

B: Summary of results

B1: Supplementary analysis of profit from continuing operations before tax attributable to shareholders

This information is provided as supplementary information under the Group's accounting policies. It is not required by IFRS standards.

| | 2008 £m | 2007 £m |
|--|--------------|--------------|
| Asian operations | | |
| Insurance operations ^{note ii} | 321 | 189 |
| Asset management | 52 | 72 |
| Development expenses | (26) | (15) |
| Total | 347 | 246 |
| US operations | | |
| Jackson ^{notes ii,iii} | 406 | 444 |
| Broker dealer and asset management (including Curian losses of £3m (2007: £5m)) | 7 | 8 |
| Total | 413 | 452 |
| UK operations | | |
| UK insurance operations: ^{note ii} | | |
| Long-term business | 545 | 524 |
| General insurance commission | 44 | 4 |
| Total | 589 | 528 |
| M&G | 286 | 254 |
| Total | 875 | 782 |
| Other income and expenditure | | |
| Investment return and other income | 89 | 86 |
| Interest payable on core structural borrowings | (172) | (168) |
| Corporate expenditure: | | |
| Group Head Office | (130) | (129) |
| Asia Regional Head Office | (41) | (38) |
| Charge for share-based payments for Prudential schemes ^{note vi} | (6) | (11) |
| Total | (260) | (260) |
| Restructuring costs ^{note vii} | (28) | (19) |
| Operating profit from continuing operations based on longer-term investment returns ^{note i} | 1,347 | 1,201 |
| Short-term fluctuations in investment returns on shareholder-backed business ^{note iv} | (1,783) | (137) |
| Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes ^{note v} | (14) | (1) |
| (Loss) profit from continuing operations before tax attributable to shareholders | (450) | 1,063 |

Notes

- i Operating profit based on longer-term investment returns
Operating profit based on longer-term investment returns is a supplemental measure of results. For the purposes of measuring operating profit, investment returns on shareholder-financed business and movements in policyholders' liabilities are based on expected long-term rates of return as discussed in note A4. The expected long-term rates of return are intended to reflect historical real rates of return and, where appropriate, current inflation expectations adjusted for consensus economic and investment forecasts. The significant operations that require adjustment for the difference between actual and long-term investment returns are Jackson and certain businesses of the Group's Asian operations. The amounts included in operating results for long-term capital returns for debt securities comprise two components. These are a risk margin reserve based charge for expected defaults, which is determined by reference to the credit quality of the portfolio, and amortisation of interest-related gains and losses for operating results based on longer-term results to the date when sold bonds would otherwise have matured.
- ii Effect of changes to assumptions, estimates and bases of determining life assurance liabilities
The results of the Group's long-term business operations are affected by changes of assumptions and bases of preparation. These are described in notes D2(i), D3(i) and D4(i).

Notes on the Group financial statements

B: Summary of results

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B1: Supplementary analysis of profit from continuing operations before tax attributable to shareholders continued

Notes continued

- iii Jackson operating results based on longer-term investment returns.
IFRS basis operating profits for US operations include the following amounts (net of related change in amortisation of deferred acquisition costs, where applicable) so as to derive longer-term investment returns.

| | 2008 £m | 2007 £m |
|--|------------|------------|
| Debt securities: | | |
| Amortisation of interest related realised gains and losses | 24 | 31 |
| Risk margin reserve charge for longer-term credit related losses | (41) | (37) |
| Equity type investments: | | |
| Longer-term returns | 62 | 47 |

The risk margin reserve (RMR) charge for longer-term credit related losses for 2008 is based on an average annual RMR of 23 basis points (2007: 22 basis points) on average book values for the year as shown below.

| | 2008 | | | | 2007 | | | |
|--|-----------------------------|-------------|------------------------|-------------|-----------------------------|-------------|------------------------|-------------|
| | Average book value (US \$m) | RMR (bps) | Annual expected losses | | Average book value (US \$m) | RMR (bps) | Annual expected losses | |
| Moody's rating category | | | US \$m | £m | | | US \$m | £m |
| A3 or higher | 21,098 | 0.03 | (6) | (3) | 20,231 | 0.03 | (6) | (3) |
| Baa1, 2, 3 | 20,145 | 0.23 | (46) | (25) | 20,306 | 0.22 | (46) | (23) |
| Ba1, 2, 3 | 1,635 | 1.11 | (18) | (10) | 1,687 | 1.13 | (19) | (9) |
| B1, 2, 3 | 514 | 2.80 | (14) | (8) | 530 | 2.88 | (15) | (7) |
| Below B3 | 373 | 3.98 | (15) | (8) | 240 | 4.00 | (10) | (5) |
| Total | 43,765 | 0.23 | (99) | (54) | 42,994 | 0.22 | (96) | (47) |
| Related change to amortisation of deferred acquisition costs | | | 23 | 13 | | | 20 | 10 |
| Risk margin reserve charge for longer-term credit related losses | | | (76) | (41) | | | (76) | (37) |

The longer-term rates of return for equity-type interests ranged from 6.3 per cent to 8.4 per cent for 2008 and 8.1 per cent to 10.1 per cent for 2007 depending on the type of investments. These rates are currently based on spreads over 10 year US treasury rates of 400 to 600 basis points.

Market value movements on equity-based derivatives and embedded derivatives are also recorded within operating profits based on longer-term investment returns so as to be consistent with the market related effects on fees and reserve movements for equity-based products. Market value movements on other derivatives are excluded from operating profit, and are included in short-term fluctuations in investment returns.

- iv Short-term fluctuations in investment returns on shareholder-backed business.

| | 2008 £m | 2007 £m |
|-----------------------|----------------|--------------|
| Insurance operations: | | |
| Asia | (200) | (71) |
| US | (1,058) | (18) |
| UK | (212) | (47) |
| Other operations | (313) | (1) |
| | (1,783) | (137) |

General

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

Asian insurance operations

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

US insurance operations

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

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

* The charges on debt securities incurred in 2008 of £624 million comprise the following:

| | Defaults £m | Bond write downs £m | Losses on sale of impaired and deteriorating bonds £m | Recoveries/ reversals £m | Total £m |
|--|----------------|---------------------------|---|--------------------------------|-------------|
| Residential mortgage-backed securities | | | | | |
| Prime | – | 25 | – | – | 25 |
| Alt-A | – | 138 | – | – | 138 |
| Sub-prime | – | 4 | – | – | 4 |
| Total residential mortgage-backed securities | – | 167 | – | – | 167 |
| Public fixed income | 78 | 233 | 130 | – | 441 |
| Other | – | 19 | – | (3) | 16 |
| Total | 78 | 419 | 130 | (3) | 624 |

Further details on the impairment losses for Jackson are described in note D3(a).

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

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

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

‡ The £85 million charge for 2008 for other items shown above comprises £70 million for the difference between the charge for embedded derivatives included in the operating result and the charge to the total result, and £15 million of other items. For embedded derivatives the operating result reflects the application of 10-year average AA corporate bond rate curves and a static historical equity volatility assumption. The total result reflects the application of year end AA corporate bond rate curves and current equity volatility levels. Additional details are explained in note D3(i).

In addition, for US insurance operations, included within the statement of changes in equity, is a net reduction (translated at the 2008 year-end exchange rate of 1.44) in the value of debt securities classified as available-for-sale of £2,710 million (2007: £244 million). This reduction reflects the effect of widened credit spreads and global credit concerns partially offset by the effect of reductions in US interest rates and a steepening yield curve. These temporary market value movements do not reflect defaults or impairments. Additional details on the movement in the value of the Jackson portfolio are included in note D3.

Notes on the Group financial statements

B: Summary of results

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B1: Supplementary analysis of profit from continuing operations before tax attributable to shareholders continued

Notes continued

UK insurance operations

The short-term fluctuations charge for UK insurance operations of £212 million for 2008 reflects £170 million for asset value movements, principally for shareholder-backed annuity business, and £42 million for the effect of credit downgrades on the calculation of liabilities for shareholder-backed annuity business in PRIL and the PAC non-profit sub-fund, as discussed in note D2(g)(iii). The short-term fluctuation charge for 2007 arose mostly in PRIL. The fluctuation principally reflected the impact of widened credit spreads on the corporate bond securities backing the shareholders' equity of the business.

Other

The charge of £313 million for short-term fluctuations of other operations in 2008 arises from:

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

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

| | 2008 £m | 2007 £m |
|---|-------------|------------|
| Actuarial gains and losses | | |
| Actual less expected return on scheme assets | (97) | 4 |
| Experience gains (losses) on scheme liabilities | 18 | (4) |
| Gains (losses) on changes of assumptions for scheme liabilities | 71 | (7) |
| | (8) | (7) |
| Less: amount attributable to the PAC with-profits sub-fund | (2) | 6 |
| | (10) | (1) |
| Other gains and losses | | |
| Movement in the provision for deficit funding of PSPS | (13) | – |
| Less: amount attributable to the PAC with-profits sub-fund | 9 | – |
| | (4) | – |
| Total | (14) | (1) |

The 2008 and 2007 actuarial gains and losses shown in the table above related to the Scottish Amicable, M&G and the small Taiwan defined benefit pension schemes. The amounts did not include actuarial gains and losses for the Prudential Staff Pension Scheme (PSPS). Following the Group's adoption of IFRIC 14 for pension schemes in 2008, PSPS pension surplus was not recognised in the Group's financial statements with the 2007 comparatives adjusted accordingly. In addition, as a result of the adoption of IFRIC 14, the Group has recognised a liability for deficit funding to 5 April 2010 in respect of PSPS. The change in the period in relation to this liability is recognised above as other gains and losses on defined benefit pension schemes.

The gains of £71 million on change of assumptions comprises the effect of an increase in the risk discount rate combined with the effect of decreases in inflation rates.

Further details on the Group's defined benefit pension schemes and the effect of the accounting policy change are shown in note I1.

vi Share-based payments

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

vii Restructuring costs are allocated as follows:

| | 2008 £m | 2007 £m |
|-------------------------|------------|------------|
| UK insurance operations | 10 | 7 |
| Unallocated corporate | 18 | 12 |
| | 28 | 19 |

B2: Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in employee share trusts, which are treated as cancelled.

For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group's only class of dilutive potential ordinary shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

| | 2008 | | | | | |
|--|-----------------------------|----------------------|-----------------------------|--|---|---|
| | Before tax note B1 £m | Tax note F5 £m | Minority interests £m | Net of tax and minority interests £m | Basic earnings per share Pence | Diluted earnings per share Pence |
| Based on operating profit based on longer-term investment returns | 1,347 | (292) | (4) | 1,051 | 42.5p | 42.5p |
| Short-term fluctuations in investment returns on shareholder-backed business | (1,783) | 348 | (1) | (1,436) | (58.1)p | (58.1)p |
| Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes | (14) | 3 | – | (11) | (0.4)p | (0.4)p |
| Based on loss for the year from continuing operations | (450) | 59 | (5) | (396) | (16.0)p | (16.0)p |

There were no earnings from discontinued operations in 2008

| | 2007 | | | | | |
|--|-----------------------------|----------------------|-----------------------------|--|---|---|
| | Before tax note B1 £m | Tax note F5 £m | Minority interests £m | Net of tax and minority interests £m | Basic earnings per share Pence | Diluted earnings per share Pence |
| Based on operating profit based on longer-term investment returns | 1,201 | (381) | (4) | 816 | 33.3p | 33.3p |
| Short-term fluctuations in investment returns on shareholder-backed business | (137) | 26 | 1 | (110) | (4.5)p | (4.5)p |
| Shareholders' share of actuarial gains and losses on defined benefit pension schemes | (1) | 1 | – | 0 | 0.0p | 0.0p |
| Based on profit for the year from continuing operations | 1,063 | (354) | (3) | 706 | 28.8p | 28.8p |
| Adjustment for post-tax results of discontinued operations* | 222 | 19 | – | 241 | 9.9p | 9.8p |
| Based on profit for the year | 1,285 | (335) | (3) | 947 | 38.7p | 38.6p |

* Discontinued operations in 2007 related entirely to UK Banking operations following the sale on 1 May 2007 of Egg Banking plc to Citi. Note I9 provides details of the sale of Egg.

Notes on the Group financial statements

B: Summary of results

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B2: Earnings per share continued

Number of shares

A reconciliation of the weighted average number of ordinary shares used for calculating basic and diluted earnings per share is set out as below:

| | 2008 m | 2007 m |
|---|--------|--------|
| Weighted average shares for calculation of basic earnings per share | 2,472 | 2,445 |
| Shares under option at end of year | 7 | 9 |
| Number of shares that would have been issued at fair value on assumed option exercise | (6) | (6) |
| Weighted average shares for calculation of diluted earnings per share | 2,473 | 2,448 |

B3: Dividends

| | 2008 £m | 2007 £m |
|--|---------|---------|
| Dividends declared and paid in reporting period | | |
| Parent company: | | |
| Interim dividend (2008: 5.99p, 2007: 5.70p per share) | 149 | 140 |
| Final dividend for prior period (2008: 12.30p, 2007: 11.72p per share) | 304 | 286 |
| Subsidiary company payments to minority interests | 2 | 5 |
| Total | 455 | 431 |

As a result of shares issued in lieu of dividends of £157 million (2007: £176 million), dividends paid in cash, as set out in the consolidated cash flow statement, were £297 million (2007: £255 million).

| | 2008 £m | 2007 £m |
|--|---------|---------|
| Parent company dividends relating to reporting period: | | |
| Interim dividend (2008: 5.99p, 2007: 5.70p per share) | 149 | 140 |
| Final dividend (2008: 12.91p, 2007: 12.30p per share) | 322 | 304 |
| Total | 471 | 444 |

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

B4: Exchange translation

Exchange movement recorded directly in equity

| | 2008 £m | 2007 £m |
|--|---------|---------|
| Asian operations | 456 | 16 |
| US operations | 821 | (43) |
| Unallocated to a segment (central funds) | (646) | 38 |
| | 631 | 11 |

The movements for Asian and US operations reflect the application of year end exchange rates to the assets and liabilities and average exchange rates to the income statement on translation of these operations into the presentation currency of the Group. The movement unallocated to a segment mainly reflects the translation of currency borrowings and forward contracts which have been designated as a net investment hedge against the currency risk of the net investment in Jackson.

The exchange rates applied were:

| Local currency: £ | Closing rate at 31 Dec 2008 | Average for 2008 | Closing rate at 31 Dec 2007 | Average for 2007 | Opening rate at 1 Jan 2007 |
|-------------------|-----------------------------|------------------|-----------------------------|------------------|----------------------------|
| Hong Kong | 11.14 | 14.42 | 15.52 | 15.62 | 15.22 |
| Japan | 130.33 | 192.09 | 222.38 | 235.64 | 233.20 |
| Malaysia | 5.02 | 6.15 | 6.58 | 6.88 | 6.90 |
| Singapore | 2.07 | 2.61 | 2.87 | 3.02 | 3.00 |
| Taiwan | 47.28 | 58.24 | 64.56 | 65.75 | 63.77 |
| US | 1.44 | 1.85 | 1.99 | 2.00 | 1.96 |

B5: New business

Insurance products and investment products (note i)

| | Insurance products gross premiums | | Investment products gross inflows note ii | | Total | |
|------------------|-----------------------------------|---------|---|---------|---------|---------|
| | 2008 £m | 2007 £m | 2008 £m | 2007 £m | 2008 £m | 2007 £m |
| Asian operations | 2,673 | 2,901 | 46,957 | 38,954 | 49,630 | 41,855 |
| US operations | 6,941 | 6,534 | 36 | 60 | 6,977 | 6,594 |
| UK operations | 7,183 | 6,879 | 16,154 | 14,745 | 23,337 | 21,624 |
| Group total | 16,797 | 16,314 | 63,147 | 53,759 | 79,944 | 70,073 |

Notes on the Group financial statements

B: Summary of results

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B5: New business continued

Insurance products - new business premiums and contributions (note 1)

| | Single | | Regular | | Annual premium and contribution equivalents | |
|---|---------------|---------------|--------------|--------------|---|--------------|
| | 2008 £m | 2007 £m | 2008 £m | 2007 £m | 2008 £m | 2007 £m |
| Asian operations | | | | | | |
| China ^{note iv} | 63 | 45 | 32 | 24 | 38 | 29 |
| Hong Kong | 507 | 501 | 154 | 117 | 205 | 167 |
| India (Group's 26% interest) | 60 | 26 | 202 | 177 | 208 | 180 |
| Indonesia | 94 | 118 | 167 | 109 | 176 | 121 |
| Japan | 115 | 122 | 30 | 22 | 42 | 34 |
| Korea | 78 | 179 | 211 | 241 | 219 | 259 |
| Malaysia | 28 | 41 | 99 | 78 | 102 | 82 |
| Singapore | 341 | 593 | 78 | 67 | 112 | 126 |
| Taiwan | 153 | 132 | 189 | 218 | 204 | 231 |
| Other ^{note vii} | 18 | 36 | 54 | 55 | 56 | 58 |
| Total Asian operations | 1,457 | 1,793 | 1,216 | 1,108 | 1,362 | 1,287 |
| US operations | | | | | | |
| Fixed annuities | 1,724 | 573 | – | – | 172 | 57 |
| Fixed index annuities | 501 | 446 | – | – | 50 | 45 |
| Variable annuities | 3,491 | 4,554 | – | – | 349 | 455 |
| Life | 7 | 7 | 24 | 19 | 25 | 20 |
| Guaranteed investment contracts | 857 | 408 | – | – | 86 | 41 |
| GIC – Medium Term Notes | 337 | 527 | – | – | 34 | 53 |
| Total US operations | 6,917 | 6,515 | 24 | 19 | 716 | 671 |
| UK operations | | | | | | |
| Product summary | | | | | | |
| Internal vesting annuities | 1,600 | 1,399 | – | – | 160 | 140 |
| Direct and partnership annuities | 703 | 842 | – | – | 70 | 84 |
| Intermediated annuities ^{note v} | 497 | 555 | – | – | 50 | 56 |
| Total individual annuities | 2,800 | 2,796 | – | – | 280 | 280 |
| Income drawdown ^{note v} | 75 | 34 | – | – | 8 | 3 |
| Equity release | 242 | 156 | – | – | 24 | 16 |
| Individual pensions | 115 | 38 | 3 | 1 | 14 | 5 |
| Corporate pensions | 221 | 283 | 88 | 84 | 110 | 112 |
| Unit-linked bonds | 109 | 243 | – | – | 11 | 24 |
| With-profits bonds | 869 | 297 | – | – | 87 | 30 |
| Protection | – | – | 6 | 5 | 6 | 5 |
| Offshore products | 551 | 434 | 4 | 4 | 59 | 47 |
| PruHealth ^{note vi} | – | – | 16 | 13 | 16 | 13 |
| Total retail retirement | 4,982 | 4,281 | 117 | 107 | 615 | 535 |
| Corporate pensions | 227 | 198 | 116 | 115 | 139 | 135 |
| Other products | 132 | 190 | 21 | 25 | 34 | 44 |
| DWP rebates | 153 | 143 | – | – | 15 | 14 |
| Total mature life and pensions | 512 | 531 | 137 | 140 | 188 | 193 |
| Total retail | 5,494 | 4,812 | 254 | 247 | 803 | 728 |
| Wholesale annuities ^{note iii} | 1,417 | 1,799 | – | – | 142 | 180 |
| Credit life | 18 | 21 | – | – | 2 | 2 |
| Total UK operations | 6,929 | 6,632 | 254 | 247 | 947 | 910 |
| Channel summary | | | | | | |
| Direct and partnership | 2,352 | 2,385 | 215 | 212 | 450 | 451 |
| Intermediated | 2,990 | 2,284 | 39 | 35 | 338 | 263 |
| Wholesale ^{note iii} | 1,434 | 1,820 | – | – | 144 | 182 |
| Sub-total | 6,776 | 6,489 | 254 | 247 | 932 | 896 |
| DWP rebates | 153 | 143 | – | – | 15 | 14 |
| Total UK operations | 6,929 | 6,632 | 254 | 247 | 947 | 910 |
| Group total | 15,303 | 14,940 | 1,494 | 1,374 | 3,025 | 2,868 |

Investment products - funds under management (note ii)

| | 2008 £m | | | | 31 Dec 2008 |
|------------------|------------|----------------------|-------------|----------------------------|-------------|
| | 1 Jan 2008 | Market gross inflows | Redemptions | Market and other movements | |
| Asian operations | 17,393 | 46,957 | (46,102) | (3,016) | 15,232 |
| US operations | 55 | 36 | (32) | (9) | 50 |
| UK operations | 51,221 | 16,154 | (12,747) | (7,631) | 46,997 |
| Group total | 68,669 | 63,147 | (58,881) | (10,656) | 62,279 |

| | 2007 £m | | | | 31 Dec 2007 |
|------------------|------------|----------------------|-------------|----------------------------|-------------|
| | 1 Jan 2007 | Market gross inflows | Redemptions | Market and other movements | |
| Asian operations | 12,253 | 38,954 | (35,993) | 2,179 | 17,393 |
| US operations | – | 60 | (4) | (1) | 55 |
| UK operations | 44,946 | 14,745 | (9,787) | 1,317 | 51,221 |
| Group total | 57,199 | 53,759 | (45,784) | 3,495 | 68,669 |

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.
APEs are calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts. New business premiums for regular premium products are shown on an annualised basis. Department of Work and Pensions (DWP) rebate business is classified as single recurrent business. Internal vesting business is classified as new business where the contracts include an open market option.
The format of the tables shown above is consistent with the distinction between insurance and investment products as applied for previous financial reporting periods. With the exception of some US institutional business, 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 above 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.
- ii Investment products referred to in the table for funds under management above are unit trust, mutual funds and similar types of retail fund management arrangements. These are unrelated to insurance products that are classified as 'investment contracts' under IFRS 4, as described in the preceding paragraph, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business.
- iii The tables for 2007 above include the transfer of 62,000 with-profits annuity policies from Equitable Life on 31 December 2007 with assets of approximately £1.7 billion. The transfer represented APE of £174 million.
- iv Subsequent to 29 September 2007 following expiry of the previous management agreement CITIC–Prudential Life Insurance Company Ltd (CITIC–Prudential), the Group's life operation in China, has been accounted for as a 50 per cent joint venture. Prior to this date CITIC–Prudential was consolidated as a subsidiary undertaking. All premiums for CITIC–Prudential are shown at 50 per cent on a like for like basis, reflecting the constant economic interest before and after the management changes in line with the original agreement with CITIC.
- v Income drawdown has been reallocated from the intermediated annuities product line. The APE sales are £8 million for 2008 and £3 million for 2007.
- vi Sales for PruHealth are included in UK sales. Comparative figures have been restated accordingly. The APE sales are £16 million for 2008 and £13 million for 2007.
- vii Other operations include Thailand, the Philippines and Vietnam.

Notes on the Group financial statements

B: Summary of results

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B6: Group balance sheet

The Group's primary reporting segments are insurance operations, asset management and, prior to disposal, banking. The Group's secondary reporting segments are geographical, namely the UK, the US and Asia. Details of disclosures in accordance with the requirements of IAS 14 for segment assets and liabilities are shown below.

Details of the primary reporting segments are as follows:

Insurance operations

This segment comprises long-term products that contain both significant and insignificant elements of insurance risk. The products are managed together and not classified in this way other than for accounting purposes. This segment also includes activity of the PAC with-profits funds' venture investments and other investment subsidiaries held for the purpose of supporting the Group's insurance operations.

Asset management

The asset management segment is comprised of both internal and third-party asset management services, inclusive of portfolio and mutual fund management, where the Group acts as an adviser, and broker-dealer activities. The nature of the products and the managing of the business differ from the risks inherent in the other business segments, and the regulatory environment of the asset management industry differs from that of the other business segments.

| | 2008 £m | | | | Total |
|--|----------------------|------------------|--------------------------|--------------------------|----------------|
| | Insurance operations | Asset management | Unallocated to a segment | Intra-group eliminations | |
| Consolidated total assets | 210,694 | 6,306 | 4,150 | (5,608) | 215,542 |
| Consolidated total liabilities | (205,120) | (4,663) | (6,254) | 5,608 | (210,429) |
| Segment assets by geographical segment | | | | | |
| UK | | | | | 140,110 |
| US | | | | | 54,431 |
| Asia | | | | | 26,609 |
| Intra-group eliminations | | | | | (5,608) |
| Total assets per balance sheet | | | | | 215,542 |

| | 2007 £m | | | | Total |
|--|----------------------|------------------|--------------------------|--------------------------|----------------|
| | Insurance operations | Asset management | Unallocated to a segment | Intra-group eliminations | |
| Consolidated total assets | 213,105 | 7,011 | 4,765 | (5,499) | 219,382 |
| Consolidated total liabilities | (207,632) | (5,282) | (5,803) | 5,499 | (213,218) |
| Segment assets by geographical segment | | | | | |
| UK | | | | | 161,334 |
| US | | | | | 42,758 |
| Asia | | | | | 20,789 |
| Intra-group eliminations | | | | | (5,499) |
| Total assets per balance sheet | | | | | 219,382 |

To explain more comprehensively the assets, liabilities and capital of the Group's businesses it is appropriate to provide an analysis of the Group's balance sheet by a mixture of primary and secondary segments.

This analysis is shown below for the Group balance sheet by business segment at 31 December 2008.

| By business segment | 2008 £m | | | | | | | |
|--|----------------------|---------------|---------------|----------------------------|------------------|---|--------------------------|----------------|
| | Insurance operations | | | Total insurance operations | Asset management | Unallocated to a segment (central operations) | Intra-group eliminations | Group total |
| | UK D2 | US D3 | Asia D4 | | | | | |
| Assets | | | | | | | | |
| Intangible assets attributable to shareholders: | | | | | | | | |
| Goodwill | – | – | 111 | 111 | 1,230 | – | – | 1,341 |
| Deferred acquisition costs and other intangible assets | 134 | 3,962 | 1,247 | 5,343 | 6 | – | – | 5,349 |
| Total ^{H1} | 134 | 3,962 | 1,358 | 5,454 | 1,236 | – | – | 6,690 |
| Intangible assets attributable to with-profits funds: | | | | | | | | |
| In respect of acquired subsidiaries for venture fund and other investment purposes | 174 | – | – | 174 | – | – | – | 174 |
| Deferred acquisition costs and other intangible assets | 13 | – | 113 | 126 | – | – | – | 126 |
| Total ^{H2} | 187 | – | 113 | 300 | – | – | – | 300 |
| Total | 321 | 3,962 | 1,471 | 5,754 | 1,236 | – | – | 6,990 |
| Deferred tax assets ^{H4} | 513 | 1,969 | 101 | 2,583 | 160 | 143 | – | 2,886 |
| Other non-investment and non-cash assets ^{H3:H6} | 4,962 | 1,819 | 1,416 | 8,197 | 135 | 3,553 | (5,608) | 6,277 |
| Investment of long-term business and other operations: | | | | | | | | |
| Investment properties | 11,959 | 13 | 20 | 11,992 | – | – | – | 11,992 |
| Investments accounted for using the equity method | – | – | – | – | – | 10 | – | 10 |
| Loans | 1,902 | 5,121 | 1,705 | 8,728 | 1,763 | – | – | 10,491 |
| Equity securities and portfolio holdings in unit trusts | 38,880 | 15,142 | 8,077 | 62,099 | 23 | – | – | 62,122 |
| Debt securities | 58,871 | 24,249 | 11,113 | 94,233 | 991 | – | – | 95,224 |
| Other investments | 4,160 | 1,256 | 144 | 5,560 | 462 | 279 | – | 6,301 |
| Deposits | 6,090 | 390 | 750 | 7,230 | 64 | – | – | 7,294 |
| Total investments ^{note a, G1, H7, H8} | 121,862 | 46,171 | 21,809 | 189,842 | 3,303 | 289 | – | 193,434 |
| Held for sale assets ^{H9} | – | – | – | – | – | – | – | – |
| Cash and cash equivalents ^{H10} | 2,571 | 246 | 1,501 | 4,318 | 1,472 | 165 | – | 5,955 |
| Total assets | 130,229 | 54,167 | 26,298 | 210,694 | 6,306 | 4,150 | (5,608) | 215,542 |

Notes on the Group financial statements

B: Summary of results

continued

B6: Group balance sheet continued

| | 2008 £m | | | | | | | Group total |
|--|----------------------|---------------|---------------|----------------------------|---------------------|---|--------------------------|----------------|
| | Insurance operations | | | Total insurance operations | Asset management E2 | Unallocated to a segment (central operations) | Intra-group eliminations | |
| | UK D2 | US D3 | Asia D4 | | | | | |
| By business segment | | | | | | | | |
| Equity and liabilities | | | | | | | | |
| Equity | | | | | | | | |
| Shareholders' equity ^{H11} | 1,655 | 1,698 | 2,167 | 5,520 | 1,642 | (2,104) | – | 5,058 |
| Minority interests | 47 | – | 7 | 54 | 1 | – | – | 55 |
| Total equity | 1,702 | 1,698 | 2,174 | 5,574 | 1,643 | (2,104) | – | 5,113 |
| Liabilities | | | | | | | | |
| Policyholder liabilities and unallocated surplus of with-profits funds: | | | | | | | | |
| Insurance contract liabilities ^{H12} | 72,756 | 42,476 | 20,798 | 136,030 | – | – | – | 136,030 |
| Investment contract liabilities with discretionary participation features ^{G1} | 23,367 | – | 79 | 23,446 | – | – | – | 23,446 |
| Investment contract liabilities without discretionary participation features ^{G1} | 11,584 | 2,885 | 32 | 14,501 | – | – | – | 14,501 |
| Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds) ^{D2ei,H12} | 8,254 | – | 160 | 8,414 | – | – | – | 8,414 |
| Total policyholder liabilities and unallocated surplus of with-profits funds^{note b} | 115,961 | 45,361 | 21,069 | 182,391 | – | – | – | 182,391 |
| Core structural borrowings of shareholder-financed operations: ^{H13} | | | | | | | | |
| Subordinated debt | – | – | – | – | – | 1,987 | – | 1,987 |
| Other | – | 173 | – | 173 | – | 798 | – | 971 |
| Total | – | 173 | – | 173 | – | 2,785 | – | 2,958 |
| Operational borrowings attributable to shareholder-financed operations ^{G1,H13} | 54 | 511 | 130 | 695 | 4 | 1,278 | – | 1,977 |
| Borrowings attributable to with-profits funds ^{G1,H13} | 1,308 | – | – | 1,308 | – | – | – | 1,308 |
| Other non-insurance liabilities: ^{G1,H4,H9,H14,H15} | | | | | | | | |
| Obligations under funding, securities lending and sale and repurchase agreements | 2,251 | 3,321 | – | 5,572 | – | – | – | 5,572 |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds | 1,536 | 88 | 1,154 | 2,778 | 1,065 | – | – | 3,843 |
| Current tax liabilities | 127 | – | 76 | 203 | 40 | 599 | – | 842 |
| Deferred tax liabilities | 1,421 | 1,337 | 441 | 3,199 | 11 | 19 | – | 3,229 |
| Accruals and deferred income | 265 | – | 130 | 395 | 205 | 30 | – | 630 |
| Other creditors | 1,619 | 529 | 796 | 2,944 | 2,898 | 1,262 | (5,608) | 1,496 |
| Provisions | 267 | 23 | 37 | 327 | 97 | 37 | – | 461 |
| Derivative liabilities | 3,401 | 863 | 32 | 4,296 | 292 | 244 | – | 4,832 |
| Other liabilities | 317 | 263 | 259 | 839 | 51 | – | – | 890 |
| Total | 11,204 | 6,424 | 2,925 | 20,553 | 4,659 | 2,191 | (5,608) | 21,795 |
| Total liabilities | 128,527 | 52,469 | 24,124 | 205,120 | 4,663 | 6,254 | (5,608) | 210,429 |
| Total equity and liabilities | 130,229 | 54,167 | 26,298 | 210,694 | 6,306 | 4,150 | (5,608) | 215,542 |

This analysis is shown below for the Group balance sheet by business segment at 31 December 2007.

| By business segment | 2007 £m | | | | | | | Group total |
|--|----------------------|---------------|---------------|----------------------------|---------------------|---|--------------------------|----------------|
| | Insurance operations | | | Total insurance operations | Asset management E2 | Unallocated to a segment (central operations) | Intra-group eliminations | |
| | UK D2 | US D3 | Asia D4 | | | | | |
| Assets | | | | | | | | |
| Intangible assets attributable to shareholders: | | | | | | | | |
| Goodwill | – | – | 111 | 111 | 1,230 | – | – | 1,341 |
| Deferred acquisition costs and other intangible assets | 157 | 1,928 | 745 | 2,830 | 6 | – | – | 2,836 |
| Total^{H1} | 157 | 1,928 | 856 | 2,941 | 1,236 | – | – | 4,177 |
| Intangible assets attributable to PAC with-profits fund: | | | | | | | | |
| In respect of acquired subsidiaries for venture fund and other investment purposes | | | | | | | | |
| Deferred acquisition costs | 192 | – | – | 192 | – | – | – | 192 |
| Deferred acquisition costs | 19 | – | – | 19 | – | – | – | 19 |
| Total^{H2} | 211 | – | – | 211 | – | – | – | 211 |
| Total | 368 | 1,928 | 856 | 3,152 | 1,236 | – | – | 4,388 |
| Deferred tax assets ^{H4} | 105 | 657 | 73 | 835 | 95 | 21 | – | 951 |
| Other non-investment and non-cash assets ^{H3-H6} | 4,110 | 994 | 689 | 5,793 | 426 | 4,292 | (5,499) | 5,012 |
| Investment of long-term business and other operations: | | | | | | | | |
| Investment properties | 13,666 | 8 | 14 | 13,688 | – | – | – | 13,688 |
| Investments accounted for using the equity method | – | – | – | – | – | 12 | – | 12 |
| Loans | 1,245 | 3,258 | 1,087 | 5,590 | 2,334 | – | – | 7,924 |
| Equity securities and portfolio holdings in unit trusts | 60,829 | 15,507 | 9,804 | 86,140 | 17 | – | – | 86,157 |
| Debt securities | 57,180 | 19,002 | 6,920 | 83,102 | 882 | – | – | 83,984 |
| Other investments | 3,391 | 762 | 42 | 4,195 | 155 | 46 | – | 4,396 |
| Deposits | 7,228 | 258 | 377 | 7,863 | 26 | – | – | 7,889 |
| Total investments^{note a, G1,H7,H8} | 143,539 | 38,795 | 18,244 | 200,578 | 3,414 | 58 | – | 204,050 |
| Held for sale assets ^{H9} | 30 | – | – | 30 | – | – | – | 30 |
| Cash and cash equivalents ^{H10} | 1,869 | 169 | 679 | 2,717 | 1,840 | 394 | – | 4,951 |
| Total assets | 150,021 | 42,543 | 20,541 | 213,105 | 7,011 | 4,765 | (5,499) | 219,382 |

Notes on the Group financial statements

B: Summary of results

continued

B6: Group balance sheet continued

| | 2007 £m | | | | | | | Group total |
|---|----------------------|---------------|---------------|----------------------------|---------------------|---|--------------------------|----------------|
| | Insurance operations | | | Total insurance operations | Asset management E2 | Unallocated to a segment (central operations) | Intra-group eliminations | |
| By business segment | UK D2 | US D3 | Asia D4 | | | | | |
| Equity and liabilities | | | | | | | | |
| Equity | | | | | | | | |
| Shareholders' equity ^{H11} | 1,364 | 2,690 | 1,369 | 5,423 | 1,677 | (1,038) | – | 6,062 |
| Minority interests | 42 | 1 | 7 | 50 | 52 | – | – | 102 |
| Total equity | 1,406 | 2,691 | 1,376 | 5,473 | 1,729 | (1,038) | – | 6,164 |
| Liabilities | | | | | | | | |
| Policyholder liabilities and unallocated surplus of with-profits funds: | | | | | | | | |
| Insurance contract liabilities ^{H12} | 82,938 | 32,926 | 16,912 | 132,776 | – | – | – | 132,776 |
| Investment contract liabilities with discretionary participation features ^{G1} | 29,466 | – | 84 | 29,550 | – | – | – | 29,550 |
| Investment contract liabilities without discretionary participation features ^{G1} | 12,073 | 1,922 | 37 | 14,032 | – | – | – | 14,032 |
| Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds) ^{D2,ei,H12} | 13,813 | – | 146 | 13,959 | – | – | – | 13,959 |
| Total policyholder liabilities and unallocated surplus of with-profits funds^{note b} | 138,290 | 34,848 | 17,179 | 190,317 | – | – | – | 190,317 |
| Core structural borrowings of shareholder-financed operations: ^{H13} | | | | | | | | |
| Subordinated debt | – | – | – | – | – | 1,570 | – | 1,570 |
| Other | – | 125 | – | 125 | – | 797 | – | 922 |
| Total | – | 125 | – | 125 | – | 2,367 | – | 2,492 |
| Operational borrowings attributable to shareholder-financed operations ^{G1,H13} | 12 | 591 | – | 603 | 1 | 2,477 | – | 3,081 |
| Borrowings attributable to with-profits funds ^{G1,H13} | 987 | – | – | 987 | – | – | – | 987 |
| Other non-insurance liabilities: ^{G1,H4,H9,H14,H15} | | | | | | | | |
| Obligations under funding, securities lending and sale and repurchase agreements | 1,360 | 2,721 | – | 4,081 | – | – | – | 4,081 |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds | 1,751 | 65 | 506 | 2,322 | 1,234 | – | – | 3,556 |
| Current tax liabilities | 507 | – | 24 | 531 | 36 | 670 | – | 1,237 |
| Deferred tax liabilities | 2,383 | 639 | 362 | 3,384 | 11 | 7 | – | 3,402 |
| Accruals and deferred income | 289 | – | 111 | 400 | 199 | – | – | 599 |
| Other creditors | 1,913 | 333 | 627 | 2,873 | 3,440 | 206 | (5,499) | 1,020 |
| Provisions | 326 | 19 | 33 | 378 | 166 | 31 | – | 575 |
| Derivative liabilities | 699 | 158 | 2 | 859 | 176 | 45 | – | 1,080 |
| Other liabilities | 98 | 353 | 321 | 772 | 19 | – | – | 791 |
| Total | 9,326 | 4,288 | 1,986 | 15,600 | 5,281 | 959 | (5,499) | 16,341 |
| Total liabilities | 148,615 | 39,852 | 19,165 | 207,632 | 5,282 | 5,803 | (5,499) | 213,218 |
| Total equity and liabilities | 150,021 | 42,543 | 20,541 | 213,105 | 7,011 | 4,765 | (5,499) | 219,382 |

This analysis is shown below for the Group balance sheet by business type at 31 December 2008.

| | 2008 £m | | | | | | 2007 £m | |
|--|---------------------|----------------------------------|---------------------------|-----------------------------------|---|--------------------------|-------------|-------------|
| | Participating funds | Unit-linked and variable annuity | Non-linked business D4 | Asset management operations E2 | Unallocated to a segment (central operations) | Intra-group eliminations | Group total | Group total |
| By business type | | | | | | | | |
| Assets | | | | | | | | |
| Intangible assets attributable to shareholders: | | | | | | | | |
| Goodwill | – | – | 111 | 1,230 | – | – | 1,341 | 1,341 |
| Deferred acquisition costs and other intangible assets | – | – | 5,343 | 6 | – | – | 5,349 | 2,836 |
| Total^{H1} | – | – | 5,454 | 1,236 | – | – | 6,690 | 4,177 |
| Intangible assets attributable to with-profits funds: | | | | | | | | |
| In respect of acquired subsidiaries for venture fund and other investment purposes | 174 | – | – | – | – | – | 174 | 192 |
| Deferred acquisition costs and other intangible assets | 126 | – | – | – | – | – | 126 | 19 |
| Total^{H2} | 300 | – | – | – | – | – | 300 | 211 |
| Total | 300 | – | 5,454 | 1,236 | – | – | 6,990 | 4,388 |
| Deferred tax assets ^{H4} | 279 | – | 2,304 | 160 | 143 | – | 2,886 | 951 |
| Other non-investment and non-cash assets ^{H3-H6} | 3,095 | 579 | 4,523 | 135 | 3,553 | (5,608) | 6,277 | 5,012 |
| Investment of long-term business and other operations: | | | | | | | | |
| Investment properties | 9,911 | 710 | 1,371 | – | – | – | 11,992 | 13,688 |
| Investments accounted for using the equity method | – | – | – | – | 10 | – | 10 | 12 |
| Loans | 2,154 | 113 | 6,461 | 1,763 | – | – | 10,491 | 7,924 |
| Equity securities and portfolio holdings in unit trusts | 31,821 | 29,211 | 1,067 | 23 | – | – | 62,122 | 86,157 |
| Debt securities | 42,965 | 6,298 | 44,970 | 991 | – | – | 95,224 | 83,984 |
| Other investments | 3,768 | 204 | 1,588 | 462 | 279 | – | 6,301 | 4,396 |
| Deposits | 4,828 | 903 | 1,499 | 64 | – | – | 7,294 | 7,889 |
| Total investments^{note a, G1.H7.H8} | 95,447 | 37,439 | 56,956 | 3,303 | 289 | – | 193,434 | 204,050 |
| Held for sale assets ^{H9} | – | – | – | – | – | – | – | 30 |
| Cash and cash equivalents ^{H10} | 1,733 | 1,148 | 1,437 | 1,472 | 165 | – | 5,955 | 4,951 |
| Total assets | 100,854 | 39,166 | 70,674 | 6,306 | 4,150 | (5,608) | 215,542 | 219,382 |

Notes on the Group financial statements

B: Summary of results

continued

B6: Group balance sheet continued

| | 2008 £m | | | | | | 2007 £m | |
|--|---------------------|----------------------------------|---------------------------|---|----------------|--------------------------|----------------|----------------|
| | Participating funds | Unit-linked and variable annuity | Non-linked business D4 | Shareholder-backed | | Intra-group eliminations | Group total | Group total |
| Asset management operations E2 | | | | Unallocated to a segment (central operations) | | | | |
| By business type | | | | | | | | |
| Equity and liabilities | | | | | | | | |
| <i>Equity</i> | | | | | | | | |
| Shareholders' equity ^{H11} | – | – | 5,520 | 1,642 | (2,104) | – | 5,058 | 6,062 |
| Minority interests | 47 | – | 7 | 1 | – | – | 55 | 102 |
| Total equity | 47 | – | 5,527 | 1,643 | (2,104) | – | 5,113 | 6,164 |
| <i>Liabilities</i> | | | | | | | | |
| Policyholder liabilities and unallocated surplus of with-profits funds: | | | | | | | | |
| Insurance contract liabilities ^{H12} | 58,310 | 27,799 | 49,921 | – | – | – | 136,030 | 132,776 |
| Investment contract liabilities with discretionary participation features ^{G1} | 23,446 | – | – | – | – | – | 23,446 | 29,550 |
| Investment contract liabilities without discretionary participation features ^{G1} | 32 | 10,277 | 4,192 | – | – | – | 14,501 | 14,032 |
| Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds) ^{D2ei,H12} | 8,414 | – | – | – | – | – | 8,414 | 13,959 |
| Total policyholder liabilities and unallocated surplus of with-profits funds^{note b} | 90,202 | 38,076 | 54,113 | – | – | – | 182,391 | 190,317 |
| Core structural borrowings of shareholder-financed operations: ^{H13} | | | | | | | | |
| Subordinated debt | – | – | – | – | 1,987 | – | 1,987 | 1,570 |
| Other | – | – | 173 | – | 798 | – | 971 | 922 |
| Total | – | – | 173 | – | 2,785 | – | 2,958 | 2,492 |
| Operational borrowings attributable to shareholder-financed operations ^{G1,H13} | – | – | 695 | 4 | 1,278 | – | 1,977 | 3,081 |
| Borrowings attributable to with-profits funds ^{G1,H13} | 1,308 | – | – | – | – | – | 1,308 | 987 |
| Other non-insurance liabilities: | | | | | | | | |
| Obligations under funding, securities lending and sale and repurchase agreements | 1,570 | – | 4,002 | – | – | – | 5,572 | 4,081 |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds | 1,775 | 877 | 126 | 1,065 | – | – | 3,843 | 3,556 |
| Current tax liabilities | 61 | – | 142 | 40 | 599 | – | 842 | 1,237 |
| Deferred tax liabilities | 1,225 | – | 1,974 | 11 | 19 | – | 3,229 | 3,402 |
| Accruals and deferred income | 202 | – | 193 | 205 | 30 | – | 630 | 599 |
| Other creditors | 1,151 | – | 1,793 | 2,898 | 1,262 | (5,608) | 1,496 | 1,020 |
| Provisions | 76 | – | 251 | 97 | 37 | – | 461 | 575 |
| Derivative liabilities | 3,027 | – | 1,269 | 292 | 244 | – | 4,832 | 1,080 |
| Other liabilities | 210 | 213 | 416 | 51 | – | – | 890 | 791 |
| Total | 9,297 | 1,090 | 10,166 | 4,659 | 2,191 | (5,608) | 21,795 | 16,341 |
| Total liabilities | 100,807 | 39,166 | 65,147 | 4,663 | 6,254 | (5,608) | 210,429 | 213,218 |
| Total equity and liabilities | 100,854 | 39,166 | 70,674 | 6,306 | 4,150 | (5,608) | 215,542 | 219,382 |

a Investments

Reconciliation of movement in investments

A reconciliation of the Group's directly held investments from the beginning of the year to the end of the year is as follows:

| | Insurance operations | | | Total insurance operations £m | Asset management £m | Unallocated to a segment £m | Group total £m |
|--|----------------------|----------|------------|----------------------------------|------------------------|--------------------------------|-------------------|
| | UK £m | US £m | Asia £m | | | | |
| At 1 January 2007 | | | | | | | |
| Total investments (including derivative assets) | 138,537 | 36,129 | 13,725 | 188,391 | 2,963 | 240 | 191,594 |
| Less: investments held by consolidated investment funds | (1,179) | – | (547) | (1,726) | – | – | (1,726) |
| Less: derivative liabilities | (268) | (92) | (4) | (364) | (142) | (4) | (510) |
| Directly held investments, net of derivative liabilities* | 137,090 | 36,037 | 13,174 | 186,301 | 2,821 | 236 | 189,358 |
| Net cash inflow from operating activities | 3,128 | 2,612 | 2,731 | 8,471 | 317 | (210) | 8,578 |
| Realised gains (losses) in the year | 4,660 | (47) | 1,484 | 6,097 | 8 | (16) | 6,089 |
| Unrealised gains (losses) in the year | (2,789) | 636 | (128) | (2,281) | (22) | 3 | (2,300) |
| Foreign exchange translation differences | 99 | (601) | 298 | (204) | 104 | – | (100) |
| Movement in the year of directly held investments, net of derivative liabilities | 5,098 | 2,600 | 4,385 | 12,083 | 407 | (223) | 12,267 |
| At 31 December 2007/1 January 2008 | | | | | | | |
| Total investments (including derivative assets) | 143,539 | 38,795 | 18,244 | 200,578 | 3,414 | 58 | 204,050 |
| Less: investments held by consolidated investment funds | (662) | – | (683) | (1,345) | – | – | (1,345) |
| Less: derivative liabilities ^{G3} | (689) | (158) | (2) | (849) | (186) | (45) | (1,080) |
| Directly held investments, net of derivative liabilities | 142,188 | 38,637 | 17,559 | 198,384 | 3,228 | 13 | 201,625 |
| Net cash inflow from operating activities | 887 | 2,862 | 2,596 | 6,345 | (615) | 85 | 5,815 |
| Realised gains (losses) in the year | 73 | (385) | (273) | (585) | 9 | (36) | (612) |
| Unrealised gains (losses) in the year | (26,932) | (8,825) | (4,199) | (39,956) | (156) | (19) | (40,131) |
| Foreign exchange translation differences | 1,636 | 13,019 | 4,993 | 19,648 | 545 | 2 | 20,195 |
| Movement in the year of directly held investments, net of derivative liabilities | (24,336) | 6,671 | 3,117 | (14,548) | (217) | 32 | (14,733) |
| At 31 December 2008 | | | | | | | |
| Total investments (including derivative assets) | 121,862 | 46,171 | 21,809 | 189,842 | 3,303 | 289 | 193,434 |
| Less: investments held by consolidated investment funds | (609) | – | (1,101) | (1,710) | – | – | (1,710) |
| Less: derivative liabilities ^{G3} | (3,401) | (863) | (32) | (4,296) | (292) | (244) | (4,832) |
| Directly held investments, net of derivative liabilities | 117,852 | 45,308 | 20,676 | 183,836 | 3,011 | 45 | 186,892 |

* The above reconciliation analyses the movement of directly held investments net of derivative liabilities. The deduction of derivative liabilities reflects the fact that these are considered an integral part of the Group's investment portfolio and the exclusion from investments is merely a matter of required balance sheet presentation. The analysis excludes investments held in the balance sheet as a result the consolidation of Open-Ended Investment Companies (OEICs) and unit trusts, as the Group's exposure is merely to its share of the value of the fund as a whole rather than to the underlying investments and other assets and liabilities.

Notes on the Group financial statements

B: Summary of results

continued

B6: Group balance sheet continued

i Information on the credit risks of debt securities

| | 2008 | | | | | 2007 | |
|------------------------|----------|----------|------------|--|--------------------------------|----------------------|----------------------|
| | UK £m | US £m | Asia £m | Total insurance operations £m | Asset manage- ment £m | Group total £m | Group total £m |
| S&P – AAA | 18,981 | 5,321 | 2,632 | 26,934 | 342 | 27,276 | 28,014 |
| S&P – AA+ to AA- | 6,012 | 853 | 3,746 | 10,611 | 274 | 10,885 | 9,673 |
| S&P – A+ to A- | 15,929 | 5,244 | 808 | 21,981 | 319 | 22,300 | 17,087 |
| S&P – BBB+ to BBB- | 7,413 | 7,077 | 902 | 15,392 | – | 15,392 | 11,017 |
| S&P – Other | 1,033 | 1,321 | 253 | 2,607 | – | 2,607 | 2,204 |
| | 49,368 | 19,816 | 8,341 | 77,525 | 935 | 78,460 | 67,995 |
| Moody's – Aaa | 681 | 458 | 494 | 1,633 | 24 | 1,657 | 1,817 |
| Moody's – Aa1 to Aa3 | 833 | 100 | 108 | 1,041 | 15 | 1,056 | 750 |
| Moody's – A1 to A3 | 678 | 111 | 398 | 1,187 | – | 1,187 | 1,019 |
| Moody's – Baa1 to Baa3 | 454 | 100 | 60 | 614 | – | 614 | 588 |
| Moody's – Other | 162 | 95 | 50 | 307 | – | 307 | 546 |
| | 2,808 | 864 | 1,110 | 4,782 | 39 | 4,821 | 4,720 |
| Fitch | 560 | 464 | 41 | 1,065 | – | 1,065 | 1,062 |
| Other | 6,135 | 3,105 | 1,621 | 10,861 | 17 | 10,878 | 10,207 |
| Total debt securities | 58,871 | 24,249 | 11,113 | 94,233 | 991 | 95,224 | 83,984 |

In the table above, Standard & Poor's (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. Notes D2(d), D3(d), D4(d) and E2 provide further details on the credit risks of debt securities by segment.

ii Group exposure to holdings in asset-backed securities and monoline insurers

a Asset-backed securities

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

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

i UK insurance operations

The UK insurance operations' exposure to asset-backed securities at 31 December 2008 is analysed as follows:

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

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

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

ii US insurance operations

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

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

*Including the Group's economic interest in Piedmont and other consolidated CDO funds. Further details on Jackson's RMBS sub-prime and Alt-A securities are given in note D3(d).

iii Asian insurance operations

The Asian insurance operations' exposure to asset-backed securities is primarily held by the with-profits operations. The £328 million asset-backed securities exposure of the Asian with-profits operations comprises:

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

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

iv Other operations

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

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

b Direct holdings in monoline insurers

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

Notes on the Group financial statements

B: Summary of results

continued

B6: Group balance sheet continued

b Reconciliation of movement in policyholder liabilities and unallocated surplus of with-profits funds

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of the Group from the beginning of the year to the end of the year is as follows:

| | Insurance operations | | | Total insurance operations £m |
|--|----------------------|----------|------------|----------------------------------|
| | UK £m | US £m | Asia £m | |
| At 1 January 2007 | 133,904 | 31,746 | 12,889 | 178,539 |
| Premiums | 8,853 | 6,352 | 3,958 | 19,163 |
| Surrenders | (4,528) | (3,476) | (1,032) | (9,036) |
| Maturities/Deaths | (6,787) | (490) | (395) | (7,672) |
| Shareholders' transfers post tax | (279) | – | (21) | (300) |
| Investment-related items and other movements | 7,194 | 1,225 | 1,458 | 9,877 |
| Foreign exchange translation differences | (67) | (509) | 322 | (254) |
| At 31 December 2007/1 January 2008 | 138,290 | 34,848 | 17,179 | 190,317 |
| Premiums | 9,372 | 6,728 | 4,162 | 20,262 |
| Surrenders | (4,281) | (3,852) | (1,191) | (9,324) |
| Maturities/Deaths | (8,324) | (564) | (354) | (9,242) |
| Shareholders' transfers post tax | (284) | – | (23) | (307) |
| Investment-related items and other movements | (16,331) | (4,552) | (4,293) | (25,176) |
| Foreign exchange translation differences | (2,481) | 12,753 | 5,589 | 15,861 |
| At 31 December 2008 | 115,961 | 45,361 | 21,069 | 182,391 |

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.