



Prudential public limited company

(incorporated in England with limited liability registered number 01397169)

U.S. \$1,000,000,000

6.50 per cent. Perpetual Subordinated Capital Securities

Issue Price: 100 per cent

The U.S.\$1,000,000,000 6.50 per cent. Perpetual Subordinated Capital Securities (the "Capital Securities") will bear interest from (and including) 23rd June, 2003 at a rate of 6.50 per cent. per annum on their outstanding principal amount, payable in U.S. dollars quarterly in arrear on 23rd March, 23rd June, 23rd September and 23rd December of each year (each an "Interest Payment Date"). Interest payments on the Capital Securities may be deferred as described under "Terms and Conditions of the Capital Securities – Deferred Interest" in this Offering Circular. Deferred Interest will be satisfied only upon a redemption of the Capital Securities and only in accordance with the alternative coupon satisfaction mechanism described herein.

The Capital Securities have no maturity date. The Capital Securities will be redeemable at the option of Prudential public limited company (the "Issuer") on any Interest Payment Date falling on or after 23rd December, 2008 at their principal amount together with any accrued and unpaid interest, including deferred interest, subject to the Issuer's obligation to make payment of any deferred interest only through the alternative coupon satisfaction mechanism. The Issuer may also redeem the Capital Securities at any time in the event of changes in certain U.K. tax or regulatory requirements applicable to the Issuer as described under "Terms and Conditions of the Capital Securities – Optional Redemption".

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "FSMA") for the Capital Securities to be admitted to the Official List of the United Kingdom Listing Authority and to the London Stock Exchange plc (the "London Stock Exchange") for the Capital Securities to be admitted to trading on the London Stock Exchange's market for listed securities.

For a description of certain matters that prospective investors should consider see "Investment Considerations".

The Capital Securities are expected to be assigned a rating of A by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. and a rating of A3 by Moody's Investors Service, Inc. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

Joint Book Runners

CITIGROUP
Joint Structuring Adviser

**GOLDMAN SACHS
INTERNATIONAL**

UBS INVESTMENT BANK
Joint Structuring Adviser

Co-Lead Managers

BNP PARIBAS

HSBC

The Royal Bank of Scotland

Co-Managers

Bank of China (Hong Kong)

Cazenove & Co. Ltd

Standard Chartered Bank

This Offering Circular comprises listing particulars approved by the U.K. Listing Authority as required by the FSMA prepared for the purpose of giving information with regard to the Issuer and its subsidiaries (together the “Group”) and the Capital Securities. A copy of this Offering Circular has been delivered for registration to the Registrar of Companies in England and Wales in accordance with section 83 of the FSMA.

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person has been authorised to give any information or to make any representation other than those contained in this Offering Circular in connection with the offering of the Capital Securities and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or the Managers (as defined under “Subscription and Sale” below). Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer or the Group since the date hereof. This Offering Circular does not constitute an offer of, or an invitation by, or on behalf of, the Issuer or the Managers to subscribe for, or purchase, any of the Capital Securities. This Offering Circular does not constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or the Managers that any recipient of this Offering Circular should purchase any of the Capital Securities. Each investor contemplating purchasing Capital Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer.

The Capital Securities have not been and will not be registered under the United States Securities Act of 1933, as amended, (the “Securities Act”) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Capital Securities may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Capital Securities and on distribution of this Offering Circular, see “Subscription and Sale” below.

All references in this document to “Sterling” and “£” refer to the lawful currency of the United Kingdom and those to “U.S. dollars” and “U.S.\$” refer to the lawful currency of the United States.

In connection with the issue of the Capital Securities, UBS Limited or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the Capital Securities at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on UBS Limited or any agent of it to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period.

Any reference in this Offering Circular to listing particulars means this Offering Circular excluding all information incorporated by reference. The Issuer has confirmed that any information incorporated by reference, including any such information to which readers of this Offering Circular are expressly referred, has not been and does not need to be included in the listing particulars to satisfy the requirements of the FSMA or the Listing Rules. The Issuer believes that none of the information incorporated herein by reference conflicts in any material respect with the information included in the listing particulars.

The most recently published audited consolidated annual financial statements and the audited non-consolidated annual financial statements of the Issuer are incorporated into this Offering Circular by reference. Copies may be obtained free of charge at the specified office of each of the Paying Agents as set out in “General Information” below.

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SUMMARY OF THE OFFERING

The following summary refers to certain provisions of the Terms and Conditions of the Capital Securities and the Trust Deed and is qualified by the more detailed information contained elsewhere in this Offering Circular. Terms which are defined in "Terms and Conditions of the Capital Securities" have the same meaning when used in this summary.

Issuer.	Prudential public limited company
Trustee	The Law Debenture Trust Corporation p.l.c.
Issue	U.S.\$1,000,000,000 6.50 per cent. Perpetual Subordinated Capital Securities.
Interest	The Capital Securities will bear interest from (and including) the date of issue at a fixed rate equal to 6.50 per cent. per annum on their outstanding principal amount.
Interest Payments	Interest payments on the Capital Securities will, subject as set out in "Terms and Conditions of the Capital Securities – Deferred Interest" below, be payable quarterly in arrear on 23rd March, 23rd June, 23rd September and 23rd December of each year, beginning on 23rd September, 2003.
Additional Amounts.	Subject to certain exceptions and limitations set forth in this Offering Circular, if at any time a U.K. taxing authority requires the Issuer to deduct or withhold taxes or duties, the Issuer shall pay such Additional Amounts on the Capital Securities as are necessary to ensure that the net amount received, after the deduction or withholding, will not be less than the amount the holder would have received in respect of the Capital Securities or Coupons in the absence of the deduction or withholding.
Subordination.	<p>The Capital Securities constitute unsecured subordinated obligations of the Issuer, and will rank <i>pari passu</i> without any preference among themselves. The rights and claims of the Capital Securities Holders are subordinated to the claims of Senior Creditors. See "Terms and Conditions of the Capital Securities – Subordination" below.</p> <p>On any winding-up of the Issuer, the Capital Securities Holders will rank as if they were holders of preference shares of the Issuer, <i>pari passu</i> with the holders of the most senior ranking class of issued preference shares of the Issuer, if any, and any other Parity Securities then outstanding, junior to Senior Creditors and in priority to all holders of Junior Securities.</p>
Solvency Condition	Except in a winding-up, all interest and other payments on the Capital Securities will be conditional upon the Issuer meeting the Solvency Condition at the time of payment, and the Issuer will not make any payment unless it will continue to meet the Solvency Condition immediately afterwards. See "Terms and Conditions of the Capital Securities – Solvency Condition" below.
Deferred Interest.	Payments of interest on the Capital Securities will be mandatory on a Compulsory Interest Payment Date, which is defined to include each Interest Payment Date on which the Issuer satisfies the Solvency Condition and that is not an Optional Interest Payment Date. An Optional Interest Payment Date will be any Interest Payment Date on which the Issuer determines, on or after the 20th Business Day but not later than the fifth Business Day preceding such date

(and by reference to the Issuer's then current financial condition), that (a) the Capital Adequacy Condition will not be met on such date; or (b) it or any of the Issuer's EEA Insurance Subsidiaries is not in compliance with, or that the payment of interest on such Interest Payment Date would cause it or any of the Issuer's EEA Insurance Subsidiaries to breach, any Capital Regulations (as defined below). See "Terms and Conditions of the Capital Securities – Deferred Interest" below.

Any interest payments that the Issuer elects not to make, or is required not to make under the terms of any Parity Securities, in respect of the Capital Securities on an Optional Interest Payment Date, together with any interest payments the Issuer does not make because the Solvency Condition is not met will, so long as they remain unpaid, constitute Deferred Interest. No interest will accrue on Deferred Interest, except in the limited circumstances described herein. Deferred Interest will become payable only upon the redemption of the Capital Securities at the option of the Issuer and not in any other circumstances, including in a winding-up of the Issuer. The Issuer is permitted to satisfy its obligation to pay Deferred Interest only in accordance with the Alternative Coupon Satisfaction Mechanism.

Dividend and

Capital Restriction.

Following an Optional Interest Payment Date on which the Issuer does not make payment in full of all interest payments otherwise payable on such date, or any Interest Payment Date on which the Issuer does not meet the Solvency Condition, the Issuer will not, and it will not permit any entity that it controls, directly or indirectly, (a) to declare or pay a dividend or distribution or make any other payment on any Parity Securities or on any Junior Securities (other than (i) a final dividend declared by the Issuer with respect to the Ordinary Shares prior to the date that the decision to defer such interest payment is made or (ii) a payment made by a wholly-owned subsidiary of the Issuer to another wholly-owned subsidiary or directly to the Issuer), or (b) to redeem, purchase or otherwise acquire any Parity Securities or any Junior Securities, in each case until the next succeeding Interest Payment Date for the Capital Securities on which the interest otherwise due and payable on all outstanding Capital Securities on such date is duly set aside and provided for or is paid in full.

The payment (or declaration of payment) on Junior Securities or Parity Securities shall be deemed to include the making of any interest, coupon or dividend payment (or payment under any guarantee in respect thereof) and the redemption, purchase or other acquisition of such securities (save where the funds used to redeem, purchase or acquire those securities are derived from an issue of Junior Securities or Parity Securities (i) made within the six-month period prior to the time of such redemption, purchase or acquisition, and (ii) with the same or junior ranking on a return of assets on a winding-up or in respect of a distribution or payment of interest, coupons or dividends and/or any other amounts thereunder to those securities being redeemed, purchased or acquired).

Optional Redemption. The Capital Securities are perpetual securities and have no maturity date. The Capital Securities may be redeemed in whole or in part at the option of the Issuer on 23rd December, 2008, or on any Interest Payment Date thereafter, at their principal amount together with accrued interest to the Redemption Date and the aggregate amount of any Deferred Interest, subject to the obligation of the Issuer to make payment of Deferred Interest only through the Alternative Coupon Satisfaction Mechanism, and subject, further, to the Issuer giving at least six months' prior written notice to, and receiving no objection to such redemption from, the FSA.

In addition, the Issuer may redeem the Capital Securities in whole (but not in part) at the option of the Issuer at any time upon the occurrence of a Tax Call Event or a Regulatory Event, subject to the Issuer giving at least six months' prior written notice thereof to, and receiving no objection to such redemption from, the FSA, at their principal amount together with accrued interest to the Redemption Date and the aggregate amount of any Deferred Interest. The obligation of the Issuer to make payment of Deferred Interest may be met only through the Alternative Coupon Satisfaction Mechanism. See "Terms and Conditions of the Capital Securities – Optional Redemption".

Alternative Coupon Satisfaction Mechanism Any Deferred Interest to be satisfied on a Redemption Date must be satisfied by the Issuer issuing Ordinary Shares which, when issued, will provide a cash amount when converted into U.S. dollars sufficient to make the payments due. The Calculation Agent will calculate in advance the number of Ordinary Shares to be issued in order to enable the Issuer to raise the full amount of the Deferred Interest to be satisfied on the relevant Redemption Date. Investors will receive all payments made in respect of the Capital Securities in cash. See "Terms and Conditions of the Capital Securities – Alternative Coupon Satisfaction Mechanism".

Sufficiency and Availability of Ordinary Shares So long as the Capital Securities are outstanding, the Issuer will be required to review the sufficiency of its authorised but unissued Ordinary Shares and the authority of its directors to issue such shares prior to each annual general meeting and, if necessary, propose resolutions to increase the number so that it will have available for issue enough Ordinary Shares as it reasonably considers would be required to satisfy the payment of Deferred Interest, if any, together with scheduled interest payments on the Capital Securities for the next 12 months using the Alternative Coupon Satisfaction Mechanism.

Market Disruption Event If a Market Disruption Event (as defined below) exists during the 14 Business Days preceding any Redemption Date, the Redemption Date and the related payment of Deferred Interest may be deferred until such Market Disruption Event no longer exists.

A Market Disruption Event means (i) the occurrence or existence of any material suspension of or limitation imposed on trading or on settlement procedures for transactions in Ordinary Shares through the London Stock Exchange (or

other national securities exchange or designated offshore securities market constituting the principal trading market for Ordinary Shares), or (ii) in the reasonable opinion of the Issuer, there has been a substantial deterioration in the price and/or value of Ordinary Shares or circumstances are such as to prevent or to a material extent restrict the issue or delivery of Ordinary Shares to be issued in accordance with the Alternative Coupon Satisfaction Mechanism or (iii) where monies are required to be converted from one currency upon sale of Ordinary Shares into another currency for payment of Deferred Interest, the occurrence of any event that makes it impracticable to effect such conversion.

Default; Limitation

of Remedies

If a Capital Security Default occurs and is continuing, the Trustee may institute proceedings for the winding-up in England and Wales (but not elsewhere) of the Issuer, provided, however, that the Trustee may only institute proceedings for the winding-up of the Issuer on or after the date two years and one day after the failure of payment by the Issuer.

Form

Bearer. The Capital Securities will be represented initially by a Temporary Global Capital Security (the "Temporary Global Capital Security") which will be deposited outside the United States with a common depositary for Clearstream Banking, société anonyme ("Clearstream Luxembourg") and Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") on or about 23rd June, 2003. The Temporary Global Capital Security will be exchangeable for interests in a Permanent Global Capital Security (the "Permanent Global Capital Security") on or after a date which is expected to be 4th August, 2003 upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations and as described in the Temporary Global Capital Security. Save in limited circumstances, Capital Securities in definitive bearer form with coupons and a talon attached on issue will not be issued in exchange for interests in the Permanent Global Capital Security.

Listing

Application has been made for the Capital Securities to be admitted to the Official List maintained by the FSA in its capacity as the United Kingdom Listing Authority and for the Capital Securities to be admitted to trading on the London Stock Exchange's market for listed securities.

Governing Law

The Capital Securities will be governed by, and construed in accordance with, English law.

Use of Proceeds

For general corporate purposes and to strengthen the Issuer's capital base.

INVESTMENT CONSIDERATIONS

Deferral of interest payments

Any interest payment on the Capital Securities will be deferred if the Issuer is not solvent at the time of payment or will not be solvent immediately afterwards. The Issuer may also defer payment of interest on the Capital Securities on any Interest Payment Date if it determines, in its sole discretion on or after the 20th Business Day but not later than the fifth Business Day, prior to such Interest Payment Date (and by reference to the Issuer's then current financial condition) that the Capital Adequacy Condition will not be met on such date or the Issuer or any of the Issuer's EEA Insurance Subsidiaries is not in compliance with, or that the payment of interest on such date would cause the Issuer or any such EEA Insurance Subsidiary to breach, any Capital Regulations applicable to it, as described below under "Terms and Conditions of the Capital Securities – Deferred Interest".

Any payment of Deferred Interest on the Capital Securities will be paid only upon redemption of the Capital Securities (which may only occur in limited circumstances), and not in any other circumstances, including upon the winding-up of the Issuer. The Issuer is permitted to satisfy its obligation to pay Deferred Interest on a Redemption Date only in accordance with the Alternative Coupon Satisfaction Mechanism described herein.

Perpetual securities

The Issuer is under no obligation to redeem the Capital Securities at any time and the Capital Securities Holders shall have no right to call for their redemption.

Redemption

The Capital Securities have no maturity date, but the Issuer may redeem the Capital Securities in whole or in part on any Interest Payment Date falling on or after 23rd December, 2008, at their principal amount plus accrued interest, including any Deferred Interest, subject to satisfaction of certain conditions and the obligations of the Issuer to make payment of any Deferred Interest through the Alternative Coupon Satisfaction Mechanism. The Issuer may also redeem the Capital Securities at any time in whole but not in part upon the occurrence of a Tax Call Event or a Regulatory Event (as defined herein) as more particularly described under "Terms and Conditions of the Capital Securities – Optional Redemption." Certain of such tax or regulatory events may occur at any time after the issue date and it is therefore possible that the Issuer would be able to redeem the Capital Securities at any time after the issue date.

No limitation on issuing senior or *pari passu* securities

There is no restriction on the amount of securities which the Issuer may issue which rank senior to or *pari passu* with the Capital Securities. The issue of any such securities may reduce the amount recoverable by Capital Securities Holders on a winding-up of the Issuer and/or may increase the likelihood of a deferral of interest payments under the Capital Securities.

Holding company structure

Since the Issuer is a holding company, its right to participate in the assets of any subsidiary if it is liquidated will be subject to the prior claims of that subsidiary's creditors, except to the extent that the Issuer may be a creditor with recognised claims ranking ahead of or *pari passu* with such prior claims against that subsidiary.

Availability of shares to implement the Alternative Coupon Satisfaction Mechanism

The Issuer may not redeem any Capital Securities unless all accrued but unpaid interest and other payments thereon (other than any Deferred Interest payments) and the aggregate amount of Deferred Interest payments, if any, are satisfied at that time. In the event that the Issuer does not have a sufficient number of Ordinary Shares available and authorised to be issued to implement the Alternative Coupon Satisfaction Mechanism and it does not otherwise make a payment to satisfy the aggregate amount of Deferred Interest in accordance with the Alternative Coupon Satisfaction Mechanism, then the Redemption Date shall be postponed until such time as the Issuer has available, and authorised to be issued, sufficient Ordinary Shares and the issue proceeds of such Ordinary Shares are sufficient to pay the Deferred Interest in full.

Market Disruption Event

If, shortly before or during the operation of the alternative coupon satisfaction Mechanism to satisfy a payment of all amounts of Deferred interest owing, a market Disruption Event exists, the payment of all such amounts owing may be deferred until the cessation of such market disruption, as more particularly described under “Terms and Conditions of the Securities – Alternative Coupon Satisfaction Mechanism – Market Disruption Event”. Any such deferred payments shall bear interest at the rate applicable to the Capital Securities if the Market Disruption Event continues for 14 days or more after the date which but for the Market Disruption Event would have been the date for payment (such interest to accrue from (and including) the 14th day following the initial Redemption Date).

Restricted remedy for non-payment

In accordance with current FSA requirements for subordinated capital, in most circumstances the sole remedy against the Issuer available to the Trustee to recover any amounts owing in respect of the principal of or interest on the Capital Securities will be to institute proceedings for the winding-up in England and Wales of the Issuer, provided that the Trustee may not institute proceedings for winding-up of the Issuer prior to the date that is two years after the failure by the Issuer to make the relevant payments. See “Terms and Conditions of the Securities – Defaults; Limitation of Remedies” below.

Absence of prior public markets

The Capital Securities constitute a new issue of securities by the Issuer. Prior to this issue, there will have been no public market for the Capital Securities. Although application has been made for the Capital Securities to be listed on the Official List of the FSA in its capacity as competent authority under the Financial Services and Markets 2000 and admitted to trading on the London Stock Exchange, there can be no assurance that an active public market for the Capital Securities will develop and if such a market were to develop, the Managers are under no obligation to maintain such a market. The liquidity and the market prices for the Capital Securities can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and other factors that generally influence the market prices of securities.

TERMS AND CONDITIONS OF THE CAPITAL SECURITIES

The following terms and conditions, subject to alteration (and except for the paragraphs in italics), are the terms and conditions of the Capital Securities which will be endorsed on each Capital Security in definitive form if issued:

The Capital Securities are constituted by the Trust Deed. The issue of the Capital Securities was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 8th May, 2003 and resolutions of a Committee of the Board passed on 5th June and 11th June, 2003. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed, the Agency Agreement and the Calculation Agency Agreement are available for inspection during normal business hours by the Capital Securities Holders and the Couponholders at the registered office of the Trustee, being at the date hereof Fifth Floor, 100 Wood Street, London EC2V 7EX and at the specified office of each of the Paying Agents. The Capital Securities Holders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Agency Agreement and the Calculation Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

(a) *Form and Denomination*

The Capital Securities are serially numbered and in bearer form in denominations of U.S. \$1,000, U.S.\$10,000 and U.S.\$100,000 each with Coupons and one Talon attached on issue. Capital Securities of one denomination may not be exchanged for Capital Securities of another denomination.

(b) *Title*

Title to the Capital Securities, Coupons and Talons will pass by delivery. The bearer of any Capital Security will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss or anything written on it) and no person will be liable for so treating the Capital Securities Holder.

2. STATUS AND SUBORDINATION

(a) *Status*

The Capital Securities constitute unsecured, subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves.

(b) *Subordination*

The rights and claims of the Capital Securities Holders are subordinated to Senior Creditors, including the claims of any subordinated debt security holders or the claims of holders of any other series of debt securities which in each case do not or are not expressed to rank equally with or junior to the Capital Securities in that payments in respect of the Capital Securities (including payments which the Issuer satisfies in accordance with the procedures set out in Condition 6) are conditional upon the Issuer satisfying the Solvency Condition at the time of and immediately after any such payment.

(c) *Solvency Condition*

Except in a winding-up, or if the FSA has indicated that it has no objection to such payment, all payments on the Capital Securities will be conditional upon the Issuer satisfying the Solvency Condition at the time of and immediately after any such payment, and the Issuer will not make any payment and any such payment shall not be payable in respect of the Capital Securities and neither the Issuer nor any Subsidiary, as applicable, may redeem or purchase any of the Capital Securities unless the Issuer satisfies the Solvency Condition both at the time of and immediately after any such payment, redemption or purchase. For this purpose, the Issuer shall satisfy the Solvency Condition if it is able to pay its debts to Senior Creditors as they fall due and the total Assets exceed total Liabilities, other than Liabilities to persons that are not Senior Creditors, by at least 4 per cent. or such other percentage specified by the FSA as the Regulatory Capital Requirement.

A report as to the solvency of the Issuer by two directors of the Issuer or, in certain circumstances as provided in the Trust Deed, the Auditors (as defined in the Trust Deed), or, if there is a winding-up of the Issuer in England and Wales, the liquidator of the Issuer shall in the absence of proven or manifest error be treated and accepted by the Issuer, the Trustee and any Capital Securities Holder as correct and sufficient evidence thereof. If the Issuer fails to make any interest payment as a result of failure to

satisfy the Solvency Condition, that payment will constitute Deferred Interest and will accumulate with any other Deferred Interest until paid. In a winding-up, the amount payable on the Capital Securities will be determined in accordance with the provisions described below.

If the Solvency Condition is not satisfied, the amount of any payments which would otherwise have been payable in respect of the Capital Securities but are not paid by reason of the Solvency Condition not being satisfied will be available to meet losses of the Issuer.

(d) Set-Off

By acceptance of the Capital Securities, each Capital Securities Holder and the Trustee, on behalf of such holders, will be deemed to have waived any right of set-off or counterclaim that such holders might otherwise have against the Issuer whether prior to or in bankruptcy or winding-up. Notwithstanding the preceding sentence, if any of the rights and claims of any Capital Securities Holder are discharged by set-off, such holder will immediately pay an amount equal to the amount of such discharge to the Issuer or, if applicable, the liquidator or the Trustee and, until such time as payment is made, will hold a sum equal to such amount in trust for the Issuer or, if applicable, the liquidator or the trustee or receiver in the Issuer's winding-up. Accordingly, such discharge will be deemed not to have taken place.

3. WINDING-UP

If at any time an order is made, or an effective resolution is passed, for the winding-up in England and Wales of the Issuer (except in any such case, a solvent winding-up solely for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business of the Issuer (as defined in the Trust Deed), the terms of which reconstruction, amalgamation or substitution have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed)), there shall be payable by the Issuer in respect of each of the Capital Securities (in lieu of any other payment by the Issuer), such amount, if any, that would have been payable in respect thereof as if on the day prior to the commencement of the winding-up and thereafter, the Capital Securities Holders were the holders of preference shares (as at the date thereof) in the capital of the Issuer having a preferential right to a return of assets in the winding-up over the holders of Ordinary Shares (but *pari passu* with the holders of the most senior ranking class of issued preference shares of the Issuer, if any), assuming that such preference shares were entitled (to the exclusion of all other rights or privileges) to receive as a return of capital in such winding-up an amount equal to the principal amount of the Capital Securities then outstanding and no amounts will be payable in respect of interest accrued and unpaid, including Deferred Interest.

As a consequence of the subordination conditions, the Capital Securities Holders may recover less rateably than the holders of the Issuer's unsubordinated liabilities and the holders of certain of the Issuer's subordinated liabilities. If, in any winding-up, the amount payable on any Capital Securities and any claims ranking equally with the Capital Securities are not paid in full, the Capital Securities Holders and other claims ranking equally will share rateably in any such distribution of assets of the Issuer in proportion to the respective amounts to which they are entitled.

4. DEFERRED INTEREST

(a) Deferred Interest

Payments of interest on the Capital Securities will be mandatory on each Compulsory Interest Payment Date.

The Issuer may elect to defer interest payments on any Interest Payment Date (an "Optional Interest Payment Date") where it determines at its sole discretion, on or after the 20th Business Day, but not later than the fifth Business Day, prior to such Interest Payment Date (and by reference to the Issuer's then current financial condition) that either:

- (a) the Capital Adequacy Condition will not be met on such date; or
- (b) it or any of its EEA Insurance Subsidiaries is not in compliance with, or that the payment of interest on such Interest Payment Date would cause it or any of its EEA Insurance Subsidiaries to breach, any Capital Regulations.

"Capital Adequacy Condition" means:

- (a) in relation to Prudential Assurance, the ratio of its Regulatory Assets to its Regulatory Capital Requirement is at least 125 per cent.; or

- (b) if, in future, there is a Regulatory Capital Requirement applicable to the Issuer either directly or in relation to it and its subsidiaries, the Issuer exceeds such Regulatory Capital Requirement by a factor of at least 25 per cent. of such Regulatory Capital Requirement; or
- (c) if there is no Regulatory Capital Requirement applicable to the Issuer, its total Assets exceed its total Liabilities, other than liabilities to persons that are not Senior Creditors, by at least 125 per cent. of such percentage specified by the FSA as the Regulatory Capital Requirement applicable to Prudential Assurance (at the issue date approximately 4 per cent.).

Any interest payments that the Issuer elects not to make, (including because it is required under the terms of any Parity Security, not to pay the relevant interest payment) in respect of the Capital Securities on an Optional Interest Payment Date, together with any interest payments that the Issuer does not make because the Solvency Condition is not met on a relevant Interest Payment Date, shall, so long as they remain unpaid, constitute Deferred Interest. No interest will accrue on Deferred Interest, except in the limited circumstances referred to in Condition 6(b) and 7(f). Deferred Interest will become payable only on the redemption of the Capital Securities and not in any other circumstances, including upon winding-up of the Issuer. The Issuer shall satisfy its obligation to pay Deferred Interest only in accordance with the Alternative Coupon Satisfaction Mechanism.

A Capital Securities Holder is required to notify the Issuer if at any time such Capital Securities Holder owns 10 per cent. or more of the equity share capital of the Issuer, and the Issuer has the right to suspend interest payments to any such holder. Interest payments made to holders of Capital Securities generally will be deemed to have been paid in respect of any such suspended payment. Any payments so suspended will be deemed satisfied with respect to the Capital Securities of such holder and may not be subsequently claimed.

The following table shows the ratio of the Regulatory Assets of Prudential Assurance to its Regulatory Capital Requirement at 31st December, 2000, 31st December, 2001 and 31st December, 2002:

<i>At 31st December</i>			<i>Current Threshold for Optional Interest Payment Date</i>
<u>2000</u>	<u>2001</u>	<u>2002</u>	
426%	305%	219%	125%

As of the date of this Offering Circular, there is no Regulatory Capital Requirement applicable to the Issuer. The following table shows the percentage by which the Issuer's total Assets exceeded its total Liabilities at 31st December, 2000, 31st December, 2001 and 31st December, 2002:

<i>At 31st December</i>			<i>Current Threshold for Optional Interest Payment Date</i>
<u>2000</u>	<u>2001</u>	<u>2002</u>	
40%	29%	23%	approximately 5%

The following table shows the minimum percentage by which the Issuer's EEA Insurance Subsidiaries exceeded their minimum capital requirements pursuant to the Capital Regulations:

<i>At 31st December</i>		
<u>2000</u>	<u>2001</u>	<u>2002</u>
29%	28%	65%

(b) Dividend and Capital Restriction

Following an Optional Interest Payment Date on which the Issuer does not make payment in full of all interest payments to be paid on such date, or any Interest Payment Date on which the Solvency Condition is not met, the Issuer shall not, and the Issuer shall not permit any entity it controls, directly or indirectly, (a) to declare or pay a dividend or distribution or make any other payment on any Parity Securities or on any Junior Securities (other than (i) a final dividend declared by the Issuer with respect to Ordinary Shares prior to the date that the decision to defer such interest payment is made or (ii) a payment made by a wholly-owned subsidiary of the Issuer to another wholly-owned subsidiary or directly to the Issuer), or (b) to redeem, purchase or otherwise acquire any Parity Securities or any Junior Securities, in each case unless or until the interest otherwise due and payable on the next succeeding Interest Payment Date on the Capital Securities is duly set aside and provided for or is paid in full.

Following a Redemption Date on which the Issuer is unable to issue sufficient Ordinary Shares to make payment in full of all Deferred Interest to be paid on such date, as described below in Condition 6(b), the Issuer shall not, and it shall not permit any entity that it controls, directly or indirectly, (a) to declare or pay a dividend or distribution or make any other payment on any Parity Securities or on any Junior Securities (other than (i) a final dividend declared by the Issuer with respect to the Ordinary Shares prior to such Redemption Date or (ii) a payment made by a wholly-owned subsidiary of the Issuer to another wholly-owned subsidiary or directly to the Issuer), or (b) to redeem, purchase or otherwise acquire any Parity Securities or any Junior Securities, in each case until such corporate authorisations as are required to issue the necessary Ordinary Shares are obtained and all Deferred Interest to be satisfied has been paid in full or duly set aside or provided for.

The restrictions set out above do not apply to payments made by the Issuer to policyholders or other customers, or transfers to or from the fund for future appropriations, in each case in the ordinary course of business consistent with past practice.

For the purposes of this provision, the payment (or declaration of payment) of a dividend or distribution on Junior Securities and Parity Securities shall be deemed to include the making of any interest, coupon or dividend payment (or payment under any guarantee in respect thereof) and the redemption, purchase or other acquisition of such securities (save where the funds used to redeem, purchase or acquire those securities are derived from an issue of Junior Securities or Parity Securities (i) made at any time within the six-month period prior to the time of such redemption, purchase or acquisition, and (ii) with the same or junior ranking on a return of assets on a winding-up or in respect of a distribution or payment of interest, coupons or dividends and/or any other amounts thereunder to those securities being redeemed, purchased or acquired). The Trustee shall be entitled to rely on a certificate signed by two directors of the Issuer as to whether the redemption, purchase or acquisition falls within the exception set out above and, if the Trustee does so rely, such certificate shall, in the absence of proven or manifest error, be conclusive and binding on the Issuer and the Capital Securities Holders.

5. INTEREST

The Capital Securities bear interest from (and including) 23rd June, 2003 at the rate of 6.50 per cent. per annum on the outstanding principal amount of the Capital Securities payable quarterly in arrear on 23rd March, 23rd June, 23rd September and 23rd December of each year. The first payment of interest will, subject as provided in these Terms and Conditions, be made on 23rd September, 2003.

Interest on the Capital Securities will be payable from (and including) the date of issue of the Capital Securities calculated on the basis of a 360-day year of twelve 30 day months.

6. ALTERNATIVE COUPON SATISFACTION MECHANISM

(a) General

The Issuer must satisfy its obligation to pay any Deferred Interest only in accordance with the procedures described below.

The obligation of the Issuer to pay any Deferred Interest in accordance with the Alternative Coupon Satisfaction Mechanism will be satisfied as follows:

- (i) the Issuer shall give a redemption notice of the forthcoming Redemption Date in accordance with Condition 16;
- (ii) not later than 14 Business Days prior to the Redemption Date, the Calculation Agent shall determine the number of Ordinary Shares in the capital of the Issuer which, in the opinion of the Calculation Agent, have an aggregate fair market value of not less than the aggregate amount of Deferred Interest (after conversion into U.S. dollars and after payment of any taxes, duties, costs and expenses payable by the Issuer in and associated with the issue of the Ordinary Shares);
- (iii) no later than ten Business Days prior to the Redemption Date, the Calculation Agent, or an appointed intermediary, shall place such number of Ordinary Shares in the market;
- (iv) no later than the close of business on the seventh Business Day prior to the Redemption Date, the Calculation Agent, or an appointed intermediary, shall notify the Issuer of the number of Ordinary Shares for which it has procured purchasers;
- (v) as soon as reasonably practicable following such notification but not later than the sixth Business Day prior to the Redemption Date, the Issuer shall, subject to having necessary corporate

authorisations in place, issue and allot such Ordinary Shares to the purchasers who have agreed to purchase them;

- (vi) if, after the operation of the above procedures there would, in the opinion of the Calculation Agent, be a shortfall of proceeds towards the satisfaction of the aggregate amount of Deferred Interest payable on the Redemption Date, the Calculation Agent shall use its reasonable endeavours to find purchasers for further Ordinary Shares and the Issuer shall, subject to having the necessary corporate authorisations in place, issue and allot such further Ordinary Shares to the purchasers who have agreed to purchase them in accordance with these provisions to try to ensure that a sum (after conversion into U.S. dollars and after the Issuer has paid any taxes, duties, costs and expenses payable by it and associated with the issue of the shares) at least equal to the aggregate amount of Deferred Interest is available on the Business Day prior to the Redemption Date to make the Deferred Interest payments in full on the Redemption Date; *provided* that if, despite the operation of the above provisions, such a shortfall exists on the Business Day preceding the Redemption Date, the Issuer may either pay an amount equal to such shortfall as soon as practicable to the Trustee (or the Principal Paying Agent) or, subject to having the necessary corporate authorisations in place, continue to issue and allot Ordinary Shares until the Trustee (or the Principal Paying Agent) shall have received funds on behalf of the Issuer equal to the full amount of such shortfall and *provided further* that no Deferred Interest payment shall be made to a security holder and no security shall be redeemed until such time as the Issuer is able to pay a sum at least equal to the aggregate amount of Deferred Interest in full in accordance with the Alternative Coupon Satisfaction Mechanism on the Redemption Date. For the avoidance of doubt, the Redemption Date as set out in the redemption notice shall be deferred until the date the payment of Deferred Interest can be so made in full;
- (vii) the Issuer shall transfer or arrange for the transfer of the issue proceeds raised from the operation of the provisions set out in Condition 6(a)(iii)-(vi) (or such amount of issue proceeds as is necessary after conversion into U.S. dollars), together with any amounts the Issuer would otherwise pay other than out of issue proceeds to make up for any shortfall, to satisfy the aggregate amount of Deferred Interest to the Trustee (or the Principal Paying Agent) on the Business Day preceding the Redemption Date for payment by the Trustee (or the Principal Paying Agent), on the Redemption Date, towards the satisfaction on behalf of the Issuer of the aggregate amount of Deferred Interest; and
- (viii) if, pursuant to the Alternative Coupon Satisfaction Mechanism, proceeds are raised in excess of the amount required to pay the applicable Deferred Interest plus the claims for the fees, costs and expenses to be borne by the Issuer in connection with using the Alternative Coupon Satisfaction Mechanism, any remaining proceeds shall be paid to the Issuer.

If the Issuer is required to make any payments of Deferred Interest in accordance with the Alternative Coupon Satisfaction Mechanism, the proceeds from the sale of Ordinary Shares pursuant to the Alternative Coupon Satisfaction Mechanism will be paid to the Capital Securities Holders by the Trustee or the Principal Paying Agent.

(b) Sufficiency and Availability of Ordinary Shares

The ability of the Issuer to use the Alternative Coupon Satisfaction Mechanism to satisfy its payment of Deferred Interest on the Capital Securities on a Redemption Date is subject to the following conditions:

- (i) the procedure will only be activated if the Issuer has given a redemption notice and at that time there are Deferred Interest payments to be satisfied;
- (ii) the Issuer shall not be required to issue or sell any Ordinary Shares, or cause them to be sold, at a price below the nominal value of its Ordinary Shares, which is currently 5 pence per share;
- (iii) the Issuer must have a sufficient number of authorised but unissued Ordinary Shares immediately prior to the issue of the Ordinary Shares in accordance with Condition 6(a)(v); and
- (iv) the directors of the Issuer must have all the necessary authority under English law to allot and issue a sufficient number of Ordinary Shares in accordance with Condition 6(a)(v).

At the date of this Offering Circular, given the current market price of the Ordinary Shares (after conversion into U.S. Dollars at a current exchange rate), the Issuer has a sufficient number of authorised but unissued Ordinary Shares and the directors of the Issuer have the necessary authority to issue such Ordinary Shares to raise sufficient funds to make the interest payments required to be made in respect of the Capital Securities during the next 12-month period, assuming the Alternative

Coupon Satisfaction Mechanism were to be used for each interest payment during such 12-month period.

The Issuer will, for so long as any Capital Securities remain outstanding, review its Ordinary Share price and relevant exchange rates prior to each annual general meeting of its shareholders. If the Issuer determines as the result of any such review that the Issuer does not have a sufficient number of authorised but unissued Ordinary Shares to permit the Issuer to issue at that date a number of Ordinary Shares equal to the amount of Deferred Interest, if any, outstanding together with scheduled interest payments for the next 12 months on the Capital Securities, and/or if the directors of the Issuer do not have the necessary authority to allot and issue such number of Ordinary Shares, then at the next annual general meeting, the Issuer shall propose resolutions to increase the number of authorised but unissued Ordinary Shares and the directors' authority to allot and issue Ordinary Shares to the level that would enable the Issuer to issue at that date a sufficient number of Ordinary Shares to enable payment of Deferred Interest, if any, outstanding together with scheduled interest payments for the next 12 months on the Capital Securities pursuant to the Alternative Coupon Satisfaction Mechanism.

The Issuer may not redeem any Capital Securities unless all accrued but unpaid interest and other payments thereon (other than any Deferred Interest payments) and the aggregate amount of Deferred Interest payments, if any, are satisfied at the same time. In the event that the Issuer does not have a sufficient number of Ordinary Shares available, and authorised to be issued and allotted, to implement the Alternative Coupon Satisfaction Mechanism and the Issuer does not otherwise make a payment other than out of funds raised from the issue proceeds to satisfy the aggregate amount of Deferred Interest, then the Redemption Date shall be deferred until such time as the Issuer has available, and authorised to be issued and allotted, sufficient Ordinary Shares and the issue proceeds of such shares are sufficient to pay for the Deferred Interest in full. Such deferral shall not constitute a Capital Security Default.

In addition, if the Issuer is unable to issue sufficient Ordinary Shares to make payment in full of all Deferred Interest due to be paid on a Redemption Date because it does not have a sufficient number of shares authorised to be issued and the necessary authority for the directors of the Issuer to issue such shares, interest will accrue on such Deferred Interest from (and including) the 14th day following the initial Redemption Date to (but excluding) the date such Deferred Interest is paid at the rate of 6.50 per cent. per annum.

(c) Market Disruption Event

If a Market Disruption Event exists during the 14 Business Days preceding any Redemption Date, the related payment of Deferred Interest and the Redemption Date may, subject to certain conditions, be deferred until such Market Disruption Event no longer exists. A market disruption deferral will not constitute a Capital Security Default; *provided* that if any Deferred Interest has not been paid, or an amount set aside for payment, within 14 days after the date on which any such Market Disruption Event is no longer continuing, such failure will constitute a Capital Security Default under the Trust Deed. Interest will not accrue on Deferred Interest during a Market Disruption Event; *provided, however*, that if a Market Disruption Event exists and is continuing for more than 14 days after the initial Redemption Date, interest will accrue on such Deferred Interest from (and including) the 14th day following the initial Redemption Date to (but excluding) the date such Deferred Interest is paid at the rate of 6.50 per cent. per annum.

(d) Listing

The Issuer shall ensure (to the extent possible) that, at the time when any Ordinary Shares are issued pursuant to Condition 6, such Ordinary Shares are listed on the Official List of the FSA in its capacity as competent authority under the FSMA and are admitted to trading on the market for listed securities of the London Stock Exchange (or, if the London Stock Exchange is not a Recognised Stock Exchange at that time, such other stock exchange as is a Recognised Stock Exchange at that time).

7. OPTIONAL REDEMPTION AND SUSPENSION

(a) No Redemption Date

The Capital Securities are perpetual securities in respect of which there is no maturity date. The Capital Securities are not redeemable at the option of the Capital Securities Holders at any time.

(b) Issuer's Call Option

The Issuer may redeem the Capital Securities in whole or in part, at its option, on 23rd December, 2008, or on any Interest Payment Date thereafter, subject to the Solvency Condition being met and subject, further, to the Issuer giving at least six months' prior written notice to, and receiving no objection to such redemption from, the FSA. Capital Securities to be redeemed will be drawn for redemption at such place and individually by lot or otherwise in a manner as may be approved by the Trustee.

The Issuer is permitted to satisfy its obligation to pay any Deferred Interest due upon a redemption only in accordance with the Alternative Coupon Satisfaction Mechanism.

(c) Tax Call Event Redemption or Tax Event Conversion

The Issuer may redeem the Capital Securities in whole (but not in part) at any time upon the occurrence of a Tax Call Event subject to the Issuer giving at least six months' prior written notice thereof to, and receiving no objection to such redemption from, the FSA, and subject to the Solvency Condition being met.

Upon the occurrence of a Tax Event, the Issuer may at its sole discretion, subject in each case to compliance with applicable regulatory requirements, including giving prior written notice to the FSA and the FSA not objecting, at any time convert the Capital Securities in whole (but not in part) to another series of capital securities constituting undated cumulative subordinated notes, having the same material terms as the Capital Securities; except that such undated cumulative subordinated notes will:

- (i) be a perpetual capital security issued by the Issuer with cumulative interest payments;
- (ii) rank *pari passu* with any other undated cumulative subordinated notes issued by the Issuer;
- (iii) following conversion be redeemable upon any Tax Event or Regulatory Event as modified as necessary to be applicable to a class of undated cumulative subordinated notes;
- (iv) not be subject to the Alternative Coupon Satisfaction Mechanism. Any Deferred Interest outstanding at the time of conversion will be carried over and become outstanding missed cumulative interest payments for purposes of the undated cumulative subordinated notes; and
- (v) be listed on a Recognised Stock Exchange.

If, following a Tax Event set out in clause (ii) or (iii) of the definition of Tax Event, the Issuer gives notice to the FSA of, and the FSA objects to, the proposal to convert the Capital Securities into another series of capital securities constituting undated cumulative subordinated notes, then the Tax Event giving rise to such proposal will become a Tax Call Event.

(d) Regulatory Event Redemption

The Issuer may redeem the Capital Securities in whole (but not in part) at any time upon the occurrence of a Regulatory Event, subject to the Solvency Condition being met and the Issuer giving at least six months' prior written notice thereof, and receiving no objection to such redemption from, the FSA.

(e) Redemption Procedures

Any redemption under paragraphs (b), (c) and (d) above may be made on not less than 30 nor more than 60 days' notice to the Capital Securities Holders, at the outstanding principal amount of the Capital Securities, together with accrued interest (including any interest not paid on a Compulsory Interest Payment Date) to the Redemption Date and the aggregate amount of any Deferred Interest.

The Issuer is permitted to satisfy its obligation to pay any Deferred Interest due upon redemption only in accordance with the Alternative Coupon Satisfaction Mechanism.

Prior to the giving of any notice of redemption following the occurrence of a Tax Call Event or Regulatory Event the Issuer shall deliver to the Trustee (a) a certificate signed by two directors of the Issuer, stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right to redeem have occurred; and (b) in the case of a Tax Call Event, an opinion of independent legal advisers of recognised standing to the effect that the Issuer is entitled to exercise its right of redemption.

So long as FSA requirements so provide, the Issuer may not redeem or purchase any Capital Securities unless it gives at least six months' prior written notice to, and receives no objection to such

redemption or purchase from, the FSA and subject to the Solvency Condition being met. The FSA may impose conditions on any such redemption or purchase at the time. Any notice of redemption will be irrevocable, subject to the Redemption Date postponement requirements set out below. If the amounts due on redemption in respect of any Capital Securities are improperly withheld or refused and are not paid by the Issuer, interest on the outstanding principal amount of such Capital Securities will continue to be payable until the amounts due on redemption are actually paid. Failure to pay or set aside for payment the principal amount of the Capital Securities to be redeemed, any accrued but unpaid payments and any Deferred Interest within 14 days of the Redemption Date, as deferred, if applicable, will constitute a Capital Security Default.

(f) Postponement of Redemption Date

If, following the giving of a notice of redemption with respect to a Redemption Date on which any payments of Deferred Interest are due to be satisfied, a Market Disruption Event occurs, or the Issuer is otherwise not able to raise sufficient funds through the Alternative Coupon Satisfaction Mechanism to satisfy the payment of all Deferred Interest payable on such Redemption Date, the Issuer shall be required to postpone the Redemption Date. In such event, the Capital Securities will continue to accrue and pay interest in accordance with their terms and such postponement will not constitute a Capital Security Default. In addition, if the Redemption Date is postponed for more than 14 days, interest will accrue on outstanding Deferred Interest as described.

A determination to postpone the Redemption Date will be made not later than the Business Day prior to the initially scheduled Redemption Date, and notice thereof will be given to the Capital Securities Holders. Notice of a new Redemption Date will be given to holders not less than 30 nor more than 60 days prior to the newly selected Redemption Date.

Following the 14th day after postponement of a Redemption Date, interest will accrue on outstanding Deferred Interest that would otherwise have been satisfied on such initially scheduled Redemption Date, from (and including) the 14th day following such initial Redemption Date to (but excluding) the date such Deferred Interest is paid, at the rate of 6.50 per cent.

(g) Suspension

Following any take-over offer made under the City Code on Take-overs and Mergers or any reorganisation, restructuring or scheme of arrangement in which the company which, immediately prior to such event, was the Ultimate Owner ceases to be the Ultimate Owner, unless such event is a Permitted Restructuring and a Permitted Restructuring Arrangement is put into place within six months of the occurrence of a Permitted Restructuring, an independent investment bank appointed by the Issuer (at the expense of the Issuer) and approved by the Trustee will determine what amendments (if any) to the terms and conditions of the Capital Securities, the Trust Deed and any other relevant documents are appropriate or necessary in order to replicate the Alternative Coupon Satisfaction Mechanism in the context of the capital structure of the new Ultimate Owner. Upon any such determination being reached and notified to the Trustee and the Issuer by such investment bank, the Trustee and the Issuer shall without the consent of the Capital Securities Holders but subject to the consent of the new Ultimate Owner, effect any necessary consequential changes to the terms and conditions of the Capital Securities, the Trust Deed and any other relevant documents. Any such amendments shall be subject to the requirements that:

- (i) the Issuer shall not be obliged to reduce its net assets;
- (ii) no amendment may be proposed or made which would alter the treatment of the Capital Securities as cover for the minimum or notional margin of solvency pursuant to the Capital Regulations without prior written notice being given to the FSA and the FSA not objecting;
- (iii) no such amendment may be made which would, in the Trustee's opinion, impose more onerous obligations on it without its consent; and
- (iv) such amendments shall preserve substantially the financial effect for the security holders of a holding in the Capital Securities.

If, after using all reasonable endeavours, such investment bank is unable to formulate such amendments, it shall notify the Issuer, the previous Ultimate Owner (if not the Issuer), the new Ultimate Owner, the Trustee, the Paying Agent and the Calculation Agent of that result. Reference to the giving of such a notice by such investment bank is defined as a "Definitive Suspension" of the Alternative Coupon Satisfaction Mechanism.

Upon the occurrence of a Definitive Suspension, the Issuer may at its sole discretion, subject in each case to compliance with applicable regulatory requirements, including giving prior written notice to the FSA and the FSA not objecting, at any time convert the Capital Securities in whole (but not in part) to another series of capital securities constituting undated cumulative subordinated notes, having the same material terms as the Capital Securities; except that such undated cumulative subordinated notes will:

- (i) be a perpetual capital security issued by the Issuer with cumulative interest payments;
- (ii) rank *pari passu* with any other undated cumulative subordinated notes issued by the Issuer;
- (iii) following conversion be redeemable upon any Tax Call Event or Regulatory Event as modified as necessary to be applicable to a class of undated cumulative subordinated notes;
- (iv) not be subject to the Alternative Coupon Satisfaction Mechanism. Any Deferred Interest outstanding at the time of conversion will be carried over and become outstanding missed cumulative interest payments for purposes of the undated cumulative subordinated notes; and
- (v) be listed on a Recognised Stock Exchange.

If, following a Definitive Suspension, the FSA objects to the proposal by the Issuer to convert the Capital Securities into another series of capital securities constituting undated cumulative subordinated notes, then, subject to giving notice to, and receiving no objection from, the FSA, the Issuer shall have the option to redeem the Capital Securities in whole (but not in part) at a redemption price equal to their principal amount together with accrued and unpaid interest and all Deferred Interest in cash without utilising the Alternative Coupon Satisfaction Mechanism.

(h) Purchases

The Issuer may, at any time or from time to time, purchase outstanding Capital Securities by tender, available alike to all Capital Securities Holders in the open market or by private agreement, in each case upon the terms and conditions that the Board of Directors or an authorised committee of the Board shall determine.

(i) Cancellations

All Capital Securities which are purchased by or on behalf of the Issuer will forthwith be cancelled and accordingly may not be held, reissued or resold.

8. PAYMENTS

(a) Method of Payment

- (i) Payments of principal and interest will be made by or on behalf of the Issuer against presentation and surrender of Capital Securities or the appropriate Coupons at the specified office of any of the Paying Agents except that payments of interest in respect of any period not ending on an Interest Payment Date will only be made upon surrender of the relative Capital Securities.
- (ii) Upon the due date for redemption of any Capital Securities, any unexchanged Talons relating to such Capital Securities (whether or not attached) shall become void and no Coupons shall be delivered in respect of such Talons and unmatured Coupons relating to such Capital Securities (whether or not attached) shall also become void and no payment shall be made in respect of them. If any Capital Security is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (iii) On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Capital Security, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 12).
- (iv) The names of the initial Paying Agents and their initial specified office are set out below. The Issuer reserves the right, subject to the prior written approval of the Trustee, such approval not to be unreasonably withheld, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that it will at all times maintain (aa) a Paying Agent having a specified office outside the United Kingdom and (bb) for so long as the Capital Securities are listed on the Official List of the FSA in its capacity as competent authority under the FSMA and admitted to trading on the London Stock Exchange

and the rules of the relevant authority so require, a Paying Agent having a specified office in London and (cc) a Paying Agent with a specified office in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th–27th November, 2000 (or any supplemental ECOFIN Council Meeting relating to such Directive) or any law implementing or complying with, or introduced in order to conform to, such Directive PROVIDED THAT under no circumstances shall the Issuer be obliged to maintain a Paying Agent with a specified office in such a European Member State unless at least one Member State of the European Union does not require a Paying Agent making payments through a specified office in that Member State to so withhold or deduct tax. Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the Capital Securities Holders in accordance with Condition 16.

- (v) Notwithstanding the foregoing provisions of this Condition, payments of principal and/or interest in respect of the Capital Securities will be made at the specified office of a Paying Agent in the United States if:
 - (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Capital Securities in the manner provided in these Terms and Conditions when due;
 - (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
 - (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(b) Payments subject to Fiscal Laws

Without prejudice to the terms of Condition 10, all payments made in accordance with these Terms and Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses shall be charged to the Capital Securities Holders in respect of such payments.

(c) Payments on Payment Business Days

Any of the Capital Securities or a Coupon may only be presented for payment on a day which is a Business Day. No further interest or other payment will be made as a consequence of the day on which the relevant Capital Securities or Coupon may be presented for payment under this paragraph falling after the due date.

9. DEFAULTS; LIMITATION OF REMEDIES

Notwithstanding any of the provisions below in this Condition 9, the right to institute winding-up proceedings is limited to circumstances where payment has become due. Pursuant to Condition 2(c), no principal or interest payments will be due on the relevant payment date if the Solvency Condition is not satisfied, at the time of and immediately after any such payment. Also, in the case of any payment, such payment will not be due if the Issuer has elected to defer that payment pursuant to Condition 4 or if the circumstances referred to in any of Conditions 6(b), 6(c) or 7(g) then apply.

- (a) If a Capital Security Default occurs and is continuing, the Trustee may, notwithstanding the provisions of paragraph (b) of this Condition 9, institute proceedings for the winding-up in England and Wales (but not elsewhere) of the Issuer, provided, however, that the Trustee may only institute proceedings for the winding-up of the Issuer on or after the date two years and one day after the failure of payment by the Issuer referred to in this paragraph.
- (b) The Trustee may at its discretion and without further notice institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed, the Capital Securities or the Coupons (other than for the payment of any principal or satisfaction of any interest payments in respect of the Capital Securities or the Coupons) provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

- (c) The Trustee shall not be bound to take any of the actions referred to in paragraph (a) or (b) above against the Issuer to enforce the terms of the Trust Deed, the Capital Securities or the Coupons unless (i) it shall have been so requested by an Extraordinary Resolution (as defined in the Trust Deed) of the Capital Securities Holders or in writing by the holders of at least one-quarter in principal amount of the Capital Securities then outstanding and (ii) it shall have been indemnified to its satisfaction.
- (d) No Capital Securities Holder or Couponholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up in England and Wales of the Issuer unless the Trustee, having become so bound to proceed, fails to do so within a reasonable period and such failure is continuing, in which case the Capital Securities Holder or Couponholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise. No remedy against the Issuer shall be available to the Trustee or any Capital Securities Holder or Couponholder (i) for the recovery of amounts owing in respect of the Capital Securities or the Coupons, other than the institution of proceedings for the winding-up in England of the Issuer and/or proving in such winding-up and (ii) for the breach of any other term under the Trust Deed, the Capital Securities or the Coupons, other than as provided in paragraph (b) above.

10. ADDITIONAL AMOUNTS

All payments of principal and interest in respect of the Capital Securities and Coupons will be made without withholding or deduction for, or on account of, any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the United Kingdom, or any political subdivision of, or any authority of, or in, the United Kingdom having power to tax, unless the withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Capital Securities or Coupons after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Capital Securities or Coupons, as the case may be, in the absence of the withholding or deduction; except that no such additional amounts shall be payable in relation to any Capital Security or Coupon:

- (i) presented for payment by, or on behalf of, a holder who is liable for such taxes or duties in respect of such Capital Security or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Capital Security or Coupon; or
- (ii) presented for payment by, or on behalf of, a holder who would be able to avoid such withholding or deduction by satisfying any requirement to provide such evidence as is required by statute or making a declaration or any other statement or claim, including, but not limited to, a declaration of non-residence but fails to do so; or
- (iii) presented for payment more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts on presenting the same for payment on such thirtieth day; or
- (iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th–27th November, 2000 (the “Directive”) (or any supplemental ECOFIN Council Meeting relating to such Directive) or any law implementing or complying with, or introduced in order to conform to, the Directive; or
- (v) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Capital Security or Coupon to another Paying Agent in a Member State of the European Union.

Whenever in the Terms and Conditions, reference is made in any context to the payment of the principal of, any relevant payments, or any payments of Deferred Interest on, or in respect of, any Capital Securities, these terms include the payment of Additional Amounts to the extent that, in the context, Additional Amounts are, were or would be payable.

11. AMENDMENTS

Any amendment or variation to the terms and conditions of the Capital Securities will require the provision of at least 30 days’ notice to, and receipt of no objection from, the FSA.

12. PRESCRIPTION

Capital Securities and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within a period of 10 years in the case of Capital Securities and five years in the case of Coupons from the Relevant Date relating thereto. There shall be no prescription period for Talons but there shall not be included in any Coupon sheet issued in exchange for a Talon any Coupon the claim in respect of which would be void pursuant to this Condition or Condition 8(a)(ii) or any Talon which would be void pursuant to Condition 8(a)(ii).

13. MEETINGS OF CAPITAL SECURITIES HOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

The Trust Deed contains provisions for convening meetings of Capital Securities Holders to consider any matter affecting their interests including the modification by Extraordinary Resolution (as defined in the Trust Deed) of any of these Terms and Conditions or any of the provisions of the Trust Deed.

The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Capital Securities for the time being outstanding, or at any adjourned such meeting one or more persons being or representing Capital Securities Holders whatever the principal amount of the Capital Securities so held or represented, except that at any meeting the business of which includes the modification of certain of these Terms and Conditions and the Trust Deed (including, *inter alia*, the provisions regarding subordination referred to in Conditions 2 and 3, the terms concerning currency and the due dates for payment of principal or coupon payments in respect of the Capital Securities and reducing or cancelling the principal amount of any Capital Securities) the quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Capital Securities for the time being outstanding.

An Extraordinary Resolution passed at any meeting of Capital Securities Holders will be binding on all Capital Securities Holders, whether or not they are present at the meeting, and on all Couponholders.

Notwithstanding any other provision of these Terms and Conditions, the Trustee may agree, without the consent of the Capital Securities Holders or Couponholders, to any modification (subject to certain exceptions) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any of the provisions of the Trust Deed which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Capital Securities Holders or to any modification which is of a formal, minor or technical nature or to correct a manifest error or to comply with the mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

Subject to confirmation of no objection from the FSA and as provided in the Trust Deed, the Trustee may agree with the Issuer, without the consent of the Capital Securities Holders or Couponholders, to the substitution on a subordinated basis equivalent to that referred to in these Terms and Conditions of any holding company of the Issuer, any Subsidiary of such holding company, any Subsidiary of the Issuer, any successor in business of the Issuer or any Subsidiary of any successor in business of the Issuer (the "Substituted Issuer") in place of the Issuer (or any previous Substituted Issuer under this Condition 13) as the obligor under the Trust Deed, the Capital Securities and the Coupons. The Trustee will determine what amendments (if any) to these Terms and Conditions, the Trust Deed and any other document are appropriate or necessary to replicate the Alternative Coupon Satisfaction Mechanism. In connection with any proposed substitution as aforesaid and in connection with the exercise of its functions, the Trustee shall have regard to the interests of the Capital Securities Holders as a class and the Trustee shall not have regard to the consequences of such substitution for individual Capital Securities Holders or Couponholders resulting from, in particular, their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory.

In connection with any substitution or such exercise as aforesaid, no Capital Securities Holder or Couponholder shall be entitled to claim, whether from the Issuer, the Substituted Issuer or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of, or relating to, any such substitution or exercise (including, for the avoidance of doubt, any tax consequences arising from such substitution or exercise relating to subsequent payments made in respect of the Capital Securities) upon any individual Capital Securities Holders or Couponholders except to the extent already provided in Condition 10 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Any such modification, waiver, authorisation or substitution shall be binding on all Capital Securities Holders and all Couponholders and, unless the Trustee agrees otherwise, any such modification or

substitution shall be notified to the Capital Securities Holders in accordance with Condition 16 as soon as practicable thereafter.

14. REPLACEMENT OF THE CAPITAL SECURITIES, COUPONS AND TALONS

Should any Capital Securities, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent (or any other place of which notice shall have been given in accordance with Condition 16) upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Coupons or Talons must be surrendered before any replacement Capital Securities, Coupons or Talons will be issued.

15. THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking any action unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer or any subsidiary without accounting for any profit resulting therefrom. The Trustee is entitled under the Trust Deed to rely on reports and certificates addressed and/or delivered to it by the Auditors whether or not the same are addressed to the Trustee and whether or not they are subject to any limitation on the liability of the Auditors and whether by reference to a monetary cap or otherwise.

16. NOTICES

Notices to Capital Securities Holders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Capital Securities Holders in accordance with this Condition.

17. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Capital Securities Holders or the Couponholders to create and issue further capital securities ranking *pari passu* in all respects (or in all respects save for the date from which interest thereon accrues and the amount of the first payment of interest on such further capital securities) and so that the same shall be consolidated and form a single series with the outstanding Capital Securities. Any such Capital Securities shall be constituted by a deed supplemental to the Trust Deed.

18. AGENTS

The Issuer will procure that there shall at all times be a Calculation Agent and a Principal Paying Agent so long as any of the Capital Securities is outstanding. If either the Calculation Agent or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Terms and Conditions or the Calculation Agency Agreement or the Agency Agreement, as appropriate, the Issuer shall appoint, on terms acceptable to the Trustee, an independent investment bank or stockbroker in the case of the Calculation Agent or a leading international bank in the case of the Principal Paying Agent in each case acceptable to the Trustee to act as such in its place. Neither the termination of the appointment of a Calculation Agent or the Principal Paying Agent nor the resignation of either will be effective without a successor having been appointed.

All calculations and determinations made by the Calculation Agent or the Principal Paying Agent in relation to the Capital Securities shall (save in the case of manifest error) be final and binding on the Issuer, the Trustee, the Paying Agents, the Capital Securities Holders and the Couponholders.

None of the Issuer, the Trustee and the Paying Agents shall have any responsibility to any person for any errors or omissions in any calculation by the Calculation Agent.

19. GOVERNING LAW

The Trust Deed, the Capital Securities, the Coupons and the Talons are governed by, and shall be construed in accordance with, the laws of England.

20. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Capital Securities by virtue of the Contracts (Rights of Third Parties) Act 1999.

21. DEFINITIONS

In these Terms and Conditions:

“Additional Amounts” means additional amounts payable in accordance with Condition 10 with respect to the principal of, interest payments and Deferred Interest payments (if any) on, the Capital Securities, if at any time a United Kingdom taxing jurisdiction requires the Issuer to make a withholding or deduction, that are necessary in order that the net amounts paid to the Capital Securities Holders or Couponholders, after the withholding or deduction, shall equal the amounts of principal, any interest payments and Deferred Interest payments which would have been payable on the Capital Securities in the absence of the withholding or deduction.

“Agency Agreement” means the agency agreement dated 23rd June, 2003 between the Issuer, the Trustee and the Paying Agents, relating to the Capital Securities under which each Paying Agent agrees to perform the duties required of it under these Terms and Conditions.

“Alternative Coupon Satisfaction Mechanism” means the mechanism described in Condition 6.

“Assets” means the total amount of the Issuer’s non-consolidated gross assets as shown by the then latest published balance sheet, but adjusted for contingencies and for subsequent events, and to such extent as such person or persons giving the Solvency Condition report may determine.

“Business Day” means a day, other than a Saturday or Sunday, on which commercial banks and foreign exchange markets are open for general business in London.

“Calculation Agency Agreement” means the calculation agency agreement dated 23rd June, 2003 between the Issuer, the Trustee and the Calculation Agent relating to the Capital Securities, under which the Calculation Agent agrees to perform the duties required of it under these Terms and Conditions.

“Calculation Agent” means Cazenove & Co. Ltd as calculation agent in relation to the Capital Securities, or its successor or successors for the time being appointed under the Calculation Agency Agreement.

“Capital Adequacy Condition” is as defined in Condition 4(a).

“Capital Regulations” refer to rules and regulations of the FSA or any successor regulatory body that require the Issuer or any of the Issuer’s EEA Insurance Subsidiaries to meet a Regulatory Capital Requirement including, without limitation, pursuant to Directive 98/78/EC of the European Union (the “Directive”) or any legislation, rules or regulations (whether having the force of law or otherwise) in any state within the European Economic Area (which includes the European Union together with Norway, Liechtenstein and Iceland) implementing the Directive.

A “Capital Security Default” with respect to the Capital Securities shall occur if:

- (i) the Issuer fails to pay the amount due to satisfy any interest payment on a Compulsory Interest Payment Date, and such failure continues for 14 days; or
- (ii) the Issuer fails to pay the principal amount of the Capital Securities, any accrued but unpaid interest and any Deferred Interest on a Redemption Date, as may be postponed from time to time pursuant to these Terms and Conditions, and such failure continues for 14 days.

“Capital Securities Holder” means the bearer of any Capital Securities.

“Compulsory Interest Payment Date” means each Interest Payment Date on which the Issuer satisfies the Solvency Condition and that is not an Optional Interest Payment Date.

“Coupon” means an interest coupon relating to the Capital Securities and includes, where the context so permits, a Talon.

“Couponholder” means the bearer of any Coupon.

“Deferred Interest” means any interest payment which, pursuant to Condition 4, the Issuer has elected (including because it is required under the terms of any Parity Security not to pay the relevant interest payment) in respect of the Capital Securities on an Optional Interest Payment Date (together with any interest payments that the Issuer does not make because the Solvency Condition is not met on a relevant Interest Payment Date) and which has not been satisfied.

“Definitive Suspension” has the meaning given in Condition 7(g).

“EEA Insurance Subsidiary” means any Subsidiary of the Issuer engaged in the insurance business and regulated as such by a member of the European Economic Area.

“Eligible Company” means a company incorporated in a country which is a member of the Organisation for Economic Co-operation and Development by or on behalf of the Issuer whose ordinary shares are listed (i) on the official list of the FSA in its capacity as competent authority under the FSMA and are admitted to trading on the market for listed securities of the London Stock Exchange or (ii) on such other internationally recognised stock exchange as the Trustee may approve.

“FSA” means the Financial Services Authority or any successor regulatory body or such other governmental authority in the U.K.

“FSMA” means the Financial Services and Markets Act 2000.

“Group” means the Issuer and its Subsidiaries.

“Holding Company Shares” means the ordinary shares of the New Holding Company.

“Interest Payment Date” means the date on which interest payments on the Capital Securities will be payable quarterly in arrear on 23rd March, 23rd June, 23rd September and 23rd December of each year beginning on 23rd September, 2003.

“Junior Securities” means Ordinary Shares of the Issuer or any other securities which rank, as regards distributions on a return of assets on a winding-up of the Issuer or in respect of distributions or payments of dividends or any other payments thereon, after the Capital Securities.

“Liabilities” means the total amount of the Issuer’s non-consolidated gross liabilities as shown by the then latest published balance sheet, but adjusted for contingencies and subsequent events and to such extent as the person or persons giving the Solvency Condition report may determine.

“London Stock Exchange” means the London Stock Exchange plc.

“Market Disruption Event” means (i) the occurrence or existence of any material suspension of or limitation imposed on trading or on settlement procedures for transactions in Ordinary Shares through the London Stock Exchange (or other national securities exchange or designated offshore securities market constituting the principal trading market for its Ordinary Shares); or (ii) in the reasonable opinion of the Issuer there has been a substantial deterioration in the price and/or value of Ordinary Shares or circumstances are such as to prevent or to a material extent restrict the issue or delivery of the Ordinary Shares to be issued in accordance with the Alternative Coupon Satisfaction Mechanism; or (iii) where monies are required to be converted from one currency upon sale of Ordinary Shares into another currency for payment of Deferred Interest, the occurrence of any event that makes it impracticable to effect such conversion.

“New Holding Company” means an Eligible Company that becomes the ultimate holding company for the Group following a Permitted Restructuring.

“Optional Interest Payment Date” has the meaning given in Condition 4(a).

“Ordinary Shares” means the Ordinary Shares of the Issuer, having at the date hereof, a par value of 5 pence each.

“Parity Securities” means perpetual capital instruments of the Issuer, and preferred or preference shares or other securities issued directly or indirectly by the Issuer ranking *pari passu* with the Capital Securities as to rights to interest or dividend payments and participation in its assets in the event of liquidation.

“Paying Agents” means the paying agents appointed pursuant to the Agency Agreement and such term shall, unless the context otherwise requires, include the Principal Paying Agent.

“Permitted Restructuring” means the completion of (i) an offer made by or on behalf of, an Eligible Company to all (or as nearly as may be practicable all) of the shareholders of the Issuer (or, if the Issuer is not then the Ultimate Owner, to the shareholders of the then Ultimate Owner) to acquire the whole (or as nearly as may be practicable the whole) of issued ordinary share capital, of the Issuer (or, if the Issuer is not then the Ultimate Owner, the then Ultimate Owner’s issued ordinary share capital) other than those Ordinary Shares already held by or on behalf of such Eligible Company or (ii) a reorganisation or restructuring whether by way of a scheme of arrangement or otherwise pursuant to which an Eligible Company acquires all (or as nearly as may be practicable all) of the issued ordinary share capital of the Issuer (or, if the Issuer is not then the Ultimate Owner, the then Ultimate Owner’s issued share capital) not held by the New Holding Company is cancelled.

“Permitted Restructuring Arrangement” means an arrangement whereby the following conditions are satisfied: (i) the execution of a trust deed supplemental to the Trust Deed and/or such other documentation as may be necessary to ensure, to the satisfaction of the Trustee, that the Alternative

Coupon Satisfaction Mechanism, the Trust Deed and certain other agreements operate so that the Ordinary Shares may be exchanged for Holding Company Shares in such a manner that ensures that following the exchange for such Holding Company Shares the holder of each security then outstanding will receive, in the event of a payment to be satisfied pursuant to the Alternative Coupon Satisfaction Mechanism, an amount not less than that which would have been receivable had such a Permitted Restructuring not taken place; and (ii) the Trustee is satisfied that the credit ratings that would be assigned to the Capital Securities by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. and by Moody's Investors Service, Inc. following any such Permitted Restructuring, shall not be less than those assigned to the Capital Securities immediately prior to such Permitted Restructuring taking place.

"Principal Paying Agent" means the principal paying agent appointed pursuant to the Agency Agreement.

"Prudential Assurance" means The Prudential Assurance Company Limited (a wholly owned Subsidiary of the Issuer).

"Recognised Stock Exchange" means a recognised stock exchange as defined in Section 841 of the Income and Corporation Taxes Act 1988 as the same may be amended from time to time and any provisions, statute or statutory instrument replacing the same from time to time.

"Redemption Date" means any date fixed for redemption pursuant to Condition 7.

"Regulatory Assets" means the assets available to satisfy the Regulatory Capital Requirement and, under current rules and regulations of the FSA, means the amount to be included on Line 25 of Form 9 (or equivalent amount on any successor form) of the annual return for an insurance company required to be delivered to the FSA pursuant to FSA rules and regulations.

"Regulatory Capital Requirement" means any minimum or notional margin of solvency or minimum regulatory capital or capital ratios required for insurance companies or insurance holding companies, by the FSA or any successor regulatory body.

A "Regulatory Event" is deemed to have occurred if the Capital Securities would not be capable of counting as cover for the minimum or notional margin of solvency or minimum capital or capital ratios required of the Issuer by any Regulatory Capital Requirement as a result of any change to the Capital Regulations or the application or official interpretation thereof at any relevant time.

"Relevant Date" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Capital Securities Holders in accordance with Condition 16.

"Senior Creditors" means in respect of the Capital Securities:

- (i) any creditors who are unsubordinated creditors with claims admitted in the event of winding-up of the Issuer;
- (ii) any creditors having claims in respect of liabilities that are, or are expressed to be, subordinated, whether only in the event of a winding-up or otherwise, to the claims of unsubordinated creditors of the Issuer but not further or otherwise;
- (iii) any creditor who is a holder of capital securities other than the Capital Securities except those that rank, or are expressed to rank, *pari passu* with or junior to the Capital Securities; and
- (iv) all other creditors having claims, including other such creditors holding subordinated debt securities, except those that rank, or are expressed to rank, equally with (including holders of Parity Securities) or junior to (including holders of Junior Securities) the claims of any holder of the Capital Securities.

"Solvency Condition" has the meaning set forth in Condition 2(c).

"Subsidiary" means a subsidiary undertaking within the section 258 of the Companies Act 1985.

"Talon" means a talon for future Coupons.

"Tax Call Event" refers to the occurrence of the circumstances described:

- (i) in clause (i) of the definition of Tax Event; or

- (ii) in clauses (ii) or (iii) of such definition either (a) following the giving of notice to the FSA of the Issuer's proposal to convert the Capital Securities into another series of capital securities constituting undated cumulative subordinated notes and the FSA objecting to such proposal, or (b), if the Issuer determines that a Tax Event applies, or would apply, to such undated cumulative subordinated notes.

"Tax Event" means an event where the Issuer determines that: (i) in making any interest payments or Deferred Interest payments on the Capital Securities, it has paid, or will or would on the next Interest Payment Date be required to pay, Additional Amounts; or (ii) payments, including payment of Deferred Interest, on the next Interest Payment Date in respect of any Capital Securities would be treated as "distributions" within the meaning of Section 209 of the Income and Corporation Taxes Act 1988 of the U.K. (as amended, re-enacted or replaced); or (iii) as a result of a change in or amendment to the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax (including any treaty to which the United Kingdom is a party), or any change in an application or official interpretation of those laws or regulations, (including a change or amendment resulting from holding by a court or tribunal of competent jurisdiction), which change or amendment becomes effective on or after the date of this Offering Circular, the Issuer would not be entitled to claim a deduction in computing its U.K. tax liabilities in respect of any interest payment (including payment of any Deferred Interest) on the Capital Securities, or the value of the deduction to the Issuer would be materially reduced.

"Taxing Jurisdiction" has the meaning set forth in Condition 10.

"Trust Deed" means the trust deed dated 23rd June, 2003 between the Issuer and the Trustee.

"Trustee" means The Law Debenture Trust Corporation p.l.c.

"Ultimate Owner" means, at any given time, the ultimate holding company of the Group.

USE OF PROCEEDS

The net proceeds of the issue of the Capital Securities are estimated to amount to U.S.\$980,000,000 and will be used for general corporate purposes and to strengthen the capital base of the Prudential Group.

SUMMARY OF PROVISIONS RELATING TO THE CAPITAL SECURITIES WHILE IN GLOBAL FORM

Exchange

The Capital Securities will be represented initially by a Temporary Global Capital Security in bearer form without Coupons or Talons which will be deposited outside the United States with a common depositary for Clearstream, Luxembourg and Euroclear on or about 23rd June, 2003. The Temporary Global Capital Security will be exchangeable in whole or in part (free of charge to the holder) for interests in a Permanent Global Capital Security in bearer form without Coupons or Talons on or after a date which is expected to be 4th August, 2003 (the "Exchange Date") upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations and as described in the Temporary Global Capital Security. Upon deposit of the Temporary Global Capital Security or the Permanent Global Capital Security (each a "Global Capital Security") with a common depositary for Clearstream, Luxembourg and Euroclear, Clearstream, Luxembourg and Euroclear will credit each subscriber with a principal amount of Capital Securities equal to the principal amount thereof for which it has subscribed and paid.

Each of the persons shown in the records of Clearstream, Luxembourg or Euroclear as the holder of a Capital Security represented by a Global Capital Security must look solely to Clearstream, Luxembourg or Euroclear (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Capital Security, subject to and in accordance with the respective rules and procedures of Clearstream, Luxembourg or Euroclear (as the case may be).

The Global Capital Securities will contain provisions applicable to the Capital Securities represented thereby, some of which modify the effect of the Terms and Conditions of the Capital Securities. Certain of these are summarised in this section.

For so long as any of the Capital Securities are represented by a Global Capital Security, each person who is for the time being shown in the records of Clearstream, Luxembourg and/or Euroclear as the holder of a particular principal amount of such Capital Securities (in which regard any certificate or other document issued by Clearstream, Luxembourg and/or Euroclear as to the principal amount of such Capital Securities standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee and the Paying Agents as the holder of such principal amount of such Capital Securities for all purposes other than with respect to the payment of principal and interest on such principal amount of such Capital Securities, the right to which shall be vested, as against the Issuer, the Trustee and the Paying Agents, solely in the bearer of the Global Capital Securities (in accordance with and subject to its terms and the Trust Deed) and the expressions "Capital Securities Holder", "holder of Capital Securities" and related expressions shall be construed accordingly. Interests in Capital Securities which are represented by a Global Capital Security will only be transferable in accordance with the rules and procedures for the time being of Clearstream, Luxembourg and/or Euroclear, as the case may be.

If any date on which a payment is due on the Capital Securities occurs prior to the Exchange Date, the relevant payment will be made on the Temporary Global Capital Security only to the extent that certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations (in substantially the form referred to in the Temporary Global Capital Security or in such other form as is customarily issued in such circumstances by the relevant clearing system or depositary) has been received by Clearstream, Luxembourg or Euroclear. Payment of amounts due in respect of the Permanent Global Capital Security will be made through Clearstream, Luxembourg or Euroclear without any requirement for certification.

The holder of the Temporary Global Capital Security shall not (unless, upon due presentation of the Temporary Global Capital Security for exchange (in whole or in part) for interests in the Permanent Global Capital Security, such exchange is improperly withheld or refused and such withholding or refusal is continuing at the relevant payment date) be entitled to receive any payment in respect of the Capital Securities represented by the Temporary Global Capital Security which falls due on or after the Exchange Date.

Interests in the Permanent Global Capital Security will be exchangeable in whole but not in part (free of charge to the holder) for definitive bearer Capital Securities (a) if the Permanent Global Capital Security is held on behalf of Clearstream, Luxembourg or Euroclear or the Alternative Clearing System (as defined below) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of public holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available by such holder giving notice to the Principal Paying Agent and

the Trustee or (b) at any time at the option of the Issuer, by the Issuer giving notice to the Principal Paying Agent and the Trustee and the Capital Securities Holders of its intention to exchange the Permanent Global Capital Security for definitive Capital Securities on or after the Permanent Global Exchange Date (as defined below) specified in the notice.

On or after the Permanent Global Exchange Date the holder of the Permanent Global Capital Security shall surrender the Permanent Global Capital Security to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Capital Security, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive Capital Securities having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Capital Security and a Talon.

“Alternative Clearing System” means any such other clearing system as shall have been approved by the Trustee.

“Permanent Global Exchange Date” means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and except in the case of exchange pursuant to (a) above in the cities in which Euroclear and Clearstream, Luxembourg or, if relevant, the Alternative Clearing System are located.

Payments

Principal and interest in respect of the Permanent Global Capital Security shall be paid to its holder against presentation and (if no further payment falls to be made on it) surrender of it or to the order of the Principal Paying Agent which shall endorse such payment or cause payment to be endorsed in the appropriate schedule to the Permanent Global Capital Security. No person shall however be entitled to receive any payment on the Permanent Global Capital Security falling due after the Permanent Global Exchange Date, unless exchange of the Permanent Global Capital Security for definitive Capital Securities is improperly withheld or refused by or on behalf of the Issuer.

Notices

So long as the Permanent Global Capital Security is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System, notices required to be given to Capital Securities Holders may be given by their being delivered to Euroclear and/or Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System, rather than by publication as required by the Terms and Conditions of the Capital Securities except that, so long as the Capital Securities are listed on the Official List of the FSA in its capacity as competent authority under the FSMA and admitted to trading on the London Stock Exchange and the rules of that Exchange so require, notices shall also be published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*). Any notice delivered to Euroclear, Clearstream, Luxembourg and/or, as the case may be, the Alternative Clearing System shall be deemed to have been given to the Capital Securities Holders on the day on which such notice is delivered.

Purchase and cancellation

Cancellation of any Capital Securities represented by the Permanent Global Capital Security which is required by the Terms and Conditions of the Capital Securities to be cancelled will be effected by reduction in the principal amount of the Permanent Global Capital Security.

PRUDENTIAL PLC

Introduction

Prudential plc is the parent company of the Prudential group ("Prudential"). Prudential is a leading international financial services group, providing retail financial services and fund management in its chosen markets of the United Kingdom, the United States, Asia and continental Europe. At 31st December, 2002, Prudential was one of the 25 largest public companies in the United Kingdom in terms of market capitalisation on the London Stock Exchange. Prudential is not affiliated with Prudential Financial, Inc. or its subsidiary, Prudential Insurance Company of America.

Prudential continues to pursue its strategy of concentrating on the provision of retail financial services and fund management in its chosen markets. This strategy has led to the acquisition of new businesses, the launch of new initiatives and the disposal of businesses which were either not core activities or which did not attain critical mass in their operation.

In 1986, Prudential acquired Jackson National Life Insurance Company ("JNL"), a U.S. insurance company. The acquisition of Scottish Amicable Life Assurance Society, a mutual society ("Scottish Amicable") in 1997 increased Prudential's U.K. distribution capability through the intermediary channel. In 1998, Prudential launched Egg, a leading e-commerce retail financial services provider, and in 1999, Prudential acquired M&G Group PLC ("M&G"), a leading U.K. fund manager. In recent years, Prudential has also expanded its operations in Asia. In 2000, Prudential was listed on the New York Stock Exchange and completed an initial public offering of 21 per cent. of its holding in Egg on the London Stock Exchange.

Key financial data for the year ended 31st December, 2002 (with comparatives for the year ended 31st December, 2001) for Prudential include the following:

Gross premiums written from long-term insurance products and contributions from investment products were £16.7 (£15.2) billion and £14.8 (£10.1) billion respectively.

Insurance and investment funds under management at 31st December, 2002 were £155 (£163) billion. These funds are managed by M&G in the United Kingdom, PPM America in the United States and Prudential Asset Management (formerly PPM Asia) in Asia.

Operating profit before amortisation of goodwill and exceptional items, was £432 (£622) million based on the statutory basis of reporting and £1,133 (£1,186) million on the achieved profits basis provided by listed U.K. insurers as supplemental information.

Shareholders' funds at 31st December, 2002 were £3,668 (£3,950) million on the statutory basis of reporting and £7,196 (£8,150) million on the achieved profits basis.

United Kingdom

At 31st December, 2002, Prudential operated one of the largest U.K. with-profits funds in the U.K., with assets under management of £65 billion. As at the date of this Offering Circular, this fund is rated AA+ by Standard & Poor's and Aa1 by Moody's in terms of financial strength. As at 31st December, 2001, it had a rating of AAA from Standard & Poor's and Aaa from Moody's. M&G was one of the U.K.'s top three retail fund managers in terms of assets under management. Through Egg, Prudential is also a leading e-commerce retail financial services provider.

For the year ending 31st December, 2002, total revenue premiums from long-term insurance business in the United Kingdom were £8,435 million whilst investment products contributed a further £1,157 million. M&G had £112 billion of funds under management at 31st December, 2002. These funds comprised £94 billion of internal funds (of which £71 billion related to the Prudential Assurance and Scottish Amicable long-term funds), £9 billion of institutional funds and £9 billion of retail funds. Egg had £9.9 billion of banking business liabilities.

In January, 2002, Prudential completed the transfer of its U.K. home and motor general insurance operations to Winterthur Insurance. Its subsidiary, Churchill, continues to offer Prudential-branded general insurance products in the United Kingdom. The profit on sale was £355 million before tax.

In November 2001 Prudential's U.K. Insurance Operations announced that its focus would be in four key product areas of pensions, annuities, with-profit bonds and ISAs. Distribution would be through IFAs, directly, through banks and affinities, and via the business-to-business channel. In 2002, Prudential ceased to use the Scottish Amicable name. At the same time, a programme of cost savings was announced, which will total £216 million per annum by 2006.

M&G International's German business commenced distribution in 2002 and is now selling a range of funds in Germany, Austria, Luxembourg and Italy.

Egg's acquisition of Zebank, the first digital online bank in France, was completed in May 2002 and was launched under the Egg brand in November 2002.

United States of America

Prudential's life insurance subsidiary in the United States, JNL was the 18th largest U.S. life insurance company in terms of total assets as at 31st December, 2002. In fixed annuity sales, JNL ranked sixth in total individual fixed annuity sales for the year ending 31st December, 2002. Since 1995, JNL has continually diversified its product portfolio and now also has a leading position in variable annuity sales, ranking sixth in variable annuity net flows and 17th in variable annuity sales for the year ending 2002. JNL also has a leading position in equity-indexed annuity ("EIA") sales, ranking sixth for sales of EIAs for the year ending 31st December, 2002.

As at the date of this Offering Circular, JNL has a financial strength rating of AA from Standard & Poor's, A1 from Moody's and A+ from A.M. Best Co. As at 31st December 2001, it had a financial strength rating of AAA from Standard & Poor's, Aa3 from Moody's and A+ from A.M. Best Co.

For the year ending 31st December, 2002, total revenue premiums in the U.S. were £6,098 million.

Asia

In Asia, Prudential has 22 life and fund management operations in 12 countries. The savings, protection and investment products it offers are tailored to the local markets in which it operates. Prudential distributes its products primarily through its agency sales force and through bancassurance agreements, including its bancassurance agreement with Standard Chartered Bank, and through banks and brokers for investment products in India.

Prudential is the largest European based life insurer in Asia in terms of the number of markets it operates in combined with top five market positions. At 31st December, 2002, Prudential believes that it had top five market share in eight Asian life insurance markets, two mutual fund markets and Hong Kong's mandatory Provident Fund market. For the year to 30th September, 2002, Prudential was second in the regular premium market in Singapore and achieved the highest total annual premium equivalent insurance sales in Malaysia. Annual premium equivalents are calculated as the aggregate of regular new business premiums and one-tenth of single new business premiums.

For the year ending 31st December 2002, total revenue premiums from long-term insurance business and contributions from investment products were £1,896 million and £13,661 million, respectively.

The acquisitions of YoungPoong Life in Korea and Orico Life in Japan were completed in 2001 and the businesses have been integrated into the Asian business. In June 2002, Prudential acquired ING's life insurance operation in the Philippines and in October 2002 Prudential acquired Good Morning Investment Trust Management Company, a fund management company, in Korea.

Europe

A strategic review of the Prudential and Scottish Amicable branded long-term business in continental Europe concluded that investment in the German and French markets would be unlikely to meet return on capital targets.

Consequently, in November 2002 Prudential agreed to sell its German life business to Canada Life Financial Corporation ("Canada Life") for €129 (£82) million. The sale was completed on 1st January, 2003. Irish High Court approval for the transfer of the relevant life assurance policies to Canada Life is expected early in the second half of 2003.

For the year ending 31st December, 2002, total revenue premiums from European business were £240 million.

Contingencies and Related Obligations

Consistent with FRS 12, "Provisions, contingent liabilities and contingent assets", provisions of £1,921 million have been made in the financial statements where Prudential has an obligation arising from the events or activities described below but not for contingent liabilities.

Litigation

JNL has been named in civil proceedings, which appear to be substantially similar to other class action litigation brought against many life insurers, alleging misconduct in the sale of insurance products. At this time, it is not possible to make a meaningful estimate of the amount or range of loss, if any, that could result from an unfavourable outcome in such actions. In addition, JNL is a defendant in individual actions that involve similar issues. Several cases, including one which was on appeal to the Supreme Court in the State of Mississippi, were settled in January 2002 for a sum of £7 million.

Prudential and its subsidiaries are involved in other litigation arising in the ordinary course of business including competing trademark claims with Prudential Insurance Company of America in various jurisdictions around the world.

Whilst the outcome of such matters cannot be predicted with certainty, management believes that the ultimate outcome of such litigation will not have a material adverse effect on Prudential's financial condition, results of operations or cash flows.

Pension Mis-selling Review

In 1988, the U.K. government introduced new pensions legislation intended to encourage more individuals to make their own arrangements for their pensions. During the period from April 1988 to June 1994, many individuals were advised by insurance companies, Independent Financial Advisers and other intermediaries to not join, to transfer from or to opt out of their occupational pension schemes in favour of private pension products introduced under the Income and Corporation Taxes Act 1988. The U.K. insurance regulator (previously the Personal Investment Authority, now the Financial Services Authority, "FSA") subsequently determined that many individuals were incorrectly advised and would have been better off not purchasing the private pension products sold to them. Industry participants are responsible for compensating the persons to whom private pensions were mis-sold. As a result, the FSA required that all U.K. life insurance companies review their potential cases of pension mis-selling and pay compensation to policyholders where necessary and, as a consequence, record a provision for the estimated costs. Prudential has met the requirement of the FSA to issue offers to all Phase 1 (priority) cases and Phase 2 (non-priority) cases by 30th June, 2002.

Provisions in respect of the costs associated with the review have been included in the change in the long-term technical provision in Prudential's profit and loss account. Within the long-term technical account, part of Prudential's profit and loss account, the transfer from the fund for future appropriations has been determined accordingly. The following is a summary of the changes in the pension mis-selling provision, including internal and external legal and administrative costs, for the years ended 31st December 2002 and 31st December 2001:

	2002 (In £ Millions)	2001
Balance at start of the year	1,065	1,475
Changes to actuarial assumptions and method of calculation	(50)	(89)
Discount unwind	53	89
Redress to policyholders	(292)	(273)
Payments of administrative costs	(46)	(137)
Balance at end of the year	<u>730</u>	<u>1,065</u>

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

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

The calculation of the pensions mis-selling provision is dependent upon a number of assumptions and requirements provided by the FSA. The costs associated with the pensions mis-selling review have been met from Prudential Assurance's inherited estate. Given the strength of Prudential Assurance's with-profits fund, management believes that charging the costs to the inherited estate will not have an adverse effect on the level of bonuses paid to policyholders or on their reasonable expectations. In the unlikely event of this proving not to be the case, an appropriate contribution to the with-profits fund would be made from the shareholders' funds. In view of the uncertainty, it is not practicable to estimate the level of any potential contribution.

Free Standing Additional Voluntary Contribution Business Review

In February 2000, the FSA 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 investing their money, and any matching contributions from their employers, in their company's AVC scheme. The FSA'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 with an offer to review their individual case. Prudential met an interim deadline set by the FSA of 90% of cases completed by 30th June, 2002 and also the deadline for 100% completion by 31st December, 2002. As a result of the review, Prudential held a provision of £3 million as of 31st December, 2002.

Mortgage Endowment Products Review

Prudential's main exposure to mortgage endowment products is through Scottish Amicable. The FSA issued a report in March 2001 raising concerns regarding Scottish Amicable's conduct of sales of these products by its tied agents and in March 2003 it fined Scottish Amicable £750,000 in respect of cases where advisers did not place appropriate emphasis on identifying whether a customer was prepared to take the risk that their mortgage might not be repaid at the end of the term. A provision of £25 million was made in 2001 in the shareholders' fund for cases that may require redress, which the directors are satisfied continues to be adequate. Scottish Amicable withdrew from the mortgage endowment product market in April 2001 and disbanded its network of tied agents in October 2001.

Guaranteed Annuities

In common with several other insurance companies, Prudential Assurance used to sell guaranteed annuity products in the U.K. and held a provision of £46 million at 31st December, 2002 within the main with-profits fund to honour guarantees on these products. Prudential's main exposure to guaranteed annuities in the U.K. is through the Scottish Amicable Insurance Fund ("SAIF") and a provision of £744 million was held in SAIF at 31st December, 2002 to honour the guarantees. SAIF is a separate sub-fund of the Prudential Assurance long-term business fund. Accordingly, this provision has no impact on shareholders.

Guarantees and Commitments

Guarantee funds in both the U.K. and the U.S. provide for payments to be made to policyholders on behalf of insolvent life insurance companies. These guarantee funds are financed by payments assessed on solvent insurance companies based on location, volume, and types of business. Prudential estimated its reserves for future guarantee fund assessments for JNL to be £25 million at 31st December, 2002. Similar assessments for the U.K. businesses were not significant. Management believes the reserves are adequate for all anticipated payments for known insolvencies.

JNL has commitments for future payments related to equity index call options totalling £21 million, which are accounted for on a deferred basis and therefore were off-balance sheet at 31st December, 2002. These commitments were entered into the normal course of business to hedge obligations associated with the issuance of equity index-linked immediate and deferred annuities. The commitments are due over the next five years.

JNL has unfunded commitments related to its investments in limited partnerships totalling £300 million at 31st December, 2002. These commitments were entered into in the ordinary course of business and management does not expect a material adverse impact on the operations to arise from them.

Prudential has provided, from time to time, certain guarantees and commitments to third parties. These arrangements include commitments and guarantees to fund the purchase or development of

land and buildings and other commitments related to investments in land and buildings. At 31st December, 2002, the aggregate amount of commitments and guarantees in respect of land and buildings was approximately £27 million.

Prudential has provided, from time to time, other guarantees and commitments to third parties entered into in the normal course of business but management does not consider that the amounts involved are significant.

Other Matters

Prudential Assurance's Inherited Estate

The inherited estate is the assets of the main with-profits fund within the long-term fund of Prudential Assurance, less non-participating liabilities, 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. The inherited estate is thus the assets in the main with-profits fund in excess of what Prudential Assurance expects to pay to policyholders.

Prudential believes that it would be beneficial if there were to be greater clarity as to the status of the inherited estate. With that in mind, it has been considering the principles that would apply to any re-attribution of the inherited estate to either policyholders or shareholders. Discussions have been held with the FSA to this end. Prudential has not considered or discussed any actual distribution as its current expectation is that, for the foreseeable future, the entire inherited estate will need to be retained within the long-term fund to provide working capital. However, in the light of current market conditions, the amount and timing of any re-attribution of the estate remains very uncertain.

Support of Long-Term Business Funds From Shareholders' Funds

As a proprietary insurance company, Prudential is liable to meet its obligations to policyholders even if the assets of the long-term funds are insufficient to do so. The assets, represented by the fund for future appropriations, in excess of amounts expected to be paid for future final bonuses and related shareholder transfers ("excess assets") in the long-term funds 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 pensions mis-selling provision. In the unlikely circumstance that the depletion of the excess assets within the long-term fund was such that Prudential's ability to satisfy policyholders' reasonable expectations was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the long-term funds to provide financial support.

In 1997, the business of Scottish Amicable was transferred to Prudential Assurance. In effecting the transfer, a separate sub-fund, the SAIF, was established within Prudential Assurance's long-term business fund. This sub-fund contains all the with-profits business and all other pension business that was transferred. No new business has been or will be written in the sub-fund. The SAIF sub-fund is managed to ensure that all the invested assets of SAIF are distributed to SAIF policyholders over the lifetime of the SAIF policies.

Should the assets of SAIF be inadequate to meet the guaranteed benefit obligations to the policyholders of SAIF, the Prudential Assurance long-term fund would be liable to cover any such deficiency. At 31st December, 2002, the excess of SAIF assets over guaranteed benefits was £437 million. Due to the quality and diversity of the assets in SAIF, the aforementioned amount of the excess of assets over guaranteed benefits and the ability of Prudential to revise guaranteed benefits in case of an asset shortfall, Prudential believes that the probability of either the Prudential Assurance long-term fund or Prudential shareholders' funds having to contribute to SAIF is very remote.

Directors

The directors of Prudential, each of whose service address is Laurence Pountney Hill, London EC4R 0HH, their functions within Prudential and their principal outside activities of significance are as follows:

Chairman

David Clementi

Chairman. Non-executive director of Rio Tinto plc. From September 1997 to August 2002 he was Deputy Governor of the Bank of England. During this time, he served as a member of the Monetary Policy Committee and as a

non-executive director of the FSA. From 1975 to August 1997, he worked for Kleinwort Benson, latterly as Chief Executive.

Executive Directors

Jonathan Bloomer FCA	Director and Group Chief Executive. Non-executive director of Egg plc. Deputy Chairman of the Practitioner Panel of the FSA. Board Member of the Association of British Insurers.
Philip Broadley FCA	Director and Group Finance Director.
Clark Manning	Director. President and Chief Executive Officer of JNL.
Michael McLintock	Director. Chief Executive of M&G. Non-executive director of Close Brothers Group plc and CoFunds Holdings Limited.
Mark Tucker	Director. Chief Executive of Prudential Corporation Asia. Mr. Tucker will resign as a director of Prudential with effect from 30th June, 2003.
Mark Wood	Director. Chief Executive Prudential Assurance, U.K. and Europe. Non-executive director of European e-commerce technology company Lost Wax.

Non-Executive Directors

Bart Becht	Director. Chief Executive of Reckitt Benckiser plc.
Ann Burdus CBE	Director. Non-executive director of Next plc.
Roberto Mendoza	Director. Non-executive Chairman of Egg plc. Non-executive director of Reuters Group PLC, The BOC Group plc and Vitro SA. Founder Member of Integrated Finance Limited. Member of the World Bank – IFC Bank Advisory Group.
Kathleen O'Donovan	Director. Non-executive director of the Court of the Bank of England, EMI Group plc and Great Portland Estates P.L.C.
Rob Rowley	Director. Deputy Chairman of Cable & Wireless Public Limited Company. Non-executive director of Taylor Nelson Sofres plc and U.K. eUniversities Worldwide.
Sandy Stewart	Director. Chairman of Murray Extra Return Investment Trust plc and of the Scottish Amicable (supervisory) Board.

CAPITALISATION OF PRUDENTIAL PLC

The following table sets out Prudential's modified statutory basis consolidated shareholders' equity and indebtedness at 31st December, 2001 and at 31st December, 2002. The figures at 31st December, 2002 have been prepared using the same accounting policies as were used in the 2001 statutory accounts. The auditors' report on those accounts was not qualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

	<i>31st December, 2001 (audited) £m</i>	<i>31st December, 2002 (audited) £m</i>
Capital		
Called up Share Capital ⁽¹⁾	100	100
Total Shareholders' Equity	<u>3,950</u>	<u>3,668</u>
Indebtedness		
Finance borrowings – falling due within one year	87	420
Finance borrowings – due after more than one year	<u>2,065</u>	<u>2,032</u>
Total finance borrowings ⁽²⁾	2,152	2,452
Operating borrowings ⁽²⁾	<u>2,687</u>	<u>1,921</u>
Total indebtedness	<u><u>4,839</u></u>	<u><u>4,373</u></u>

Notes:

- (1) The authorised share capital of Prudential plc consists of 2,400 million ordinary shares of 5p each. At 31st December, 2002 2,001,662,348 shares were issued and fully paid.
- (2) Financing borrowings relate to borrowings which the Group considers form part of its core capital structure whilst operating borrowings are borrowings that arise in the normal course of business.
- (3) The borrowings referred to in note 2 above are secured, unsecured, guaranteed or unguaranteed as detailed and set out in the Notes to the Consolidated Borrowings table on page 38.
- (4) Total indebtedness at 31st December, 2002 includes amounts owed under finance leases and amounts owed by Jackson National Life under sale and repurchase arrangements. Comparative figures at 31st December, 2001 have been restated accordingly.
- (5) At 31st December, 2002, Prudential plc had contingent liabilities in respect of insurance and other agreements entered into in the normal course of business and in respect of litigation arising therefrom, as set out on pages 31 and 32, but the directors do not expect the outcome from these issues to have a material effect on the Group's financial position.
- (6) During the period from 1st January, 2003 to 30th April, 2003, total indebtedness increased by approximately £370 million. This increase related entirely to finance borrowings, the proceeds of which were being held on deposit as at 30th April.
- (7) Other than as disclosed above, there has been no material change in the capitalisation, indebtedness or contingent liabilities of the Group since 31st December, 2002. Modified statutory basis operating profits for the four months ended 30th April, 2003 were lower than for the equivalent period in 2002. The decrease largely relates to the U.S. and the U.K., due to the timing of the recognition of U.S. investment losses in 2002, the effect of falls in U.S. equity markets on net income from variable annuities and a significant reduction in the statutory transfer from the U.K. Life Fund to shareholders following U.K. bonus reductions.

CONSOLIDATED BORROWINGS OF PRUDENTIAL PLC

	Central borrowings (£ million)	Business operations (£ million)	Investment subsidiaries (£ million)	Total (£ million)
31st December, 2001 (audited)				
Finance borrowings				
U.S.\$250 million 7.125% Bonds 2005	172			172
£150 million 9.375% Guaranteed Bonds 2007	150			150
£250 million 5.5% Bonds 2009	250			250
€500 million 5.75% Subordinated Notes 2021	301			301
£300 million 6.875% Bonds 2023	300			300
U.S.\$250 million 8.15% Surplus Notes 2027		172		172
£250 million 5.875% Bonds 2029	250			250
£435 million 6.125% Subordinated Notes 2031	425			425
Commercial paper 2002	87			87
Floating Rate Guaranteed Unsecured Loan Notes 2004	45			45
Total financing borrowings	1,980	172	0	2,152
Operating borrowings				
Non-recourse borrowings issued by investment subsidiaries managed by PPM America			530	530
Obligations of Jackson National Life under sale and repurchase arrangements		577		577
£125 million 6.875% Subordinated Notes 2021		124		124
£100 million 8.5% undated subordinated Guaranteed Bonds		100		100
Commercial paper 2002		1,330		1,330
Obligations under finance leases		5		5
Bank loans and overdrafts repayable on demand		21		21
Total operating borrowings		2,157	530	2,687
Total borrowings	1,980	2,329	530	4,839
31st December, 2002 (audited)				
Finance borrowings				
U.S.\$250 million 7.125% Bonds 2005	155			155
£150 million 9.375% Guaranteed Bonds 2007	150			150
£250 million 5.5% Bonds 2009	250			250
€500 million 5.75% Subordinated Notes 2021	322			322
£300 million 6.875% Bonds 2023	300			300
U.S.\$250 million 8.15% Surplus Notes 2027		155		155
£250 million 5.875% Bonds 2029	250			250
£435 million 6.125% Subordinated Notes 2031	426			426
Commercial paper 2002	420			420
Floating Rate Guaranteed Unsecured Loan Notes 2004	41			41
Currency translation net asset on swap transaction	(17)			(17)
Total financing borrowings	2,297	155	0	2,452
Operating borrowings				
Non-recourse borrowings issued by investment subsidiaries managed by PPM America			365	365
£200 million 6.875% Subordinated Notes 2021		202		202
£100 million 8.5% undated subordinated Guaranteed Bonds		100		100
Commercial paper 2003		1,212		1,212
Medium Term Notes 2003		25		25
Bank loans and overdrafts repayable on demand		1		1
Obligations under finance leases		3		3
Currency translation net liability on swap transactions		13		13
Total operating borrowings	0	1,556	365	1,921
Total borrowings	2,297	1,711	365	4,373

Notes on table of borrowings:

1. Financing borrowings are borrowings which the Group considers form part of its core capital structure whilst operating borrowings are borrowings that arise in the normal course of business.
2. All borrowings shown in the tables on page 37 are unsecured with the exception of certain non-recourse borrowings issued by investment subsidiaries managed by PPM America which are secured as described in note 8 below.
3. References to "US\$" and "€" are to the currency of the United States of America and the Euro respectively. Borrowings denominated in U.S.\$ and € have been translated at US\$1.4554 and €1.6346 and US\$1.6099 and €1.5342 to £1, being the exchange rates ruling at 31st December, 2001 and at 31st December, 2002 respectively.
4. The 9.375% Bonds 2007 and the Floating Rate Loan Notes 2004 have been issued by financing subsidiaries of the Group and are guaranteed by Prudential plc. The Notes were issued in 1999 as part of the acquisition consideration for the M&G Group.
5. The 5.75% Subordinated Notes 2021 and the 6.125% Subordinated Notes 2031 have been issued by Prudential plc and the interests of the holders of these notes are subordinate to the entitlements of Prudential plc's other creditors.
6. At 31st December, 2002, the €500 million borrowing had effectively been swapped into borrowings of £309 million with interest payable at 6 month sterling LIBOR plus 1.03%.
7. The Surplus Notes 2027 have been issued by Jackson National Life and the interests of the holders of these notes are subordinate to the present and future borrowings, policyholder claims and other creditor claims of Jackson National Life.
8. Non-recourse borrowings issued by investment subsidiaries managed by PPM America include secured senior and subordinated debt and a revolving credit facility. The senior debt is secured on the investments held by the relevant subsidiaries. The interests of the holders of the subordinated debt issued by these subsidiaries are subordinate to the entitlements of the holders of the senior debt. The terms of the revolving credit facility include a cross default provision with the subordinated notes. In addition to the debt of these subsidiaries, PPM America manages investment companies with liabilities of £1,353 million and £1,048 million at 31st December, 2001 and at 31st December, 2002 respectively, pertaining to debt instruments issued to external parties. In all instances the holders of the debt instruments issued by these subsidiaries and other companies do not have recourse beyond the assets of those subsidiaries.
9. The 6.875% Subordinated Notes 2021 have been issued by Egg plc as structured debt capital and the interests of the holders of these notes are subordinate to the entitlements of Egg plc's other creditors. In addition, Egg had issued unsubordinated debt securities totalling £915 million and £1,015 million and sold securities under agreements to repurchase of £384 million and £nil at 31st December, 2001 and at 31st December, 2002 respectively, as part of its trading activities.
10. The 8.5% undated subordinated Guaranteed Bonds have been issued by Scottish Amicable Finance plc, a subsidiary of the Scottish Amicable Insurance Fund of The Prudential Assurance Company Limited, and are guaranteed by that Fund. In addition, the interests of the holders of these bonds are subordinate to the entitlements of the policyholders of the Fund.
11. The commercial paper borrowings and Medium Term Notes included within operating borrowings support a short-term fixed income securities reinvestment program.

Other borrowings related matters:

- (a) Jackson National Life has entered into a programme of funding arrangements under contracts, which, in substance, are almost identical to Guaranteed Investment Contracts. Liabilities under these arrangements were £3,144 million and £3,554 million at 31st December, 2001 and at 31st December 2002, respectively. In addition, it has entered into obligations under stocklending agreements of £559 million and £1,544 million at 31st December, 2001 and at 31st December, 2002 respectively.
- (b) Jackson Federal Savings Bank, a subsidiary of Jackson National Life, had bank borrowings of £244 million and £239 million at 31st December, 2001 and at 31st December, 2002 respectively, secured by mortgage loans and mortgage backed securities.
- (c) The Group's U.K. and European insurance operations had obligations under financial reinsurance agreements of £189 million and £186 million at 31st December, 2001 and at 31st December, 2002 respectively.

SUMMARY FINANCIAL INFORMATION

The following summary achieved profits basis information and summary financial statement have been extracted from the Issuer's Annual Review and Summary Financial Statement 2002.

Achieved Profits Basis – Summary Results and Balance Sheet

year ended 31st December, 2002

	2002 £m	2001 £m
Summary Consolidated Profit and Loss Account		
Operating profit from continuing operations	1,133	1,114
Discontinued U.K. general business operations	–	72
Operating profit before amortisation of goodwill	1,133	1,186
Amortisation of goodwill	(98)	(95)
Short-term fluctuations in investment returns	(1,406)	(1,402)
Effect of change in economic assumptions	(467)	(482)
Merger break fee (net of related expenses)	–	338
Profit on sale of U.K. general business operations	355	–
Loss on ordinary activities before tax	(483)	(455)
Tax	329	213
Loss for the year before minority interests	(154)	(242)
Minority interests	9	25
Loss for the year after minority interests	(145)	(217)
Dividends	(519)	(504)
Retained loss for the year	(664)	(721)
Earnings per share based on operating profit	42.8p	41.9p
Earnings per share based on loss for the year	(7.3)p	(11.0)p
Average number of shares	1,988m	1,978m
Dividend per share	26.0p	25.4p
Movement in Consolidated Shareholders' Capital and Reserves	2002 £m	2001 £m
Loss for the year after minority interests	(145)	(217)
Exchange movements	(330)	53
New share capital subscribed	40	42
Dividends	(519)	(504)
Net decrease in shareholders' capital and reserves	(954)	(626)
Shareholders' capital and reserves at beginning of year	8,150	8,776
Shareholders' capital and reserves at end of year	7,196	8,150
Summary Consolidated Balance Sheet	2002 £m	2001 £m
Total assets less liabilities, excluding insurance funds	126,325	133,365
Less insurance funds		
Technical provisions, net of reinsurers' share	114,994	116,213
Fund for future appropriations	7,663	13,202
Less shareholders' accrued interest in the long-term business	(3,528)	(4,200)
	119,129	125,215
Achieved profits basis net assets	7,196	8,150
Share capital	100	100
Share premium	550	533
Statutory basis retained profit	3,018	3,317
Additional achieved profits basis retained profit	3,528	4,200
Achieved profits basis capital and reserves	7,196	8,150

* Operating profit includes investment returns at the expected long-term rate of return but excludes amortisation of goodwill and the profit on sale of U.K. general business operations. The directors believe that operating profit, as adjusted for these items, better reflects underlying performance. Profit on ordinary activities includes these items together with actual investment returns. This basis of presentation has been adopted consistently throughout this Summary Financial Statement.

Achieved Profits Basis – Operating Profit Before Amortisation of Goodwill

year ended 31st December, 2002

	2002 £m	2001 £m
Results analysis by Business Area		
U.K. Operations		
New business	222	243
Business in force	304	377
	<hr/>	<hr/>
Long-term business	526	620
M&G	71	75
Egg	(20)	(88)
	<hr/>	<hr/>
Total	577	607
	<hr/>	<hr/>
U.S. Operations		
New business	234	167
Business in force	17	136
	<hr/>	<hr/>
Long-term business	251	303
Broker dealer and fund management	14	16
	<hr/>	<hr/>
Total	265	319
	<hr/>	<hr/>
Prudential Asia		
New business	307	255
Business in force	209	160
	<hr/>	<hr/>
Long-term business	516	415
Development expenses	(26)	(19)
	<hr/>	<hr/>
Total	490	396
	<hr/>	<hr/>
Prudential Europe		
New business	11	8
Business in force	3	0
	<hr/>	<hr/>
Long-term business	14	8
Development expenses	(8)	(29)
	<hr/>	<hr/>
Total	6	(21)
	<hr/>	<hr/>
Other income and expenditure		
Investment return and other income	3	51
Interest payable on core structural borrowings	(130)	(118)
Corporate expenditure:		
Group Head Office	(36)	(39)
Asia Regional Head Office	(26)	(24)
	<hr/>	<hr/>
Total	(189)	(130)
	<hr/>	<hr/>
U.K. re-engineering costs	1,149	1,171
	<hr/>	<hr/>
Operating profit from continuing operations before amortisation of goodwill	1,133	1,114
	<hr/>	<hr/>
Analysed as profits (losses) from:		
New business	774	673
Business in force	533	673
	<hr/>	<hr/>
Long-term business	1,307	1,346
Prudential Asia and Europe development expenses	(34)	(48)
Other operating results	(124)	(127)
U.K. re-engineering costs	(16)	(57)
	<hr/>	<hr/>
Total	1,133	1,114
	<hr/>	<hr/>

* Comprising £14 million (£41 million) recognised on the statutory basis and £2 million (£16 million) for the shareholders' share of costs borne by the main with-profits fund attributed to shareholders on the achieved profits basis.

Insurance New Business Premiums and Investment Product Contributions

year ended 31st December, 2002

	<i>Single</i>		<i>Regular</i>		<i>Annual premium equivalents</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Insurance Premiums						
U.K. Insurance Operations						
Direct distribution						
Individual pensions	15	14	11	15	12	16
Corporate pensions	660	469	114	131	180	178
Life	59	71	4	4	10	11
Individual annuities	895	663	–	–	90	66
Department of Social Security rebate business	215	185	–	–	22	19
Total	1,844	1,402	129	150	314	290
Intermediated distribution						
Individual pensions	85	219	34	68	42	90
Corporate pensions	77	82	14	19	22	27
Life	2,190	2,297	18	27	237	257
Individual annuities	860	597	–	–	86	60
Bulk annuities	710	575	–	–	71	57
Department of Social Security rebate business	90	64	–	–	9	6
Total	4,012	3,834	66	114	467	497
Closed direct sales force distribution	–	167	–	18	–	35
Total U.K. Insurance Operations	5,856	5,403	195	282	781	822
U.S. Operations						
Fixed annuities	2,708	1,899	–	–	271	190
Equity linked indexed annuities	254	271	–	–	25	27
Variable annuities	1,363	768	–	–	136	77
Guaranteed Investment Contacts	292	170	–	–	29	17
GIC – Medium Term Notes	1,118	1,504	–	–	112	150
Life	–	–	22	22	22	22
Total	5,735	4,612	22	22	595	483
Prudential Asia	479	650	465	369	513	434
Prudential Europe	42	58	25	20	29	26
Group Total	12,112	10,723	707	693	1,918	1,765

Annual premium equivalents are calculated as the aggregate of regular new business premiums and one tenth of single new business premiums.

Single new business insurance premiums include increments under existing group pension schemes and pensions vested into annuity contracts (at the annuity purchase price). Regular new business premiums are determined on an annualised basis.

Investment Products – Funds Under Management (FUM)

	<i>FUM</i>				<i>Market</i>	<i>FUM</i>
	<i>1st January,</i>	<i>Gross</i>	<i>Redemptions</i>	<i>Acquisitions</i>	<i>and other 31st December,</i>	<i>2002</i>
	<i>2002</i>	<i>inflows</i>			<i>movements</i>	
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
U.K. Operations	10,328	1,157	(899)	–	(1,997)	8,589
Prudential Asia	3,296	13,661	(12,558)	1,110	(277)	5,232
Group total	13,624	14,818	(13,457)	1,110	(2,274)	13,821

Statutory Basis – Summary Consolidated Profit and Loss Account
year ended 31st December, 2002

	2002 £m	2001 £m
Gross Premiums Written		
Long-term business	16,669	15,196
Investment products	14,818	10,067
Discontinued general business	329	390
Total	31,816	25,653
Profit and Loss Account		
Balance on the general business technical account	–	72
Balance on the long-term business technical account before tax	556	677
Profit on insurance activities	556	749
Other activities		
Investment income and gains	66	37
Investment return allocated to the technical accounts	(207)	(422)
Investment expenses and charges	(191)	(162)
U.K. investment management and products results	71	75
U.S. broker dealer and fund management results	14	16
Merger break fee (net of related expenses)	–	338
Profit on sale of U.K. general business operations	355	–
Corporate expenditure	(62)	(63)
U.K. banking business result	(20)	(88)
Amortisation of goodwill	(98)	(95)
Loss on other activities	(72)	(364)
Profit on ordinary activities before tax	484	385
Tax on profit on ordinary activities	(44)	(21)
Profit for the year before minority interests	440	364
Minority interests	9	25
Profit for the year after minority interests	449	389
Dividends:		
Interim at 8.9p (8.7p) per share	(178)	(172)
Final at 17.1p (16.7p) per share	(341)	(332)
Total dividends	(519)	(504)
Retained loss for the year	(70)	(115)
Earnings per share based on operating profit	15.8p	23.3p
Earnings per share based on profit for the year	22.6p	19.7p
Dividend per share	26.0p	25.4p
Movement in Shareholders' Capital and Reserves		
Profit for the year after minority interests	449	389
Exchange movements	(252)	52
New share capital subscribed	40	42
Dividends	(519)	(504)
Net decrease in shareholders' capital and reserves	(282)	(21)
Shareholders' capital and reserves at beginning of year	3,950	3,971
Shareholders' capital and reserves at end of year	3,668	3,950

The total emoluments of the directors were £6,153,000 (£5,737,000).

Statutory Basis – Operating Profit Before Amortisation of Goodwill
year ended 31st December, 2002

	2002	2001
	£m	£m
Results Analysis by Business Area		
U.K. Insurance Operations	368	435
M&G	71	75
Egg	(20)	(88)
Total U.K. Operations	419	422
U.S. Operations	153	298
Prudential Asia	88	44
Prudential Europe	9	5
Asia and Europe development expenses	(34)	(48)
Other income and expenditure	(189)	(130)
U.K. re-engineering costs	(14)	(41)
Operating profit from continuing operations before amortisation of goodwill	432	550
Reconciliation of Operating Profit Before Amortisation of Goodwill to Profit on Ordinary Activities	2002	2001
	£m	£m
Continuing operations	432	550
Discontinued U.K. general business operations	–	72
Operating profit before amortisation of goodwill based on long-term investment returns	432	622
Amortisation of goodwill	(98)	(95)
Short-term fluctuations in investment returns	(205)	(480)
Merger break fee (net of related expenses)	–	338
Profit on sale of U.K. general business operations	355	–
Profit on ordinary activities before tax	484	385
Analysis of Borrowings	2002	2001
	£m	£m
Net core structural borrowings of shareholder financed operations	2,226	2,133
Add back holding company cash and short-term investments	226	19
Core structural borrowings of shareholder financed operations	2,452	2,152
Commercial paper and other borrowings to support short-term fixed income securities reinvestment programme	1,241	1,330
Non-recourse borrowings of investment subsidiaries managed by PPM America	365	530
Egg debenture loans	202	124
Debenture loan of operations financed by with-profit operations	100	100
Obligations of Jackson National Life under sale and repurchase agreements	0	577
Other borrowings	13	26
Total borrowings	4,373	4,839
Recorded in the statutory basis summary consolidated balance sheet below as:		
Debenture loans	2,293	2,244
Other borrowings	2,080	2,595
	4,373	4,839

Statutory Basis – Summary Consolidated Balance Sheet
year ended 31st December, 2002

	2002 £m	2001 £m
Assets		
Intangible assets – goodwill	1,604	1,687
Investments:		
Land and buildings	10,766	10,487
Equities	30,007	40,948
Fixed income securities	63,200	59,181
Deposits with credit institutions	5,840	4,176
Other investments (principally mortgages and loans)	5,325	5,110
	<u>115,138</u>	<u>119,902</u>
Assets held to cover linked liabilities	15,763	17,453
Reinsurers' share of technical provisions	1,243	1,303
Debtors	866	978
Banking business assets	11,502	8,972
Other assets	1,576	2,002
Prepayments and accrued income	4,469	4,472
Total assets	<u>152,161</u>	<u>156,769</u>
	2002 £m	2001 £m
Liabilities		
Capital and reserves:		
Share capital	100	100
Share premium	550	533
Statutory basis retained profit	3,018	3,317
	<u>3,668</u>	<u>3,950</u>
Shareholders' capital and reserves	3,668	3,950
Minority interests	108	118
Fund for future appropriations	7,663	13,202
Technical provisions	100,230	99,733
Technical provisions for linked liabilities	16,007	17,783
Provision for other risks and charges – deferred tax	696	2,005
Debenture loans	2,293	2,244
Other borrowings	2,080	2,595
Obligations of Jackson National Life under funding and stock lending arrangements	5,098	3,703
Banking business liabilities	10,784	8,333
Other creditors	3,534	3,103
Total liabilities	<u>152,161</u>	<u>156,769</u>

U.K. TAX CONSEQUENCES AND EU SAVINGS DIRECTIVE

The comments below are of a general nature and are based on our understanding of current United Kingdom law and practice relating to the withholding or deduction for or on account of United Kingdom income tax from interest on the Capital Securities. They relate only to the position of persons who are the absolute beneficial owners of the Capital Securities and may not apply to certain classes of such owners, such as dealers. They assume that the owners of the Capital Securities are not resident or ordinarily resident in the United Kingdom for tax purposes or carrying on a trade in the United Kingdom through a branch or agency or, for accounting periods commencing on or after 1st January, 2003, a permanent establishment (assuming that the changes contained in the Finance Bill published on 14th April, 2003 concerning the taxation of U.K. branches of foreign companies are enacted without amendment) to which the Capital Securities are attributable or any interest received thereunder is connected.

Payments of interest made in respect of the Capital Securities will not be subject to withholding or deduction on account of U.K. tax as long as the Capital Securities are and remain at all times listed on a "recognised stock exchange" within the meaning of section 841 of the Income and Corporation Taxes Act 1988. In all other cases an amount must be withheld on account of U.K. income tax at the lower rate (currently 20%) subject to any prior direction to the contrary under a double tax treaty and subject to any entitlement to pay gross under U.K. law (for example to owners of Capital Securities within the charge to U.K. corporation tax).

On 3rd June, 2003, the European Council of Economics and Finance Ministers ("ECOFIN") agreed on proposals under which Member States will be required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that, for a transitional period only, Belgium, Luxembourg and Austria will instead be required to operate a withholding system in relation to such payments (the ending of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The Directive is required to be implemented into the national laws of Member States from 1st January, 2004 and it is anticipated that the proposals will take effect from 1st January, 2005.

SUBSCRIPTION AND SALE

Under a subscription agreement entered into with the Issuer on 18th June, 2003 (the “Subscription Agreement”), Citigroup Global Markets Limited, Goldman Sachs International, UBS Limited, BNP Paribas, HSBC Bank plc, The Royal Bank of Scotland plc, Bank of China (Hong Kong), Cazenove & Co. Ltd and Standard Chartered Bank (the “Managers”) have agreed to subscribe and procure subscribers for the Capital Securities at the issue price of 100 per cent. of their principal amount. The Issuer has agreed to pay to the Managers a commission in respect of underwriting services of 2.00 per cent. of the principal amount of the Capital Securities. The Subscription Agreement is subject to termination in certain circumstances prior to payment to the Issuer.

United States of America

The Capital Securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Capital Securities are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver Capital Securities (i) as part of their distribution at any time, or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement), within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Capital Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of Capital Securities within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Capital Securities within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each of the Managers has represented and agreed that:

- (i) it has not offered or sold and, prior to admission of the securities to listing in accordance with Part VI of the Financial Services and Markets Act 2000 (the “FSMA”), will not offer or sell any Capital Securities to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended, or the FSMA;
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Capital Securities in, from or otherwise involving the United Kingdom; and
- (iii) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Capital Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer.

Singapore

Each Manager acknowledges that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has severally represented and agreed that it will not offer or sell the Capital Securities, nor will it make the Capital Securities the subject of an invitation for subscription or purchase, nor will it circulate or distribute this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Capital Securities, whether directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor or other person specified

in Section 274 of the Securities and Futures Act 2001 of Singapore (the “Singapore Securities and Futures Act”), (b) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the Singapore Securities and Futures Act or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the Singapore Securities and Futures Act.

Hong Kong

Each Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Capital Securities other than (i) to persons whose ordinary business it is to buy or sell shares or debentures (whether as principal or agent) or (ii) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong; and
- (b) unless it is a person permitted to do so under the securities laws of Hong Kong, it has not issued, or had in its possession and will not issue, or have in its possession for the purposes of issue, any advertisement, invitation or document relating to the Capital Securities other than with respect to Capital Securities intended to be disposed of to persons outside Hong Kong or to be disposed of in Hong Kong only to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent.

No action has been or will be taken in any country or any jurisdiction by the Managers or the Issuer that would permit a public offering of the Capital Securities, or possession or distribution of this Offering Circular or any other offering or publicity material relating to the Capital Securities, in any country or jurisdiction where action for that purpose is required. Each Manager has agreed to comply, to the best of its knowledge and belief, with all applicable laws and regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Capital Securities or has in its possession or distributed this Offering Circular or any such other material relating to the Capital Securities, in all cases at its own expense.

GENERAL INFORMATION

1. The issue of the Capital Securities was duly authorised by a resolution of the Board of Directors of the Issuer dated 8th May, 2003 and resolutions of a Committee of the Board of Directors of the Issuer dated 5th June and 11th June, 2003.
2. The listing of the Capital Securities on the Official List will be expressed as a percentage of their principal amount (excluding accrued interest). It is expected that official listing will be granted on or about 23rd June, 2003 subject only to issue of the Temporary Global Capital Security. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules.
3. The Capital Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 017048899. The ISIN for the Capital Securities is XS0170488992.
4. Copies of the following documents will, when published, be available for 14 days from the date of this Offering Circular during normal business hours from the offices of Slaughter and May of One Bunhill Row, London EC1Y 8YY:
 - (i) the Memorandum and Articles of Association of the Issuer;
 - (ii) the consolidated and non consolidated audited financial statements of the Issuer in respect of the financial years ended 31st December, 2001 and 31st December, 2002;
 - (iii) the Subscription Agreement; and
 - (iv) the Trust Deed (which contains the form of the Capital Securities), the Agency Agreement and the Calculation Agency Agreement in draft form and following the Closing Date in final form.
5. As previously indicated, compared to 2002, the modified statutory basis operating profits for the year ending 31st December, 2003 are expected to be affected by a lower statutory transfer from the U.K. Life Fund, the impact of movements in U.S. equity markets on earnings from variable annuity business in the U.S., and continuing investment in the Group's businesses in Asia.
6. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or the Group, and there has been no material adverse change in the financial position or prospects of the Issuer or the Group since 31st December, 2002.
7. The Issuer is not involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer and its subsidiaries as a whole.
8. The auditors of the Issuer are KPMG Audit Plc, Chartered Accountants & Registered Auditors of 1 Canada Square, Canary Wharf, London E14 5AG, have audited the Issuer's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for the three financial years ended on 31st December, 2002.
9. The Trust Deed will provide that any certificate or report called for by, or provided by, the Auditors (as defined in the Trust Deed) or any other expert in accordance with or for the purposes of the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts stated therein notwithstanding that any such certificate or report and/or any engagement letter or other document entered into by the Trustee and the Auditors or such other expert in connection therewith contains a monetary or other limit on the liability of the Auditors or such other expert.

Auditors

The auditors of the Issuer are KPMG Audit plc, who have audited the Issuer's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for each of the three financial years ended on 31st December, 2002.

The audit report in respect of the financial year ended 31st December, 2002 stated that the report, including the opinion, was prepared for and only for the Issuer's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose and that the auditors did not, in giving the audit opinion, accept or assume responsibility for any other purpose or to any other person to whom the report was shown or into whose hands the report came except where expressly agreed with the auditor's prior consent in writing.

The above was recommended in recent guidance issued by the Institute of Chartered Accountants in England and Wales for inclusion in all Section 235 audit reports produced by audit firms.

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