adjustment is necessary in respect of required capital.

Financial options and guarantees

Nature of options and guarantees in Prudential's long-term business

Asian operations

Subject to local market circumstances and regulatory requirements, the guarantee features described below in respect of UK business broadly apply to similar types of participating contracts principally written in the PAC Hong Kong branch, Singapore and Malaysia. Participating products have both guaranteed and non-guaranteed elements.

There are also various non-participating long-term products with guarantees. The principal guarantees are those for whole of life contracts with floor levels of policyholder benefits that accrue at rates set at inception and do not vary subsequently with market conditions.

US operations (Jackson)

The principal options and guarantees in Jackson are associated with the fixed annuity and variable annuity (VA) lines of business.

Fixed annuities provide that, at Jackson's discretion, it may reset the interest rate credited to policyholders' accounts, subject to a guaranteed minimum. The guaranteed minimum return varies from 1.0 per cent to 5.5 per cent (2010: 1.5 per cent to 5.5 per cent), depending on the particular product, jurisdiction where issued, and date of issue. At 31 December 2011, 85 per cent (2010: 83 per cent) of the account values on fixed annuities relates to policies with guarantees of 3 per cent or less. The average guarantee rate is 2.8 per cent for 2011 (2010: 2.9 per cent).

Fixed annuities also present a risk that policyholders will exercise their option to surrender their contracts in periods of rapidly rising interest rates, possibly requiring Jackson to liquidate assets at an inopportune time.

Jackson issues VA contracts where it contractually guarantees to the contract holder either: a) return of no less than total deposits made to the contract adjusted for any partial withdrawals, b) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return, or c) the highest contract value on a specified anniversary date adjusted for any withdrawals following the specified contract anniversary. These guarantees include benefits that are payable at specified dates during the accumulation period (Guaranteed Minimum Withdrawal Benefit (GMWB)), as death benefits (Guaranteed Minimum Death Benefits (GMDB)) or as income benefits (Guaranteed Minimum Income Benefits (GMIB)). Jackson reinsures and hedges these risks using equity options and futures contracts. These guarantees generally protect the policyholder's value in the event of poor equity market performance.

Jackson also issues fixed index annuities that enable policyholders to obtain a portion of an equity-linked return while providing a guaranteed minimum return. The guaranteed minimum returns would be of a similar nature to those described above for fixed annuities.

UK insurance operations

The only significant financial options and guarantees in the UK insurance operations arise in the with-profits fund and SAIF.

With-profits products provide returns to policyholders through bonuses that are smoothed. There are two types of bonuses: annual and final. Annual 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 guaranteed only until the next bonus declaration. The with-profits fund also held a provision on the Pillar I Peak 2 basis of £90 million at 31 December 2011 (2010: £24 million) to honour guarantees on a small amount of guaranteed annuity option products.

Beyond the generic features and the provisions held in respect of guaranteed annuities described above, there are very few explicit options or guarantees of the with-profits fund such as minimum investment returns, surrender values, or annuity values at retirement and any granted have generally been at very low levels. At 31 December 2011, guarantees on certain with-profits deferred annuity business were in the money as a result of the low level of interest rates at that date.

The Group's main exposure to guaranteed annuity options in the UK is through SAIF and a provision on the Pillar I Peak 2 basis of £370 million (2010: £336 million) was held in SAIF at 31 December 2011 to honour the guarantees. As SAIF is a separate sub-fund of the Prudential Assurance Company long-term fund which is attributable to policyholders of the fund, the movement in the provision has no direct impact on shareholders.

Time value

The value of financial options and guarantees comprises two parts. One is given by a deterministic valuation on best estimate assumptions (the intrinsic value). The other part arises from the variability of economic outcomes in the future (the time value).

Where appropriate, a full stochastic valuation has been undertaken to determine the time value of the financial options and guarantees.

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations. Assumptions specific to the stochastic calculations reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of long-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes but with an allowance for correlation between the various asset classes. Details of the key characteristics of each model are given in note 17(a).

(ii) Level of required capital

In adopting the EEV Principles, Prudential has based required capital on its internal targets for economic capital subject to it being at least the local statutory minimum requirements. Economic capital is assessed using internal models but, when applying the EEV Principles, Prudential does not take credit for the significant diversification benefits that exist within the Group. For with-profits business written in a segregated life fund, as is the case in Asia and the UK, the capital available in the fund is sufficient to meet the required capital requirements. For shareholder-backed business the following capital requirements apply:

- Asian operations: the level of required capital has been set at the higher of local statutory requirements and the economic capital requirement;
- US operations: the level of required capital has been set to an amount at least equal to 235 per cent of the risk-based capital required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level (CAL); and
- UK insurance operations: the capital requirements are set at the higher of Pillar I and Pillar II requirements for shareholder-backed business of UK insurance operations as a whole, which for 2011 and 2010 was Pillar I.

(iii) Allowance for risk and risk discount rates

Overview

Under the EEV Principles, discount rates used to determine the present value of future cash flows are set equal to risk-free rates plus a risk margin. The risk margin should reflect any non-diversifiable risk associated with the emergence of distributable earnings that is not allowed for elsewhere in the valuation. Prudential has selected a granular approach to better reflect differences in market risk inherent in each product group. The risk discount rate so derived does not reflect an overall Group market beta but instead reflects the expected volatility associated with the cash flows for each product category in the embedded value model.

Since financial options and guarantees are explicitly valued under the EEV methodology, discount rates under EEV are set excluding the effect of these product features.

The risk margin represents the aggregate of the allowance for market risk, additional allowance for credit risk where appropriate, and allowance for non-diversifiable non-market risk. No allowance is required for non-market risks where these are assumed to be fully diversifiable. The majority of non-market and non-credit risks are considered to be diversifiable.

Market risk allowance

The allowance for market risk represents the beta multiplied by an equity risk premium. Except for UK shareholder-backed annuity business (as explained below) such an approach has been used for all of the Group's businesses.

The beta of a portfolio or product measures its relative market risk. The risk discount rates reflect the market risk inherent in each product group and hence the volatility of product cash flows. These are determined by considering how the profits from each product are affected by changes in expected returns on various asset classes. By converting this into a relative rate of return it is possible to derive a product specific beta.

Product level betas reflect the most recent product mix to produce appropriate betas and risk discount rates for each major product grouping.

Additional credit risk allowance

The Group's methodology is to allow appropriately for credit risk. The allowance for total credit risk is to cover:

- expected long-term defaults,
- credit risk premium (to reflect the volatility in downgrade and default levels), and
- short-term downgrades and defaults.

These allowances are initially reflected in determining best-estimate returns and through the market risk allowance described above. However, for those businesses which are largely backed by holdings of debt securities these allowances in the projected returns and market risk allowances may not be sufficient and an additional allowance may be appropriate.

The practical application of the allowance for credit risk varies depending upon the type of business as described below.

Asian operations

For Asian operations, the allowance for credit risk incorporated in the projected rates of return and the market risk allowance are sufficient. Accordingly no additional allowance for credit risk is required.

US business (Jackson)

For Jackson business, the allowance for long-term defaults is reflected in the Risk Margin Reserve charge which is deducted in determining the projected spread margin between the earned rate on the investments and the policyholder crediting rate.

The risk discount rate incorporates an additional allowance for credit risk premium and short-term down grades and defaults. In determining this allowance a number of factors have been considered. These factors, in particular, include:

- How much of the credit spread on debt securities represents an increased credit risk not reflected in the Risk Margin Reserve (RMR) long-term default assumptions, and how much is liquidity premium. In assessing this effect consideration has been given to a number of approaches to estimating the liquidity premium by considering recent statistical data; and
- Policyholder benefits for Jackson fixed annuity business are not fixed. It is possible in adverse economic scenarios to pass on a component of credit losses to policyholders (subject to guarantee features) through lower crediting rates. Consequently, it is only necessary to allow for the balance of the credit risk in the risk discount rate.

After taking these and related factors into account and, based on market conditions from 2009 to 2011, the risk discount rate for general account business includes an additional allowance of 200 basis points (2010: 150 basis points) for credit risk. For VA business, the additional allowance has been set at one-fifth (equivalent to 40 basis points (2010: 30 basis points)) of the non-VA business to reflect the proportion of the VA business that is allocated to holdings of general account debt securities. The level of the additional allowance is assessed at each reporting period to take account of prevailing credit conditions and as the business in force alters over time.

The level of allowance differs from that for UK annuity business for investment portfolio differences and to take account of the management actions available in adverse economic scenarios to reduce crediting rates to policyholders, subject to guarantee features of the products.

UK business

(1) Shareholder-backed annuity business

For Prudential's UK shareholder-backed annuity business, Prudential has used a market consistent embedded value (MCEV) approach to derive an implied risk discount rate which is then applied to the projected best estimate cash flows.

In the annuity MCEV calculations, the future cash flows are discounted using the swap yield curve plus an allowance for liquidity premium based on Prudential's assessment of the expected return on the assets backing the annuity liabilities after allowing for expected long-term defaults, a credit risk premium, an allowance for a 1 notch downgrade of the portfolio subject to credit risk and an allowance for short-term defaults. For the purposes of presentation in the EEV results, the results on this basis are reconfigured. Under this approach the projected earned rate of return on the debt securities held is determined after allowing for expected long-term defaults and, where necessary, an additional allowance for an element of short-term downgrades and defaults to bring the allowance in the earned rate up to best estimate levels. The allowances for credit risk premium and the remaining element of short-term downgrade and default allowances are incorporated into the risk margin included in the discount rate, as shown in note 17(a).

(2) With-profit fund non-profit annuity business

For UK non-profit annuity business including that written by Prudential Annuities Limited (PAL) the basis for determining the aggregate allowance for credit risk is consistent with that applied for UK shareholder-backed annuity business (as described above). The allowance for credit risk in PAL is taken into account in determining the projected cash flows to the with-profits fund, which are in turn discounted at the risk discount rate applicable to all of the projected cash flows of the fund.

(3) With-profit fund holdings of debt securities

The UK with-profits fund holds debt securities as part of its investment portfolio backing policyholder liabilities and unallocated surplus. The assumed earned rate for with-profit holdings of corporate bonds is defined as the risk-free rate plus an assessment of the long-term spread over gilts, net of expected long-term defaults. This approach is similar to that applied for equities and properties for which the projected earned rate is defined as the risk-free rate plus a long-term risk premium.

Allowance for non-diversifiable non-market risks

Finance theory cannot be used to determine the appropriate component of beta for non-diversifiable non-market risks since there is no observable risk premium associated with it that is akin to the equity risk premium. Recognising this, a pragmatic approach has been applied.

A base level allowance of 50 basis points is applied to cover the non-diversifiable non-market risks associated with the Group's businesses. For the Group's US business and UK business other than shareholder-backed annuity, no additional allowance is necessary. For UK shareholder-backed annuity business a further allowance of 50 basis points is used to reflect the longevity risk which is of particular relevance. For the Group's Asian operations in China, India, Indonesia, Philippines, Taiwan, Thailand and Vietnam, additional allowances are applied for emerging market risk ranging from 100 to 250 basis points.

(iv) Management actions

In deriving the time value of financial options and guarantees, management actions in response to emerging investment and fund solvency conditions have been modelled. Management actions encompass, but are not confined to investment allocation decisions, levels of reversionary and terminal bonuses and credited rates. Bonus rates are projected from current levels and varied in accordance with assumed management actions applying in the emerging investment and fund solvency conditions.

In all instances, the modelled actions are in accordance with approved local practice and therefore reflect the options actually available to management. For the PAC with-profits fund, the actions assumed are consistent with those set out in the Principles and Practices of Financial Management.

(v) With-profits business and the treatment of the estate

The proportion of surplus allocated to shareholders from the PAC with-profits fund has been based on the present level of 10 per cent. The value attributed to the shareholders' interest in the estate is derived by increasing final bonus rates (and related shareholder transfers) so as to exhaust the estate over the lifetime of the in-force with-profits business. In any scenarios where the total assets of the life fund are insufficient to meet policyholder claims in full, the excess cost is fully attributed to shareholders. Similar principles apply, where appropriate, for other with-profit funds of the Group's Asian operations.

(vi) Pension costs

The Group operates three defined benefit schemes in the UK. The largest scheme is the Prudential Staff Pension Scheme (PSPS). The other two, smaller schemes are the Scottish Amicable and M&G scheme.

Under IFRS the surpluses or deficits attaching to these schemes are accounted for in accordance with the provisions of IAS 19 that apply the principles of IFRIC 14, providing guidance on assessing the limit in IAS 19 on the amount of surplus in a defined benefit pension scheme that can be recognised as an asset.

Under the EEV basis the IAS 19 basis surpluses (to the extent not restricted under IFRIC 14) or deficits are initially allocated in the same manner. The shareholders' 10 per cent interest in the PAC with-profits fund estate is determined after inclusion of the portion of the IAS 19 basis surpluses or deficits attributable to the fund. Adjustments under EEV in respect of accounting for surpluses or deficits on the Scottish Amicable Pension Scheme are reflected as part of UK long-term business operations and for other defined benefit schemes the adjustments are reflected as part of 'Other operations', as shown in note 7.

Separately, the projected cash flows of in-force covered business include the cost of contributions to the defined benefit schemes for future service based on the contribution basis applying to the schemes at the time of the preparation of the results.

(vii) Debt capital
Core structural debt liabilities are carried at market value. As the liabilities are generally held to maturity or for the long-term, no deferred tax asset or liability has been established on the difference, compared to the IFRS carrying value. Accordingly, no deferred tax credit or charge is recorded in the results for the reporting period in respect of the mark to market value adjustment.

(viii) Foreign currency translation
Foreign currency profits and losses have been translated at average exchange rates for the year. Foreign currency assets and liabilities have been translated at year end rates of exchange. The purpose of translating the profits and losses at average exchange rates, notwithstanding the fact that EEV profit represents the incremental value added on a discounted cash flow basis, is to maintain consistency with the methodology applied for IFRS basis reporting.

(c) Accounting presentation
(i) Analysis of profit before tax
To the extent applicable, the presentation of the EEV profit for the year is consistent with the basis that the Group applies for analysis of IFRS basis profits before shareholder taxes between operating and non-operating results. Operating results reflect the underlying results including longer-term investment returns (which are determined as described in note 1(c)(ii) below) and incorporate the following:

- new business contribution, as defined in note 1(b)(i),
- unwind of discount on the value of in-force business and other expected returns, as described in note 1(c)(iv) below,
- the impact of routine changes of estimates relating to non-economic assumptions, as described in note 1(c)(iii) below, and
- non-economic experience variances, as described in note 1(c)(v) below.

Non-operating results comprise the recurrent items of short-term fluctuations in investment returns, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, the mark to market value movements on core borrowings and the effect of changes in economic assumptions.

In addition, for 2010 the Company incurred costs associated with the terminated AIA transaction and the Group's holding in PruHealth was diluted. The effect of both of these items has been shown separately from operating profits based on longer-term investment returns.

(ii) Operating profit
For the investment element of the assets covering the net worth of long-term insurance business, investment returns are recognised in operating results at the expected long-term rate of return. These expected returns are calculated by reference to the asset mix of the portfolio. For the purpose of calculating the longer-term investment return to be included in the operating result of the PAC with-profits fund of UK operations, where assets backing the liabilities and unallocated surplus are subject to market volatility, asset values at the beginning of the reporting period are adjusted to remove the effects of short-term market movements as explained in note 1(c)(iv) below.

For the purpose of determining the long-term returns for debt securities of US operations for fixed annuity and other general account business, a risk margin charge is included which reflects the expected long-term rate of default based on the credit quality of the portfolio. For Jackson, interest-related realised gains and losses are amortised to the operating results over the maturity period of the sold bonds and for equity-related investments, a long-term rate of return is assumed, which reflects the aggregation of end of year risk-free rates and equity risk premium. For US variable annuity separate account business, operating profit includes the unwind of discount on the opening value of in force adjusted to reflect end of year projected rates of return with the excess or deficit of the actual return recognised within non-operating profit, together with the related hedging activity.

For UK annuity business, rebalancing of the asset portfolio backing the liabilities to policyholders may from time to time take place to align it more closely with the internal benchmark of credit quality that management applies. Such rebalancing will result in a change in the projected yield on the asset portfolio and the allowance for default risk. The net effect of these changes is reflected in the result for the year. In general, the effect is booked in operating results.

(iii) Effect of changes in operating assumptions
Operating profit includes the effect of changes to operating assumptions on the value of in force at the end of the period. For presentational purposes, the effect of change is delineated to show the effect on the opening value of in force with the experience variance being determined by reference to the end of period assumptions.

(iv) Unwind of discount and other expected returns
The unwind of discount and other expected returns is determined by reference to the value of in-force business, required capital and surplus assets at the start of the period as adjusted for the effect of changes in economic and operating assumptions reflected in the current period.

For UK insurance operations the amount included within operating results based on longer-term investment returns represents the unwind of discount on the value of in-force business at the beginning of the period (adjusted for the effect of current period assumption changes), the unwind of discount on additional value representing the shareholders' share of smoothed surplus assets retained within the PAC with-profits fund (as explained in note 1(b)(v) above), and the expected return on shareholders' assets held in other UK long-term business operations. Surplus assets retained within the PAC with-profits fund are smoothed for this purpose to remove the effects of short-term investment volatility from operating results. In the summary statement of financial position and for total profit reporting, asset values and investment returns are not smoothed.

(v) Operating experience variances
Operating profits include the effect of experience variances on non-economic assumptions, which are calculated with reference to the embedded value assumptions at the end of the reporting year, such as persistency, mortality and morbidity, expenses and other factors. Further details are shown in note 17(b).

(vi) Pension costs
Profit before tax
Movements on the shareholders' share of surpluses (to the extent not restricted by IFRIC 14) and deficits of the Group's defined benefit pension schemes adjusted for contributions paid in the year are recorded within the income statement. Consistent with the basis of distribution of bonuses and the treatment of the estate described in note 1(b)(iv) and (v), the shareholders' share incorporates 10 per cent of the proportion of the financial position attributable to the PAC with-profits fund. The financial position is determined by applying the requirements of IAS 19.

Actuarial and other gains and losses
For pension schemes in which the IAS 19 position reflects the difference between the assets and liabilities of the scheme, actuarial and other gains and losses comprise:

- the difference between actual and expected return on the scheme assets,
- experience gains and losses on scheme liabilities,
- the impact of altered economic and other assumptions on the discounted value of scheme liabilities, and
- for pension schemes where the IAS 19 position reflects a deficit funding obligation, actuarial and other gains and losses includes the movement in estimates of deficit funding requirements.

These items are recorded in the income statement but, consistent with the IFRS basis of presentation, are excluded from operating results based on longer-term investment returns.

(vii) Effect of changes in economic assumptions
Movements in the value of in-force business at the beginning of the period caused by changes in economic assumptions, net of the related change in the time value of cost of option and guarantees, are recorded in non-operating results.

(viii) Taxation
The profit for the year for covered business is in most cases calculated initially at the post-tax level. The post-tax profit for covered business is then grossed up for presentation purposes at the rates of tax applicable to the countries and periods concerned. In the UK the rate applied for 2011 is 25 per cent (2010: 27 per cent). For Jackson, the US federal tax rate of 35 per cent is applied to gross up movements on the value of in-force business. The overall tax rate includes the impact of tax effects determined on a local regulatory basis. For Asia, similar principles apply subject to the availability of taxable profits. Tax payments and receipts included in the projected cash flows to determine the value of in force business are calculated using rates that have been substantively enacted by the end of the reporting period. Possible future changes of rate are not anticipated.

(ix) Inter-company arrangements
The EEV results for covered business incorporate the effect of the reinsurance arrangement of non-profit immediate pension annuity liabilities of SAIF (which is not covered business) to PRIL. In addition, the analysis of free surplus and value of in-force business takes account of the impact of contingent loan arrangements between Group companies.

(x) Foreign exchange rates
Foreign currency results have been translated as discussed in note 1(b)(viii), for which the principal exchange rates are as follows:

Local currency: £	**Closing rate at 31 Dec 2011**	**Average rate for 2011**	Closing rate at 31 Dec 2010	Average rate for 2010	Opening rate at 1 Jan 2010
China	**9.78**	**10.37**	10.32	10.46	11.02
Hong Kong	**12.07**	**12.48**	12.17	12.01	12.52
India	**82.53**	**74.80**	70.01	70.66	75.15
Indonesia	**14,091.80**	**14,049.41**	14,106.51	14,033.41	15,171.52
Korea	**1,790.32**	**1,775.98**	1,776.86	1,786.23	1,880.45
Malaysia	**4.93**	**4.90**	4.83	4.97	5.53
Singapore	**2.02**	**2.02**	2.01	2.11	2.27
Taiwan	**47.06**	**47.12**	45.65	48.65	51.65
Vietnam	**32,688.16**	**33,139.22**	30,526.26	29,587.63	29,832.74
US	**1.55**	**1.60**	1.57	1.55	1.61

2 Analysis of new business contribution[note (iv)]

	2011						
	New business premiums		Annual premium and contribution equivalents (APE)	Present value of new business premiums (PVNBP)	Pre-tax new business contribution	New business margin note (i)	
	Single	Regular	note (i)	note (i)	notes (ii),(iii)	(APE)	(PVNBP)
	£m	£m	£m	£m	£m	%	%
Asian operations	**1,456**	**1,514**	**1,660**	**8,910**	**1,076**	**65**	**12.1**
US operations	**12,562**	**19**	**1,275**	**12,720**	**815**	**64**	**6.4**
UK insurance operations[note (vii)]	**4,871**	**259**	**746**	**6,111**	**260**	**35**	**4.3**
Total	**18,889**	**1,792**	**3,681**	**27,741**	**2,151**	**58**	**7.8**

	2010						
	New business premiums		Annual premium and contribution equivalents (APE)	Present value of new business premiums (PVNBP)	Pre-tax new business contribution	New business margin note (i)	
	Single	Regular	note (i)	note (i)	notes (ii),(iii)	(APE)	(PVNBP)
	£m	£m	£m	£m	£m	%	%
Asian operations[notes (v),(vi)]	1,104	1,391	1,501	7,493	902	60	12.0
US operations	11,417	22	1,164	11,572	761	65	6.6
UK insurance operations[note (vii)]	5,656	254	820	6,842	365	45	5.3
Total	18,177	1,667	3,485	25,907	2,028	58	7.8

	New business margin (APE %)	
	2011	2010
Asian operations:[note (v)]		
China	**46**	47
Hong Kong	**66**	74
India	**20**	20
Indonesia	**87**	75
Korea	**43**	31
Taiwan	**19**	13
Other	**76**	79
Weighted average for all Asian operations	**65**	60

Notes

(i) New business margins are shown on two bases, namely the margins by reference to Annual Premium Equivalents (APE) and the Present Value of New Business Premiums (PVNBP) and are calculated as the ratio of the value of new business profit to APE and PVNBP. APE are calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts. PVNBP are calculated as equalling single premiums plus the present value of expected premiums of new regular premium business, allowing for lapses and other assumptions made in determining the EEV new business contribution.

(ii) In determining the EEV basis value of new business, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for statutory basis reporting.

(iii) New business contributions represent profits determined by applying operating assumptions as at the end of the year. In general, the use of point of sale or end of period economic assumptions is not significant in determining the new business contribution for different types of business and across financial reporting periods. However, to obtain proper measurement of the new business contribution for business which is interest rate sensitive, it is appropriate to use assumptions reflecting point of sale market conditions, consistent with how the business was priced. In practice, the only area within the Group where this has a material effect is for UK shareholder-backed annuity business. For other business within the Group end of period economic assumptions are used.

(iv) The amounts shown in the tables are translated at average exchange rates for the year.

(v) The tables for 2010 exclude new business sales and contributions for Japanese insurance operations in which the Company ceased selling new business from 15 February 2010.

(vi) The new business contribution in 2010 of £902 million for Asian operations includes a benefit of around £5 million arising from the application of the 'active' basis of economic assumption setting rather than the previously applied basis of an assessment of longer-term economic conditions, as described in note 17(a)(v).

(vii) The new business margin for UK operations for 2010 of 45 per cent reflects the signing of bulk annuity buy-in insurance agreements with an APE of £93 million and new business profit of £106 million. In 2011 the new business margin of 35 per cent includes bulk annuity agreements with an APE of £33 million and new business profit of £28 million.

3 Operating profit from business in force

Group Summary

	2011			
	Asian operations note (i)	**US operations** note (ii)	**UK insurance operations** note (iii)	**Total**
	£m	**£m**	**£m**	**£m**
Unwind of discount and other expected returns	**613**	**349**	**485**	**1,447**
Effect of change in operating assumptions	**10**	**14**	**79**	**103**
Experience variances and other items	**65**	**253**	**29**	**347**
Total	**688**	**616**	**593**	**1,897**

	2010			
	Asian operations note (i)	US operations note (ii)	UK insurance operations note (iii)	Total
	£m	£m	£m	£m
Unwind of discount and other expected returns	573	369	550	1,492
Effect of change in operating assumptions	(23)	3	(3)	(23)
Experience variances and other items	(1)	325	24	348
Total	549	697	571	1,817

Notes

Analysis by business unit

(i) Asian operations

	2011	2010 note (j)
	£m	£m
Unwind of discount and other expected returns[note (a)]	**613**	573
Effect of change in operating assumptions:		
Mortality and morbidity[note (b)]	**126**	89
Expense[note (c)]	**11**	(62)
Persistency and withdrawals[note (d)]	**(140)**	(75)
Other[note (e)]	**13**	25
	10	(23)
Experience variance and other items:		
Mortality and morbidity[note (f)]	**58**	45
Expense[note (g)]	**(31)**	(39)
Persistency and withdrawals[note (h)]	**10**	(48)
Other [note (i)]	**28**	41
	65	(1)
Total Asian operations	**688**	549

Notes

(a) The increase in unwind of discount and other expected returns to £613 million in 2011 from £573 million in 2010 mainly arises from the growth in the opening value of the in-force book, partially offset by the effect of the reduction in interest rates.

(b) The credit of £126 million in 2011 for mortality and morbidity assumption changes arises as follows:

	2011
	£m
Malaysia[note (1)]	**69**
Indonesia[note (2)]	**33**
Singapore	**19**
Other	**5**
	126

(1) The credit in Malaysia of £69 million relates to revised mortality and morbidity assumptions, reflecting recent experience.

(2) The credit in Indonesia of £33 million represents the effect of revised morbidity assumptions of £48 million, the revision of reinsurance rates of £8 million, offset by modelling enhancements for the cost of reinsurance of £(23) million.

The credit of £89 million in 2010 for mortality and morbidity assumption changes mainly arose in Indonesia of £72 million comprising £36 million for relaxation of morbidity assumptions and £36 million to reflect recent experience in relation to protection benefits provided by unit-linked policies.

(c) The overall credit of £11 million in 2011 for expense assumption changes mainly arises from altered assumptions for maintenance expenses, reflecting recent experience, principally in Singapore of £34 million and Indonesia of £11 million, partly offset by a charge in India of £(30) million.

The charge of £(62) million in 2010 for expense assumption changes includes a charge in Korea of £(40) million to reflect higher policy maintenance costs and a charge of £(16) million in Malaysia relating to altered maintenance expense assumptions.

(d) The charge of £(140) million in 2011 for persistency and withdrawals assumption changes arises as follows:

	2011 £m
Malaysia[note (1)]	**(106)**
India[note (2)]	**(21)**
Indonesia	**(13)**
Singapore	**(4)**
Other	**4**
	(140)

(1) The charge of £(106) million in Malaysia includes £(108) million for the effect of strengthening partial withdrawal assumptions on PruSaver product riders to reflect recent experience. Policyholders' pattern and frequency of withdrawals from this savings rider is different from that of the underlying "host" contract, where both persistency and premium payment experience remains in line with assumptions.

(2) The charge in India of £(21) million mainly reflects lower persistency assumptions for paid-up policies for unit linked business.

The charge of £(75) million for 2010 for the effect of changes in persistency and withdrawals assumptions mainly arises in Indonesia of £(33) million, Malaysia of £(26) million and India of £(24) million partly offset by a credit in Hong Kong of £16 million. The charge in Indonesia of £(33) million primarily relates to Shariah and single premium policies for which lower renewal rates had been experienced. The charge in Malaysia of £(26) million reflects altered premium holiday and other lapse assumptions and the charge in India of £(24) million represents changes in persistency assumptions on linked business.

(e) The credit of £13 million in 2011 for other operating assumptions principally represents the combined effect of a favourable change in assumed asset management margins, a reduction in investment expenses for Indonesia resulting from a growth in the asset portfolio, a decrease in policyholder bonuses in the Philippines, partly offset by the effect of altered profit sharing arrangements in relation to participating business in Vietnam.

(f) The favourable effect of mortality and morbidity experience in 2011 of £58 million and in 2010 of £45 million reflects better than expected experience, principally arising in Hong Kong, Indonesia, Singapore and Malaysia.

(g) The negative expense experience variance of £(31) million in 2011 (2010: £(39) million) comprises a charge of £(26) million (2010: £(18) million) for expense overruns for operations which are at a relatively early stage of development, for which actual expenses are in excess of those factored into the product pricing, together with £(6) million (2010: £(9) million) in Taiwan and £1 million (2010: £(12) million) of variance for other operations.

(h) The positive persistency and withdrawals experience variance of £10 million in 2011 reflects a combination of favourable experience in Hong Kong and Indonesia, partially offset by individually small negative variances in other territories.
The negative persistency and withdrawals experience variance of £(48) million in 2010 mainly arises in India of £(27) million relating to higher paid-ups and surrenders on unit-linked business and in Malaysia of £(26) million for higher partial withdrawals on unit-linked business as customers sought to monetise a proportion of their funds following two years of exceptional returns.

(i) The credit of £28 million in 2011 for other experience and other items primarily arises in Indonesia of £24 million. The credit of £41 million in 2010 includes a credit of £24 million arising in Indonesia for the impact of additional riders being added to in-force policies during the year, funded from the policyholder unit-linked account balances.

(j) The in-force operating profit for 2010 of £549 million reflects the effect of setting economic assumptions on an 'active' basis rather than the previously applied 'passive' basis as described in note 17(a)(v), the impact of which was to lower in-force operating profits in 2010 by £(58) million, principally for altered unwind of discount.

(ii) US operations

	2011 £m	2010 £m
Unwind of discount and other expected returns[note (a)]	**349**	369
Effect of changes in operating assumptions:		
Persistency[note (b)]	**29**	4
Variable Annuity (VA) fees[note (c)]	**24**	27
Mortality[note (d)]	**(36)**	10
Other[note (e)]	**(3)**	(38)
	14	3
Experience variances and other items:		
Spread experience variance[note (f)]	**152**	158
Amortisation of interest-related realised gains and losses[note (g)]	**84**	82
Other[note (h)]	**17**	85
	253	325
Total US operations	**616**	697

Notes

(a) The decrease in unwind of discount and other expected returns from £369 million for 2010 to £349 million for 2011 mainly reflects lower unwind of discount driven by the reduction in the 10-year US treasury rate, partly offset by an increase in opening value of in-force business.

(b) The credit of £29 million for the effect of changes in persistency assumptions in 2011 arises on variable annuity business of a credit of £15 million and £14 million on other business. The credit of £15 million for VA business represents a credit of £32 million to reflect a decrease in lapse rates for selected product and policy duration combinations, partially offset by a charge of £(17) million to increase partial withdrawal rates in line with experience. The credit of £14 million for other business reflects updated persistency assumptions for life and fixed annuity business.

(c) The effect of the change of assumption for VA fees represents the capitalised value of the change in the projected level of policyholder advisory fees, which vary according to the size and mix of VA funds. The credit of £24 million for 2011 (2010: £27 million) reflects an increase in the projected level of fees paid by policyholders, according to the current fund size and mix.

(d) The charge of £(36) million for 2011 for updated mortality assumptions primarily arises on variable annuity business to reflect recent mortality experience. The credit of £10 million for 2010 represents a credit of £29 million for business other than variable annuity, reflecting recent experience, partially offset by a negative effect on variable annuity business of £(19) million for a change in the modelling of mortality rates.

(e) The charge of £(38) million for other operating assumption changes in 2010 includes the net effect of a number of items including a charge of £(19) million for the altered projection of life reserves run-off.

(f) The spread assumption for Jackson is determined on a longer-term basis, net of provision for defaults. The spread experience variance in 2011 of £152 million (2010: £158 million) includes the positive effect of transactions undertaken in 2010 and 2011 to more closely match the overall asset and liability duration.

(g) The amortisation of interest-related gains and losses reflects the same treatment applied to the supplementary analysis of IFRS profit. When bonds that are neither impaired nor deteriorating are sold and reinvested there will be a consequent change in the investment yield. The realised gain or loss is amortised into the result over the period when the bonds would have otherwise matured to better reflect the long-term returns included in operating profits.

(h) Other experience variances and other items arise as follows:

	2011 £m	2010 £m
Mortality experience variance[note (1)]	**(6)**	21
Expense experience variance[note (2)]	**12**	32
Persistency experience variance[note (3)]	**21**	23
Other	**(10)**	9
	17	85

(1) The negative mortality experience variance of £(6) million in 2011 includes a provision of £(16) million in respect of unclaimed property for deceased policyholders. The positive mortality experience variance of £21 million in 2010 primarily relates to life products.

(2) The positive expense experience variances of £12 million in 2011 and £32 million in 2010 primarily represent favourable experience variance relating to marketing expenses.

(3) The positive persistency experience variance of £21 million in 2011 mainly arises on annuity business and in 2010 the favourable experience variance of £23 million primarily arises on annuity and institutional business.

(iii) UK insurance operations

	2011 £m	2010 £m
Unwind of discount and other expected returns[note (a)]	**485**	550
Effect of change in UK corporate tax rate[note (b)]	**79**	41
Updated mortality assumptions, net of release of margins[note (c)]	**-**	(40)
Other items[note (d)]	**29**	20
Total UK insurance operations	**593**	571

Notes

(a) The decrease in unwind of discount and other expected returns from £550 million for 2010 to £485 million for 2011 mainly arises from lower unwind on with-profits business, reflecting a decrease in both the risk discount rate and opening in-force value (as adjusted for the effects of changes in operating and economic assumptions).

(b) In 2011 a change to reduce the UK corporate tax rate to 25 per cent with effect from 1 April 2012 was enacted. The effect of the change in tax rate of £79 million in 2011 represents the pre-tax benefit of the reduction in tax rate from 27 per cent to 25 per cent, arising from the increase in the present value of the post-tax projected cash flows of the in-force business, grossed up for notional tax. The effect of the change in tax rate of £41 million for 2010 represents the pre-tax benefit of the reduction in the tax rate from 28 per cent to 27 per cent.

(c) In 2010 the Continuous Mortality Investigation (CMI) model and Core Projection parameters were reviewed and a custom parameterisation of the CMI model was made where some aspects of the pattern of convergence from current rates of improvements to long-term rates of improvement were altered. The assumption change shown above for 2010 of a charge of £(40) million represents the effect of the implementation of the custom parameterisation on the opening value of in-force business at 1 January 2010, offset by the effects of other mortality assumption changes and the release of margins on the base mortality assumptions.

(d) Other items of £29 million for 2011 includes £45 million for the effects of annuity portfolio rebalancing. In 2010, other items of £20 million includes a credit of £37 million for changes in operating expense assumptions relating to renewal expense assumptions on shareholder-backed annuity business.

4 Costs of terminated AIA transaction in 2010

In 2010, pre-tax costs of £377 million (post tax £284 million) were incurred in relation to the proposed, and subsequently terminated transaction, to purchase AIA Group Limited and related rights issue.

5 Short-term fluctuations in investment returns

Short-term fluctuations in investment returns, net of the related change in the time value of cost of options and guarantees, arise as follows:

Group Summary

	2011 £m	2010 £m
Insurance operations:		
Asia[note (i)]	**(155)**	287
US[note (ii)]	**(491)**	(678)
UK[note (iii)]	**(141)**	336
	(787)	(55)
Other operations[note (iv)]	**(120)**	25
Total	**(907)**	(30)

Notes

Analysis by business unit

(i) Asian operations

For 2011, short-term fluctuations in investment returns in Asian operations of £(155) million are driven by lower equity markets reducing future expected fee income, mainly arising in Singapore £(105) million and Korea £(22) million. The 2011 short-term fluctuations in investment returns also include £(28) million of adverse variance arising in other territories. This principally comprises fluctuations arising in India of £(53) million reflecting lower equity market returns, in Vietnam of £(33) million for unrealised losses on bonds and equities and Taiwan of £(30) million for losses on bonds and CDOs, partially offset by a credit in Hong Kong of £96 million primarily relating to positive returns on bonds backing participating business.

For 2010, short-term fluctuations in investment returns in Asian operations of £287 million primarily reflect the favourable performance in equity markets across the territories, primarily arising in Indonesia £55 million, Hong Kong £51 million, Taiwan £40 million, Malaysia £37 million and Singapore £16 million. Also included for 2010 is an unrealised gain of £30 million on the Group's 8.66 per cent stake in China Life Insurance Company of Taiwan, which at 31 December 2010 was valued at £100 million.

(ii) US operations

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

	2011 £m	2010 £m
Debt securities investment return related experience[note (a)]	**(74)**	(351)
Investment return related impact due primarily to changed expectation of profits on in-force variable annuity business in future periods based on current period equity returns, net of related hedging activity for equity related products[note (b)]	**(418)**	(332)
Actual less long-term return on equity based investments and other items	**1**	5
Total Jackson	**(491)**	(678)

Notes

(a) The charge relating to fixed income securities comprises the following elements:
- the excess of actual realised losses over the amortisation of interest related realised losses recorded in the profit and loss account,
- credit loss experience (versus the longer-term assumption), and
- the impact of de-risking activities within the portfolio, which accounts for the majority of the 2010 charge.

(b) This item reflects the net the impact of:
(1) variances in projected future fees arising from the effect of market fluctuations on the growth in separate account asset values in the current reporting period, and
(2) related hedging activity.

In 2011 there was a negative 0.5 per cent rate of return for the variable annuity separate account assets. This compared with an assumed longer-term rate of return of 5.4 per cent. Consequently the asset values, and therefore projected future fees at 31 December 2011, were lower than assumed. As a consequence of this lower level of return, net of the impact of relating hedging effects, there was a short-term fluctuation of £(418) million.
In 2010 there was a 14.5 per cent return which compared with an assumed longer-term rate of return of 6.8 per cent. However, despite this excess return, there was an overall charge of £(332) million which arose from the effects of related hedging activity.

(iii) UK insurance operations

The short-term fluctuations in investment returns for UK insurance operations represents:

	2011 £m	2010 £m
With-profits[note (a)]	**(201)**	218
Shareholder-backed annuity[note (b)]	**56**	84
Unit-linked and other[note (c)]	**4**	34
	(141)	336

Notes

(a) For with-profits business the amounts reflect the excess (deficit) of the actual investment return on the investments of the PAC with-profits fund (covering policyholder liabilities and unallocated surplus) against the assumed long-term rate for the year. For 2011 the charge of £(201) million reflects the actual investment return of 3.2 per cent against the assumed long-term rate of 5.1 per cent, primarily reflecting the fall in equity markets and widening of corporate bond credit spreads, partially offset by the increase in asset values as a result of the reduction in bond yields. For 2010 the credit of £218 million reflects the actual investment return of 12.0 per cent against the assumed long-term rate of 6.7 per cent.

(b) Short-term fluctuations in investment returns for shareholder-backed annuity business comprise (1) gains on surplus assets reflecting reductions in corporate bond and gilt yields in 2011 and 2010 and (2) the effect of mismatching for assets and liabilities of different durations and other short-term fluctuations in investment returns.

(c) The short-term fluctuations in investment returns for unit-linked business represents the increase in capitalised value of future fees arising from the positive movements in market values experienced during the year.

(iv) Other operations

Short-term fluctuations in investment returns for other operations in 2011 of £(120) million (2010: £25 million) represent unrealised value movements on investments, principally on centrally held swaps to manage foreign exchange and certain macro-economic exposures of the Group.

6 Effect of changes in economic assumptions

The effects of changes in economic assumptions for in-force business, net of the related change in the time value of cost of options and guarantees, included within profit before tax (including actual investment returns) arise as follows:

Group Summary

	2011	2010
	£m	£m
Asian operations[note (i)]	**279**	(71)
US operations[note (ii)]	**(144)**	(1)
UK insurance operations[note (iii)]	**(293)**	62
Total	**(158)**	(10)

Notes

Analysis by business unit

(i) Asian operations

The effect of changes in economic assumptions for Asian operations in 2011 of a credit of £279 million principally arises in Singapore £160 million, Malaysia £97 million and Indonesia £94 million, primarily reflecting the positive impact of discounting health and protection profits at lower rates, driven by the decrease in risk-free rates as shown in note 17(a). There is a partial offset arising in Hong Kong of £(57) million, primarily reflecting the reduction in fund earned rates for participating business.

For 2010, the effect of changes in economic assumptions in Asian operations of £(71) million primarily represents the effect of de-risking certain asset portfolios in Hong Kong and Singapore totalling £(73) million, together with the effects of routine adjustments for changes in economic factors and the effect of altering the basis of setting economic assumptions to the 'active' basis as described in note 17(a)(v).

(ii) US operations

The effect of changes in economic assumptions for US operations reflects the following:

	2011	2010
	£m	£m
Effect of changes in 10-year treasury rates, beta and equity risk premium:[note (a)]		
Fixed annuity and other general account business	**282**	111
Variable Annuity (VA) business	**(333)**	(112)
Increase in risk margin allowance for credit risk[note (b)]	**(93)**	-
	(144)	(1)

Notes

(a) For Jackson, the charge for the effect of changes in economic assumptions represents the aggregate of the effects of changes to projected returns and the risk discount rate. The risk discount rate, as discussed in note 1(b)(iii), represents the aggregate of the risk-free rate and margin for market risk, credit risk and non-diversifiable non-market risk.
For fixed annuity and other general account business the effect of changes to the risk-free rate, which is defined as the 10-year treasury rate, is reflected in the risk discount rate. This discount rate is in turn applied to projected cash flows which principally reflect projected spread, which is largely insensitive to changes in the risk-free rate. Secondary effects on the cash flows also result from changes to assumed future yield and resulting policyholder behaviour. For VA business, changes to the risk-free rate are also reflected in determining the risk discount rate. However, the projected cash flows are also reassessed for altered investment returns on the underlying separate account assets from which fees are charged. For 2011, the effect of these changes resulted in an overall credit for fixed annuity and other general account business of £282 million (2010: £111 million) and a charge for VA business of £(333) million (2010: £(112) million) reflecting the reduction of 1.4 per cent (2010: a reduction of 0.6 per cent) in the risk-free rate (as shown in note 17(a)).

(b) For 2011 the effect of £(93) million for the increase in the risk margin allowance within the risk discount rate for credit risk represents 50 basis points increase in the risk discount rate for spread business (from 150 basis points in 2010 to 200 basis points in 2011), and 10 basis points for VA business (from 30 basis points in 2010 to 40 basis points in 2011), representing the proportion of business invested in the general account, as described in note 1(b)(iii).

(iii) UK insurance operations

The effect of changes in economic assumptions of a charge of £(293) million for UK insurance operations for 2011 comprises the effect of:

	2011			2010		
	Shareholder-backed annuity business note (a)	**With-profits and other business** note (b)	**Total**	Shareholder-backed annuity business note (a)	With-profits and other business note (b)	Total
	£m	**£m**	**£m**	£m	£m	£m
Effect of changes in expected long-term rates of return	**58**	**(1,113)**	**(1,055)**	(102)	(80)	(182)
Effect of changes in risk discount rates	**240**	**627**	**867**	55	183	238
Other changes	**(20)**	**(85)**	**(105)**	(6)	12	6
	278	**(571)**	**(293)**	(53)	115	62

Notes

(a) For shareholder-backed annuity business the overall effect of changes in expected long-term rates of return and risk discount rates for the years shown above reflect the combined effects of the changes in assumptions which incorporate a default allowance for both best estimate defaults and in respect of the additional credit risk provisions, as shown in note 17(a).

(b) For with-profits and other business the charge in 2011 of £(1,113) million for the effect of changes in expected long-term rates of return arises from the reduction in fund earned rates as shown in note 17(a), driven by the (1.5) per cent decrease in gilt rates and reduction in additional returns assumed on corporate bonds, reflecting changes in asset mix. The credit in 2011 of £627 million for the effect of changes in risk discount rates reflects the (1.35) per cent reduction in the risk discount rate as shown in note 17(a), driven by the (1.5) per cent decrease in gilt rates, partly offset by the impact of an increase in beta for with-profits business.

7 Shareholders' equity (excluding non-controlling interests) - segmental analysis

	Note	**2011 £m**	2010 £m
Asian operations			
Long-term business:			
Net assets of operations – EEV basis shareholders' equity[note (iii)]		**8,510**	7,445
Acquired goodwill[note (i)]		**235**	236
		8,745	7,681
Eastspring Investments:[note (i)]			
Net assets of operations		**211**	197
Acquired goodwill		**61**	61
		272	258
		9,017	7,939
US operations			
Jackson – EEV basis shareholders' equity (net of surplus note borrowings of £177 million (2010: £172 million))		**5,082**	4,799
Broker-dealer and asset management operations[note (i)]			
Net assets of operations		**113**	106
Acquired goodwill		**16**	16
		129	122
		5,211	4,921
UK operations			
Insurance operations:			
Long-term business operations:			
Smoothed shareholders' equity		**6,097**	5,911
Actual shareholders' equity less smoothed shareholders' equity		**(39)**	59
EEV basis shareholders' equity		**6,058**	5,970
Other[note (i)]		**29**	33
		6,087	6,003
M&G:[note (i)]			
Net assets of operations		**229**	254
Acquired goodwill		**1,153**	1,153
		1,382	1,407
		7,469	7,410
Other operations			
Holding company net borrowings at market value	9	**(2,188)**	(2,212)
Other net assets [note (i)]		**128**	149
		(2,060)	(2,063)
Total		**19,637**	18,207

	2011			2010		
Representing:	**Statutory IFRS basis shareholders' equity £m**	**Additional retained profit on an EEV basis £m**	**EEV basis shareholders' equity £m**	Statutory IFRS basis shareholders' equity £m	Additional retained profit on an EEV basis £m	EEV basis shareholders' equity £m
Asian operations	**2,349**	**6,396**	**8,745**	2,149	5,532	7,681
US operations	**4,271**	**811**	**5,082**	3,815	984	4,799
UK insurance operations	**2,552**	**3,506**	**6,058**	2,115	3,855	5,970
Total long-term business operations	**9,172**	**10,713**	**19,885**	8,079	10,371	18,450
Other operations[note (ii)]	**(55)**	**(193)**	**(248)**	(48)	(195)	(243)
Group total	**9,117**	**10,520**	**19,637**	8,031	10,176	18,207

Notes

(i) With the exception of the share of the Prudential Staff Pension Scheme (PSPS) deficit (as explained below), the amounts shown for net assets of non-covered business, together with acquired goodwill, have been determined on the statutory IFRS basis.
The share of the PSPS deficit attributable to the PAC with-profits fund is included in 'Other operations' net assets. The overall pension scheme deficit, net of tax, attributable to shareholders relating to PSPS is determined as shown below:

	2011 £m	2010 £m
IFRS basis deficit (relating to shareholder-backed operations)	**(5)**	(10)
Additional EEV deficit (relating to shareholders' 10 per cent share of the IFRS basis deficit attributable to the PAC with-profits fund)	**(1)**	(3)
EEV basis	**(6)**	(13)

(ii) The additional retained profit on an EEV basis for Other operations primarily represents the mark to market value difference on holding company net borrowings of a charge of £(187) million (2010: £(177) million), as shown in note 9.

(iii) The EEV basis shareholders' equity for Asian long-term business for 2010 of £7,445 million includes the £(39) million effect of moving from a passive to an active basis of economic assumption setting as described in note 17(a)(v).

8 Analysis of movement in free surplus

Free surplus is the excess of the net worth over the capital required to support the covered business. Where appropriate, adjustments are made to the regulatory basis net worth from the local regulatory basis so as to include backing assets movements at fair value rather than cost so as to comply with the EEV Principles. Prudential has based required capital on its internal targets for economic capital subject to it being at least the local statutory minimum requirements, as described in note 1(b)(ii).

	2011		
Long-term business and asset management operations[note (i)]	**Long-term business** note 14 **£m**	**Asset management and UK general insurance commission** note (ii) **£m**	**Free surplus of long-term business, asset management and UK general insurance commission £m**
Underlying movement:			
New business	**(553)**	**-**	**(553)**
Business in force:			
Expected in-force cash flows (including expected return on net assets)	**1,972**	**363**	**2,335**
Effects of changes in operating assumptions, operating experience variances and other operating items	**168**	**-**	**168**
RPI to CPI inflation measure change on defined benefit pension schemes	**20**	**13**	**33**
	1,607	**376**	**1,983**
Changes in non-operating items[note (iii)]	**(507)**	**(24)**	**(531)**
	1,100	**352**	**1,452**
Net cash flows to parent company[note (iv)]	**(829)**	**(276)**	**(1,105)**
Exchange movements, timing differences and other items[note (v)]	**(180)**	**(84)**	**(264)**
Net movement in free surplus	**91**	**(8)**	**83**
Balance at 1 January 2011	**2,748**	**590**	**3,338**
Balance at 31 December 2011	**2,839**	**582**	**3,421**
Representing:			
Asian operations	**1,067**	**211**	**1,278**
US operations	**1,220**	**113**	**1,333**
UK operations	**552**	**258**	**810**
	2,839	**582**	**3,421**
1 January 2011			
Representing:			
Asian operations	1,045	197	1,242
US operations	1,163	106	1,269
UK operations	540	287	827
	2,748	590	3,338

Notes

(i) All figures are shown net of tax.

(ii) For the purposes of this analysis, free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis shareholders' equity as shown in note 7.

(iii) Changes in non-operating items
This represents short-term fluctuations in investment returns, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes and the effect of changes in economic assumptions for long-term business operations.
Short-term fluctuations in investment returns primarily reflect temporary market movements on the portfolio of investments held by the Group's shareholder-backed operations.

(iv) Net cash flows to parent company for long-term business operations reflect the flows as included in the holding company cash flow at transaction rates.

(v) Exchange movements, timing differences and other items represent:

	2011		
	Long-term business £m	Asset management and UK general insurance commission £m	Total £m
Exchange movements[note 14]	**(15)**	**(2)**	**(17)**
Mark to market value movements on Jackson assets backing surplus and required capital[note 14]	**62**	**-**	**62**
Other[note (vi)]	**(227)**	**(82)**	**(309)**
	(180)	**(84)**	**(264)**

(vi) Other primarily reflects the effect of repayment of contingent loan funding, as shown in note 14(ii), together with timing differences, intra-group loans and other non-cash items.

9 Net core structural borrowings of shareholder-financed operations

	2011			2010		
	IFRS basis	**Mark to market value adjustment** note (ii)	**EEV basis at market value**	IFRS basis	Mark to market value adjustment note (ii)	EEV basis at market value
	£m	**£m**	**£m**	£m	£m	£m
Holding company* cash and short-term investments	**(1,200)**	**-**	**(1,200)**	(1,232)	-	(1,232)
Core structural borrowings – central funds[note (i)]	**3,201**	**187**	**3,388**	3,267	177	3,444
Holding company net borrowings	**2,001**	**187**	**2,188**	2,035	177	2,212
Core structural borrowings – Prudential Capital[note (iii)]	**250**	**-**	**250**	250	-	250
Core structural borrowings – Jackson	**160**	**17**	**177**	159	13	172
Net core structural borrowings of shareholder-financed operations	**2,411**	**204**	**2,615**	2,444	190	2,634

* Including central finance subsidiaries.

Notes

(i) EEV basis holding company borrowings comprise:

	2011	2010
	£m	£m
Perpetual subordinated capital securities (Innovative Tier 1)	**1,813**	1,491
Subordinated debt (Lower Tier 2)	**949**	1,372
Senior debt	**626**	581
	3,388	3,444

In January 2011, the Company issued US$550 million perpetual subordinated capital securities which has been used to finance the repayment of the €500 million subordinated debt in December 2011.

In accordance with the EEV Principles, core borrowings are carried at market value. As the liabilities are generally held to maturity or for the long-term, no deferred tax asset or liability has been established on the market value adjustment above.

(ii) The movement in the mark to market value adjustment represents:

	2011	2010
Mark to market movement in balance sheet:	**£m**	£m
Beginning of year	**190**	30
Change:		
Income statement	**14**	164
Foreign exchange effects	**-**	(4)
End of year	**204**	190

(iii) The core structural borrowing by Prudential Capital of £250 million represents a bank loan taken out in 2010 which was made in two tranches: £135 million maturing in June 2014 and £115 million maturing in December 2012.

10 Reconciliation of movement in shareholders' equity (excluding non-controlling interests)

	2011					
	Long-term business operations					
	Asian operations	US operations	UK insurance operations	Total long-term business	Other operations	Group total
	£m	£m	£m	£m	£m	£m
Operating profit (based on longer-term investment returns)						
Long-term business:						
New business[note 2]	1,076	815	260	2,151	-	2,151
Business in force[note 3]	688	616	593	1,897	-	1,897
	1,764	1,431	853	4,048	-	4,048
Asia development expenses	(5)	-	-	(5)	-	(5)
UK general insurance commission	-	-	-	-	40	40
M&G	-	-	-	-	357	357
Eastspring Investments	-	-	-	-	80	80
US broker-dealer and asset management	-	-	-	-	24	24
Other income and expenditure	-	-	-	-	(536)	(536)
RPI to CPI inflation measure change on defined benefit pension schemes	-	-	27	27	18	45
Solvency II implementation costs	-	(4)	(8)	(12)	(44)	(56)
Restructuring costs	-	-	(19)	(19)	-	(19)
Operating profit based on longer-term investment returns	1,759	1,427	853	4,039	(61)	3,978
Short-term fluctuations in investment returns[note 5]	(155)	(491)	(141)	(787)	(120)	(907)
Mark to market value movements on core borrowings[note 9]	-	(4)	-	(4)	(10)	(14)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	20	20	3	23
Effect of changes in economic assumptions[note 6]	279	(144)	(293)	(158)	-	(158)
Profit (loss) before tax (including actual investment returns)	1,883	788	439	3,110	(188)	2,922
Tax (charge) credit attributable to shareholders' profit (loss):[note 11]						
Tax on operating profit	(402)	(487)	(221)	(1,110)	66	(1,044)
Tax on short-term fluctuations in investment returns	10	157	35	202	8	210
Tax on shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	(5)	(5)	(1)	(6)
Tax on effect of changes in economic assumptions	(58)	50	72	64	-	64
Total tax (charge) credit	(450)	(280)	(119)	(849)	73	(776)
Non-controlling interests	-	-	-	-	(4)	(4)
Profit (loss) for the year	1,433	508	320	2,261	(119)	2,142
Other movements						
Exchange movements on foreign operations and net investment hedges[note (i)]	(87)	42	-	(45)	(45)	(90)
Related tax	-	-	-	-	(68)	(68)
Intra-group dividends (including statutory transfers)[note (iii)]	(302)	(330)	(218)	(850)	850	-
External dividends	-	-	-	-	(642)	(642)
Reserve movements in respect of share-based payments	-	-	-	-	44	44
Investment in operations[note (iii)]	32	-	4	36	(36)	-
Other transfers[note (iv)]	(11)	1	(18)	(28)	28	-
Movement in own shares held in respect of share-based payment plans	-	-	-	-	(30)	(30)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	-	-	-	-	(5)	(5)
New share capital subscribed	-	-	-	-	17	17
Mark to market value movements on Jackson assets backing surplus and required capital:						
Mark to market value movements arising during the year	-	96	-	96	-	96
Related tax	-	(34)	-	(34)	-	(34)
Net increase (decrease) in shareholders' equity	1,065	283	88	1,436	(6)	1,430
Shareholders' equity at 1 January 2011[notes (ii) and 7]	7,445	4,799	5,970	18,214	(7)	18,207
Shareholders' equity at 31 December 2011[notes (ii) and 7]	8,510	5,082	6,058	19,650	(13)	19,637

Notes

(i) Profits are translated at average exchange rates, consistent with the method applied for statutory IFRS basis results. The amounts recorded above for exchange rate movements reflect the difference between 2011 and 2010 exchange rates as applied to shareholders' equity at 1 January 2011 and the difference between 31 December 2011 and average rates for the year ended 31 December 2011.

(ii) For the purposes of the table above, goodwill related to Asia long-term operations (as shown in note 7) is included in Other operations.

(iii) Total intra-group dividends and investment in operations represent:

	Asian operations £m	US operations £m	UK insurance operations £m	Total long-term business operations £m	Other operations £m	Total £m
Intra-group dividends (including statutory transfers)[note (a)]	**(302)**	**(330)**	**(218)**	**(850)**	**850**	**-**
Investment in operations[note (b)]	**32**	**-**	**4**	**36**	**(36)**	**-**
Total[note (c)]	**(270)**	**(330)**	**(214)**	**(814)**	**814**	**-**

Notes

(a) Intra-group dividends (including statutory transfers) represent dividends that have been declared in the year and amounts accrued in respect of statutory transfers.

(b) Investment in operations reflects increases in share capital.

(c) For long-term business operations, the difference between the total above of £814 million for intra-group dividends (including statutory transfers) and investment in operations and the net cash flows to parent company of £829 million (as shown in note 8) primarily relates to timing differences arising on statutory transfers, intra-group loans and other non-cash items.

(iv) Other transfers from long-term business operations to Other operations in 2011 represent:

	Asian operations £m	US operations £m	UK insurance operations £m	Total long-term business operations £m
Adjustment for net of tax asset management projected profits of covered business	**(15)**	**(3)**	**(22)**	**(40)**
Other adjustments	**4**	**4**	**4**	**12**
	(11)	**1**	**(18)**	**(28)**

11 Tax attributable to shareholders' profit

The tax charge comprises:

	2011 £m	2010 £m
Tax charge on operating profit based on longer-term investment returns:		
Long-term business:		
Asian operations[note (i)]	**402**	329
US operations	**487**	509
UK insurance operations[note (i)]	**221**	260
	1,110	1,098
Other operations	**(66)**	(106)
Total tax charge on operating profit based on longer-term investment returns, excluding exceptional tax credit	**1,044**	992
Exceptional tax credit[note (ii)]	**-**	(158)
Total tax charge on operating profit based on longer-term investment returns, including exceptional tax credit	**1,044**	834
Tax credit on items not included in operating profit:		
Tax credit on short-term fluctuations in investment returns[note (iii)]	**(210)**	(222)
Tax charge (credit) on shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**6**	(2)
Tax (credit) charge on effect of changes in economic assumptions	**(64)**	13
Tax credit on costs of terminated AIA transaction	**-**	(93)
Total tax credit on items not included in operating profit	**(268)**	(304)
Tax charge on profit attributable to shareholders (including tax on actual investment returns)	**776**	530

Notes

(i) Including tax relief on Asia development expenses and restructuring costs borne by UK insurance operations.

(ii) The 2010 tax charge on operating profit based on longer-term investment returns of £834 million included an exceptional tax credit of £158 million which primarily related to the impact of a settlement agreed with the UK tax authorities.

(iii) In 2010, the tax charge on short-term fluctuations in investment returns of £(222) million included a credit of £52 million for a net present value reduction in US deferred tax liabilities following changes to variable annuity reserving in accordance with revised statutory guidance.

12 Earnings per share (EPS)

	2011 £m	2010 £m
Operating EPS:		
Operating profit before tax	**3,978**	3,696
Tax excluding exceptional tax credit	**(1,044)**	(992)
Non-controlling interests	**(4)**	(4)
Operating profit after tax and non-controlling interests excluding exceptional tax credit	**2,930**	2,700
Exceptional tax credit*	**-**	158
Operating profit after tax and non-controlling interests including exceptional tax credit	**2,930**	2,858
Operating EPS (pence) excluding exceptional tax credit	**115.7 p**	106.9 p
Exceptional tax credit (pence)	**- p**	6.3 p
Operating EPS (pence) including exceptional tax credit	**115.7 p**	113.2 p
Total EPS:		
Profit before tax	**2,922**	3,107
Tax	**(776)**	(530)
Non-controlling interests	**(4)**	(4)
Total profit after tax and non-controlling interests	**2,142**	2,573
Total EPS (pence) including exceptional tax credit	**84.6 p**	101.9 p
Average number of shares (millions)	**2,533**	2,524

* The 2010 tax charge attributable to shareholders' profit included an exceptional tax credit of £158 million which primarily related to the impact of a settlement agreed with the UK tax authorities.

The average number of shares reflects the average number in issue adjusted for shares held by employee trusts and consolidated unit trusts and OEICs which are treated as cancelled.

13 Changes to Group's holdings

2010

On 1 August 2010, Discovery Holdings of South Africa, the Group's joint venture partner in its investment in PruHealth completed the acquisition of the entire share capital of Standard Life Healthcare, a wholly-owned subsidiary of the Standard Life Group, for £138 million. Discovery funded the purchase of the Standard Life Healthcare transaction, and contributed Standard Life Healthcare to PruHealth as a capital investment on completion. As a result of the transaction, Discovery increased their shareholding in PruHealth from the previous level of 50 per cent to 75 per cent, and Prudential's shareholding was reduced from 50 per cent of the previous joint venture structure to 25 per cent of the new structure with the much enlarged business.

A gain of £3 million arose in 2010 upon the dilution, representing the difference between the fair value of the enlarged 25 per cent investment still held and the book value of the original 50 per cent investment holding.

14 Reconciliation of net worth and value of in-force business[note(i)]

	2011				
	Free Surplus note 8	Required capital	Total net worth	Value of in-force business note (vii)	Total long-term business
	£m	£m	£m	£m	£m
Group					
Shareholders' equity at 1 January 2011	**2,748**	**3,415**	**6,163**	**12,051**	**18,214**
New business contribution[notes (iv), (v)]	**(553)**	**406**	**(147)**	**1,683**	**1,536**
Existing business – transfer to net worth	**1,862**	**(339)**	**1,523**	**(1,523)**	**-**
Expected return on existing business	**110**	**84**	**194**	**880**	**1,074**
Changes in operating assumptions and experience variances	**168**	**(42)**	**126**	**173**	**299**
RPI to CPI inflation measure change on defined benefit pension schemes	**20**	**-**	**20**	**-**	**20**
Changes in non-operating assumptions and experience variances	**(507)**	**(78)**	**(585)**	**(83)**	**(668)**
Profit after tax from long-term business	**1,100**	**31**	**1,131**	**1,130**	**2,261**
Exchange movements on foreign operations and net investment hedges	**(15)**	**1**	**(14)**	**(31)**	**(45)**
Intra-group dividends (including statutory transfers) and investment in operations[note (ii)]	**(1,028)**	**-**	**(1,028)**	**214**	**(814)**
Mark to market value movements on Jackson assets backing surplus and required capital	**62**	**-**	**62**	**-**	**62**
Other transfers from net worth	**(28)**	**-**	**(28)**	**-**	**(28)**
Shareholders' equity at 31 December 2011	**2,839**	**3,447**	**6,286**	**13,364**	**19,650**
Representing:					
Asian operations					
Shareholders' equity at 1 January 2011	**1,045**	**790**	**1,835**	**5,610**	**7,445**
New business contribution[note (v)]	**(297)**	**97**	**(200)**	**1,011**	**811**
Existing business – transfer to net worth	**597**	**21**	**618**	**(618)**	**-**
Expected return on existing business	**58**	**-**	**58**	**424**	**482**
Changes in operating assumptions and experience variances	**52**	**(40)**	**12**	**52**	**64**
Changes in non-operating assumptions and experience variances	**(49)**	**(3)**	**(52)**	**128**	**76**
Profit after tax from long-term business	**361**	**75**	**436**	**997**	**1,433**
Exchange movements on foreign operations and net investment hedges	**(23)**	**(5)**	**(28)**	**(59)**	**(87)**
Intra-group dividends (including statutory transfers) and investment in operations[note (ii)]	**(305)**	**-**	**(305)**	**35**	**(270)**
Other transfers from net worth	**(11)**	**-**	**(11)**	**-**	**(11)**
Shareholders' equity at 31 December 2011	**1,067**	**860**	**1,927**	**6,583**	**8,510**
US operations					
Shareholders' equity at 1 January 2011	**1,163**	**1,505**	**2,668**	**2,131**	**4,799**
New business contribution[note (v)]	**(202)**	**232**	**30**	**500**	**530**
Existing business – transfer to net worth	**754**	**(288)**	**466**	**(466)**	**-**
Expected return on existing business	**42**	**46**	**88**	**139**	**227**
Changes in operating assumptions and experience variances	**154**	**2**	**156**	**27**	**183**
Changes in non-operating assumptions and experience variances[note (iii)]	**(432)**	**(132)**	**(564)**	**132**	**(432)**
Profit after tax from long-term business	**316**	**(140)**	**176**	**332**	**508**
Exchange movements on foreign operations and net investment hedges	**8**	**6**	**14**	**28**	**42**
Intra-group dividends (including statutory transfers) and investment in operations	**(330)**	**-**	**(330)**	**-**	**(330)**
Mark to market value movements on Jackson assets backing surplus and required capital	**62**	**-**	**62**	**-**	**62**
Other transfers to net worth	**1**	**-**	**1**	**-**	**1**
Shareholders' equity at 31 December 2011	**1,220**	**1,371**	**2,591**	**2,491**	**5,082**

	2011				
	Free Surplus note 8 £m	Required capital £m	Total net worth £m	Value of in-force business note (vii) £m	Total long-term business £m
UK insurance operations					
Shareholders' equity at 1 January 2011	**540**	**1,120**	**1,660**	**4,310**	**5,970**
New business contribution[note (v)]	**(54)**	**77**	**23**	**172**	**195**
Existing business – transfer to net worth	**511**	**(72)**	**439**	**(439)**	**-**
Expected return on existing business	**10**	**38**	**48**	**317**	**365**
Changes in operating assumptions and experience variances	**(38)**	**(4)**	**(42)**	**94**	**52**
RPI to CPI inflation measure change on defined benefit pension schemes	**20**	**-**	**20**	**-**	**20**
Changes in non-operating assumptions and experience variances	**(26)**	**57**	**31**	**(343)**	**(312)**
Profit after tax from long-term business	**423**	**96**	**519**	**(199)**	**320**
Intra-group dividends (including statutory transfers) and investment in operations[note (ii)]	**(393)**	**-**	**(393)**	**179**	**(214)**
Other transfers from net worth	**(18)**	**-**	**(18)**	**-**	**(18)**
Shareholders' equity at 31 December 2011	**552**	**1,216**	**1,768**	**4,290**	**6,058**

Notes

(i) All figures are shown net of tax.

(ii) The amounts shown in respect of free surplus and the value of in-force business for Asian and UK insurance operations for intra-group dividends (including statutory transfers) and investment in operations include the repayment of contingent loan funding. Contingent loan funding represents amounts whose repayment to the lender is contingent upon future surpluses emerging from certain contracts specified under the arrangement. If insufficient surplus emerges on those contracts, there is no recourse to other assets of the Group and the liability is not payable to the degree of shortfall.

(iii) For US operations, changes in non-operating assumptions and experience variances for required capital reflects a release to free surplus following a reduction in the required asset risk charges arising from improvements to quality of the investment portfolio.

(iv) The movements arising from new business contribution are as follows:

	2011 £m	2010 £m
Free surplus invested in new business:		
Excluding Japan	**(553)**	(643)
Japan[note (vi)]	**-**	(2)
Total[note (vi)]	**(553)**	(645)
Required capital	**406**	461
Total net worth	**(147)**	(184)
Value of in-force business	**1,683**	1,616
Total post-tax new business contribution	**1,536**	1,432

(v) Free surplus invested in new business is as follows:

	2011					
	Asian operations (excluding Japan) note (vi) £m	US operations £m	UK insurance operations £m	Total long-term business operations (excluding Japan) note (vi) £m	Japan note (vi) £m	Total long-term business operations £m
Pre-tax new business contribution[note 2]	**1,076**	**815**	**260**	**2,151**	**-**	**2,151**
Tax	**(265)**	**(285)**	**(65)**	**(615)**	**-**	**(615)**
Post-tax new business contribution	**811**	**530**	**195**	**1,536**	**-**	**1,536**
Free surplus invested in new business	**(297)**	**(202)**	**(54)**	**(553)**	**-**	**(553)**
Post-tax new business contribution per £1 million free surplus invested	**2.7**	**2.6**	**3.6**	**2.8**	**-**	**2.8**

	2010					
	Asian operations (excluding Japan) note (vi)	US operations	UK insurance operations	Total long-term business operations (excluding Japan) note (vi)	Japan note (vi)	Total long-term business operations note (vi)
	£m	£m	£m	£m	£m	£m
Pre-tax new business contribution[note 2]	902	761	365	2,028	(1)	2,027
Tax	(230)	(266)	(99)	(595)	-	(595)
Post-tax new business contribution	672	495	266	1,433	(1)	1,432
Free surplus invested in new business	(278)	(300)	(65)	(643)	(2)	(645)
Post-tax new business contribution per £1 million free surplus invested	2.4	1.7	4.1	2.2	(0.5)	2.2

(vi) New business contribution and free surplus invested in new business for the Group's Japanese insurance subsidiary, which ceased selling new business with effect from 15 February 2010, have been presented separately from those of the remainder of the Group.

(vii) The value of in-force business includes the value of future margins from current in-force business less the cost of holding required capital and represents:

	2011			
	Asian operations	**US operations**	**UK insurance operations**	**Group**
	£m	**£m**	**£m**	**£m**
Value of in-force business before deduction of cost of capital and of guarantees	**6,922**	**3,222**	**4,598**	**14,742**
Cost of capital	**(317)**	**(135)**	**(241)**	**(693)**
Cost of time value of guarantees[note (viii)]	**(22)**	**(596)**	**(67)**	**(685)**
Net value of in-force business	**6,583**	**2,491**	**4,290**	**13,364**

	2010			
	Asian operations	US operations	UK insurance operations	Group
	£m	£m	£m	£m
Value of in-force business before deduction of cost of capital and of guarantees	5,941	2,584	4,635	13,160
Cost of capital	(321)	(183)	(236)	(740)
Cost of time value of guarantees[note (viii)]	(10)	(270)	(89)	(369)
Net value of in-force business	5,610	2,131	4,310	12,051

(viii) The change in the cost of time value of guarantees for US operations from £(270) million in 2010 to £(596) million in 2011 primarily relates to Variable Annuity (VA) business, mainly arising from the new business written in the year, reflecting the increase in VA sales, and the reduction in the expected long-term rate of return for US equities of 1.4 per cent, driven by the reduction in US 10-year treasury bond rate, as shown in note 17(a).

15 Expected transfer of value of in-force business to free surplus

The discounted value of in-force business and required capital can be reconciled to the 2011 and 2010 totals in the tables below for the emergence of free surplus as follows:

	2011	2010
	£m	£m
Required capital[note 14]	**3,447**	3,415
Value of in-force (VIF)[note 14]	**13,364**	12,051
Add back: deduction for cost of time value of guarantees[note 14]	**685**	369
Other items[note]	**(1,214)**	(845)
	16,282	14,990

Note
"Other items" represent amounts incorporated into VIF where there is no definitive timeframe for when the payments will be made or receipts received. In particular, other items includes the deduction of the value of the shareholders' interest in the estate, the value of which is derived by increasing final bonus rates so as to exhaust the estate over the lifetime of the in-force with-profits business. This is an assumption to give an appropriate valuation. To be conservative this item is excluded from the expected free surplus generation profile below.

Cash flows are projected on a deterministic basis and are discounted at the appropriate risk discount rate. The modelled cash flows use the same methodology underpinning the Group's embedded value reporting and so is subject to the same assumptions and sensitivities.

The table below shows how the VIF generated by the in-force business and the associated required capital is modelled as emerging into free surplus over future years.

		2011					
		Expected period of conversion of future post tax distributable earnings and required capital flows to free surplus					
	2011 Total as shown above	**1-5 years**	**6 -10 years**	**11-15 years**	**16 -20 years**	**21-40 years**	**40+ years**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Asian operations	**7,387**	**2,582**	**1,596**	**1,012**	**732**	**1,262**	**203**
US operations	**4,267**	**2,241**	**1,287**	**490**	**173**	**76**	**-**
UK insurance operations	**4,628**	**1,864**	**1,166**	**743**	**453**	**394**	**8**
Total	**16,282**	**6,687**	**4,049**	**2,245**	**1,358**	**1,732**	**211**
	100%	**41%**	**25%**	**14%**	**8%**	**11%**	**1%**

		2010					
		Expected period of conversion of future post tax distributable earnings and required capital flows to free surplus					
	2010 Total as shown above	1-5 years	6 -10 years	11-15 years	16 -20 years	21-40 years	40+ years
	£m	£m	£m	£m	£m	£m	£m
Asian operations	6,329	2,304	1,407	866	591	1,009	152
US operations	4,078	2,358	1,007	421	173	119	-
UK insurance operations	4,583	1,792	1,173	755	468	389	6
Total	14,990	6,454	3,587	2,042	1,232	1,517	158
	100%	43%	24%	14%	8%	10%	1%

16 Sensitivity of results to alternative assumptions

(a) Sensitivity analysis – economic assumptions
The tables below show the sensitivity of the embedded value as at 31 December 2011 (31 December 2010) and the new business contribution after the effect of required capital for 2011 and 2010 to:

- 1 per cent increase in the discount rates;
- 1 per cent increase and decrease in interest rates, including all consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- 1 per cent rise in equity and property yields;
- 10 per cent fall in market value of equity and property assets (embedded value only);
- holding company statutory minimum capital (by contrast to required capital), (embedded value only);
- 5 basis point increase in UK long-term expected defaults; and
- 10 basis point increase in the liquidity premium for UK shareholder-backed annuities.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised economic conditions.

New business profit per operating profit summary

	2011			
	Asian operations £m	**US operations £m**	**UK insurance operations £m**	**Total long-term business operations £m**
New business profit for 2011[note 10]	**1,076**	**815**	**260**	**2,151**
Discount rates – 1% increase	**(139)**	**(45)**	**(36)**	**(220)**
Interest rates – 1% increase	**2**	**81**	**5**	**88**
Interest rates – 1% decrease	**(72)**	**(117)**	**(6)**	**(195)**
Equity/property yields – 1% rise	**50**	**92**	**11**	**153**
Long-term expected defaults – 5 bps increase	**-**	**-**	**(8)**	**(8)**
Liquidity premium – 10 bps increase	**-**	**-**	**16**	**16**

	2010			
	Asian operations £m	US operations £m	UK insurance operations £m	Total long-term business operations £m
New business profit for 2010	901	761	365	2,027
Discount rates – 1% increase	(111)	(51)	(53)	(215)
Interest rates – 1% increase	(7)	34	(8)	19
Interest rates – 1% decrease	(20)	(40)	8	(52)
Equity/property yields – 1% rise	41	63	12	116
Long-term expected defaults – 5 bps increase	-	-	(13)	(13)
Liquidity premium – 10 bps increase	-	-	26	26

Embedded value of long-term business operations

	2011			
	Asian operations £m	**US operations £m**	**UK insurance operations £m**	**Total long-term operations £m**
31 December 2011[note 10]	**8,510**	**5,082**	**6,058**	**19,650**
Discount rates – 1% increase	**(771)**	**(147)**	**(443)**	**(1,361)**
Interest rates – 1% increase	**(376)**	**(106)**	**(343)**	**(825)**
Interest rates – 1% decrease	**253**	**58**	**400**	**711**
Equity/property yields – 1% rise	**329**	**185**	**205**	**719**
Equity/property market values – 10% fall	**(159)**	**16**	**(326)**	**(469)**
Statutory minimum capital	**114**	**92**	**4**	**210**
Long-term expected defaults – 5 bps increase	**-**	**-**	**(98)**	**(98)**
Liquidity premium – 10 bps increase	**-**	**-**	**196**	**196**

	2010			
	Asian operations £m	US operations £m	UK insurance operations £m	Total long-term operations £m
31 December 2010[note 10]	7,445	4,799	5,970	18,214
Discount rates – 1% increase	(643)	(164)	(437)	(1,244)
Interest rates – 1% increase	(220)	(148)	(254)	(622)
Interest rates – 1% decrease	176	103	336	615
Equity/property yields – 1% rise	308	120	227	655
Equity/property market values – 10% fall	(174)	(5)	(339)	(518)
Statutory minimum capital	104	127	5	236
Long-term expected defaults – 5 bps increase	-	-	(87)	(87)
Liquidity premium – 10 bps increase	-	-	174	174

The sensitivities shown above are for the impact of instantaneous changes on the embedded value of long-term business operations and include the combined effect on the value of in-force business and net assets at the balance sheet dates indicated. If the change in assumption shown in the sensitivities were to occur, then the effect shown above would be recorded within two components of the profit analysis for the following year. These are for the effect of economic assumption changes and, to the extent that asset value changes are included in the sensitivities, within short-term fluctuations in investment returns. In addition to the sensitivity effects shown above the other components of the profit for the following year would be calculated by reference to the altered assumptions, for example new business contribution and unwind of discount, together with the effect of other changes such as altered corporate bond spreads.

(b) Sensitivity analysis – non-economic assumptions
The tables below show the sensitivity of the embedded value as at 31 December 2011 (31 December 2010) and the new business contribution after the effect of required capital for 2011 and 2010 to:

- 10 per cent proportionate decrease in maintenance expenses (a 10 per cent sensitivity on a base assumption of £10 per annum would represent an expense assumption of £9 per annum);
- 10 per cent proportionate decrease in lapse rates (a 10 per cent sensitivity on a base assumption of 5 per cent would represent a lapse rate of 4.5 per cent per annum); and
- 5 per cent proportionate decrease in base mortality and morbidity rates (ie increased longevity).

New business profit per operating profit summary

	2011			
	Asian operations £m	**US operations £m**	**UK insurance operations £m**	**Total long-term business operations £m**
New business profit for 2011[note 10]	**1,076**	**815**	**260**	**2,151**
Maintenance expenses – 10% decrease	**26**	**11**	**7**	**44**
Lapse rates – 10% decrease	**92**	**24**	**10**	**126**
Mortality and morbidity – 5% decrease	**60**	**9**	**(9)**	**60**
Change representing effect on:				
Life business	**60**	**9**	**3**	**72**
UK annuities	**-**	**-**	**(12)**	**(12)**

	2010			
	Asian operations £m	US operations £m	UK insurance operations £m	Total long-term business operations £m
New business profit for 2010	901	761	365	2,027
Maintenance expenses – 10% decrease	27	9	5	41
Lapse rates – 10% decrease	81	31	8	120
Mortality and morbidity – 5% decrease	50	7	(20)	37
Change representing effect on:				
Life business	50	7	1	58
UK annuities	-	-	(21)	(21)

Embedded value of long-term business operations

	2011			
	Asian operations £m	**US operations £m**	**UK insurance operations £m**	**Total long-term business operations £m**
31 December 2011[note 10]	**8,510**	**5,082**	**6,058**	**19,650**
Maintenance expenses – 10% decrease	**117**	**44**	**52**	**213**
Lapse rates – 10% decrease	**342**	**157**	**65**	**564**
Mortality and morbidity – 5% decrease	**289**	**92**	**(227)**	**154**
Change representing effect on:				
Life business	**289**	**92**	**12**	**393**
UK annuities	**-**	**-**	**(239)**	**(239)**

	2010			
	Asian operations £m	US operations £m	UK insurance operations £m	Total long-term business operations £m
31 December 2010[note 10]	7,445	4,799	5,970	18,214
Maintenance expenses – 10% decrease	104	39	48	191
Lapse rates – 10% decrease	293	158	67	518
Mortality and morbidity – 5% decrease	233	81	(181)	133
Change representing effect on:				
Life business	233	81	12	326
UK annuities	-	-	(193)	(193)

Effect of proposed changes in UK corporation tax rate
The 2011 results include the effect of the change in the UK corporate tax rate that has been enacted to revise the rate to 25 per cent from 1 April 2012. The impact of further reductions in the UK corporate tax rate of one per cent per annum to 23 per cent in 2014 would be an increase in the net of tax value of in-force business of UK insurance operations at 31 December 2011 of around £60 million.

17 Assumptions

(a) Principal economic assumptions

Deterministic assumptions

The tables below summarise the principal financial assumptions:
Assumed investment returns reflect the expected future returns on the assets held and allocated to the covered business at the valuation date.

Equity risk premiums in Asia range from 3.25 per cent to 8.7 per cent for both years. In the US and the UK, the equity risk premium is 4.0 per cent for both years.

Asian Operations[notes (i),(ii),(v)]

	31 December 2011 %											
	China	**Hong Kong** notes (ii),(iv)	**India**	**Indonesia**	**Japan**	**Korea**	**Malaysia** notes (iii),(iv)	**Philippines**	**Singapore** note (iv)	**Taiwan**	**Thailand**	**Vietnam**
Risk discount rate:												
New business	**10.0**	**3.85**	**13.75**	**11.15**	**-**	**7.1**	**6.4**	**12.2**	**3.9**	**5.0**	**10.1**	**19.6**
In force	**10.0**	**3.7**	**13.75**	**11.15**	**4.7**	**7.1**	**6.5**	**12.2**	**4.65**	**5.0**	**10.1**	**19.6**
Expected long-term rate of inflation	**2.5**	**2.25**	**4.0**	**5.0**	**0.0**	**3.0**	**2.5**	**4.0**	**2.0**	**1.0**	**3.0**	**6.5**
Government bond yield	**3.5**	**1.9**	**8.75**	**6.1**	**1.0**	**3.8**	**3.7**	**5.4**	**1.6**	**1.3**	**3.3**	**12.9**

	31 December 2010 %											
	China	Hong Kong notes (ii),(iv)	India	Indonesia	Japan	Korea	Malaysia notes (iii),(iv)	Philippines	Singapore note (iv)	Taiwan	Thailand	Vietnam
Risk discount rate:												
New business	10.45	5.1	13.1	13.0	4.9	7.9	7.0	13.2	5.4	5.0	10.5	18.85
In force	10.45	5.1	13.1	13.0	4.9	8.1	7.1	13.2	6.1	5.2	10.5	18.85
Expected long-term rate of inflation	2.5	2.25	4.0	5.0	0.0	3.0	2.5	4.0	2.0	1.0	3.0	5.5
Government bond yield	3.95	3.3	8.1	7.75	1.1	4.6	4.0	6.4	2.7	1.6	3.8	12.1

	Asia total %	
	2011	2010
Weighted risk discount rate:[note (i)]		
New business (excluding Japan)	**7.4**	8.4
In force	**6.9**	8.1

Notes

(i) The weighted risk discount rates for Asian operations shown above have been determined by weighting each country's risk discount rates by reference to the EEV basis new business result and the closing value of in-force business. The risk discount rates for individual Asian territories reflect the movement in government bond yields, together with the effects of movements in the allowance for market risk and changes in product mix.

(ii) For Hong Kong the assumptions shown are for US dollar denominated business which comprises the largest proportion of the in-force business. For other territories, the assumptions are for local currency denominated business which reflects the largest proportion of the in-force business.

(iii) The risk discount rate for Malaysia reflects both the Malaysia life and Takaful operations.

(iv) The mean equity return assumptions for the most significant equity holdings in the Asian operations were:

	2011 %	2010 %
Hong Kong	**5.9**	7.3
Malaysia	**9.7**	10.0
Singapore	**7.7**	8.7

To obtain the mean, an average over all simulations of the accumulated return at the end of the projection period is calculated. The annual average return is then calculated by taking the root of the average accumulated return minus 1.

(v) In preparing the EEV basis results for 2011 and 2010 the 'active' basis of economic assumption setting has been applied for all Asian operations.

Previously, the EEV basis results for Japan, Korea and US dollar denominated business written in Hong Kong were determined on the 'active' basis. For other Asian countries the investment return assumptions and risk discount rates were based on an assessment of longer-term economic conditions (the 'passive' basis). The altered approach with effect from full year 2010 to determine the EEV basis results for all Asian territories on an active basis of economic assumption setting is in line with the Group's other operations, and reflects the fact that markets in a number of Asian countries are becoming increasingly developed.

The effect of the change in 2010 to move to an 'active' basis for Asia operations was as follows:

Effect on:	2010 £m
Pre-tax operating profits from:	
New business[note 2]	5
Business in-force[note 3]	(58)
Total	(53)
Short-term fluctuations in investment returns and changes in economic assumptions	16
Total profit before tax	(37)
Shareholders' equity as at 31 December 2010	(39)

US operations

	2011 %	2010 %
Assumed new business spread margins:[note (iii)]		
Fixed Annuity business* [note (i)]	**1.75 - 2.0**	2.0
Fixed Index Annuity business	**2.25**	2.5
Institutional business	**1.0**	-
Risk discount rate:[note (iv)]		
Variable annuity	**6.7**	7.8
Non-variable annuity	**4.6**	5.6
Weighted average total:[note (ii)]		
New business	**6.5**	7.6
In force	**6.0**	6.9
US 10-year treasury bond rate at end of year	**1.9**	3.3
Pre-tax expected long-term nominal rate of return for US equities	**5.9**	7.3
Expected long-term rate of inflation	**2.0**	2.3

* including the proportion of variable annuity business invested in the general account

Notes

(i) For new business issuances in 2011, the assumed spread margin for fixed annuity business and for the proportion of variable annuity business invested in the general account is assumed to grade from 1.75 per cent to 2.0 per cent over 5 years. For new business issuances in 2010, the assumed spread margin for fixed annuity business and for the proportion of variable annuity business invested in the general account applies from inception.

(ii) The weighted average risk discount rates reflect the mix of business between variable annuity and non-variable annuity business. The decrease in the weighted average risk discount rates from 2010 to 2011 primarily reflects the decrease in the US 10-year Treasury bond rate of 140 basis points, partly offset by the effect of the increase in additional allowance for credit risk (as described in note (iii) below) and the impact of the increase in allowance for market risk.

(iii) Credit risk treatment

The projected cash flows incorporate the expected long-term spread between the earned rate and the rate credited to policyholders. The projected earned rates reflect book value yields which are adjusted over time to reflect projected reinvestment rates. Positive net cash flows are assumed to be reinvested in a mix of corporate bonds, commercial mortgages and limited partnerships. The yield on those assets is assumed to grade from the current level to a yield that allows for a long-term assumed credit spread on the reinvested assets of 1.25 per cent over 10 years. The yield also reflects an allowance for a risk margin reserve (RMR) which for 2011 is 27 basis points (2010: 26 basis points) for longer-term defaults as described in note 1(b)(iii), which represents the allowance as at the valuation date applied in the cash flow projections of the value of the in-force business.

In the event that longer-term default levels are higher, then unlike for UK annuity business where policyholder benefits are not changeable, Jackson has some discretion to adjust crediting rates, subject to contract guarantee levels and general market competition considerations.

(iv) For US operations, the risk discount rates shown above include an additional allowance for a combination of credit risk premium and short-term downgrade and default allowance for general account business of 200 basis points (2010: 150 basis points) and for variable annuity business of 40 basis points (2010: 30 basis points) to reflect the fact that a proportion of the variable annuity business is allocated to the general account (as described in note 1(b)(iii)).

UK insurance operations

	2011 %	2010 %
Shareholder-backed annuity business:[note (iv)]		
Risk discount rate:		
New business[note (i)]	**7.7**	7.3
In force[note (ii)]	**8.6**	9.9
Pre-tax expected long-term nominal rate of return for shareholder-backed annuity business:		
New business:		
Fixed annuities	**4.95**	4.9
Inflation-linked annuities	**4.4**	5.1
In force:[note (ii)]		
Fixed annuities	**4.5**	5.1
Inflation-linked annuities	**4.1**	5.2
Other business:[note (iv)]		
Risk discount rate:[note (iii)]		
New business	**5.3**	6.9
In force	**5.65**	7.0
Pre-tax expected long-term nominal rates of investment return:		
UK equities	**6.5**	8.0
Overseas equities	**5.9 to 9.9**	7.3 to 10.2
Property	**5.2**	6.7
Gilts	**2.5**	4.0
Corporate bonds	**4.0**	5.7
Expected long-term rate of inflation	**3.0**	3.55
Post-tax expected long-term nominal rate of return for the PAC with-profits fund:		
Pension business (where no tax applies)	**5.1**	6.7
Life business	**4.4**	5.9

Notes

(i) The new business risk discount rate for shareholder-backed annuity business incorporates a default allowance for best estimate defaults in respect of assets purchased with new business monies received in 2011. The increase in the risk discount rate from 2010 to 2011 reflects the profile of the release of additional credit risk provisions, appropriate to the new business assets, over the projected lifetime of this business. These additional provisions comprise of a credit risk premium, which is derived from Moody's data from 1970 to 2009, an allowance for a 1 notch downgrade of the portfolio subject to credit risk and an allowance for short-term defaults.

(ii) For shareholder-backed annuity business, the movement in the pre-tax long-term nominal rates of return and the risk discount rates for in-force business reflect the combined effect of changes in asset yields and changes to the aggregate credit risk allowances as shown in note (iv) below

(iii) The risk discount rates for new business and business in force for UK insurance operations other than shareholder-backed annuities reflect weighted rates based on the type of business.

(iv) Credit spread treatment

For with-profits business, the embedded value reflects the discounted value of future shareholder transfers. These transfers are directly affected by the level of projected rates of return on investments, including debt securities. The assumed earned rate for with-profit holdings of corporate bonds is defined as the risk-free rate plus an assessment of the long-term spread over gilts, net of expected long-term defaults. This approach is similar to that applied for equities and properties for which the projected earned rate is defined as the risk-free rate plus a long-term risk premium.

For UK shareholder-backed annuity business, different dynamics apply both in terms of the nature of the business and the EEV methodology applied. For this type of business the assets are generally held to maturity to match long duration liabilities. It is therefore appropriate under EEV methodology to include a liquidity premium in the economic basis used. The appropriate EEV risk discount rate is set in order to equate the EEV with a 'market consistent embedded value' including liquidity premium. The liquidity premium in the 'market consistent embedded value' is derived from the yield on the assets held after deducting an appropriate allowance for credit risk. For Prudential Retirement Income Limited (PRIL), which has approximately 90 per cent of UK shareholder-backed annuity business, the allowance for credit risk for the in-force business at 31 December 2011 is made up of:

(a) 15 basis points for fixed annuities and 14 basis points for inflation-linked annuities in respect of long-term expected defaults. This is derived by applying Moody's data from 1970 to 2009 and the definition of the credit rating used is the second highest credit rating published by Moody's, Standard and Poor's and Fitch.

(b) 52 basis points for fixed annuities and 47 basis points for inflation-linked annuities in respect of additional provisions which comprise a credit risk premium, which is derived from Moody's data from 1970 to 2009, an allowance for a 1 notch downgrade of the portfolio subject to credit risk and an allowance for short-term defaults.

The credit assumptions used and the residual liquidity premium element of the bond spread over swap rates is as follows:

New business[note (1)]	2011 (bps)	2010 (bps)
Bond spread over swap rates	**139**	117
Total credit risk allowance[note (2)]	**35**	38
Liquidity premium	**104**	79

In-force business	2011 (bps)	2010 (bps)
Bond spread over swap rates	**201**	160
Credit risk allowance:		
Long-term expected defaults	**15**	16
Additional provisions	**51**	52
Total credit risk allowance[note (2)]	**66**	68
Liquidity premium	**135**	92

Notes

(1) The new business liquidity premium is based on the weighted average of the point of sale liquidity premium.

(2) Specific assets are allocated to the new business for the year with the appropriate allowance for credit risk which was 35 basis points (2010: 38 basis points). The reduced allowance for new business in comparison to that for the in-force book reflects the assets held and other factors that influence the necessary level of provision.

The overall allowance for credit risk is prudent by comparison with historic rates of default and would be sufficient to withstand a wide range of extreme credit events over the expected lifetime of the annuity business.

Stochastic assumptions

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations described above. Assumptions specific to the stochastic calculations, such as the volatilities of asset returns, reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of longer-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes but with allowance for correlation between the various asset classes.

Details are given below of the key characteristics and calibrations of each model.

Asian operations

- The same asset return models as described for UK insurance operations below, appropriately calibrated, have been used for Asian operations. The principal asset classes are government and corporate bonds. Equity holdings are much lower than in the UK whilst property holdings do not represent a significant investment asset.
- The stochastic cost of guarantees is primarily only of significance for the Hong Kong, Korea, Malaysia and Singapore operations.
- The mean stochastic returns are consistent with the mean deterministic returns for each country. The expected volatility of equity returns ranges from 18 per cent to 35 per cent, and the volatility of government bond yields ranges from 0.9 per cent to 2.4 per cent for both years.

US operations (Jackson)

- Interest rates are projected using a log-normal generator calibrated to historical US Treasury yield curves;
- Corporate bond returns are based on Treasury securities plus a spread that has been calibrated to current market conditions and varies by credit quality; and
- Variable annuity equity returns and bond interest rates have been stochastically generated using a log-normal model with parameters determined by reference to historical data. The volatility of equity fund returns for 2011 and 2010 ranges from 19 per cent to 32 per cent, depending on the risk class and the class of equity, and the standard deviation of interest rates ranges from 2.1 per cent to 2.4 per cent (2010: 2.0 per cent to 2.4 per cent).

UK insurance operations

- Interest rates are projected using a two-factor model calibrated to the initial market yield curve;
- The risk premium on equity assets is assumed to follow a log-normal distribution;
- The corporate bond return is calculated as the return on a zero-coupon bond plus a spread. The spread process is a mean reverting stochastic process; and
- Property returns are modelled in a similar fashion to corporate bonds, namely as the return on a risk-free bond, plus a risk premium, plus a process representative of the change in residual values and the change in value of the call option on rents.

Mean returns have been derived as the annualised arithmetic average return across all simulations and durations.

For each projection year, standard deviations have been calculated by taking the square root of the annualised variance of the returns over all the simulations. These have been averaged over all durations in the projection. For equity and property, the standard deviations relate to the total return on these assets. The standard deviations applied for all years are as follows:

	2011 %	2010 %
Equities:		
UK	**20**	18
Overseas	**18**	18
Property	**15**	15

(b) Demographic assumptions
Persistency, mortality and morbidity assumptions are based on an analysis of recent experience but also reflect expected future experience. Where relevant, when calculating the time value of financial options and guarantees, policyholder withdrawal rates vary in line with the emerging investment conditions according to management's expectations.

(c) Expense assumptions
Expense levels, including those of service companies that support the Group's long-term business operations, are based on internal expense analysis investigations and are appropriately allocated to acquisition of new business and renewal of in-force business. Exceptional expenses are identified and reported separately. It is Prudential's policy not to take credit for future cost reduction programmes until the savings have been delivered.

For Asian life operations, the expenses comprise costs borne directly and recharged costs from the Asian regional head office, that are attributable to covered business. The assumed future expenses for these operations also include projections of these future recharges. Development expenses are charged as incurred.

Corporate expenditure comprises:

- Expenditure for group head office, to the extent not allocated to the PAC with-profits funds, together with Solvency II implementation and restructuring costs, which are charged to the EEV basis results as incurred; and
- Expenditure of the Asian regional head office that is not allocated to the covered business or asset management operations, and is charged as incurred. These costs are primarily for corporate related activities and included within corporate expenditure.

(d) Taxation and other legislation
Current taxation and other legislation have been assumed to continue unaltered except where changes have been announced and substantively enacted in the year.

18 New business premiums and contributions[notes (i),(ii)]

	Single		Regular		Annual premium and contribution equivalents (APE)		Present value of new business premiums (PVNBP)	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Group insurance operations								
Asia - ex India	**1,321**	1,019	**1,426**	1,211	**1,559**	1,313	**8,444**	6,911
India[note (iii)]	**135**	85	**88**	180	**101**	188	**466**	582
Asia	**1,456**	1,104	**1,514**	1,391	**1,660**	1,501	**8,910**	7,493
US	**12,562**	11,417	**19**	22	**1,275**	1,164	**12,720**	11,572
UK	**4,871**	5,656	**259**	254	**746**	820	**6,111**	6,842
Group total	**18,889**	18,177	**1,792**	1,667	**3,681**	3,485	**27,741**	25,907
Group total - ex India	**18,754**	18,092	**1,704**	1,487	**3,580**	3,297	**27,275**	25,325
Asian insurance operations								
Hong Kong	**180**	107	**313**	276	**331**	287	**2,023**	1,693
Indonesia	**250**	141	**338**	269	**363**	283	**1,435**	1,011
Malaysia	**79**	58	**215**	198	**223**	204	**1,225**	1,153
Philippines	**95**	64	**20**	17	**30**	23	**153**	108
Singapore	**371**	318	**198**	143	**235**	175	**1,855**	1,357
Thailand	**11**	15	**26**	25	**27**	26	**102**	100
Vietnam	**1**	1	**42**	41	**42**	41	**143**	148
SE Asian operations incl Hong Kong	**987**	704	**1,152**	969	**1,251**	1,039	**6,936**	5,570
China [note (iv)]	**46**	103	**54**	48	**59**	58	**294**	336
Korea	**71**	66	**94**	89	**101**	96	**542**	486
Taiwan	**217**	146	**126**	105	**148**	120	**672**	519
Total Asian operations - ex India	**1,321**	1,019	**1,426**	1,211	**1,559**	1,313	**8,444**	6,911
India[note (iii)]	**135**	85	**88**	180	**101**	188	**466**	582
Total Asian operations	**1,456**	1,104	**1,514**	1,391	**1,660**	1,501	**8,910**	7,493
US insurance operations								
Fixed annuities	**472**	836	**-**	-	**47**	84	**472**	836
Fixed index annuities	**934**	1,089	**-**	-	**93**	109	**934**	1,089
Life	**10**	11	**19**	22	**20**	23	**168**	166
Variable annuities	**10,909**	9,481	**-**	-	**1,091**	948	**10,909**	9,481
Wholesale	**237**	-	**-**	-	**24**	-	**237**	-
Total US insurance operations	**12,562**	11,417	**19**	22	**1,275**	1,164	**12,720**	11,572
UK and Europe insurance operations								
Direct and partnership annuities	**328**	593	**-**	-	**33**	59	**328**	593
Intermediated annuities	**241**	221	**-**	-	**24**	22	**241**	221
Internal vesting annuities	**1,223**	1,235	**-**	-	**122**	124	**1,223**	1,235
Total individual annuities	**1,792**	2,049	**-**	-	**179**	205	**1,792**	2,049
Corporate pensions	**184**	228	**215**	198	**233**	221	**1,224**	1,099
Onshore bonds	**1,779**	1,660	**-**	-	**178**	166	**1,781**	1,660
Other products	**780**	774	**44**	56	**122**	133	**978**	1,089
Wholesale[note (v)]	**336**	945	**-**	-	**34**	95	**336**	945
Total UK and Europe insurance operations	**4,871**	5,656	**259**	254	**746**	820	**6,111**	6,842
Group Total	**18,889**	18,177	**1,792**	1,667	**3,681**	3,485	**27,741**	25,907
Group total - ex India	**18,754**	18,092	**1,704**	1,487	**3,580**	3,297	**27,275**	25,325

Notes

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

Annual Premium Equivalents (APE) are calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts and are subject to roundings. The Present Value of New Business Premiums (PVNBP) are calculated as equalling single premiums plus the present value of expected premiums of new regular premium business, allowing for lapses and other assumptions made in determining the EEV new business contribution.

New business premiums reflect those premiums attaching to covered business, including premiums for contracts classified as investment products for IFRS basis reporting. New business premiums for regular premium products are shown on an annualised basis. Internal vesting business is classified as new business where the contracts include an open market option.

(ii) For 2010, the table above excludes new business sales for the Group's Japanese insurance subsidiary, which ceased selling new business with effect from 15 February 2010.

(iii) New business in India is included at Prudential's 26 per cent interest in the India life operation.

(iv) New business in China is included at Prudential's 50 per cent in the China life operation.

(v) UK wholesale sales for 2010 and 2011 include amounts for a small number of bulk annuity buy-in insurance agreements with an APE of £93 million and £33 million respectively.

19 Post balance sheet events

On 22 February 2012, M&G completed transactions to (i) exchange bonus share rights for equity holdings with the employees of PPM South Africa and (ii) the sale of a 10 per cent holding in the majority of the business to Thesele Group, a minority shareholder, for cash. Following these transactions M&G's holding in the majority of the business reduced from 75 per cent to 47 per cent. Under IFRS requirements the divestment is accounted for as the disposal of the 75 per cent holding and an acquisition of a 47 per cent holding at fair value. As a consequence of the IFRS application, the transactions give rise to a gain on dilution of approximately £40 million. On an EEV basis, consistent with IFRS, this amount will be accounted for in the Group 2012 summarised consolidated income statement as a gain on dilution, excluded from the Group's EEV operating profit based on longer-term investment returns.

Risk Factors

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

Prudential's approaches to managing risks are explained in the 'Business review' section under 'Risk and capital management'.

Risks relating to Prudential's business

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

Prudential's businesses are inherently subject to market fluctuations and general economic conditions. Uncertainty or negative trends in international economic and investment climates could adversely affect Prudential's business and profitability. Since 2008 Prudential has had to operate against a challenging background of periods of unprecedented volatility in global capital and equity markets, interest rates and liquidity, and widespread economic uncertainty. Government interest rates have also fallen to historic lows in the US and UK. These factors have, at times during this period, had a material adverse effect on Prudential's business and profitability.

In the future, the adverse effects of such factors would be felt principally through the following items:

- investment impairments or reduced investment returns, which could impair Prudential's ability to write significant volumes of new business and would have a negative impact on its assets under management and profit;
- higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses;
- Prudential in the normal course of business enters into a variety of transactions with counterparties, including derivative transactions. Failure of any of these counterparties to discharge their obligations, or where adequate collateral is not in place, could have an adverse impact on Prudential's results; and
- estimates of the value of financial instruments being difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain value and estimates of value require substantial elements of judgment, assumptions and estimates (which may change over time). Increased illiquidity also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline.

Global financial markets have experienced, and continue to experience, significant volatility brought on, in particular, by concerns over European and US sovereign debt, as well as concerns about a general slowing of global demand reflecting an increasing lack of confidence among consumers, companies and governments. Upheavals in the financial markets may affect general levels of economic activity, employment and customer behaviour. For example, insurers may experience an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums. The demand for insurance products may also be adversely affected. If sustained, this environment is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on Prudential's business and profitability. New challenges related to market fluctuations and general economic conditions may continue to emerge.

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

In the US, fluctuations in prevailing interest rates can affect results from Jackson which has a significant spread-based business, with the majority of its assets invested in fixed income securities. In particular, fixed annuities and stable value products written by Jackson expose Prudential to the risk that changes in interest rates, which are not fully reflected in the interest rates credited to customers, will reduce spread. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates.

Declines in spread from these products or other spread businesses that Jackson conducts could have a material impact on its businesses or results of operations. Jackson also writes a significant amount of variable annuities that offer capital or income protection guarantees. There could be market circumstances where the derivatives that it enters into to hedge its market risks may not fully offset its losses, and any cost of the guarantees that remain unhedged will also affect Prudential's results.

A significant part of the profit from Prudential's UK insurance operations is related to bonuses for policyholders declared on with-profits products, which are broadly based on historical and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns.

Prudential is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio

Prudential is subject to the risk of potential sovereign debt credit deterioration and default. During 2011 and 2012, this risk has heightened, particularly in relation to European and US sovereign debt. Investing in such instruments creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of states or monarchs) in the countries in which the issuers are located and the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and Prudential may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issues. If a sovereign were to default on its obligations, this could have a material adverse effect on Prudential's financial condition and results of operations.

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

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

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

Changes in government policy, legislation (including tax) or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates, which in some circumstances may be applied retrospectively, may adversely affect Prudential's product range, distribution channels, capital requirements and, consequently, reported results and financing requirements. Also, regulators in jurisdictions in which Prudential operates may change the level of capital required to be held by individual businesses or could introduce possible changes in the regulatory framework for pension arrangements and policies, the regulation of selling practices and solvency requirements. Furthermore, as a result of the recent interventions by governments in response to global economic conditions, it is widely expected that there will be a substantial increase in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transaction structure and enhanced supervisory powers.

Current EU directives, including the EU Insurance Groups Directive ('IGD') require European financial services groups to demonstrate net aggregate surplus capital in excess of solvency requirements at the group level in respect of shareholder-owned entities. The test is a continuous requirement, so that Prudential needs to maintain a somewhat higher amount of regulatory capital at the group level than otherwise necessary in respect of some of its individual businesses to accommodate, for example, short-term movements in global foreign exchange rates, interest rates, deterioration in credit quality and equity markets. The EU is also developing a new solvency framework for insurance companies, referred to as 'Solvency II'. The new approach will be based on the concept of three pillars — minimum capital requirements, supervisory review of firms' assessment of risk, and enhanced disclosure requirements — and will cover valuations, the treatment of insurance groups, the definition of capital and the overall level of capital requirements. A key aspect of Solvency II is that the assessment of risks and capital requirements will be aligned more closely with economic capital methodologies, and may allow Prudential to make use of its internal economic capital models, if approved by the Financial Services Authority (FSA) or other relevant supervisory authority. The Solvency II Directive was formally approved by the Economic and Financial Affairs Council in November 2009. The European Parliament is currently discussing the Omnibus II Directive which, once approved, will amend the Solvency II Directive. In addition, the European Commission is continuing to develop the detailed rules that will complement the high-level principles of the Directive, referred to as 'implementing measures'. The Omnibus II Directive is expected to be finalised during 2012 with the implementing measures expected to be finalised later in 2012. There is significant uncertainty regarding the final outcome of this process. As a result there is a risk that the effect of the measures finally adopted could be adverse for Prudential, including potentially a significant increase in capital required to support its business and that Prudential may be placed at a competitive disadvantage to other European and non-European financial services groups.

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

The Group's accounts are prepared in accordance with current International Financial Reporting Standards ('IFRS') applicable to the insurance industry. The International Accounting Standards Board ('IASB') introduced a framework that it described as Phase

I, which permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In July 2010, the IASB published an Exposure Draft for its Phase II on insurance accounting, which would introduce significant changes to the statutory reporting of insurance entities that prepare accounts according to IFRS. The IASB continues its deliberation on the exposure draft principles but it remains uncertain whether the proposals in the Exposure Draft will become the final IASB standard and when changes might take effect.

Any changes or modification of IFRS accounting policies may require a change in the future results or a restatement of reported results.

European Embedded Value ('EEV') basis results are published as supplementary information by Prudential using principles issued by the European CFO (Chief Financial Officers) Forum. The EEV basis is a value-based reporting method for Prudential's long-term business which is used by market analysts and which underpins a significant part of the key performance indicators used by Prudential's management for both internal and external reporting purposes.

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

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

Regulators particularly, but not exclusively, in the US and the UK are moving towards a regime based on principles-based regulation which brings an element of uncertainty. These regulators are increasingly interested in the approach that product providers use to select third party distributors and to monitor the appropriateness of sales made by them. In some cases, product providers can be held responsible for the deficiencies of third-party distributors.

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

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

Litigation, disputes and regulatory investigations may adversely affect Prudential's profitability and financial condition

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

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

In Asia, the Group's principal regional competitors are international financial companies, including Allianz, AXA, ING, AIA and Manulife. In a number of markets, local companies have a very significant market presence.

Within the UK, Prudential's principal competitors in the life market include many of the major retail financial services companies including, in particular, Aviva, Legal & General, Lloyds Banking Group and Standard Life.

Jackson's competitors in the US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies such as AIG, AXA Financial Inc., Hartford Life Inc., Prudential Financial, Lincoln National, MetLife and TIAA-CREF.

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

Downgrades in Prudential's financial strength and credit ratings could significantly impact its competitive position and hurt its relationships with creditors or trading counterparties
Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in most of Prudential's products, and as a result its competitiveness. Downgrades in Prudential's ratings, as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns, could have an adverse effect on its ability to market products; retain current policyholders; and on the Group's financial flexibility. In addition, the interest rates Prudential pays on its borrowings are affected by its debt credit ratings, which are in place to measure the Group's ability to meet its contractual obligations.

Prudential's long-term senior debt is rated as A2 by Moody's, A+ by Standard & Poor's and A by Fitch. These ratings have a stable outlook.

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

The Prudential Assurance Company Limited's financial strength is rated Aa2 by Moody's, AA by Standard & Poor's and AA by Fitch. These ratings have a stable outlook.

Jackson's financial strength is rated AA by Standard & Poor's and Fitch, A1 by Moody's, and A+ by AM Best. These ratings have a stable outlook.

In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition.

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

Further, because of the long-term nature of much of the Group's business, accurate records have to be maintained for significant periods. Prudential's systems and processes incorporate controls which are designed to manage and mitigate the operational risks associated with its activities. For example, any weakness in the administration systems or actuarial reserving processes could have an impact on its results of operations during the effective period. Prudential has not experienced or identified any operational risks in its systems or processes during 2011, which have subsequently caused, or are expected to cause, a significant negative impact on its results of operations.

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

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

Another example is the impact of epidemics and other effects that cause a large number of deaths. Significant influenza epidemics have occurred three times in the last century, but the likelihood, timing, or the severity of future epidemics cannot be predicted. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemics could have a material impact on the Group's loss experience.

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

As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments.
The Group's insurance and investment management operations are generally conducted through direct and indirect subsidiaries.

As a holding company, Prudential's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper. Certain of the subsidiaries are restricted by applicable insurance, foreign exchange and tax laws, rules and regulations that can limit the payment of dividends, which in some circumstances could limit the ability to pay dividends to shareholders or to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group.

Prudential operates in a number of markets through joint ventures and other arrangements with third parties (including in China and India), involving certain risks that Prudential does not face with respect to its consolidated subsidiaries
Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures (including in China and India). For the Group's joint venture operations, management control is exercised jointly with the venture participants. The level of control exercisable by the Group depends on the terms of the joint venture agreements, in particular, the allocation of control among, and continued co-operation between, the joint venture participants. Prudential may also face financial or other exposure in the event that any of its joint venture partners fails to meet its obligations under the joint venture or encounters financial difficulty. In addition, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not controlled by Prudential and is dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements could adversely affect the results of operations of Prudential.

Prudential's Articles of Association contain an exclusive jurisdiction provision
Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings by a shareholder (in its capacity as such) against Prudential and/or its directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service provider. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

Changes in tax legislation may result in adverse tax consequences

Tax rules, including those relating to the insurance industry, and their interpretation, may change, possibly with retrospective effect, in any of the jurisdictions in which Prudential operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation could affect Prudential's financial condition and results of operations.

By order of the Board
Prudential plc
Margaret Ann Coltman
Company Secretary

13 March 2012, London

As at the date of this announcement, the Board of Directors of Prudential plc comprises:

Chairman
Harvey Andrew McGrath

Executive Directors
Cheick Tidjane Thiam *(Group Chief Executive)*, Nicolaos Andreas Nicandrou ACA, Robert Alan Devey, John William Foley, Michael George Alexander McLintock, Barry Lee Stowe and Michael Andrew Wells

Independent Non-executive Directors
Keki Bomi Dadiseth FCA, Sir Howard John Davies, Michael William Oliver Garrett, Ann Frances Godbehere FCGA, Alexander Dewar Kerr Johnston CMG FCA, Paul Victor Falzon Sant Manduca, Kaikhushru Shiavax Nargolwala FCA, Kathleen Anne O'Donovan ACA and Lord Andrew Turnbull KCB CVO

** For identification purposes*