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dividend payments. The amounts shown represent the annual dividend accrual rather than the cash payments made in each year.

Dividend Data

Prudential's dividend policy is to increase dividends in line with the underlying growth in earnings of its principal businesses, with due regard for its cash and balance sheet position. Future dividends will depend on Prudential's results of operations, financial condition, cash requirements, future prospects and other factors. Under UK company law, Prudential may pay dividends only if "distributable profits" are available for that purpose. "Distributable profits" are accumulated, realized profits not previously distributed or capitalized less accumulated, realized losses not previously written off. Even if distributable profits are available, Prudential pays dividends only if the amount of its net assets is not less than the aggregate of its called-up share capital and undistributable reserves (such as, for example, the share premium account and the capital redemption reserve) and the payment of the dividend does not reduce the amount of its net assets to less than that aggregate.

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

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

Under the UK-US Income Tax Treaty, some US holders of Prudential ordinary shares and ADSs are entitled to a UK tax credit, also called the associated UK tax credit, in respect of a dividend from Prudential equal to the tax credit to which UK resident individuals generally are entitled in respect of the dividend. This UK tax credit, however, is subject to a withholding tax under the UK-US Income Tax Treaty. See Item 10, "Additional Information Taxation UK Taxation of Dividends" for a more detailed description of the withholding tax.

The following table shows certain information regarding the dividends that Prudential paid for the periods indicated in pounds sterling and converted into US dollars at the noon buying rate in effect on each payment date. The final dividend with respect to any calendar year is paid in the following calendar year after approval at Prudential's annual general meeting. Interim dividends for a specific year have generally had a record date in September and a payment date in November of that year, and final dividends have generally had a record date in the following March and a payment date in the following May.

Historical Dividend Information

Year	Interim Dividend per Share	Interim Dividend per Share	Final Dividend Per Share	Final Dividend per Share
	(pence)	(US Dollars)	(pence)	(US Dollars)
1997	6.4	0.10700	12.7	0.20736
1998	7.0	0.11598	14.0	0.22369
1999	7.7	0.12292	15.3	0.24620
2000	8.2	0.11652	16.3	0.23105
2001	8.7	0.12528	16.7	0.24048

Exchange Rate Information

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

Year Ended December 31,	Average
1997	1.64
1998	1.66
1999	1.61
2000	1.50
2001	1.46

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

	High	Low
November 2001	1.46	1.41
December 2001	1.46	1.42
January 2002	1.46	1.41
February 2002	1.43	1.41
March 2002	1.43	1.41
April 2002	1.46	1.43

On May 15, 2002, the noon buying rate in New York City was £1.00 = $1.46.

Forward-Looking Statements

This annual report contains certain "forward-looking statements". All statements regarding Prudential's future financial condition, results of operations and businesses, strategy, plans and objectives are forward-looking. Statements containing the words "believes", "intends", "expects" and words of similar meaning are also forward-looking. Such statements involve unknown risks, uncertainties and other factors that may cause Prudential's results, performance or achievements or conditions in the markets in which it operates to differ from those expressed or implied in such statements. These factors include regulatory changes, technological development, globalization, levels of spending in major economies, the levels of marketing and promotional expenditures, actions of competitors, employee costs, future exchange and interest rates, changes in tax rates and future business combinations or dispositions, together with other factors discussed in " Risk Factors".

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

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

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

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

RISK FACTORS

Prudential's operating results, financial condition and trading price are affected by a number of factors including economic and market conditions, exchange rate fluctuations, regulation, government policy and legislation, competition, credit ratings, and operational systems and processes.

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

Prudential's businesses are inherently subject to the risks associated with economic and market fluctuations. This is largely because Prudential's shareholders' profit in the United Kingdom is related to bonuses for policyholders declared on its with-profits products, which are broadly based on current rates of returns on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns.

In the United States, fluctuations in prevailing interest rates can affect results from Jackson National Life, which is predominantly a spread-based business with the majority of its assets invested in fixed income securities. In particular, fixed annuities and stable value products expose Jackson National Life to the risk that changes in interest rates which are not fully reflected in the interest rates credited to customers will reduce spread, or the difference between the amounts that it is required to pay under the contracts, and the rate of return it is able to earn on its general account investments to support the obligations under the contract. Declines in spread from these products or other spread business Prudential conducts could have a material impact on its businesses or results of operations.

In all markets in which Prudential operates, its businesses are susceptible to general economic conditions, which can change the level of demand for Prudential's products. The uncertain trends in international economic and investment climates prevailing during 2001 have adversely affected Prudential's business and profitability, principally through reducing investment returns, and may continue to do so unless conditions improve. See Item 5, "Operating and Financial Review and Prospects Factors Affecting Results of Operations General Economic and Market Conditions".

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

Due to the geographical diversity of Prudential's businesses, it is subject to the risk of exchange rate fluctuations. Prudential's international operations in the United States, Asia and Europe, which represent a significant proportion of total group income and expenses, generally write policies and invest in the same local currency, which although limiting the effect of exchange rate fluctuations on local operating results, can lead to fluctuations in Prudential's consolidated financial statements upon translation of results into pounds sterling. See Item 11,"Quantitative and Qualitative Disclosures about Market Risk".

Prudential's operations are subject to substantial regulation. Changes in the regulatory environments in which Prudential operates could have a negative impact on its reported results.

Prudential conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations in the markets in which it operates. Changes in government policy or legislation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates, may adversely affect Prudential's product range and distribution channels and, consequently, reported results. These changes include possible changes in the tax treatment of financial products and services, government pension arrangements and policies, the regulation of selling practices and solvency standards. In addition, potential regulatory changes resulting from the recent Financial Services Authority (FSA) consultation paper on reforming the UK polarization regime and the current Sandler review of with-profits products in the United Kingdom could have a significant effect on the way Prudential's products are priced, distributed and sold. Meanwhile, the introduction by the UK government of stakeholder pensions in April 2001, where charges are capped at 1% of the fund, has had a significant impact on the UK market for pensions. The initiative is beginning to be reflected in the pricing of pension products, as manufacturers are forced to reduce product pricing in response to competitive pressure, potentially reducing revenues and profitability. See Item 5, "Operating and Financial Review and Prospects Factors Affecting Results of Operations Government Policy and Legislation" and Item 4, "Information on the Company Supervision and Regulation of Prudential".

The resolution of several issues affecting the UK 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 United Kingdom and internationally. Pending legal and regulatory actions include proceedings relating to aspects of Prudential's business and operations which are specific to Prudential and proceedings which are typical of the business it operates, including in the latter case businesses it has closed. Although Prudential believes it has adequately reserved in all material aspects for the costs of litigation and regulatory matters, no assurance can be provided that such reserves are sufficient. It is possible that Prudential's future performance could be affected by an unfavorable outcome in these matters.

Companies operating in the UK insurance and financial services industries, including Prudential, currently confront a number of regulatory and legal actions, such as the requirement to provide redress to past purchasers of pension policies and regulatory reviews concerning the sale of mortgage endowment products, free standing additional voluntary contributions, or AVCs, and guaranteed annuities. In addition, Prudential is currently discussing the attribution of its inherited estate with the FSA, which may or may not result in a portion of the inherited estate in the main with-profits fund being attributed solely to shareholders. The amount and timing of any attribution to shareholders is sufficiently uncertain that it is not possible to accurately estimate any potential attribution. In addition, it is likely that if any part of the inherited estate is attributed to shareholders, it will remain in Prudential Assurance's long-term fund to support the long-term business and accordingly is unlikely to be distributed to shareholders for some considerable period of time, if at all. See Item 4, "Information on the Company Business of

Prudential Compliance" and " Legal Proceedings".

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

The markets for UK, US and Asian financial services are highly competitive, with several factors affecting Prudential's ability to sell its products, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance and historical bonus levels. In some of its markets Prudential faces competitors who are larger, have greater financial resources or a greater market share, offer a broader range of products or who have higher bonus rates or claims-paying ratios.

Prudential believes competition will only intensify in response to consumer demand, technological changes, 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. See Item 4, "Information on the Company Business of Prudential Competition".

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

Prudential's financial strength credit ratings, which are intended 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. Any downgrade in Prudential's ratings could have an adverse effect on its ability to market products and retain current policyholders. In addition, the interest rates Prudential pays on its borrowings are largely dependent on its debt credit ratings, which are in place to measure Prudential's ability to pay its contractual obligations. A ratings downgrade could, depending upon its magnitude, cause these interest rates to increase and cause Prudential's trading counterparties to terminate contractual relations.

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, people and systems 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. Further, because of the long-term nature of much of Prudential's business, accurate records have to be maintained for significant durations. Prudential's systems and processes are designed to ensure that the operational risks associated with its activities are appropriately controlled, but any weakness in the systems could have a negative impact on its results of operations during the effective period. See Item 11, "Quantitative and Qualitative Disclosures about Market Risk Operational, Compliance and Fiscal Risk" and Item 4, "Business of Prudential UK Business Compliance".

Item 4. Information on the Company

BUSINESS OF PRUDENTIAL

Overview

Prudential is a leading international financial services group, providing retail financial services and fund management in its chosen markets: the United Kingdom, the United States, Asia and continental Europe. At December 31, 2001, Prudential was one of the 20 largest public companies in the United Kingdom in terms of market capitalization on the London Stock Exchange. Prudential is not affiliated with Prudential Insurance Company of America.

Prudential has been writing life insurance in the United Kingdom for over 150 years and has had the largest long-term fund in the United Kingdom for over a century. Prudential began writing property and casualty insurance in 1915, and expanded its business into British Commonwealth countries, including Singapore and Malaysia, in the 1920s and 1930s. In 1986, Prudential acquired Jackson National Life Insurance Company, a US insurance company writing life and fixed annuity business. In 1996, Prudential established its direct banking operations. In 1998, Prudential launched Egg, a leading e-commerce retail financial services provider, and in 1999, Prudential acquired M&G, a leading UK fund manager. In June 2000, Prudential completed its listing on the New York Stock Exchange and completed an initial public offering of Egg plc on the London Stock Exchange.

In the United Kingdom, Prudential offers a range of retail financial products and services, including long-term insurance and asset accumulation products (life insurance, pensions and pensions annuities), retail investment and unit trust products, fund management services and banking products. Prudential primarily distributes these products through independent financial advisers, referred to as IFAs, and direct marketing, by telephone, mail and the internet.

At December 31, 2001, in the United Kingdom, Prudential was:

- the second-largest life insurance company in terms of market capitalization,
- the proprietor of the largest long-term fund of investment assets supporting long-term insurance products,
- the second-largest retail fund manager in terms of funds under management,
- a leading e-commerce retail financial services provider, and
- rated AAA "extremely strong" by Standard & Poor's and Aaa by Moody's in terms of financial strength rating for Prudential Assurance's long-term fund. Prudential is one of only eleven insurance companies worldwide with AAA financial strength ratings from both Standard and Poor's and Moody's.

In the United States, Prudential offers a range of products through Jackson National Life Insurance Company, including fixed, equity-indexed and variable annuities, life insurance, guaranteed investment contracts and funding agreements. Prudential distributes these products through independent insurance agents, securities broker-dealers and banks, credit unions and other financial institutions. At December 31, 2001, in the United States, Jackson National Life was:

- the tenth-largest life insurance company in terms of General Account assets,
- the fifth-largest provider of individual fixed annuities in terms of sales,
- the fifth-largest provider of equity-indexed annuities in terms of sales,
- a top ten provider of stable value products in terms of in-force liabilities, and
- rated AAA by Standard & Poor's, AA+ by Fitch Ratings and A+ by A.M. Best Co. in terms of financial strength rating.

In Asia, Prudential has operations in 12 countries and offers life insurance with health insurance options, personal lines property and casualty insurance and investment products, which it tailors to suit the local markets. Prudential distributes these products primarily through its agency salesforces and through bancassurance arrangements. Alongside its wholly owned operations in Asia, Prudential has forged successful joint ventures with some of the region's leading financial institutions including CITIC (China International Trust and Investment Corporation), Bank of China International, India's ICICI and Standard Chartered Bank.

At December 31, 2001, in Asia, Prudential was:

- the second-largest life insurance company in Singapore, in terms of new regular premium business,
- the second-largest life insurance company in Malaysia, in terms of new regular premium business, and
- the third-largest life insurance company in Hong Kong, in terms of new regular premium business.

In its European business segment, Prudential currently offers life insurance and pensions in Germany and a single premium savings product in France. Prudential has also entered into non-exclusive strategic distribution arrangements with leading local distributors in both France and Germany.

Prudential's operating profit under UK GAAP before amortization of goodwill and tax for the periods indicated is set forth in the table below.

	Year Ended December 31,		
	2001	**2000**	**1999**
	(In £ Millions)		
UK Insurance Operations	**435**	468	454
M&G	**75**	125	87
Egg	**(88)**	(155)	(150)
Total UK operations	**422**	438	391
US operations	**298**	466	451
Asian operations	**25**	36	27
European operations	**(24)**	(10)	6
Group activities	**(130)**	(123)	(90)
UK restructuring	**(41)**		(58)
Continuing operations	**550**	807	727
Discontinued operations			
Personal lines property and casualty insurance	**79**	33	61
Restructuring	**(7)**		(12)
Total discontinued operations	**72**	33	49
Total operating profit before amortization of goodwill and tax[(1)]	**622**	840	776

(1) For the purpose of this annual report, operating profit is determined on a long-term investment return basis and before amortization of goodwill, the American General merger break fee and profit on business disposals.

Strategy

Shareholder Focus

Prudential's commitment to its shareholders is to maximize the value over time of their investment. Prudential has a clear focus on managing for value, which drives how it sets its strategic goals, monitors business performance and incentivizes and rewards management. As part of this ambition Prudential has set a goal for the next four years of doubling the intrinsic value of the group.

With respect to Prudential's insurance operations, this translates into the approximate doubling of new business achieved profits (a widely accepted alternative profit measure in the United Kingdom which shows the current value of future cashflows to shareholders of new business, as discussed in "Item 5 Operating and Financial Review and Prospects Achieved Profits Basis of Reporting"). For Prudential's non-insurance operations, doubling of intrinsic value can be assessed based on a fair value measurement, which for Egg could be doubling of market capitalization, whereas for M&G could be assessed on doubling of operating profit.

This goal has been set for the group as a whole. Prudential expects its constituent businesses to double value at different rates over the four year period, with some, such as Egg or Prudential's Asian operations, expected to achieve this goal in less than four years, whereas for others delivery may take longer. Prudential does not expect overall group growth rates to be the same in every year. The key to Prudential achieving this target will be performance delivery, including Prudential's ability to develop the business so that growth will continue after the four year period while continuing to deliver value.

Building the Platform

In recent years, the global retail financial services industry has undergone significant change. Changes in underlying demographics, government attitudes, technology and customer demands are all driving fundamental change in the industry. Prudential is determined to deliver superior returns to its shareholders and has therefore fundamentally reconfigured its business to compete more effectively in this changing environment.

Over the past five years, Prudential has transformed itself from a business with a narrow product range and limited distribution channel focus to a multi-channel, multi-brand business with a broad product range and a clear retail financial services focus. At the same time, Prudential has withdrawn from those operations or markets that did not meet its target returns or that did not offer the opportunities to achieve critical mass.

Prudential has significantly restructured its traditional insurance operations in both the United Kingdom and the United States to improve its customer focus and management accountability, and to broaden its product range and distribution reach. In the United Kingdom, Prudential has restructured this business into a single integrated business combining Prudential's UK businesses with Scottish Amicable's, which were acquired in 1997, to form Prudential UK Insurance Operations. The new simplified organizational structure combines the previous three UK insurance divisions (Prudential Financial Services, Prudential Insurance Services and Prudential Intermediary Business, which included Scottish Amicable) into Prudential UK Insurance Operations, effective January 1, 2002. Prudential anticipates that this will improve operational effectiveness by removing duplication and that greater customer focus will be achieved by providing a seamless service from product manufacture to distribution. Meanwhile, Egg has added banking products to Prudential's product range and is in a market leading position to provide on-line financial products.

In the United States, Prudential has significantly diversified its product range and distribution strategy. Prudential has launched and developed its own equity-based, index-linked and stable value product ranges complementing its fixed annuity products, successfully entered the broker-dealer market and significantly grown its presence in the bank channel reflecting Prudential's initiative to expand its distribution capabilities.

In Asia, Prudential has expanded its operations from three countries six years ago to twelve today through a combination of acquisitions, joint ventures and organic initiatives. Prudential has made considerable progress in both growing its more established markets of Hong Kong, Singapore and Malaysia, and establishing itself in its newer markets including India, Taiwan, Vietnam, China, Japan and South Korea. Prudential is now in a strong position to capture a major part of the region's fast-growing financial services market.

The cost of development initiatives has adversely impacted, and will continue to adversely impact, short-term earnings, but Prudential believes that each of these investments is building long-term shareholder value. This value is clearly demonstrated by the scale and mix of Prudential's new business sales. In 2001, new business inflows exceeded £21.4 billion with over 46% coming from mutual fund sales, and over 68% coming from outside the United Kingdom.

This transformation has created a strong platform to pursue strategic initiatives for future growth and shareholder value creation.

Growing the Business

Prudential is conscious that the retail financial services industry continues to change, and it expects to continue to adapt its business to build a strong advantage over its competitors and to deliver superior returns to shareholders. Prudential will pursue its key strategic themes of maintaining focus on its customers, investing in technology to improve further customer access and service, driving down costs and driving growth in new and expanding markets. In furtherance of these themes, Prudential has already restructured its UK intermediary distribution channel to become more customer focused, continued Egg's on-line presence, restructured its UK operations to lower costs and entered new life insurance markets in Japan and South Korea.

The listing of Prudential on the New York Stock Exchange in June 2000 reflects the increasingly international nature of Prudential's business and has enabled it to widen its international shareholder base.

The initial public offering of a minority stake in Egg in June 2000 was an important step towards ensuring that Prudential realizes the full potential of this business. This independent quotation is designed to provide Egg with the ability to grow and expand with its own acquisition currency and to enhance its ability to recruit, retain and incentivize staff. Prudential intends to continue investing in all of its businesses to ensure it retains its market-leading positions.

Driving Growth in New and Expanding Markets

Within its existing major markets of the United Kingdom, the United States and Asia, Prudential believes fundamental shifts in demographics and in pension provision will create significant opportunities for future profitable growth.

At the same time as pursuing growth in its existing markets, Prudential continues to seek new markets in which it believes it can create value for its shareholders. Prudential's strategy for continental Europe involves harnessing its equity-based product expertise and tailoring it for individual European markets. Prudential plans to distribute its products through a series of non-exclusive strategic partnerships with leading local financial service providers, initially focusing on the four most populous markets of France, Germany, Spain and Italy.

In February 2002, M&G announced the launch of M&G International, focused initially on the distribution of M&G branded mutual funds to institutional investors in Germany and Austria. M&G International is also developing plans for institutional business in Italy and Luxembourg and the retail markets of Germany and Austria.

Prudential believes that Asia offers significant opportunities for growth. During 2000 and 2001, Prudential made considerable progress in establishing itself in new markets in Asia. In China, Prudential received a license to write life assurance business in the city of Guangzhou and commenced operations there in the last quarter of 2000. Prudential anticipates obtaining licenses for other cities in China. In Hong Kong, Prudential formed a joint venture with the Bank of China International to target the compulsory Mandatory Provident Fund market.

In February 2001, Prudential commenced writing life insurance business in Japan following its acquisition of Orico Life. In November 2001, Prudential commenced writing life insurance in South Korea following its acquisition of YoungPoong Life.

In India, Prudential has successfully entered the mutual fund market in a venture with The Industrial Credit and Investment Corporation of India Limited ("ICICI") and has re-established the Prudential brand in India. Following the liberalization of the Indian life insurance market in 2000, ICICI Prudential Life Insurance, Prudential's joint venture with ICICI, received a life insurance licence in India providing Prudential with the opportunity to target the world's second largest population. 2001 marked the first full year of sales for ICICI Prudential Life Insurance.

The success of Prudential's mutual fund operation in India encouraged it to initiate the development of similar offerings across Asia and in October 2000, Prudential acquired an 89% interest in Prudential SITE in Taiwan. This provides Prudential with potentially significant opportunities to accelerate its growth and profits from the Asian market.

Prudential continues to consider opportunities to acquire businesses to further the strategy of growing its business, particularly in new and expanding markets. Prudential may finance these acquisitions with bank borrowings, debt or equity issuances or a combination of such financings.

Focusing on Customers

Prudential's goal is to deliver the products that its customers want, through the distribution channels they wish to use. Prudential is continually exploring opportunities to expand its distribution reach and broaden its product offering.

In the United Kingdom, Prudential has complementary businesses and market-leading positions in key product areas, enabling it to deliver sustained growth in the low margin environment in which it now operates. The businesses comprising Prudential's UK Insurance Operations have undergone enormous transformations in recent years. The development of Prudential's business model to improve its service to over seven million customers continued in 2001. To bring together several operating units under the powerful Prudential brand, a more focused strategic direction for the UK business has been developed. In achieving this Prudential closed its direct sales channels, improved customer service operations and created further cost efficiencies.

M&G's market position, investment capabilities and brand strength make it one of the leading fund managers in the United Kingdom. Meanwhile, the successful integration with Prudential Portfolio Managers has created a focused business with strong positions in all of its markets.

During the year, Egg acquired 600,000 net new customers, giving it a total of 1.95 million customers at December 31, 2001. At the end of March 2002, Egg had over two million customers. Its credit card business performed strongly in 2001, particularly Egg Card, which had 1.37 million customers at December 31, 2001.

In the United States, Prudential, through Jackson National Life, is one of the few providers to have a significant market position across the range of fixed, variable and equity-indexed annuity products. It also offers life and stable value products. Jackson National Life has expanded its distribution channels to include independent agents, broker-dealers and banks and other financial institutions. Prudential will continue to seek opportunities to expand its product range and distribution capability in the United States, both through acquisitions and organic initiatives, and its exposure to equity-based products, including variable annuities and mutual funds.

Across Asia, Prudential is a market leader in developing innovative savings and insurance products. It has leveraged its UK and US product expertise and proactively worked with Asian regulators to bring new products to market. Prudential has offered mutual fund products in India since 1998, and at December 31, 2001 had £1,071 million of funds under management. Building on its initiatives in India and Taiwan, where it has £1,967 million funds under management, Prudential intends to develop mutual fund offerings in other Asian countries. Prudential is also working to create a multi-channel distribution capability across the region. In addition to its core agency distribution channel, Prudential has established bancassurance relationships with leading banks in Singapore, Hong Kong, Malaysia, China, India, Taiwan, Indonesia, Thailand and Vietnam.

Investing in Technology

Prudential believes that technology is a key enabler in its industry in both driving efficiency through lower costs of administration and as a major distribution channel across the group. Prudential is investing in technology because it believes technology to be a source of considerable competitive advantage.

The development of Egg is the most visible and high profile example of Prudential's investment in technology. Prudential believes that Egg has developed significant first-mover advantage in the e-commerce retail financial services market in the United Kingdom. Egg is, however, just one example of a number of developments Prudential has underway. All of Prudential's businesses are rapidly progressing in making e-commerce integral to the way the group does business.

Summary

Prudential's strategic initiatives over the past few years have significantly changed the shape and focus of its group and have built a platform for further growth and value generation. Prudential believes that by continuing to implement its strategy of product innovation for the benefit of its customers, continuing to invest in technology to drive growth in its newer markets, improve efficiency and develop new distribution channels, it will maximize value for its shareholders both now and over the long term.

Significant Subsidiaries

The table below sets forth Prudential's significant subsidiaries.

Name of Company	Percentage Owned[(1)]	Country of Incorporation
Egg Banking plc[(2)(3)] (previously Prudential Banking plc)	79%	England and Wales
Jackson National Life Insurance Company[(2)]	100%	United States
M&G Investment Management Limited[(2)]	100%	England and Wales
Prudential Annuities Limited[(2)]	100%	England and Wales
The Prudential Assurance Company Limited	100%	England and Wales
Prudential Assurance Company Singapore (Pte) Limited[(2)]	100%	Singapore
Prudential Retirement Income Limited[(2)]	100%	Scotland
Scottish Amicable Life plc[(2)]	100%	Scotland

(1) Percentage of equity owned by Prudential directly or indirectly. The percentage of voting power held is the same as the percentage owned.

(2) Owned by a subsidiary of Prudential.

(3)

Egg Banking plc is a wholly-owned subsidiary of Egg plc, a listed subsidiary of Prudential. Following its initial public offering of approximately 21% of the shares of Egg plc in June 2000, Prudential owns approximately 79% of Egg plc.

UK Business

Introduction

Prudential's UK business is structured into business units, each focusing on its respective target customer markets. Prudential's UK business units are UK Insurance Operations, M&G, and Egg.

The following discussion describes:

- the UK retail financial services market,
- Prudential's UK business units and products,
- Prudential's reinsurance arrangements and reserving practices,
- shareholders' participation in Prudential's long-term insurance business, and
- other matters, including pensions misselling, other general compliance matters and restructuring.

In 2001, Prudential's UK business generated operating profit from continuing operations before amortization of goodwill and tax of £422 million and total UK new business insurance premiums of £5,685 million. As of December 31, 2001 M&G had £120 billion funds under management. Meanwhile, as at December 31, 2001 Egg had deposits of £5,945 million, a mortgage book of £2,427 million and a credit card book of £1,769 million.

UK Retail Financial Services Market Overview

The United Kingdom is the world's third-largest life insurance market in terms of premiums and is one of the largest retail banking markets. In recent years, the UK insurance and banking markets have changed significantly and are continuing to evolve as a result of changes in regulation and government policy, demographics, technological development and consumer awareness and attitudes. Retail financial services providers are adapting to these changes by broadening the range of products that they offer and the means by which those products are distributed to and accessed by customers.

The historical divisions between insurance, banking and other financial products have been eroded. It is increasingly common for providers to offer a range of pension products, life products and services, property and casualty insurance, banking products and retail investment products and services. Consumers are increasingly being offered access to these products through direct marketing and e-commerce, as well as through the traditional company salesforce, independent financial advisors, or IFAs, and bank branch distribution channels.

New entrants to the retail financial services market have capitalized on the relatively simple nature of many savings, investment, property and casualty insurance and banking products designed for direct distribution channels and used their established retail brands and advanced technology to market these products. New entrants are also taking advantage of the lower cost barriers to entry afforded by internet distribution, especially in the area of retail banking.

Competition among retail financial service companies is focused on product range, distribution reach, brand, investment performance, specific benefits offered by products, charges and financial strength.

Products

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

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

During the late 1980s, the UK government began encouraging individuals to invest in equities, with particular emphasis on UK equities. The UK government's privatization program and the introduction of tax-advantaged Personal Equity Plans, referred to as PEPs, in 1988 have considerably widened the UK equity investor base. The current UK government replaced PEPs in April 1999 with Individual Savings Accounts, referred to as ISAs, a new tax-advantaged product that offers equity, insurance and deposit investment options.

The UK government introduced "stakeholder pensions" in April 2001 with the intention of creating a pension for individuals identified as earning enough to be able to afford to make a contribution towards a pension but who are not currently doing so.

A new financial reporting standard, FRS 17 "Retirement Benefits", was introduced in November 2000, applying to all companies that report under UK GAAP. When fully implemented in 2003, the standard will require that companies include the whole of any pension surplus or deficit of defined benefit schemes in their balance sheet and has changed the way in which pension surpluses and deficits are valued. As a result many companies are expecting to change their pension arrangements to defined contribution schemes, an area in which Prudential has a strong offering, and to produce a significant growth in bulk annuities, a market in which Prudential has a significant market share.

With-Profits Products

The majority of the life and pensions business traditionally written in the United Kingdom is with-profits business. For a detailed description of Prudential's with-profits products and policies, see Item 4, " Shareholders' Interests in Prudential's Long-term Insurance Business With-profits Products".

Distribution

Retail financial services and products are distributed face-to-face, through branches, tied agents, company salesforces and IFAs, or directly by mail, telephone and over the internet. Tied agents are exclusive agents who represent only one insurer and must offer customers the products most suitable to their needs, but only from the range of products offered by that insurer. In recent years the high costs of company salesforces and tied agency networks, combined with customers perceiving a lack of choice, has meant that salesforces and tied agents have lost significant market share to IFAs, with the result that many insurers, including Prudential, have chosen to close these tied agents and direct salesforce networks.

Increasingly, consumers require access that is compatible with their lifestyle. IFAs, banks, direct marketing and e-commerce distribution are gaining market share at the expense of traditional company salesforces. Direct and e-commerce distribution methods are generally lower-cost than other methods but have not been conducive to providing financial advice to the consumer to date. Accordingly, products distributed directly are generally more straightforward and have lower, often fee-based, charges. Although the e-commerce market is still small, it is expanding rapidly and Prudential believes it has considerable potential for further growth.

IFAs are required by the UK polarization laws to provide the best advice to customers, considering all of the products available in the market and the customer's particular circumstances, and are legally responsible for their own advice. In contrast, while company salesforces may only sell the products of the company of which they are employed, they must nevertheless also provide the best advice concerning the products offered by their company in the light of the customer's particular circumstances. A company has legal responsibility for the advice its salesforce provides and the conduct of its tied agents.

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

Further relaxation of the polarization rules is expected following the publication in January 2002 of FSA Consultation Paper 121, "Reforming Polarization: Making the Market Work for Consumers", in which the FSA makes a number of proposals for the reform of polarization which, if adopted, would fundamentally alter the relationship between product manufacturers and distributors. See Item 4, "Business of Prudential Supervision and Regulation of Prudential UK Supervision and Regulation FSA Conduct of Business Rules".

UK Business Units

UK Insurance Operations

In 2001, operating profit before taxation and restructuring from Prudential's long-term UK Insurance Operations was £435 million. This represented 87% of the total £501 million operating profit before taxation and restructuring recorded by Prudential in the United Kingdom from long-term and other operations, including £79 million from its discontinued personal lines property and casualty business. See "UK Business Personal Lines Property and Casualty Insurance Products Transfer of Business to Winterthur".

Products

Prudential offers a wide range of products, which are marketed under the "Prudential" and "Scottish Amicable" brands. After June 2002, products will only be sold under the Prudential brand. See "UK Restructurings". The products distributed include long-term products consisting of:

- life insurance savings-type products and pure protection products,
- individual and corporate pensions, and
- pension annuities.

Until December 2001, Prudential also offered personal lines property and casualty insurance through its UK Insurance Operations. However it transferred this business in January 2002 to Winterthur Insurance and the Churchill group, Winterthur's UK subsidiary. See "Personal Lines Property and Casualty Insurance Products Transfer of Business to Winterthur".

Long Term Products

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

	Year Ended December 31,		
	2001	**2000**	**1999**
	(In £ Millions)		
Life insurance			
With-profits	**2,222**	2,047	2,938
Unit-linked	**339**	212	126
Other			5
Total life insurance	**2,561**	2,259	3,069
Pensions			
With-profits individual	**153**	181	172
Unit-linked individual	**186**	163	122
DSS rebates	**249**	234	239
Corporate	**701**	953	731
Total pensions	**1,289**	1,531	1,264
Pensions annuities			
Fixed	**1,704**	1,097	2,184
With-profits	**131**	157	155

	Year Ended December 31,		
Total pensions annuities	**1,835**	1,254	2,339
	5,685	5,044	6,672
Investment products	**91**	159	99
Total new business premiums	**5,776**	5,203	6,771

Of total premiums of £5,776 million in 2001, £4,784 million were sold through IFAs, an increase of 24% from the £3,854 million of sales through this channel in 2000. Due to the closure of Prudential's direct sales force, announced in February 2001, sales through this channel, excluding internal vestings from Prudential-branded pension products, fell from £896 million in 2000 to £504 million in 2001.

Life Insurance Products

Prudential's UK life insurance products are predominantly medium to long-term savings products with life cover attached, and also include whole life products and pure protection (term) products. The savings products Prudential offers include investment bonds and endowment plans. Each of these products provides a death benefit in addition to the savings feature.

Savings Products Investment Bonds

Prudential's investment bonds are single premium products that may be with-profits or unit-linked products, although the with-profits products represent the vast majority of its new business premiums.

The Prudence Bond, a single premium, unitized with-profits policy with no fixed term, is one of the United Kingdom's leading investment bond products. In 2001, total new business premiums attributable to the Prudence Bond and to the Prudential Investment Bond, a similar product, were in excess of £2 billion.

These products aim to provide capital growth over the medium to long-term, access to this capital growth, and access to different investment areas without the risks associated with direct investment into these areas. Capital growth for the policyholder on with-profits bonds is achieved by the addition of reversionary or regular bonuses, both of which are credited to the bond on a daily basis from investment returns achieved within the long-term fund of Prudential Assurance with-profits fund. A terminal bonus may also be added when the bond is surrendered. Capital growth on unit-linked bonds is achieved by the movement of the assets underlying those funds.

Savings Products Endowment Plans

Endowment plans are long-term regular premium with-profits or unit-linked savings products that are designed to provide a lump sum at the end of a fixed term and death cover during the term. Endowment products were used in the United Kingdom to provide a lump sum for mortgage repayment with the borrower taking out an endowment assurance policy for the same term as the mortgage loan. In April 2001, Prudential announced that, due to the shift within the marketplace towards repayment mortgages over the past few years, and the consequent significant fall in demand for endowment products, Scottish Amicable, its sole provider of mortgage endowments, would withdraw from the mortgage endowment market.

Pension Products

Prudential provides both individual and corporate pension products. In 2001, new business premiums totaled £339 million for individual pensions and £701 million for corporate pensions. Pension products are tax-advantaged long-term savings products that comply with rules established by the UK Inland Revenue and are designed to supplement state-provided pensions. These rules require that, upon retirement, maturity benefits are used to purchase pension annuities, although they do permit a limited amount to be taken as a tax-free lump sum. These products typically have minimal mortality risk and are primarily considered investment products.

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

Individual Pensions

Prudential's individual pension products include personal pension plans and free standing additional voluntary contribution products. Prudential's free standing additional voluntary contribution plans permit individuals to supplement the pension benefits they accumulate in their occupational pension plan. Both of these products are either unit-linked or unitized with-profits products or contain options to permit premiums to be paid into a unitized with-profits fund.

In addition, Prudential has recently introduced products that meet the criteria of the UK government's stakeholder pension program. The stakeholder pension is intended for individuals earning enough to be able to afford to make contributions to a pension but who are not currently doing so. The introduction of stakeholder pensions has implications, for among other things, how Prudential designs, administers, charges for and distributes pension products. The most significant requirements involve capping of charges and establishing a minimum acceptable contribution. The government has capped charges at 1% of the policyholder account balance per annum for stakeholder pensions, which is significantly below the charges on personal pension products previously charged by the UK pensions industry.

Department of Social Security Rebates

Prudential also provides individual personal pension products through the "DSS Rebate" arrangement. Under this arrangement, individuals may elect to contract out of the UK's State Earnings Related Pension Scheme administered by the UK Department of Social Security. If an individual elects to contract out, then he or she will designate a pensions provider, such as Prudential, with which he or she would like to have a pension product. Premiums on the product are met through "rebates" from the Department of Social Security, which represent the amount that would be otherwise paid into the state pension scheme. Rebate amounts are invested to provide benefits to the individual. Premiums from Department of Social Security rebates are typically reported in the first quarter of each year. In 2001, Prudential received total premiums of £249 million from Department of Social Security rebates.

Corporate Pensions

There are two categories of corporate pension products: defined benefit and defined contribution. Prudential has an established defined benefit plan client base that ranges from small unlisted companies to some of the largest companies in the United Kingdom.

UK regulations require that all companies that offer a defined benefit pension plan must also offer a group additional voluntary contribution plan to their employees. Additional voluntary contribution plans enable employees to make additional pension payments, either regularly or as a lump sum, to supplement their occupational pension plans. Prudential's additional voluntary contribution business is the second largest in the United Kingdom in terms of premium income.

Defined benefit plans and products continue to dominate the corporate pensions market in terms of funds under management. In recent years most new plans established have been defined contribution products. The products Prudential offers to the corporate pensions market are group unit-linked policies and with-profits deposit administration policies. Prudential's defined contribution products are additional voluntary contribution plans, money purchase plans, grouped personal pension plans, self-invested personal pension plans and executive pension plans.

Pension Annuities

Prudential offers immediate annuities that are either fixed annuities, where annuity payments are guaranteed from the outset, or with-profits annuities. Prudential also offers bulk annuities, whereby it manages the assets of a company pension scheme, usually when they are in the process of winding up. Due to the nature of the product, the volume of Prudential's bulk annuity sales is unpredictable. In 2001, Prudential sold £575 million of bulk annuities. Internal vestings represented 38% of Prudential-branded annuity sales.

Prudential's immediate annuity products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump-sum capital payment. No surrender value is available under any of these products. The primary risk to Prudential from fixed annuity products, therefore, is mortality risk. During 2001 Prudential launched an innovative flexible retirement income annuity, FRIA, and an impaired life annuity. Prudential is hoping to build on this initial success in 2002.

Fixed Annuities

Prudential offers three types of fixed annuities: level, fixed-increase and index-linked. The level annuity offered provides a fixed amount of income for the specified term. Prudential's fixed-increase annuity incorporates automatic increases by fixed amounts over the specified period. The index-linked annuities Prudential offers provide for a regular payment to which an additional amount based on the increase in the UK Retail Prices Index is added periodically. In 2001, sales of fixed annuities were £1,704 million.

With-profits Annuities

Prudential is one of only a few companies in the United Kingdom writing with-profits annuities. In 2001, Prudential wrote £131 million of this business. Prudential's with-profits annuities combine the income features of annuity products with the smoothing feature of with-profits products and enable policyholders to obtain equity-type returns. Policyholders select an "anticipated bonus" from the specific range Prudential offers for the particular product. The value of the annuity payment each year depends upon the anticipated bonus rate selected by the policyholder when the product is purchased and the bonuses Prudential declares each year during the term of the product. If bonus rates fall below the anticipated rate then the annuity income falls.

Personal Lines Property and Casualty Insurance Products

Prudential's personal lines property and casualty insurance products in the United Kingdom were primarily household and motor insurance for individuals, referred to as personal lines. Prudential offered its personal lines products primarily through direct marketing and in connection with its banking business. Home insurance gross premiums of £307 million in 2001 accounted for 79% of Prudential's personal lines property and casualty premiums. Prudential's motor policies provided coverage to individuals for third-party liability, including property damage and bodily injury, theft, fire and collision damage.

The following table shows gross premiums for Prudential's UK personal lines property and casualty insurance products for the periods indicated.

	Year Ended December 31,		
	2001	2000	1999
	(In £ Millions)		
Home	**307**	276	274
Motor insurance	**83**	57	44
Total	**390**	333	318

Transfer of Business to Winterthur

In November 2001, Prudential agreed to transfer its personal lines property and casualty insurance business to Winterthur Insurance and the Churchill Group, its UK subsidiary. On December 31, the insurance liabilities were almost wholly reassured, to Winterthur Insurance. The related cash transfer for this reinsurance was offset in January 2002 against the sales proceeds of this business. The sale was completed on January 4, 2002 for a consideration of £353 million. After allowing for the costs of the sale and other related items it is anticipated that profit on sale recorded in the 2002 results will be approximately £360 million before tax. In addition Prudential anticipates the release of approximately £200 million of solvency capital and approximately £21 million of net profits in the unearned premium reserve, and receiving £236 million in relation to the conservatively estimated net present value of future commissions and profits over the term of the agreement. This alliance with Churchill is part of Prudential's UK strategy to focus on core medium and long-term saving businesses, and will see Churchill offering Prudential branded products in the United Kingdom.

Profits from Prudential's UK personal lines property and casualty products have been classified as discontinued operations for 2001.

Closed Business

Prior to 1993, Prudential wrote a wide range of property and casualty insurance business, including commercial cover, which it sold through brokers and its company salesforce. Prudential also had a London Market operation and specialist marine and aviation insurance operations. Prudential had withdrawn from all of these areas by the end of 1993 and, consequently, these businesses are now in run-off. The total claims provisions established for these closed businesses amounted to £144 million at December 31, 2001. Prudential believes these provisions are prudent and does not currently anticipate that it will need to make any further provisions in respect of these closed businesses.

UK Restructurings

In February 2001, Prudential announced the restructuring of the direct salesforce and customer service channels of its UK Insurance Operations. In November 2001, Prudential announced further details of changes to the future structure of those operations, in particular the intention to pursue a single brand strategy for life and pensions business including the integration of its Scottish Amicable operations under the Prudential brand. The changes also included a simplification of the organizational structure and plans for a significant reduction in operating costs. The total cost in 2001 of this restructuring was £200 million, with £152 million borne by Prudential Assurance's long-term fund and £48 million by shareholders' funds. Prudential has allocated these costs between the long-term fund and shareholder businesses on the basis of the activity to which the costs relate. The amount spent as of December 31, 2001 in connection with the above restructurings was £82 million.

As part of these restructurings Prudential planned to make 4,100 jobs redundant, of which approximately 2,000 had been completed by December 31, 2001.

In 1999, Prudential carried out a review of its UK operations and adopted restructuring plans. The cost of the restructuring in 1999 was £148 million. Of this amount, £78 million was borne by Prudential Assurance's long-term fund and £70 million by shareholders' funds. Prudential has allocated these costs between the long-term fund and shareholder businesses on the basis of the activity to which the costs relate. This cost largely related to reductions in the company salesforce pursuant to an involuntary redundancy program, reductions in associated sales management, sales support and administration staff and related property and closure provisions which in total amounted to £131 million, of which £78 million was borne by the long-term fund and £53 million charged directly to shareholders. The remainder represents integration costs of combining Prudential Portfolio Managers and M&G following the acquisition of M&G. The amount spent as of December 31, 2001 in connection with the above restructuring was £97 million.

Distribution

Prudential's UK Insurance Operations have a multi-channel distribution capability relying on direct to consumer, business to business, intermediaries and affinities channels.

Direct to Consumer

The direct to consumer distribution channel is primarily charged with increasing revenue through existing Prudential customers and seeking new customers for the business. The channel builds on the success of the Service Related Sales units and the Annuities Advice center, through which customers are served and advised by the internet and telephone.

Business to Business

The business to business distribution channel focuses on the maximization of the value of the existing book of corporate pension schemes and winning new schemes. At the same time, this channel targets Prudential's strong base of corporate pensions through workplace cross-selling. Prudential UK Insurance Operations corporate pension products are marketed through consulting actuaries, benefits advisers and its company employer and employee relationship management teams. Both consulting actuaries and benefits advisers are IFAs, but are not generally the same as the retail IFAs being targeted via the intermediary channel discussed below.

Intermediaries

The intermediary channel focuses on the distribution of products to individual customers via retail IFAs. This channel was restructured during 2001 to be closely aligned to the needs of Prudential UK Insurance Operations' key intermediary customers, enabling the formation of closer relationships with the intermediaries that provide greatest value. New sales divisions have been created to customize the levels of support required by each key customer group in line with the value that each group generates. This realignment resulted in an increase in the number of telephone-based account managers and a fall in the number of field-based account managers.

Affinities

The newly formed affinity channel will develop partnerships with banks, retail brands and other distributors.

M&G

Prudential's fund management business in the United Kingdom and Europe, M&G, accounted for £75 million of Prudential's total 2001 UK operating profit before taxation and restructuring of £501 million, including discontinued businesses. This business currently comprises a retail fund management business, fixed income institutional, and internal fund management activities.

Following the acquisition of M&G Group plc in 1999, Prudential merged its existing UK fund management operation, Prudential Portfolio Managers, or PPM, into the M&G operation. In the United Kingdom, M&G specializes in those areas of fund management where it believes that it has a competitive advantage. These areas are unit trusts, fixed income and pooled life and pension funds. M&G sold its UK institutional equity business in 2000 as it did not have a competitive advantage in this area.

2001 proved a challenging year for the retail fund management industry with gross industry retail sales falling 22%, net retail sales falling 48% and net ISA sales falling 39%. Excluding an exceptional loan note rollover in 2000 relating to the original acquisition of M&G by Prudential, M&G saw a decrease in gross sales of only 5% and achieved a significant increase in net retail sales over the year. M&G was able to leverage its leading fixed income position and reduce redemptions, in addition to benefiting from an increased recognition among IFAs due to the good performance of a number of its equity funds. This resulted in M&G being responsible for more than 6% of all ISA and PEP transfer business sold via intermediaries in 2001. M&G is the UK's second largest retail fund manager in terms of funds under management.

M&G's strategy of refocusing its institutional business on core areas of strength in fixed interest, defined contribution and pooled pensions, is increasingly producing results as the move away from defined benefit schemes among UK companies gathers momentum. Over £700 million of institutional mandates were won during 2001 with M&G's strengths in liability and cashflow matching being a particular factor behind this growth. See " UK Retail Financial Services Market Overview Products" for an assessment of the impact of FRS 17 on UK companies' pension provisions.

For the second successive year M&G generated strong investment performance across the internal funds for which it was responsible.

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

	At December 31,		
	2001	**2000**	**1999**
	(In £ Billions)		
Retail fund management	**13**	18	15
Institutional fund management	**6**	6	22
Internal fund management	**101**	106	106
Total	**120**	130	143[1]

(1) Includes £12 billion relating to M&G's institutional equity business, which was sold in 2000.

Retail Fund Management

M&G's retail fund management business comprises distribution of its retail investment products and the management of the funds invested in these products by its customers. Total new business contributions for the year ended December 31, 2001 for M&G products, distributed directly and through the IFA channel, were £918 million and comprised 14% of total UK new business contributions.

M&G markets and distributes its range of retail investment products through IFAs, over the phone and through the internet. M&G was one of the first UK providers to offer unit trust purchases over the internet.

Retail Investment Products

M&G distributes retail investment products under the Prudential and M&G brands. M&G offers unit trusts, ISAs, and investment trusts.

Unit Trusts

Unit trusts are the United Kingdom equivalent of mutual funds in the United States. These products are designed for medium to long-term savings and either lump-sum or regular contributions may be made. Investors purchase "units" of the unit trust. A unit represents an interest in the pool of investments underlying the unit trust. The return to investors is determined by the performance of these investments.

ISAs

ISAs are savings products that provide a tax advantage in that the income and capital gains arising are tax-free. Contributions may be made regularly or in a lump sum, subject to the £7,000 maximum per tax year specified by the UK tax authorities until 2005/2006. The UK tax authorities have announced that the ISA products' tax advantages are guaranteed to remain in place until at least 2009. Prudential offers ISA products that "wrap" equity-based and corporate bond-based unit trust products.

Investment Trusts

Investment trusts are similar to closed-end mutual funds and are listed on the London Stock Exchange. The trusts invest in specified investments, typically equities and government securities. Investors purchase shares in the trusts. The return to the investor is based on the trading price of the shares. Prudential offers investment trusts only through M&G.

Internal Fund Management

M&G's internal fund management activities are based in the United Kingdom. Its largest clients are Prudential Assurance's and Scottish Amicable's long-term funds, which together had £80 billion of funds under management at December 31, 2001. Where M&G chooses to invest internal funds in the United States or Asia, this is done through PPM America and PPM Asia, respectively. M&G monitors global investment and economic conditions, while regional fund management offices provide M&G with local knowledge and experience. See " US Business PPM America" and " Asian Business Development of Prudential's Asian Business" for descriptions of PPM America and PPM Asia, respectively.

In the United Kingdom, M&G is one of the largest investment managers, with £120 billion of funds under management at December 31, 2001 (including the funds allocated to PPM America and PPM Asia). These funds represent £101 billion of internal funds, £6 billion of institutional funds and £13 billion of retail funds.

Launch of M&G International

In February 2002, M&G announced the launch of M&G International, focused initially on the distribution of M&G branded mutual funds to institutional investors in Germany and Austria. M&G International is also developing plans for institutional business in Italy and Luxembourg and the retail markets of Germany and Austria.

Egg

Egg had a total operating loss before taxation in 2001 of £88 million, a reduction of £67 million from a loss of £155 million in 2000. Egg broke even in the fourth quarter of 2001, which contributed to Egg's 43% decrease in operating loss before taxation compared to the prior year.

In June 2000, approximately 21% of the shares of Egg plc were offered in an initial public offering. The offering was intended to enable Egg to maximize potential growth in the UK domestic market and, over time, internationally. Egg has continued to develop and enhance its range of products and services, adopting new technologies for the benefit of customers while growing rapidly and retaining its market leading position.

The following table shows the actual balances for Egg products at the dates indicated.

	At December 31,		
	2001	**2000**	**1999**
	(In £ Millions)		
Customer deposits	**5,945**	7,128	8,157
Mortgage loans	**2,427**	2,406	1,622
Credit card receivables	**1,769**	929	228
Personal loans	**597**	445	207

Egg currently offers Egg-branded and Prudential-branded banking products and intermediated services on the internet (*www.egg.com*). Egg was launched in October 1998 with the goal of attracting new customers and developing a direct distribution channel. Egg's target customer base is relatively affluent, and it has designed its products and services for customers who manage their own financial affairs, do not need advice, seek consistently good value, simple products and prefer the flexibility offered by remote access. Prudential believes that Egg will continue to develop into a significant business as internet access becomes more commonplace and technology improves.

At Egg's launch, the initial goal was to attract £5 billion in deposits in the first five years. That goal was achieved in the first seven months of operation, principally through opening accounts by telephone, and later over the internet. In April 1999, Egg began accepting new applications for deposit accounts exclusively through the internet.

Products

Egg's products include deposit savings accounts, mortgages, personal loans and credit cards. At December 31, 2001, Egg had total deposits of £5,945 million and over 1.95 million customers. In addition to its traditional deposit account, which can be serviced both over the internet and by telephone, Egg launched in 1999 an internet-only deposit account that may only be applied for and serviced over the internet and offers better rates of interest than its other deposit accounts. At December 31, 2001, Egg's mortgage loan book amounted to £2,427 million and its personal loan book was £597 million. Both mortgages and personal loans can be applied for over the internet. Administration fees are waived on Egg's internet mortgage products. Egg Card, the UK's first credit card designed for the internet, was launched in September 1999. At December 31, 2001, the balance outstanding on credit cards was £1,769 million. In April 2000, Egg announced a partnership with The Boots Company plc to distribute a joint credit and loyalty card to Boots customers. Egg also launched an independent, execution-only unit trust supermarket on its website in March 2000 together with an independent, execution-only personal lines insurance supermarket. As at December 31, 2001, Egg had received over £130 million of funds via its unit-trust supermarket since launch.

In July 2001, Egg signed a commercial agreement with Microsoft to provide online financial products. The first stage of the agreement is to provide a unit trust and ISA fund supermarket via MSN in the United Kingdom. Detailed plans to extend this relationship from funds into other financial products and services, and from the United Kingdom into the rest of Europe, are being developed.

Prudential believes that Egg has gained a significant advantage in the provision of internet-based financial services by being among the first to the market with the services and products it offers. Egg has developed into an online marketplace, enabling clients to obtain products and services ranging from core banking products and related financial services to intermediated financial and non-financial products and services, and continues to investigate opportunities in several markets and product sectors in the United Kingdom and internationally. See "   Acquisitions" below.

Acquisitions

In January 2002, Egg announced that, subject to regulatory approval, it will be acquiring 100% of Zebank, a French direct financial services company, for €8 million in cash (£5 million). Egg will also reimburse the shareholders for €30 million (£18 million) cash injected into the business during the period between signing and completion to ensure all share capital is fully paid up. Zebank's net asset value as at December 31, 2001 was €31million (£19 million) and the company had 70,000 customers at that date. Egg will distribute its financial services products through Zebank's distribution partners, which now include French retailers Sephora and La Samaritaine.

In January 2002, Egg announced it had acquired Fundsdirect, an on-line fund supermarket, for £3 million. The merger of Egg Invest with Fundsdirect represents the consolidation of two of the United Kingdom's leading fund supermarkets, combining Egg's leading edge, scale, digital services capability and consumer offering with Fundsdirect's proven ability to serve the business to business marketplace. The net assets of Fundsdirect at December 31, 2001 were £2.7 million.

Reinsurance

Long-term Insurance

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

Personal Lines Property and Casualty Insurance

In common with other insurance companies, Prudential ceded some of its personal lines property and casualty insurance risks to companies outside its group. Prudential ceded risk primarily to reduce its potential liability on a major weather-related event under its domestic insurance policies. Reinsurance also provided some protection against individual large losses. Reinsurance did not discharge the original insurer's primary liability to the insured.

Prudential's catastrophe reinsurance treaties provide reinsurance for losses arising from any one incident in excess of £50 million (and up to £250 million) on the whole property account.

On its motor account, Prudential had excess of loss reinsurance arrangements in place to provide cover against individual claims in excess of £1 million. Prudential also reinsured, on a quota share basis, 90% of the risk arising under mortgage guarantee business and 75% of the risk arising under legal expense cover offered as optional benefits under household and motor policies.

Prudential placed catastrophe reinsurance and motor reinsurance with a large number of reinsurers, including Lloyd's of London and specialist reinsurance companies. Prudential required all its reinsurance to be ceded to reinsurance companies with a credit rating of A or above.

In addition, in accordance with UK accounting regulations, a claims equalization provision was retained which could be drawn upon in the event of the claims ratio on Prudential's domestic insurance business exceeding 72.5%. At December 31, 2001, this provision was £40 million.

On December 31, 2001 the insurance liabilities were almost wholly reinsured to Winterthur, as part of the transfer of Prudential's personal lines property and casualty business to Winterthur and its UK subsidiary Churchill. See " Personal Lines Property and Casualty Insurance Transfer of Business to Winterthur".

Reserves

In the United Kingdom, a long-term insurance company's reserve requirements are determined by its appointed actuary, subject to minimum reserve requirements. These minimum reserve requirements are established by regulations under the Insurance Companies Act 1982 and have been interpreted by mandatory professional guidance notes.

The reserves are published in annual returns to the UK supervisory authority. In practice similar provisions are included in the life insurance company's statutory accounts with limited adjustments. Whether an employee of, or consultant to, an insurance company, an appointed actuary must give due regard to policyholders' reasonable expectations in making recommendations to a company's board of directors. Mandatory professional guidance notes require an appointed actuary to report directly to the UK supervisory authority any serious concerns regarding a company's ability to meet the reasonable expectations of its policyholders.

Prudential's reserving for with-profits products takes into account annual bonuses/annual interest credited to policyholders because these are "attached" to the policies and are guaranteed. Prudential also makes implicit allowance for future annual bonuses and interest as required by the UK regulations. No reserves are provided for terminal bonuses, except for the period for which they have been declared.

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

Financial Strength of Prudential Assurance's Long-term Fund

A common measure of financial strength in the United Kingdom for long-term insurance business is the free asset ratio. The free asset ratio represents the ratio of assets less liabilities to liabilities and is expressed as a percentage. At December 31, 2001, Prudential Assurance's free asset ratio was 12%, compared to a ratio of 17% at December 31, 2000. The principal reason for the lower ratio at December 31, 2001 was due to the fall in equity markets in 2001.

For Prudential Assurance, the free assets in the long-term fund provide cover for the minimum solvency margin required by regulations under the UK Insurance Companies Act 1982. At December 31, 2001, Prudential Assurance had a solvency margin equal to 205% of the statutory minimum. The long-term fund remains well capitalized. Prudential Assurance's long-term fund is currently rated AAA by Standard & Poor's and Aaa by Moody's.

Solvency requirements in the United Kingdom include the establishment of a resilience reserve which makes prudent allowance for potential future movements in investment values. In September 2001, the FSA relaxed the recommended resilience tests in response to changing economic conditions and extreme market conditions at the time. Pending the outcome of FSA consultation on the resilience tests that should be applied in the future, Prudential has applied the rigorous tests previously specified by the FSA (prior to September 10, 2001). As at December 31, 2001 the overall liability was based on the following combined resilience scenario:

- fall in equity values of 25%;
- fall in property values of 20%; and
- fall in bond values of 17% (consistent with an increase in interest rates of 3%).

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

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

With-profits Products

With-profits products provide an equity-type return to policyholders through bonuses that are "smoothed". There are two types of bonuses: "annual" and "terminal". Annual bonuses, often referred to as reversionary bonuses, are declared annually and, once credited, are guaranteed in accordance with the terms of the particular product. Unlike annual bonuses, terminal bonuses are only guaranteed until the next bonus declaration. Terminal bonuses are only credited on a product's maturity or surrender or on the death of the policyholder. Terminal bonuses typically represent a substantial portion, which can be as much as 70% of the total, of the ultimate return to policyholders.

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

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

Prudential's With-profits Bonus Policy

Prudential Assurance's board of directors, with the advice of its appointed actuary, determines the amount of annual and terminal bonuses to be declared each year on each group of contracts.

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

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

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

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

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

In 2001, Prudential declared total bonuses of £3,100 million from Prudential Assurance's long-term fund of which £2,790 million was added to with-profit policies and £310 million was distributed to shareholders. This reflects annual bonus rates of 4% for the Prudence Bond and 4.5% for personal pensions. In 2000, Prudential declared total bonuses of £3,103 million, of which £2,796 million was added to with-profit policies and £307 million was distributed to shareholders. This reflected regular bonus rates of 4.5% for the Prudence Bond and 5% for personal pensions. In 1999, Prudential declared total bonuses of £3,040 million, of which £2,736 million was added to with-profit policies and £304 million was distributed to shareholders. This reflected regular bonus rates of 4.75% for the Prudence Bond and 5.25% for personal pensions.

The SAIF fund declared total bonuses in 2001 of £690 million, compared to £641 million in 2000 and £641 million in 1999. Shareholders have no interest in profits from the SAIF fund, although they are entitled to the investment management fees paid by this business. For greater detail on the SAIF fund, see " The SAIF Sub-fund and Accounts" below.

The FSA and HM Treasury are currently conducting independent reviews of with-profits business in the United Kingdom. See "Supervision and Regulation of Prudential UK Supervision and Regulation".

Surplus Assets in Prudential Assurance's Long-term Fund

Surplus assets are the assets of Prudential Assurance's long-term, with-profits fund less non-participating liabilities and the policyholder asset shares aggregated across with-profits policies, and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs and guarantees. Thus surplus assets are amounts in the long-term fund in excess of what Prudential expects to pay to policyholders.

These surplus assets have accumulated over many years from a variety of sources and provide the long-term fund with working capital. This working capital permits Prudential to invest a substantial portion of the assets of the long-term fund in equities and real estate, smooth investment returns to with-profits policyholders, keep Prudential's products competitive, write new business without being constrained as to cash flows in the early years of the policy, and demonstrate solvency.

In addition, Prudential can use surplus assets to absorb the costs of significant events, such as fundamental strategic change in its long-term business and, as approved by the UK regulator, the cost of Prudential's pension mis-selling, without affecting the level of distributions to policyholders and shareholders. The costs of fundamental strategic change may include investment in new technology, redundancy and restructuring costs, cost overruns on new business and the funding of other appropriate long-term insurance related activities including acquisitions.

The aggregate with-profits policyholder asset shares upon which the calculation of surplus assets is based are not used in any form of external reporting or for internal financial reporting and do not form part of Prudential's accounting books and records. Asset share methodology has evolved only over the past 20 to 30 years to assist in the determination of bonus rates. Unlike the calculations for determining bonuses, the calculation of aggregate with-profits asset shares requires calculations to be performed in respect of all in-force with-profits policies. These calculations depend upon the experience of each current with-profits policy in respect of mortality, expenses, investment returns, taxation and transfers to shareholders over the duration that the policy has been in force. As Prudential does not have the detailed historical data for all policies required to calculate a precise aggregate asset share for each class of policy, Prudential can only estimate the overall aggregate asset share and hence can only estimate surplus assets.

The size of the surplus assets reflects both the investment performance on the with-profits fund assets and any change over the year in the amounts which Prudential expects to pay to policyholders. This latter amount includes both the aggregate asset shares and the anticipated costs of smoothing and guarantees for the in-force with-profits business. The anticipated costs of smoothing and guarantees depend upon the projection of claim values and asset shares, and hence on assumptions about future experience. By their nature, assumptions about the future may vary from year to year and hence the anticipated costs of smoothing and guarantees will tend to fluctuate from year to year. Prudential estimates that at December 31, 2001, its surplus assets, after taking into account pension mis-selling costs and the anticipated costs of fundamental strategic change, were in the range of £6 billion to £8 billion.

In recent years, a number of UK life insurance companies have reached agreement with the relevant UK supervisory authority to permit them to attribute a proportion of the surplus assets in their long-term funds to their shareholders while retaining it in their long-term funds. To date, the supervisory authority has permitted companies to distribute only a modest proportion of the amounts attributed to them.

Prudential continues to pursue opportunities to resolve the ultimate attribution of the surplus assets in the main with-profits fund, and have, since 1996, been discussing this attribution with the relevant UK supervisory authorities. The attribution of surplus assets has also been a subject of public debate in the United Kingdom. This may or may not result in a portion of the surplus assets in the main with-profits fund being attributed solely to shareholders. See " Legal Proceedings Prudential Assurance Surplus Assets" below.

The amount and timing of any attribution to shareholders is sufficiently uncertain that it is not possible to accurately estimate any potential attribution. In addition, it is likely that if any surplus assets are attributed to shareholders they will remain in the long-term fund to support the long-term business, and accordingly, they are unlikely to be distributed to shareholders for some considerable period of time, if at all.

Depletion of Surplus Assets and Shareholders' Contingencies

As a proprietary insurance company, Prudential remains liable to meet its obligations to policyholders even if the assets of its long-term fund are insufficient to do so. The surplus assets in Prudential's long-term fund could be materially depleted over time, by, for example, a significant or sustained equity market downturn, significant fundamental strategic change costs, or material increases in the pension mis-selling provision. In the unlikely circumstance that the depletion of the surplus assets within the long-term fund was such that Prudential believed that its ability to satisfy policyholders' reasonable expectations was adversely affected, it might become necessary to restrict the annual distribution to shareholders or for Prudential to contribute shareholders' funds to the long-term fund to provide financial support.

The SAIF Sub-Fund and Accounts

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

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

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

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

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

The SAIF sub-fund has not been affected by the decision taken to no longer sell under the Scottish Amicable brand. See " UK Restructurings".

Non-participating Business

The vast majority of Prudential-branded non-participating business is written in Prudential Assurance's long-term fund or by subsidiaries owned by the fund. Prudential's principal non-participating business is Prudential Annuities Limited. The profits on this business are attributable to the fund and not to shareholders, although indirectly shareholders get one ninth of additional amounts paid to policyholders. In 2001, Prudential started to write new bulk annuity and individual external annuity business through Prudential Retirement Income Limited (PRIL), from which the profits are attributed solely to shareholders.

The unit-linked business written by Scottish Amicable Life plc and Scottish Amicable Life International is written against capital provided by shareholders. All profit from these businesses goes to shareholders.

Small amounts of long-term sickness and accident cover are written against capital provided by shareholders and, accordingly, all profit on this business goes to shareholders.

Compliance

From December 1, 2001, the FSA took formal responsibility for the regulation and supervision of all Prudential's authorized UK insurance, investment and banking businesses under the Financial Services and Markets Act 2000, as described in greater detail under " Supervision and Regulation of Prudential UK Supervision and Regulation".

During 2001, the various UK regulators whose functions had been absorbed into the FSA merged their supervisory teams dealing with Prudential's businesses into one team in the FSA's Major Financial Groups Division. Matters being dealt with by the previous supervisors were taken up by the new team and an induction program has been undertaken to help familiarize the new team with each of Prudential's UK businesses. In addition, the FSA takes a view of the group's management of its non-UK businesses, in order to understand how group-wide risks are managed and their potential impact on UK regulated businesses. This helps the FSA meet its statutory objectives.

Within Prudential's UK businesses, matters arise from time to time as a result of inspection visits or other regulatory activity, which need to be discussed or resolved with the regulators. At any one time, there are a number of these issues and Prudential ensures that programs of corrective activity are discussed and agreed with the appropriate regulator, that such programs are properly planned, managed and resourced (using external resources as necessary), that, where appropriate, policyholders who have been disadvantaged are properly compensated and that progress is reported to the regulators on a regular basis. The issues that affect Prudential are set out below. Some of these are industry-wide.

Mortgage Endowment Products

One industry issue concerns low-cost endowments related to repayment of residential mortgages. At sale, the initial sum is set at a level such that the projected benefits assured, including an estimate of the annual bonus receivable over the life of the policy and allowing for an estimate of the expenses to be charged, will equal or exceed the mortgage debt. Because of a decrease in expected future investment returns since relevant policies were sold, the UK regulator is concerned that the maturity value of some policies will be less than the mortgage debt. The UK regulator has worked with industry representatives to devise a program whereby companies will write to customers indicating if they may have a possible anticipated shortfall and outlining the actions customers can take to prevent this possibility. The Group's main exposure to mortgage endowment in this respect is through Scottish Amicable's ringfenced SAIF with-profits sub-fund established for policies written before its acquisition by Prudential in 1997.

The FSA issued a report in March 2001 raising concerns regarding Scottish Amicable's conduct of sales of these products by its tied agents since 1999. Prudential has agreed to review business written up to February 2001 to identify cases where customers may have been disadvantaged and to offer rectification. If necessary, certain cases before 1999 may also be reviewed. In addition, the FSA is considering whether disciplinary action should be taken against Scottish Amicable. Scottish Amicable withdrew from the mortgage endowment product market in April 2001 and disbanded its network of tied agents in September 2001.

Pension Mis-selling

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

The UK regulators have established a program for the pension industry that provides the framework for reviewing cases of mis-selling, determining the appropriate remedial action and apportioning costs of remedial action and associated expenses. The UK regulators have divided the review into two phases. Phase 1 cases, originally referred to as priority cases, consist primarily of cases where the investor was close to retirement or had died or retired since purchasing the pension product. Phase 2 cases, originally referred to as non-priority cases, are primarily younger investors who have retirement dates that are not near-term. The regulators established deadlines for reviewing cases and have the power to impose sanctions where companies fail to meet the deadlines or otherwise do not comply with the regulators' guidelines for the resolution of cases of pension mis-selling.

In line with other industry participants, Prudential has been working with regulators to resolve cases of pension mis-selling. Prudential continues to review potential cases of mis-selling to determine what remedial action needs to be taken. The review of potential cases of mis-selling is difficult, requiring a complicated comparison of the value of the pension product provided to the value of the pension that the individual would have had if the individual had joined or remained with an occupational scheme. This is further complicated by the fact that the comparisons are dependent on information that has to be obtained from third parties.

Prudential is not permitted to offer cash to its customers affected by pensions mis-selling. The preferred form of redress is reinstatement to the occupational pension scheme, but where this is not possible, Prudential has either enhanced the benefits under the personal pension or issued investors with a "guarantee". The nature of these "guarantees" is such that Prudential will guarantee that the value of the benefits payable under a personal pension will be at least equal to the value of the benefits that would have been provided by the occupational pension scheme.

In 1997, Prudential was criticized by the regulators for the conduct of Phase 1 of its pensions review. The regulator then carried out a visit in early 1999 and raised concerns relating to the proper completion of certain aspects of this phase. Those concerns were the subject of a further review by external consultants on behalf of the regulator and Prudential from August 1999 to March 2001. In October 2001, Prudential was fined £650,000 for delays in making payments of redress to supplement pension policy benefits of those who had retired and the beneficiaries of those who had died, and for deficiencies in its record keeping. A process for settling all outstanding Phase 1 cases has been agreed with the FSA.

Phase 2 began in 1999 and Prudential is on schedule to complete this phase by June 30, 2002 under the timetable imposed by the UK regulators. This may include the issue of a limited number of guarantees, for which permission has been requested from the FSA.

In connection with the pension mis-selling review, Prudential established an initial provision in 1994 that was increased to £1,100 million by 1999. Subsequent movements in the pension mis-selling provision have been as follows:

	Year Ended December 31,		
	2001	**2000**	**1999**
	(In £ Millions)		
Balance at January 1	**1,475**	1,700	1,100
Changes due to expanded scope of review			202
Changes to actuarial assumptions and method of calculation	**(89)**	(117)	261
Increase in provision for administrative expenses		50	190
Discount unwind	**89**	102	66
Redress to policyholders	**(273)**	(134)	(73)
Payments of administrative expenses	**(137)**	(126)	(46)
Balance at December 31	**1,065**	1,475	1,700

In 2001, the provision for pension mis-selling decreased by £410 million compared to a decrease of £225 million in 2000. The reasons for this movement are highlighted below.

In 1999, the scope of the pension mis-selling review was expanded by the UK regulator to include Phase 2 cases. As a result, Prudential increased the provision by £202 million to reflect the increase in the number of cases to be reviewed and the possible increase in the amount to be paid to policyholders. There were no changes in scope in 2000 and 2001.

In 2001 and 2000, the liability was decreased by £89 million and £117 million respectively and in 1999, the liability was increased by £261 million, to reflect changes in the method of calculation resulting from new requirements issued by the UK regulator and changes in the interest rate and mortality assumptions used.

The increase in the provision for administrative expenses of £50 million and £190 million in 2000 and 1999, respectively, reflects the additional administrative costs expected to be incurred predominantly due to the shortening of Prudential's deadline for completing the Phase 2 cases by the UK regulator from December 2004 to June 2002.

The pension mis-selling liability represents the discounted value of future expected payments and as a consequence, to the extent that amounts have not been paid, the provision increases each year reflecting the unwind of the discount. The increase in the provision relating to unwind of the discount amounted to £89 million in 2001, £102 million in 2000 and £66 million in 1999.

Prudential believes that, based on current information, the pension mis-selling liability, together with future investment return on the assets backing the liability, will be adequate to cover the costs of pension mis-selling as well as the costs and expenses of Prudential's pension review unit established to identify and settle such cases. The provision represents the best estimate of probable costs and expenses. However, there can be no assurance that the current provision level will not need to be increased. Prudential has estimated, based on current regulatory guidelines, that the discounted present value of reasonably possible losses might range up to an additional £65 million over that provided at December 31, 2001. This potential additional provision has been determined using more stringent assumptions, in respect of customer responses to mailings and redress in comparison to external occupational schemes, applied to those cases identified at December 31, 2001.

The calculation of the pension mis-selling provision is dependent upon a number of assumptions and requirements provided by the UK regulator. Throughout the pension mis-selling review process, the UK regulator has made changes to its requirements. Therefore, it is not possible to predict any additional changes to its requirements and any resultant changes to the provision that might be made in the future.

As approved by the UK regulator, the total cost of Prudential's pension mis-selling, including the fine referred to above, is funded from the surplus assets of Prudential Assurance's with-profits fund and not from amounts set aside to fund expected future payments to existing policyholders and the related shareholder transfers. Given the strength of the with-profits fund, Prudential believes that charging the provision to the surplus assets in the fund will not have an adverse impact on the levels of bonuses paid to policyholders or their reasonable expectations. In the unlikely event that this proves not to be the case, Prudential intends that appropriate support would be provided to the long-term fund from shareholders. In view of the uncertainty, it is not practicable to estimate the level of this potential support.

Mis-selling of personal pension products has not been limited to company salesforces. Tied agents, including some of the tied agents of Scottish Amicable Life Assurance Society, have also been found to have mis-sold personal pension products. Compensation in respect of mis-selling by Scottish Amicable Life Assurance Society tied agents is being paid from the "ring-fenced" SAIF with-profits sub-fund established for this business.

Free Standing Additional Voluntary Contribution Business

In February 2000, the UK regulator ordered a review of Free Standing Additional Voluntary Contribution business, which constitutes sales of personal pensions to members of company pension schemes. Individuals who have purchased these pensions instead of the Additional Voluntary Contributions ("AVC") scheme connected to their company's pension scheme may have been in a better financial position by investing their money, and any matching contributions from their employers, in their company's AVC scheme. The purpose of the UK regulator's review is to ensure that any employees disadvantaged due to not being properly informed of the benefits foregone from not investing in their AVC scheme are compensated.

The review requires companies to identify relevant investors and contact them offering to review their individual case. As a result of the work completed to date, Prudential has established a provision at December 31, 2001 of £42 million. The deadline for completing the reviews is December 31, 2002, with an interim deadline of 90% of cases completed by June 30, 2002. Prudential is discussing with the FSA delays by pension schemes in responding to requests for information.

Prudential believes that, based on current information, the provision, together with future investment return on the assets backing the provision, will be adequate to cover the costs of reviewing Free Standing Additional Voluntary Contribution business as well as the costs and expenses of Prudential's review unit established to identify and settle such cases. The provision represents Prudential's best estimate of probable costs and expenses. However, there can be no assurance that the current provision level will not need to be increased.

Guaranteed Annuities

During the 1970s and 1980s, life insurance companies sold personal and corporate pension policies with a guaranteed annuity rate on maturity. Due to prevailing bond yields in the late 1990s, the guaranteed levels of typically £110 per annum for a lump sum of £1,000 is now significantly above the prevailing market level (around £80 per £1,000). Prudential Assurance did not sell significant volumes of these products and has established a provision of £34 million to honor the guarantees on the products sold. Scottish Amicable Life Assurance Society sold significant volumes of these policies and provisions of £756 million have been established within the segregated with-profits SAIF sub-fund to deal with this exposure. Accordingly, this provision has no impact on shareholders.

US Business

Prudential conducts its US insurance operations through Jackson National Life Insurance Company and its subsidiaries. The US operations also include PPM America, Prudential's US internal and institutional fund manager, Prudential's US broker-dealer operations (National Planning Corporation, SII Investments, Inc., IFC Holdings, Inc. and Investment Centers of America, Inc.) and Jackson Federal Bank, Prudential's savings and loan institution. At December 31, 2001, Prudential's US operations had approximately 1.5 million policies and contracts in effect and £30.3 billion of funds under management in the United States. In 2001, total new business premiums were £4,634 million and operating profit before amortization of goodwill and tax was £298 million.

US Market Overview

The United States is the world's largest life insurance market in terms of premiums. Many of the factors that have affected the UK life insurance market in recent years, such as an ageing population and strong economic conditions, have also affected the US market. Uncertainties surrounding the adequacy of public and private pensions benefits are increasing the incentive to fund a secure retirement privately, and the demand for income products is also expected to increase as the baby boomer generation and its parents age.

Despite favorable demographics, the US insurance industry faces a number of challenges, both from within and outside of the industry. The life insurance business is projected to grow only slowly, if at all, and competition is fierce. While the growth prospects for the annuity industry are more favorable, there are many players fighting for market share. Likewise, there is competition for retirement savings from other financial services providers, in particular, mutual fund companies and banks.

Mutual fund companies have set the standard for cost structure and service in the US financial services industry. Mutual fund products are inherently less complex, permitting providers to have a cost structure that allows more of the investment returns generated by the investment portfolios to flow to the customer. This fact and the relatively strong historical financial markets over recent years have resulted in the long-term trend of mutual fund companies taking market share from both banks and insurance companies.

There has been increasing convergence between US retail financial services providers as regulatory barriers have begun to erode and competition in the US life insurance industry has increased. Overcapacity in the industry generally has also contributed to competitive pricing and fueled consolidation, presenting opportunities to companies with financial strength and below industry-average cost structures.

The US markets witnessed a year of unprecedented uncertainty in 2001, with equity markets suffering significant declines and bond defaults reaching record levels. Like its competitors, Jackson National Life was affected by these market forces. However, long-term demographic trends in the United States are favourable and Prudential has continued to develop and enhance its product range and distribution channels to ensure that it is well placed to benefit from the anticipated growth in the US financial services market.

Products

The demographic factors described above, as well as the increased reliance on defined contribution plans (such as 401(k) plans), have resulted in a shift in the financial services market. This shift has been away from risk protection products, such as traditional life insurance, to tax deferred savings (or asset accumulation) products, such as fixed and variable annuities. These products tend to be spread or fee-based and have accounted for a significant portion of the growth in the US insurance industry in recent years.

When life insurance and annuity products initially became popular in the United States, they were interest-rate based and provided a minimum guaranteed rate of return. However, declining interest rates eroded the after-tax benefits of these products. Meanwhile, up until 2000 there was significant growth in equity markets. As a result, equity-based and equity-linked products, with and without guarantees, have become increasingly important product offerings. Reflecting this shift, industry sales of individual variable annuity products grew from $29 billion in 1992 to $128 billion in 2000, a compound annual growth rate of 20.7%. During the same period, industry individual variable annuity assets grew from $212 billion to $971 billion, a compound annual growth rate of 20.9%.

The mutual fund industry has also benefited from the shift to equity-based products. The strong equity markets in the late 1990s fueled a growth in assets under management, both through investment returns and increased contributions from the retail sector. In particular, fund managers with strong brands and investment performance have provided strong competition for individuals' retirement savings.

The above trends reversed in 2001, when, for the first time in twelve years, industry-wide variable annuity sales did not increase. Industry-wide sales of variable annuities in 2001 fell to $113 billion, and variable annuity assets were also down to $883 billion, due to low in-flows and a decrease in equity prices. Primarily as a result of falling equity markets, Jackson National Life's sales of variable annuities in 2001 were £768 million ($1,106 million), down 55% from 2000.

Distribution

Traditionally, insurance companies distributed their products through career or independent agencies. The career agencies typically received office space, training and administrative support from the sponsoring insurance company in return for directing a significant portion of their business to them. Independent agencies may receive some support from a specific insurance company, but are typically not required to specifically sell their products. The independent agencies have the ability to sell products from any insurance company.

In contrast, broker-dealers are licensed to sell products regulated by the Securities and Exchange Commission, such as variable annuities. Broker-dealers maintain "panels" of preferred providers for each type of product. Broker-dealers are often organized into firms and networks typically depending on size and function. These consist of large broker-dealers specializing in security sales and underwriting, regional broker-dealers who sell securities and perform some underwriting functions, and independent broker-dealers who primarily specialize in financial planning activities. Recently, there has been an industry trend towards insurance companies owning financial planner broker-dealers.

Until recently, regulatory barriers prohibited banks from developing and selling their own insurance products. Banks have therefore generally developed favorable supplier relationships with insurance companies and distributed their products through bank branches. These barriers to entry have begun to diminish, and alliances such as Citigroup are developing the bancassurance model in the US market.

Direct distribution is relatively mature in the United States. Consumers are accustomed to purchasing less complex retail financial products remotely, both by telephone and via the internet. The mutual fund providers have led this expansion within the retail financial services industry, setting the standard for cost structure and service.

Jackson National Life

Jackson National Life is a leading provider of long-term savings and retirement products to retail and institutional customers throughout the United States. Jackson National Life offers variable annuities, equity-indexed annuities, individual fixed annuities, life insurance and stable value products. By developing and offering a wide variety of products, Jackson National Life believes that it has positioned itself to compete effectively in various stock market and interest rate environments. Jackson National Life markets its retail products through various distribution channels, including independent agents, broker-dealer firms, including financial planners, and banks.

The interest-sensitive fixed annuities, equity-indexed fixed annuities, immediate annuities and life insurance products are sold through independent agents, broker-dealers and banks. For variable annuity products, which can only be sold through broker-dealers licensed by the US National Association of Securities Dealers, Jackson National Life has selling agreements with such firms and is continuing to focus on its own broker-dealer distribution channel. Its group pension department sells stable value products.

Products

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

	Year Ended December 31,			Policyholder Reserves At December 31,
	2001	**2000**	**1999**	**2001**
	(In £ Millions)			
By Product				
Annuities				
Fixed annuities				
Interest-sensitive	**1,812**	985	783	**11,742**
Equity-indexed	**271**	409	431	**1,778**
Immediate	**87**	71	43	**773**
Variable annuities	**768**	1,709	1,187	**4,234**
Total	**2,938**	3,174	2,444	**18,527**
Life insurance	**22**	25	24	**3,697**
Stable value products				
GICs and funding agreements	**170**	365	994	**2,539**
Medium term note funding agreements	**1,504**	1,291	624	**3,144**
Total	**1,674**	1,656	1,618	**5,683**
Total	**4,634**	4,855	4,086	**27,907**
By Distribution Channel				
Independent agents	**1,139**	1,099	942	
Bank	**1,052**	631	467	

	Year Ended December 31,		
Broker dealer	**769**	1,469	1,059
Group pension department	**1,674**	1,656	1,618
	4,634	4,855	4,086

Annuities

The annuity products offered include:

- fixed annuities, including:
  - interest-sensitive,
  - equity-indexed, and
  - immediate annuities, and
- variable annuities.

Fixed Annuities

Interest-sensitive Annuities

In 2001, interest-sensitive fixed annuities accounted for 39% of total new business premiums and 42% of policyholder reserves of the US operations. Interest-sensitive fixed annuities are primarily deferred annuity products that are used for retirement planning and for providing income in retirement. They permit tax-deferred accumulation of funds and flexible payout options.

The policyholder of an interest-sensitive fixed annuity pays Jackson National Life a premium that is credited to an accumulation account. Periodically, interest is credited to the accumulation account and in some cases administrative charges are deducted from the accumulation account. Jackson National Life makes benefit payments at a future date as specified in the policy based on the value of the accumulation account at that date.

The policy provides that at Jackson National Life's discretion it may reset the interest rate on each policy anniversary, subject to a guaranteed minimum. By law, the minimum guarantee may not be less than 3% but for some older business it may be higher.

When the annuity matures, Jackson National Life either pays the amount in the accumulation account to the policyholder or begins making payments in the form of an immediate annuity product, in accordance with the policyholder's instructions. Fixed annuity policies provide for surrender charges to be assessed on surrenders generally for the first seven to nine years of the policy.

Approximately 21% of the interest-sensitive fixed annuities Jackson National Life wrote in 2001 provide for an adjustment, referred to as a market value adjustment, on surrenders in the surrender period of the policy, typically for the first nine years. This adjustment does not depend on the performance of specific assets (as in a variable annuity), but is linked to a formula that helps to match the surrender value to the value of the accumulation account at the time of surrender. The minimum guaranteed rate is not affected by this adjustment.

Jackson National Life bears the investment and surrender risk on interest-sensitive fixed annuities, and its profits come from the spread between the yield on investments and the interest credited to policyholders less initial and recurring management expenses.

Equity-indexed Annuities

In recent years, Jackson National Life's fixed annuity sales have benefited from the introduction of equity-indexed annuity products. In 2001, Jackson National Life maintained a top five market position in the sale of equity-indexed annuities in the United States based on gross premiums. During that period, equity-indexed annuities accounted for 6% of total new business premiums and 6% of policyholder reserves of US operations.

Equity-indexed annuities are deferred annuities that enable policyholders to obtain a portion of an equity-linked return but provide a guaranteed minimum return. Jackson National Life guarantees an annual minimum interest rate of 3%, but actual earnings may be higher and are based on a participation (referred to as the index participation rate) in an equity index over its term. Jackson National Life may reset the index participation rate for each premium deposit. The participation rate set applies for the term selected.

Jackson National Life hedges the equity return risk on equity-indexed products by purchasing futures and options on the relevant index. The cost of these hedges is taken into account in setting index participation rates. Recent volatility in the equity markets combined with lower bond yields has increased the cost of these hedges. In response, Jackson National Life has reduced its index participation rates on new business and developed new products with index participation rates that are less sensitive to changes in these variables.

Jackson National Life bears the investment and surrender risk on equity-indexed fixed annuities. Profit arises from the difference between the premiums received plus the associated investment income and the combined costs of general expenses, purchasing fixed interest securities to fund the basic guaranteed liability and purchasing options to hedge the equity return element of the policy benefits.

Immediate Annuities

In 2001, immediate annuities accounted for 2% of total new business premiums and 3% of policyholder reserves of US operations. Immediate annuities guarantee a series of payments beginning within a year of purchase and continuing over either a fixed period of years or the life of the policyholder. If the term is for the life of the policyholder, then Jackson National Life's primary risk is mortality risk. This product is generally used to provide a guaranteed amount of income for policyholders and is used both in planning for retirement and in retirement itself. Jackson National Life expects the market for this product to grow as more people reach retirement age. The implicit interest rate on these products is based on the market conditions that exist at the time the policy is issued and is guaranteed for the term of the annuity.

Variable Annuities

Jackson National Life began offering variable annuity products in 1995. In 2001, variable annuities accounted for 17% of total new business premiums and 15% of policyholder reserves of US operations. These sales were down 55% on the prior year reflecting a downturn in industry variable annuity sales due to volatile equity markets. Variable annuities are deferred annuities that have the same tax advantages and payout options as interest-sensitive and equity-indexed fixed annuities. They also are used for retirement planning and to provide income in retirement.

The primary differences between variable annuities and interest-sensitive and equity-indexed fixed annuities are investment risk and return. If a policyholder chooses a variable annuity, the rate of return will depend upon the performance of the underlying fund portfolio. The policyholder bears the investment risk except for fixed account options, where Jackson National Life guarantees a minimum fixed rate of return. In most cases, variable annuities also offer various types of elective enhanced death benefits, guaranteeing that on death the policyholder receives a minimum value regardless of past market performance. These guaranteed death benefits might be expressed as the highest past anniversary value of the policy, or as the original premium accumulated at a fixed rate of interest.

Jackson National Life credits premiums on variable annuities to a separate account. The policyholders determine how the premiums will be allocated by choosing to allocate all or a portion of their accounts either to a variety of variable sub-accounts, with a choice of investment managers, or to guaranteed fixed-rate options. The value of the portion of the separate account allocated to variable sub-accounts fluctuates with the underlying investment. Jackson National Asset Management, LLC, earns fee income as the investment adviser for the underlying funds and has retained the services of a number of other investment advisers to act as sub-advisers to Jackson National Life.

Variable annuity products are backed by specific assets that are held in a separate account. The assets in this separate account are legally "ring-fenced" and do not form part of the assets in the US general account, which backs the remainder of the insurance business in the United States. Amounts held in the separate account are not chargeable with liabilities arising out of any other business Jackson National Life may conduct. All of the income, gains or losses from these assets less specified management charges are credited to or against the policies and not any other policies that Jackson National Life may issue.

Jackson National Life earns fee income through the sale, investment and administration of the variable account options of variable annuity products. It also earns income on the spread between the interest credited on the fixed rate account and the investment income on the funds allocated to the accounts.

Life Insurance

Reflecting the competitive life insurance market place and the overall trend towards asset accumulation products, Jackson National Life's life insurance products accounted for less than 1% of the total new business premiums and 13% of policyholder reserves of US operations in

2001. The products offered include term life insurance and interest-sensitive life insurance. Each of these types of insurance policies can be modified using several options and riders to provide particular benefits, including waiver of premium, accidental death benefit, supplemental term insurance and guaranteed purchase options.

Stable Value Products

Stable value products are guaranteed investment contracts (GICs) and funding agreements. In 2001, stable value products accounted for 36% of total new business premiums and 20% of policyholder reserves of US operations. Jackson National Life began marketing GICs to institutional investors in December 1995. The GICs are marketed by its group pension department to defined contribution pension and profit-sharing retirement plans. Funding agreements are marketed to institutional investors, including corporate cash accounts and securities lending funds, as well as money market funds. At December 31, 2001, Jackson National Life was a top ten provider of stable value business in terms of general account sales.

Four types of stable value products are offered:

- traditional GICs,
- funding agreements,
- medium term note funding agreements, and
- synthetic GICs.

Traditional Guaranteed Investment Contracts

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

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

Jackson National Life sells GICs to retirement plans, in particular 401(k) plans. The traditional GIC market is extremely competitive. This is due in part to competition from synthetic GICs.

Funding Agreements

Under a funding agreement, the policyholder either makes a lump-sum deposit or makes specified periodic deposits. Jackson National Life agrees to pay a rate of interest, which may be fixed but which is usually a floating short-term interest rate linked to an external index. Interest is paid quarterly to the policyholder. The average term for the funding agreements is one to two years. At the end of the specified term, policyholders typically re-deposit the principal in another funding agreement. Jackson National Life makes its profit on the spread between the yield on its investment and the interest rate credited to policyholders.

Typically, brokerage accounts and money market mutual funds are required to invest a portion of their funds in cash or cash equivalents to ensure sufficient liquidity to meet their customers' requirements. The funding agreements permit termination by the policyholder on 7 to 90 days notice, and thus qualify as cash equivalents for the clients' purposes. Funding agreements terminable by the policyholder with less than 90 days notice account for 0.7% of Jackson National Life's total policyholder reserves.

Medium-Term Note Funding Agreements

Jackson National Life has also established European and Global medium-term note programs that access new markets for Prudential. The notes offered may be denominated in any currency. Notes are issued to institutional investors by a special purpose vehicle and are secured by funding agreements issued by Jackson National Life.

Synthetic Guaranteed Investment Contracts

Under a synthetic GIC, the policyholder does not deposit any funds with Jackson National Life. Instead, the policyholder continues to own its plan assets and Jackson National Life agrees to guarantee that the plan will have sufficient liquid funds to meet its obligations to its participants.

This guarantee is provided for a fee. The event that could, in practice, cause a payment to be made under this guarantee would be an unexpected surge of withdrawals by scheme members at a time when asset values are depressed. This risk is mitigated through careful underwriting and through a number of features associated with these contracts, including controls on the plan's investments, requirements for "buffer funds" to absorb unexpected fluctuations in member withdrawals and, for most contracts, experience rating of the crediting rates granted to scheme members.

Jackson National Life sells its synthetic GICs to retirement plans primarily as an accommodation for its existing customers and therefore does not expect this business to grow much, if at all, beyond its current size. At December 31, 2001, Jackson National Life guaranteed £22 million ($31 million) of synthetic GICs. Because Jackson National Life does not own the assets underlying synthetic GICs, it does not recognize premium income or establish reserves, but it does recognize fee income.

Distribution and Marketing

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

Jackson National Life has focused on independent distribution systems and has avoided the fixed costs associated with recruiting, training and maintaining employee agents. It supports its network of independent agents and brokers with education and training programs. A substantial portion of the costs associated with generating new business are not fixed costs but vary directly with the level of business produced. As a result, industry figures show that the costs are low relative to other US insurers.

In recent years Jackson National Life has been actively diversifying the methods by which it distributes its products. In part, this diversification of distribution reflected the strategy of product diversification. For instance, variable annuities can only be sold by registered broker-dealers and stable value products are targeted at institutions and direct plan sponsors and intermediaries acting on their behalf. Jackson National Life has developed and tailored its distribution capabilities accordingly.

Jackson National Life offers internet-based support to its broker-dealers. It continues to expand its internet-based services, increasing amounts of information available for both customers and agents.

Independent Agents

The insurance and fixed annuity products are distributed through independent agents located throughout the United States. These 40,000 licensed insurance agents or brokers, who also may represent other companies, are supported by eight regional marketing offices. Jackson National Life has continued to review its ranks of licensed agents during the year, actively identifying non-performing agents and not relicensing them. This initiative is aimed at improving Jackson National Life's ability to service its top agents and assist them in increasing their productivity. Jackson National Life generally deals directly with writing agents and brokers thereby eliminating intermediaries, such as general agents. This distribution channel, called "Deal Direct", has enabled it to generate significant volumes of business on a low, variable cost basis.

Jackson National Life is responsible for providing agents with product information and sales materials.

Broker-dealers

Jackson National Life Distributors, Inc., a broker-dealer, is the primary wholesale distribution channel for the variable annuity products. Jackson National Life Distributors also sells equity-indexed annuities and fixed annuities. An internal network of wholesalers supports this distribution channel. These wholesalers meet directly with broker-dealers and financial planners and are supported by an extensive home office sales staff. There are approximately 675 active selling agreements with regional and independent broker-dealer organizations throughout the United States. These selling agreements provide Jackson National Life with access to approximately 20,000 registered representatives.

In January 2002, Jackson National Life opened a new wholesale distribution channel servicing the regional broker-dealer distribution channel. Jackson National Life is well suited to provide the type of customized sales attention required for this channel. There will be an emphasis on providing dedicated, specialized sales support, continuing education and tailored marketing solutions.

In September 2000, Jackson National Life acquired IFC Holdings, Inc., which incorporated INVEST Financial Corporation and Investment Centers of America, Inc. Together with National Planning Corporation and SII Investments, Inc., Jackson National Life's existing broker-dealers, it has contracts with more than 2,300 registered representatives.

Jackson National Life is responsible for training its broker-dealers, providing them with product information and sales materials and monitoring their activities from a regulatory compliance perspective.

Banks, Credit Unions and Other Financial Institutions

Jackson National Life's Institutional Marketing Group distributes its annuity products through banks, credit unions and other financial institutions and through third-party marketing organizations that serve these institutions. Jackson National Life is a leading provider of annuities offered through banks and credit unions and works exclusively with more than 1,500 financial institutions, as well as all major third-party marketing organizations. Jackson National Life has established distribution relationships with medium-sized regional banks, which it believes are unlikely to develop their own insurance product capability.

Group Pension Department

Jackson National Life markets its stable value products through its group pension department. It has direct contacts with banks, municipalities, asset management firms and direct plan sponsors. Stable value products are distributed and marketed through intermediaries to these groups.

Factors Affecting Pricing of Products and Asset Liability Management

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

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

Jackson National Life segregates its investment portfolio for certain investment management purposes and as part of its overall investment strategy into four parts: annuity without market value adjustment, fixed annuity with market value adjustment, equity-indexed annuities and stable value liabilities. The portfolios backing fixed annuities with and without market value adjustments have similar characteristics and differ primarily in duration. The portfolio backing the stable value liabilities has its own mix of investments that meet more limited duration tolerances. Consequently the stable value portfolio is managed to permit less interest rate sensitivity and limited exposure to mortgage-backed securities. At December 31, 2001, less than 6% of the stable value portfolio was invested in residential mortgage-backed securities.

The fixed-rate products may incorporate surrender charges, market value adjustments, two-tiered interest rate structures or other limitations relating to when policies can be surrendered for cash, in order to encourage persistency. At December 31, 2001, approximately 73% of Jackson National Life's fixed annuity reserves had surrender penalties or other withdrawal restrictions. Substantially all of the stable value portfolio had withdrawal restrictions or market value adjustment provisions.

Underwriting

The decision to underwrite a particular life policy depends upon the assessment of the risk to Jackson National Life represented by the proposed policy. The risk selection process is performed by the underwriters who evaluate policy applications on the basis of information provided by the applicant and other sources. Specific medical tests may be used to evaluate policy applications based on the size of the policy, the age of the applicant and other factors.

Jackson National Life's underwriting rules and procedures are designed to produce mortality results consistent with the assumptions used in product pricing while providing for competitive risk selection.

Reserves

Jackson National Life uses reserves established on a US GAAP basis as the basis for consolidation into Prudential's UK GAAP accounts.

For the fixed and variable annuity contracts and stable value products, the reserve is the policyholder's account value. For the immediate annuities, reserves are determined as the present value of future policy benefits. Mortality assumptions are based on the 1983a Individual Annuitant Mortality Table. Interest rate assumptions currently range from 4.9% to 7.5%.

For the traditional term life contracts, reserves for future policy benefits are determined using the net level premium method and assumptions as to mortality, interest, policy persistency and expenses. Mortality assumptions are primarily based upon the 1975-1980 Basic Select and Ultimate tables, and range from 50% to 90%, depending on underwriting classification and policy duration. Interest rate assumptions range from 6.0% to 9.5%. Persistency and expense assumptions are based on experience.

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

Reinsurance

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

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

Jackson National Life limits the amount of risk it retains on new policies. Currently, the maximum risk that is retained on new policies is $1.0 million ($1.5 million on last survivor life business). Jackson National Life is not a party to any risk reinsurance arrangement with any reinsurer pursuant to which the amount of reserves on reinsurance ceded to such reinsurer equals more than 1% of total policy reserves.

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

Policy Administration

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

Jackson Federal Bank

Prudential further diversified its business in the United States through the purchase in 1998 of a federally chartered savings association, First Federal Savings and Loan Association of San Bernardino, which is now called Jackson Federal Bank. The addition of a federally chartered savings association has resulted in an expanded product range in the United States and is expected to give Jackson National Life the option to roll out a wider range of banking products including loans, checking accounts and credit cards. In 2000, Jackson National Life further expanded its banking operations in the United States. In February 2000, Jackson National Life announced the acquisition of three Fidelity Federal Branches and in September 2000, Jackson National Life acquired Highland Bancorp Incorporated, the holding company for Highland Federal Bank, for $110 million. Highland Federal Bank and the three Fidelity Federal Branches were merged with and renamed as Jackson Federal Bank. As at December 31, 2001, assets totaled $1,426 million.

Jackson Federal Bank, through its 14 retail branch offices located throughout the counties of Los Angeles, Orange and San Bernardino in Southern California, attracts deposits which together with borrowings and other funds provide loans secured by real estate and, to a lesser extent, purchase real estate related investment securities. Deposit accounts at December 31, 2001 totaled $837 million (£575 million).

Jackson Federal Bank's asset growth is primarily derived from loans originated through four loan offices, and to a lesser extent loan purchases. As at December 31, 2001 loans receivable totaled $1,012 million (£696 million).

PPM America

PPM America is Prudential's US fund management operation, with offices in Chicago and New York. Its primary focus is to manage funds for Jackson National Life and therefore the majority of funds under management are fixed interest in nature. PPM America has developed expertise in managing credit risk and has increasingly invested its funds in higher credit risk investments. Recently, PPM America has launched a number of institutional high yield and special investment vehicles to leverage these capabilities into new profitable areas.

Asian Business

Prudential is Europe's leading life insurer in Asia. Only six years ago, Prudential's Asian presence was confined to Singapore, Hong Kong and Malaysia. Today, Prudential has a very strong regional presence with 21 operations in 12 countries, including top five market positions in eight of those operations (six in its life businesses and two in mutual funds).

Development of Prudential's Asian Business

Prudential's Asian operations are managed by its Hong Kong-based regional head office. Prudential's operations in Asia date from 1923, when it opened a branch office in India, which served the Indian sub-continent and several Middle Eastern countries with historic ties to the United Kingdom. In 1924, Prudential opened a branch office in Malaysia. Prudential expanded into Singapore in 1931 and opened a branch office in Hong Kong in 1964. In 1956, Prudential's Indian operations were nationalized and, in 1984, the Malaysian government required Prudential to sell a majority interest in its Malaysian operations to a local company. Prudential began expanding again in Asia during the mid-1990s, establishing operations in Thailand, The Philippines and Indonesia. In 1998, Prudential re-entered the Indian market via a joint venture mutual fund operation. In 1999, Prudential entered Taiwan with the acquisition of a life insurance company and launched a greenfield life operation in Vietnam. In 2000, Prudential acquired a mutual fund company in Taiwan and launched greenfield life insurance operations in China and India.

During 2001, Prudential continued its geographic expansion with the acquisition of Orico Life in Japan and YoungPoong Life in South Korea. Both of these operations have been re-branded PCA Life and Prudential is now building on these operationally and financially sound platforms. Prudential intends, in time, to gain significant market share in these countries, Asia's two largest life insurance markets. In addition, Prudential acquired Allstate's operations in Indonesia and The Philippines during 2001.

Prudential's success in Asia derives from a unique combination of competitive advantages including its ability to invest for the long-term, an extensive understanding of local markets and their people, considerable experience of overcoming barriers to entry into new markets, and its ability to leverage the power and financial strength of Prudential's brand.

Historically, Prudential's local agent salesforces have been its primary distribution channel and in 2001 it continued to achieve strong growth in sales through this channel. In addition, Prudential achieved strong growth through other distribution channels, including bancassurance and direct distribution, which together generated just over 16% of total new business insurance premiums, a significant increase on 2000. Prudential now has bank distribution agreements in place in nine countries in Asia.

PPM Asia, Prudential's Asian fund management operation, has offices in Singapore, Hong Kong and Tokyo. At December 31, 2001, PPM Asia had £8.3 billion of funds under management. In addition Asia's mutual funds operations had £3.1 billion of funds under management at December 31, 2001.

In line with Prudential's strategy of expanding its successful unit trust operations across the region, it launched Prudential Unit Trusts in both Malaysia and Singapore during 2001. These operations supplement Prudential's already successful and fast-growing mutual fund operations in India (ranked second by assets under management), Taiwan (ranked fourth by assets under management), and Japan.

Hong Kong's Mandatory Provident Fund had its first full year of operation in 2001 and Prudential's joint venture with Bank of China International is now one of the market leaders in this market with an estimated 15% market share. In December 2001, BOCI-Prudential also launched its first unit trust in Hong Kong.

New Business Premiums

Prudential experienced another year of strong growth in Asia in 2001. This was despite the anticipated slowdown in life insurance new business growth during the fourth quarter, as the global economic slowdown started to have an effect on the region. Sales of insurance products were £1,019 million in 2001, up 102% from 2000.

The following table shows Prudential's Asian life insurance new business premiums and UK GAAP policyholder reserves by territory for the periods indicated. In this table "Other Countries" includes China, India, Thailand, Indonesia, South Korea, The Philippines, and Vietnam. The 1999 result includes two months of operations in Taiwan, acquired in 1999. Results for 2001 includes the post-acquisition results of Japan and South Korea.

	Year Ended December 31, 2001	2000	1999	Policyholder Reserves At December 31, 2001
		(In £ Millions)		
Singapore	**552**	285	192	**2,405**
Hong Kong	**159**	62	44	**780**
Malaysia	**58**	47	35	**357**
Taiwan	**140**	79	5	**632**
Japan	**40**			**630**
Other countries	**70**	31	13	**128**
Total	**1,019**	504	289	**4,932**

In addition, for the year ended December 31, 2001, Prudential mutual funds had funds under management of £3.1 billion, up from £1.6 billion in 2000 following net sales of £1.5 billion during the year (up from £0.3 billion in 2000).

Products

The savings and protection products offered in Asia are generally similar to the products offered in the United Kingdom and include with-profits, non-participating and, in some countries, unit-linked products. However, unlike the United Kingdom, where savings products predominate, Prudential's business in Asia is more balanced between savings and protection products. In 2001, with-profits products accounted for 31% of Asia's total new business insurance premiums.

Prudential offers debt, equity and money market mutual fund investment products in India, Taiwan, Hong Kong, Japan, Singapore and Malaysia.

In Hong Kong, Prudential's life insurance business is supplemented by personal lines property and casualty insurance products which had total gross premiums of £17 million in 2001.

Singapore

Prudential established its operations in Singapore in 1931 and conducts them through Prudential Assurance Company Singapore (Pte) Limited, a wholly-owned subsidiary of The Prudential Assurance Company Limited. In 2001, Prudential was the fourth-largest life insurer in Singapore in terms of new single premiums and the second-largest in terms of new regular premium business. In 2001, Prudential's Singapore operation contributed 54% of total Asian life insurance new business premiums.

Twelve companies are authorized to operate in the life insurance market in Singapore. Five companies account for over 90% of the market in terms of new annual premium equivalents. The Monetary Authority of Singapore closely regulates this mature and highly competitive market. In 1999, insurance penetration was estimated to be 76% in a country of 3.2 million people.

Singapore has a Central Provident Fund in which each employed individual has an account in which he or she is obliged to make contributions from their salary. In addition employers are obliged to make contributions to their employees' accounts.

The Central Provident Fund was liberalized in January 1997 and participants were permitted to use a greater proportion of their funds to purchase authorized insurance, pension and other regulated products. The fund was further liberalized in the first half of 2001 and as a result, single premium business volumes increased for the Singapore life insurance industry generally in 2001. This liberalization was an exceptional event that resulted in increased single premium business volumes for Prudential during the year.

The products Prudential offers in Singapore include a range of with-profits and non-participating term, whole life and endowment life insurance policies and unit-linked products. Prudential also offers health, critical illness and accident cover as supplements to its life products. In 1993 Prudential was the first life insurance company to introduce unit-linked products to the Singapore market.

Prudential distributes its products in Singapore primarily through its local agent salesforce. In 1999 Prudential began distributing products through consultants based in branches of Standard Chartered Bank.

Hong Kong

Prudential's Hong Kong operations are conducted through a branch office of The Prudential Assurance Company Limited. Prudential opened its branch in 1964 writing property and casualty insurance. It operates in a competitive and relatively mature market. According to the Hong Kong Office of the Commissioner of Insurance's annual report for 2000, in 1999 insurance penetration was approximately 63% in a country of 6.8 million people. In 2001, Prudential was the third-largest life insurer in Hong Kong in terms of new regular premium business.

As from December 1, 2000, employees, employers and the self-employed became obliged to make contributions to the Mandatory Provident Fund (MPF). The plans that comprise the MPF are defined contribution pension plans with immediate vesting, preservation until retirement (or some other event specified by legislation) and full portability. Individuals are required to make mandatory contributions of 5% of salary and employers make contributions equal to 5% of the employee's salary to the individual's accounts in the Fund. Both employee and employer contributions are subject to a maximum amount, currently HK$1,000 per month. Additional voluntary contributions are possible.

During 1999, Prudential entered into a joint venture with Bank of China International (BOCI) to serve the Hong Kong MPF. Prudential's joint venture with BOCI (in which Prudential has a 36% interest) provides Prudential with access to the MPF market in Hong Kong through one of the largest retail bank branch networks in Hong Kong. The joint venture achieved an estimated 15% market share in 2001 with Prudential's share of total MPF contributions reaching £91 million.

Prudential offers both individual and group products in Hong Kong, including life insurance, health insurance and pensions. The individual life insurance products offered include with-profits products, unit-linked products and other non-participating products, together with accident and critical illness policies. The property and casualty insurance Prudential writes in Hong Kong is primarily personal lines, with a small book of commercial business.

Prudential's products in Hong Kong are distributed primarily through its local agent salesforce. In April 1999, Prudential began marketing and distributing products to customers of Standard Chartered Bank.

Malaysia

Prudential's Malaysian office opened in 1924 as a branch of The Prudential Assurance Company Limited. Prudential began writing life insurance there in 1931. In 2001, Prudential ranked second in Malaysia in terms of new regular premium business. There are 17 licensed life insurance companies in Malaysia covering a market of 24 million people.

The products Prudential offers in Malaysia are linked products, with-profits products and non-participating products and include whole life, health insurance and accident and critical illness cover products.

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