Corporate governance

Compliance with the Corporate Governance Codes

UK Corporate Governance Code

Prudential plc has a premium listing on the London Stock Exchange and is subject to the UK Corporate Governance Code (the 'UK Code'). The UK Code was published by the Financial Reporting Council ('FRC') in May 2010 and is applicable to financial reporting periods beginning on or after 29 June 2010.

A copy of the UK Code can be viewed on the FRC's website www.frc.org.uk/corporate/ukcgcode.cfm

For the financial year ended 31 December 2011, the Board confirms that it has complied with the provisions of the UK Code.

Code on Corporate Governance Practices (Hong Kong)

Prudential plc also has a primary listing on the main board of the Stock Exchange of Hong Kong and is subject to the Code on Corporate Governance Practices (the 'HK Code') in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the 'Hong Kong Listing Rules').

The HK Code is issued by the Stock Exchange of Hong Kong and can be viewed on their website www.hkex.com.hk/eng/rulesreg/listrules/mbrules/documents/appendix_14.pdf

The Board confirms that it has also complied with the HK Code throughout the period other than in respect of the Terms of Reference of the Remuneration Committee as regards making recommendations to the Board in respect of the remuneration of the non-executive directors. It would be inconsistent with the principles of the UK Code for the Remuneration Committee to be involved in setting the fees of non-executive directors.

The principles of the UK and HK Codes (the 'Corporate Governance Codes') have been applied as set out below and in the Directors' remuneration report, which can be found on pages 134 to 157.

Leadership

Role of the Board

The Board is collectively responsible for the success of the Group and provides leadership within a framework of effective controls, enabling appropriate risk management. The Board is responsible for setting strategic objectives and for ensuring the Group is adequately placed and resourced to achieve those objectives, and for ensuring obligations to its shareholders, and wider stakeholders, are met in a manner consistent with its statutory duties.

The Board has approved a governance framework which maps out the internal approvals processes and those matters which may be delegated. These principally relate to the operational management of the Group's businesses and include pre-determined authority limits delegated by the Board to the Group Chief Executive for further delegation by him in respect of matters which are necessary for the effective day-to-day running and management of the businesses. The chief executive of each business unit has authority for the management of that business unit and has established a management board comprising its most senior executives.

The Board has Terms of Reference which specifically set out matters reserved for its decision. The Terms of Reference are regularly reviewed and enable the Board to exercise effective control over the Group's affairs. These include approval of the annual and interim results, strategy and corporate objectives, operating plans, significant transactions and matters affecting the Company's share capital. Under the internal governance framework, all business units are required to seek approval from the Board for matters above pre-determined authority limits.

The executive directors are responsible for running the business operations and the non-executive directors for bringing independent judgement and scrutiny.

The Board may exercise all powers conferred on it by the Articles of Association and the Companies Act 2006. This includes the powers of the Company to borrow money and to mortgage or charge any of its assets (subject to the limitations set out in the Companies Act 2006 and the Company's Articles of Association) and to give a guarantee, security or indemnity in respect of a debt or other obligation of the Company.

In performing its duties, the Board has direct access to the services of the Company Secretary who advises on corporate governance matters, Board procedures and compliance with applicable rules and regulations. Directors have the right to seek independent professional advice at the Company's expense and copies of such advice are circulated to other directors where applicable and appropriate.

In the ordinary course of business, Board and Committee papers are provided to the Directors approximately one week in advance of each meeting.

Chairman and Chief Executive

The roles of Chairman and Group Chief Executive are separate and clearly defined. The scope of these roles is approved and kept under regular review by the Board so that no individual has unfettered decision-making powers.

The Chairman is responsible for the leadership and governance of the Board and the Group Chief Executive for the management of the Group and the implementation of Board strategy and policy on the Board's behalf. In discharging his responsibilities, the Group Chief Executive is advised and assisted by the Group Executive Committee which comprises all the business unit heads and a Group Head Office team of functional specialists.

Senior Independent Director

Paul Manduca has been the Senior Independent Director throughout the year. The role includes maintaining contact with shareholders with a view to understanding their concerns and issues, as well as providing ongoing support to the Chairman and acting as an intermediary for the other non-executive directors if required. Paul is accessible to all stakeholders who have concerns and where contact through the normal channels may have failed or would be inappropriate.

The senior independent director is also responsible for leading the performance evaluation of the Chairman.

Corporate governance

Meetings

The Board held twelve meetings during 2011 and a separate strategy event. A detailed forward agenda has been in operation for a number of years. This is kept updated to reflect not only scheduled regular items of business but also any topical matters arising during the year.

At least one board meeting a year is usually held at a Group business operation in order to facilitate a fuller understanding of that business. In 2011, the Board held one meeting in Hong Kong and undertook two overseas visits, with board meetings in Nashville, USA and Hanoi, Vietnam. On each overseas visit, the directors met with senior members of the management teams in those countries and attended presentations on each of the businesses.

The table below details the number of Board and Committee meetings attended by each director during the year. Where directors were not able to attend a meeting, their views were canvassed by the Chairman prior to the meeting.

The Chairman met with the non-executive directors without the executive directors being present seven times during the year and the non-executive directors met once during the year without the presence of the Chairman. All directors in office at the time of the Annual General Meeting held on 19 May 2011 attended the AGM with the exception of Keki Dadiseth and Michael Garrett.

Meeting attendance for 2011

	Board Meetings[6]	Group Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings	Group Risk Committee Meetings
Number of meetings in a year	12	10	7	8	5
Chairman					
Harvey McGrath	11(12)	–	–	8(8)	–
Executive directors					
Tidjane Thiam	12(12)	–	–	–	–
Nic Nicandrou	12(12)	–	–	–	–
Rob Devey	12(12)	–	–	–	–
John Foley	12(12)	–	–	–	–
Michael McLintock	12(12)	–	–	–	–
Barry Stowe	12(12)	–	–	–	–
Mike Wells[4]	11(12)	–	–	–	–
Non-executive directors					
Keki Dadiseth[5]	9(12)	–	5(7)	–	–
Howard Davies	12(12)	10(10)	–	–	5(5)
Michael Garrett	12(12)	–	7(7)	–	–
Ann Godbehere	11(12)	10(10)	–	–	5(5)
Bridget Macaskill[1]	8(8)	–	5(5)	2(3)	–
Paul Manduca	12(12)	10(10)	7(7)	7(8)	–
Kathleen O'Donovan	11(12)	8(10)	–	7(8)	–
James Ross[2]	4(4)	–	–	2(2)	0(1)
Lord Turnbull[3]	12(12)	–	7(7)	6(6)	5(5)

Figures in brackets indicate the maximum number of meetings which the individual could have attended in the period in which they were a Board or Committee member.

Notes
1 Ceased to be Chairman of the Remuneration Committee and a member of the Nomination Committee on 14 June 2011, ceased to be a director on 30 September 2011.
2 Retired as a director and ceased to be a member of the Group Risk and Nomination Committees on 19 May 2011.
3 Appointed as Chairman of the Remuneration Committee and as a member of the Nomination Committee on 14 June 2011.
4 Was unable to attend one meeting due to a pre-existing commitment.
5 Was unable to attend certain of the meetings due to illness.
6 Two board meetings were unscheduled and called at short notice.

Effectiveness

Composition

At the date of this report, the Board comprised the Chairman, seven executive directors and nine independent non-executive directors.

On 1 January 2012, Kai Nargolwala and Alistair Johnston joined the board as non-executive directors. Kathleen O'Donovan will step down from the Board on 31 March 2012 after serving almost nine years, and Harvey McGrath, Chairman of the Board, has signalled his intention to retire once a suitable successor has been found.

John Foley and Mike Wells were appointed as executive directors on 1 January 2011. John became the Group Chief Risk Officer and Mike took over as President and Chief Executive Officer of Jackson National Life Insurance Company.

James Ross retired as a non-executive director at the conclusion of the 2011 Annual General Meeting on 19 May. He had been succeeded as the senior independent director by Paul Manduca on 1 January 2011. Bridget Macaskill stepped down as a director on 30 September 2011. She was succeeded as Chairman of the Remuneration Committee by Lord Turnbull on 14 June 2011. The biographies of all current directors are set out on pages 108 to 112.

The Board, or the members in a general meeting, may appoint directors up to a maximum total number of 20 as set out in the Company's Articles of Association. The removal and resignation of the Company's directors is governed by the relevant provisions of the Companies Act 2006, the UK and HK Codes and the Company's Articles of Association.

Terms of appointment for non-executive directors

Non-executive directors are usually appointed for an initial three-year term commencing with their election by shareholders at the first Annual General Meeting following their appointment by the Board. Each appointment is reviewed towards the end of the three-year term against performance and the requirements of the Group's businesses. The terms and conditions of all directors' appointments are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting.

Non-executive directors are typically expected to serve for two terms of three years from their initial election by shareholders although the Board may invite them to serve for an additional period. Directors serving a third term are subject to rigorous annual review.

Re-election

Directors appointed to the Board since the 2011 Annual General Meeting will stand for election for the first time and, in accordance with the provisions of the UK Code, all other directors will offer themselves for re-election at the Annual General Meeting to be held on 17 May 2012.

The Board believes that the non-executive directors bring a wide range of business, financial and international experience to the Board and its committees. The executive directors, who head up the main businesses of the Group, each bring an in-depth understanding to the Board of their particular business, its markets and its challenges, ensuring coverage of the breadth and depth of the Group's principal activities.

Succession planning

The Board is actively engaged in succession planning for both executive and non-executive roles to ensure that Board composition is regularly refreshed and that the Board retains its effectiveness at all times. This is delivered through an established review process that is applied across all businesses and covers both director and senior management succession and development and also through the work of the Nomination Committee as described more fully on page 122. The Board considers annually the outcome of the review and actions arising from the review are implemented as part of the management development agenda.

Gender diversity

The Company seeks, through its diversity policy, to encourage the recruitment and retention of talented women at all levels. Furthermore, the Board remains committed to inclusion in all its forms and believes that leading companies seek out, and not simply tolerate, diversity.

The inclusion of women extends to the plc Board and is an important consideration during searches for new Board members. Prudential embraces the proposition that more women on boards would be advantageous to companies as well as to society at large. We remain duty bound to recruit the best available talent, and although the Board does not endorse quotas, it does commit to having an increasing representation of women in senior positions in the Company and on the Board.

Independence

The independence of the non-executive directors is determined with reference to the UK and HK Codes. Prudential is required to affirm annually the independence of the non-executive directors under the Hong Kong Listing Rules and also the independence of its Audit Committee members under the Sarbanes-Oxley legislation. The Board has appropriate processes in place to manage any potential conflicts of interest.

Throughout the year the non-executive directors were considered by the Board to be independent in character and judgement and met the provisions for independence as set out in the UK and HK Codes. The Company has received confirmation of independence from each of the independent non-executive directors as required by the Hong Kong Listing Rules.

Corporate governance

Keki Dadiseth and Barry Stowe serve as non-executive directors of ICICI Prudential Life Insurance Company Limited, an Indian company which is owned 26 per cent by Prudential. In addition, Keki serves, at Prudential's request, as a non-executive director of ICICI Prudential Trust Limited, an Indian company which is owned 49 per cent by Prudential. The Board does not consider that these appointments in any way affect Keki's status as an independent director of Prudential.

Alistair Johnston was a partner in the Company's auditor, KPMG, from 1986 to 2010. However, he did not audit the Prudential Group and he no longer has any financial or other interest in KPMG. The Board does not consider that this former relationship with KPMG affects Alistair's status as an independent director of Prudential.

Prudential is one of the UK's largest institutional investors and the Board does not believe that this situation compromises the independence of those non-executive directors who are on the boards of companies in which the Group has a shareholding. The Board also believes that such shareholdings should not preclude the Company from having the most appropriate and highest calibre non-executive directors.

Induction and development

The Company Secretary supports the Chairman in providing tailored induction programmes for new directors and ongoing development for all directors. On appointment, all directors embark upon a wide-ranging induction programme covering, among other things, the principal bases of accounting for the Group's results, the role of the Board and its key committees and the ambit of the internal audit and risk management functions. In addition, they receive detailed briefings on the Group's principal businesses, its product range, the markets in which it operates and the overall competitive environment. Other areas addressed include the directors' obligations under the different listing regimes, legal issues affecting directors of financial services companies, the Group's governance arrangements and its investor relations programme as well as its remuneration policies.

Throughout their period in office directors are regularly updated on the Group's businesses and the regulatory and industry-specific environments in which it operates, as well as on their legal and other duties and obligations as directors where appropriate. These updates can be in the form of written reports to the Board, presentations by senior executives or by external advisers where appropriate. In order to enhance their knowledge and effectiveness throughout their term in office, non-executive directors serving on key committees are updated regularly on matters specific to the relevant committee and receive presentations from senior executives on topics of interest to them.

Ongoing professional development was undertaken by all directors during 2011. This included a number of sector-specific and business issues as well as legal, accounting and regulatory changes and developments. A number of business unit chief executive officers together with relevant senior executives gave presentations to the Board during the course of the year on the challenges and opportunities currently faced by their business unit. In addition, senior managers within certain head office functions presented to the Board on the key issues currently facing their function and directors received regular briefings on Solvency II. In addition, members of the Group Audit Committee have the option to attend meetings of the business unit audit committees to aid their understanding of topical matters of interest to them and how they are handled by the Group.

Performance evaluation

Prudential continued its programme of annual evaluation of the performance of the Board and its Committees in respect of 2011, in line with the requirements of the UK Code. The aim is to continue to improve the effectiveness of the Board and its Committees and enhance the Group's performance.

The review was carried out by an external evaluator, Dr Tracy Long of Boardroom Review, in consultation with the Chairman, the Senior Independent Director and the Group Chief Executive. Boardroom Review has no other connection with the Company. The findings of the review will be discussed by the Board in March and an action plan will be implemented during the year.

In addition, the performance of the non-executive directors and the Group Chief Executive is evaluated by the Chairman in individual meetings. The Chairman also leads the non-executive directors in a performance assessment of the executive directors and the Senior Independent Director leads the non-executive directors in a performance evaluation of the Chairman.

Executive directors are subject to regular review and the Group Chief Executive individually appraises the performance of each of the executive directors as part of the annual Group-wide performance evaluation of all staff.

Conflicts of interest

Directors have a statutory duty to avoid conflicts of interest with the Company. The Company's Articles of Association allow the directors to authorise conflicts of interest and the Board has adopted a policy and effective procedures on managing and, where appropriate, approving conflicts or potential conflicts of interest. Under these procedures directors are required to declare all directorships or other appointments to companies which are not part of the Group, as well as other situations which could result in conflicts or could give rise to a potential conflict. The Nomination Committee, or the Board where appropriate, evaluates and approves each such situation individually where applicable.

Directors' interests

Individual directors' interests are set out on page 147 of the Directors' Remuneration Report.

External appointments

Directors may hold directorships or other significant interests in companies outside the Group which may have business relationships with the Group.

Executive directors may accept external directorships and retain any fees earned from those directorships subject to prior discussion with the Group Chief Executive and always provided this does not lead to any conflicts of interest. In line with the UK Code, executive directors would be expected to hold no more than one non-executive directorship, nor the chairmanship, of a FTSE 100 company. Some of our executive directors hold directorships or trustee positions of unquoted companies or institutions. Details of any fees retained are included in the Directors' remuneration report on page 146 and major commitments of our executive directors are detailed in their biographies on pages 108 and 109.

Non-executive directors may serve on a number of other boards provided that they are able to demonstrate satisfactory time commitment to their role at Prudential and that they discuss any new appointment with the Chairman prior to accepting. This ensures that they do not compromise their independence and that any potential conflicts of interest and any possible issues arising out of the time commitments required by the new role can be identified and addressed appropriately. The major commitments of our non-executive directors are detailed in their biographies set out on pages 110 to 112.

The Board was satisfied that during 2011 the Chairman's other commitments did not hinder the day-to-day performance of his duties for the Group and that he had the commitment and capability to make himself available under unforeseen circumstances. The major commitments of the Chairman, including changes during the year where applicable, are detailed in his biography on page 108.

Directors' indemnities and protections

The Company has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the Prudential Group. In addition, the Articles of Association of the Company permit the directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office. Prudential also provides protections for directors and certain senior managers of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined where relevant by the Companies Act 2006) for the benefit of directors of Prudential plc and other such persons including, where applicable, in their capacity as directors of other companies within the Group. These indemnities were in force during 2011 and remain in force.

Accountability

Internal control and risk management

The Board has overall responsibility for the system of internal control and risk management and for reviewing its effectiveness. The framework setting out the Group's approach to internal control, risk management and corporate responsibility comprises the following:

Group governance framework: Documents the Group's internal control policies and processes in an online manual, including the Group's risk framework, code of business conduct and detailed policies on key operational and financial risks. Business units are also required to follow any additional processes necessary to comply with local statutory and regulatory requirements.

Group risk framework: Provides an overview of the Group-wide philosophy and approach to risk management and sets out the key risk management processes which support the Group's compliance with internal, statutory and regulatory requirements.

Corporate responsibility framework: Provides an overview of the Group-wide philosophy and approach to corporate responsibility; supports the Group's commercial focus and the increasing challenges faced including changes in stakeholder expectations. A key element is the Group Code of Business Conduct which sets out the ethical standards the Board requires of itself, employees, agents and others working on behalf of the Group, in their dealings with employees, customers, shareholders, suppliers, and competitors, in the wider community and in respect of the environment.

The Business Review provides further detail on Prudential's risk appetite and exposures on pages 80 to 90 and corporate responsibility activities on pages 95 to 106.

Further details on the procedures for the management of risk and the systems of internal control operated by the Group are given in the section on Risk Governance on pages 124 and 125. The governance framework principally relates to the operational management of the Group's businesses and includes pre-determined authority limits delegated by the Board in respect of matters which are necessary for the effective day-to-day running and management of the business. The Group Chief Executive has been delegated management authority by the Board and in turn grants authority to the executive, including the chief executive officers of each business unit who report to him for the management of that business unit. In addition, each of those chief executives has established a management board comprising the business unit's most senior executives.

Corporate governance

The system is regularly reviewed and complies with the UK and HK Codes. In complying with the UK Code, the Group follows the 2005 Turnbull Guidance relating to the sections of the Code dealing with risk management and internal control. The Board reviewed the effectiveness of the system of internal control in February 2012, covering all material controls, including financial, operational and compliance controls, risk management systems and the adequacy of the resources, qualifications and experience of staff of the issuer's accounting and financial reporting function. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and gives reasonable, but not absolute assurance. The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which has been in place throughout the period and up to the date of this report.

The chief executive and chief financial officer of each business unit, as well as the senior management in Group head office, annually certify compliance with the Group's governance, internal control and risk management requirements. The risk management function reviewed any matters identified by the certification process, and also assessed the risk and control issues that arose and were reported during the year. This included: routine and exception-based risk reporting; matters identified and reported by other Group head office oversight functions and the findings from the work of the internal audit function, which executes risk-based audit plans throughout the Group. The results were reported to and reviewed by the Group Audit Committee.

In line with the Turnbull guidance, the certification provided above does not apply to certain material joint ventures where the Group does not exercise full management control. In these cases, the Group satisfies itself that suitable governance and risk management arrangements are in place to protect the Group's interests. However, the relevant Group company which is party to the joint venture must, in respect of any services it provides in support of the joint venture, comply with the requirements of the Group's internal governance framework.

The internal control and risk management systems described above and also under the sections on Risk Governance on pages 124 and 125 and the Group Audit Committee on page 120, cover the Company's financial reporting process and the Group's process for the preparation of consolidated financial statements.

Committees

The Board has established audit, remuneration, nomination and risk committees as principal standing committees of the Board. Each committee has written terms of reference which are kept under regular review. These committees are key elements of the Group's corporate governance framework and reports on each committee are included below.

Prudential plc Board*
- Chairman
- Nine non-executive directors
- Seven executive directors

Group Audit Committee*
- Five non-executive directors

Nomination Committee*
- The Chairman and three non-executive directors

Group Risk Committee
- Four non-executive directors

Remuneration Committee
- Five non-executive directors

*As at 12 March 2012.
Kathleen O'Donovan will retire from the Board, the Group Audit Committee and the Nomination Committee on 31 March 2012.

Group Audit Committee report

The responsibilities of the Group Audit Committee (the 'Committee') and the activities it carried out during the year are set out below.

Role of the Committee

The Committee's principal responsibilities consist of oversight over financial reporting, the effectiveness of the internal control systems and monitoring auditor independence. Its duties include gaining assurance on the control over financial processes and the integrity of the Group's financial reports, monitoring the performance, objectivity and independence of the external auditor, and reviewing the work of the internal auditor.

Responsibilities

The Committee's principal business during the year consisted of the following:

- Monitoring the integrity of the financial statements, including the review of half- and full-year results, the annual report and accounts and other significant financial announcements and reviewing the critical accounting policies and key judgmental areas contained therein;
- Monitoring of the framework and effectiveness of the Group's systems of internal control, including the Turnbull compliance statement and Sarbanes-Oxley procedures;
- Monitoring auditor independence and the external auditor's plans and audit strategy, the effectiveness of the external audit process, the external auditor's qualifications, expertise and resources, and making recommendations for the re-appointment of the external auditor;
- Reviewing the internal audit plan and resources, and monitoring the audit framework and effectiveness of the internal audit function;
- Monitoring the effectiveness of compliance processes and controls, and performance against the Group Compliance Plan;
- Reviewing the anti-money laundering procedures in place, as well as the review of procedures operated for handling allegations from whistleblowers; and
- Reviewing the effectiveness of the business unit audit committees.

In performing its duties, the Committee has access to employees and their financial or other relevant expertise across the Group and to the services of the Group-wide Internal Audit Director and the Company Secretary. The Committee may also seek external professional advice at the Group's expense.

The Committee's terms of reference, which are approved by the Board and kept under regular review, are available on our website at www.prudential.co.uk/prudential-plc/aboutpru/corporategovernance/ Alternatively, copies may be obtained by writing to the Company Secretary at the registered office.

Membership

The Committee is comprised of independent non-executive directors as set out below:

- **Ann Godbehere (Chairman)**
- **Howard Davies**
- **Alistair Johnston (from 1 January 2012)**
- **Paul Manduca**
- **Kathleen O'Donovan (to 31 March 2012)**

The membership is selected to provide a broad set of financial, commercial and other experience relevant to meet the Committee's objectives.

The Board has determined that Ann Godbehere and Kathleen O'Donovan have recent and relevant financial experience in respect of the financial reporting period under review and for the purposes of the UK Code and the Hong Kong Listing Rules. In March 2011, the Board designated Ann Godbehere as its audit committee financial expert for Sarbanes-Oxley Act purposes. This will be reviewed during 2012 in conjunction with the publication of Form 20-F.

Full biographical details of the members of the Committee are set out in their biographies on pages 110 to 112.

Meetings

The Committee meets at least five times a year and gives consideration to the financial statements of the Group and the Group's system of internal control, as well as its internal and external audit providers.

By invitation, the Chairman of the Board, the Group Chief Executive, the Chief Financial Officer, the Group General Counsel and Company Secretary, the Group-wide Internal Audit Director, the Group Chief Risk Officer and other senior staff from the group finance, internal audit, risk, compliance and security functions attended some of the meetings to contribute to the discussions relating to their respective areas of expertise. The lead and other partners of the external auditor also attended the meetings.

During 2011, the Committee met on 10 occasions and details of Committee members' attendance is set out on page 114.

A detailed forward agenda has been in operation for a number of years and is reviewed and updated continually to ensure all matters for which the Committee is responsible are addressed at the appropriate time of year.

Corporate governance

The Committee also received in-depth presentations on a range of topics and received the minutes of both the Disclosure Committee and the Assumptions Approval Committee. Further information on the Disclosure Committee appears under the heading US corporate governance and regulations on page 128. The Assumptions Approval Committee reviews the economic assumptions to be used for EEV reporting, business planning, forecasting and the IAS19 valuation of the three UK defined benefit pension schemes.

The Committee Chairman reported to the Board on matters of particular significance after each meeting and the minutes were circulated to all Board members. The Committee regularly reviews its Terms of Reference, which were last refreshed and recommended to the Board for approval in December 2011.

The Committee recognises the need to meet without the presence of executive management. Such sessions were held with the external auditor in February and July 2011, and with the internal auditor in February and October 2011. At all other times management and auditors had open access to the Chairman and the Committee.

Financial reporting

As part of its review of financial statements prior to recommending their publication to the Board, the Committee focused on the critical accounting policies and practices, and any changes or decisions requiring a major element of judgement, unusual transactions, clarity of disclosures, significant audit adjustments (of which there were none in 2011), the going concern assumption, compliance with accounting standards, and compliance with obligations under applicable laws, regulations and governance codes.

In addition, the Committee is regularly briefed by management on developments in International Financial Reporting Standards.

Confidential reporting

One of the standing agenda items of the Committee is to review a report on the use of the confidential reporting procedures, which are available to employees to enable them to communicate confidentially, and anonymously if they so wish, on matters of concern and actions taken in response to these communications. No material control implications were raised through these procedures during the year.

Business unit audit committees

Each business unit has its own audit committee to provide oversight to the respective business unit and to assist the Committee in its oversight responsibilities for the Group. The members and chairmen are comprised primarily of senior management who are independent of the respective business unit. The minutes of these committees are reported regularly to the Committee and their meetings are attended by senior management of the respective business unit, including the business units' heads of finance, risk, compliance and Group-wide internal audit. Business unit audit committees have adopted standard terms of reference across the Group with minor variations to address local requirements or particular requirements of the business. The terms of reference of those committees were reviewed during the year and all include escalation of significant matters to the Committee, recommendations for approval of the business unit internal audit plans and overseeing the adequacy of internal audit resources. During the year the business unit audit committees reviewed their respective internal audit plans, resources and the results of internal audit work, and both external and internal auditors were able to discuss any relevant matters with the Chairman and members of the Committee as required.

Effectiveness of business unit audit committees

Group-wide Internal Audit has reviewed the effectiveness of each business unit audit committee using an established evaluation tool. The evaluation comprises an annual review questionnaire which is divided into specific areas for appraisal and a walk through of each committee's terms of reference, assessing whether these are appropriate for the business unit and if the committee has fulfilled its responsibilities under the terms. A memorandum summarising the findings of the review, as well as any action points, is compiled for each business unit audit committee.

The findings were reviewed by the Group-wide Internal Audit business unit audit director in conjunction with the Chairman and discussed by the respective business unit audit committees. In addition, the Chairman of each business unit audit committee has confirmed that, in their opinion, the current members have the appropriate balance of skills, knowledge and expertise to oversee the relevant business unit.

On completion of the review, Group-wide Internal Audit concluded that the overall arrangements for the business unit audit committees remained appropriate for the nature and purpose of each business unit and that each business unit audit committee continued to meet the responsibilities as set out in their respective terms of reference.

Internal control and risk management

The Committee reviewed the Group's statement on internal control systems prior to its endorsement by the Board.

Pursuant to the requirements of Section 404 of the Sarbanes-Oxley Act, the Group undertakes an annual assessment of the effectiveness of internal control over financial reporting. Further details are provided below.

Group-wide Internal Audit

The Committee regards its relationship with the internal audit function as pivotal to the effectiveness of its own activities. Group-wide Internal Audit plays an important role in supporting the Committee to fulfil its responsibilities under the UK and HK Codes, as well as the Sarbanes-Oxley Act, and provides independent assurance on the Company's processes of identification and control of risk. Each of the Group's business units has an internal audit team, the heads of which report to the Group-wide Internal Audit Director. Internal audit resources, plans and work are overseen by the Committee and by the business unit audit committees. Total approved internal audit headcount across the Group was 136 at 31 December 2011. The Group-wide Internal Audit Director reports functionally to the Committee and for management purposes to the Chief Financial Officer.

The Committee assesses the effectiveness of the internal audit function by means of regular reviews, some of which are carried out by external advisers, and through ongoing dialogue with the Group-wide Internal Audit Director. An external review of Group-wide internal audit arrangements and standards was undertaken in respect of the period 1 January 2010 to 31 March 2011, the findings of which were reported to the Committee in detail in July 2011. The purpose of the review was to ensure that the activities and resources of internal audit continue to be effectively organised to support the oversight responsibilities of the Committee. The review, performed by PwC, confirmed that Group-wide Internal Audit is 'Generally Conforming' with the Institute of Internal Auditors (IIA) International Standards, the highest classification available.

The Committee approved the Group-wide Internal Audit annual audit plan of assurance work to be undertaken during 2012.

External audit

The Committee has a key oversight role in relation to the external auditor, KPMG Audit Plc, whose primary relationship is with the Committee. The Group's Auditor Independence Policy ensures that the independence and objectivity of the external auditor is not impaired. The policy sets out four key principles which underpin the provision of non-audit services by the external auditor, namely that the auditor should not:

- audit its own firm's work,
- make management decisions for the Group,
- have a mutuality of financial interest with the Group, or
- be put in the role of advocate for the Group.

All services provided by the auditor under this policy are provided in accordance with a pre-approved budget and are reviewed by the Committee and approved where necessary. The Committee regularly reviews and updates the policy to ensure alignment with the latest standards and best practice in establishing, maintaining and monitoring auditor independence and objectivity.

Fees payable to the auditor

During the year ended 31 December 2011 the Committee approved fees of £13.3 million to its auditor, KPMG Audit Plc, for audit services and other services supplied pursuant to relevant legislation. In addition, the Committee approved fees of £2.9 million to KPMG for services not related to audit work which accounted for 18 per cent of total fees paid to the external auditor in the year. In accordance with the Group's Auditor Independence Policy, all services were approved prior to work commencing and each of the non-audit services was confirmed to be permissible for the external auditor to undertake as defined by the Sarbanes-Oxley Act. The Committee reviewed the non-audit services being provided to the Group by KPMG at regular intervals during 2011. A summary of fees payable to the auditor for the year ended 31 December 2011 is provided in Note I6 to the Group financial statements.

Auditor performance and independence

As part of its work during the year, the Committee assessed the performance of the external auditor, its independence and objectivity, and the effectiveness of the audit process. In addition to questioning the external auditor, which is a regular feature of meetings, the review of the effectiveness of the external audit process was conducted through a questionnaire-based exercise administered by Group-wide Internal Audit. The Committee reviewed the external audit strategy and received reports from the auditor on its own policies and procedures regarding independence and quality control, including an annual confirmation of its independence in line with industry standards.

Re-appointment of auditor

The Group operates a policy under which at least once every five years a formal review is undertaken by the Committee to assess whether the external audit should be re-tendered. The external audit was last put out to competitive tender in 1999 when the present auditor was appointed. Since 2005 the Committee has annually considered the need to re-tender the external audit service. It again considered this in February 2012 and concluded that there was nothing in the performance of the auditor requiring a change. In line with the Auditing Practices Board Ethical Statements and the Sarbanes-Oxley Act, the lead audit partner, who was appointed by KPMG Audit Plc in 2007, will be replaced by a new lead audit partner in respect of the 2012 financial year.

Following its review of the external auditor's effectiveness and independence, the Committee has recommended to the Board that KPMG Audit Plc be re-appointed as auditor of the Company and a resolution for the re-appointment of KPMG Audit Plc as auditor of the Company will be put to a shareholder vote at the Annual General Meeting on 17 May 2012.

Review of Committee effectiveness

As part of the performance evaluation of the Board, the Committee undertook an externally facilitated performance assessment of the qualitative aspects of its performance during the year. The results of this assessment will be reviewed by the Board in March 2012. In addition, an internal evaluation was carried out addressing compliance with various regulations and codes of conduct applicable to the Committee, and the results of that assessment were reported to the Committee in December 2011. The Committee is satisfied, taking into account the findings of the internal review, that it had been operating as an effective audit committee throughout the year. Further reviews of the effectiveness of the Committee will be undertaken regularly and will from time to time be conducted by external consultants.

Corporate governance

Nomination Committee report

The responsibilities of the Nomination Committee (the 'Committee') and the activities it carried out during the year are set out below.

Role of the Committee

The Committee in consultation with the Board, evaluates the balance of skills, knowledge and experience of the Board, taking into account the Group's business and with due regard for the benefits of diversity, including gender, identifies the roles and capabilities required to meet the demands of the business. Candidates are considered on merit against specific criteria and the Committee makes recommendations to the Board regarding suitable candidates for appointment to the Board.

The Committee also reviews the conflicts of interest or potential conflicts of interest raised by directors between Board meetings or for prospective new Board members. In cases where there might be an actual or potential conflict of interest the Committee has powers to authorise any such actual or potential conflict situation on behalf of the Board, imposing any terms and conditions it deems appropriate, or to make recommendations to the Board as to whether the conflict or potential conflict should be authorised and on what terms.

Responsibilities

The Committee's principal business during the year consisted of the following:

- Reviewing the size, structure and composition of the Board, including the skills, knowledge, experience and diversity of Board members, and making recommendations to the Board with regard to any changes;
- Identifying and nominating candidates for appointment to the Board, based on merit and against objective criteria;
- Making recommendations on the appointment and removal of any members of the audit, risk, remuneration and nomination committees in consultation with the Chairman of those Committees; and
- Considering and, where necessary, authorising any actual or potential situational conflicts, upon such terms and conditions as the Committee considered appropriate, arising out of a proposed new appointment, the changed circumstances of an existing appointment or that of a director's connected person.

The Committee's terms of reference, which are set by the Board and kept under regular review, are available on our website at www.prudential.co.uk/prudential-plc/aboutpru/corporate governance/ Alternatively, copies may be obtained by writing to the Company Secretary at the registered office.

Membership

The Committee is comprised of independent non-executive directors and the Chairman, as set out below:

- **Harvey McGrath (Chairman)**
- **Bridget Macaskill (to 14 June 2011)**
- **Paul Manduca**
- **Kathleen O'Donovan (to 31 March 2012)**
- **James Ross (to 19 May 2011)**
- **Lord Turnbull (from 14 June 2011)**

Meetings

The Committee meets at least twice a year to consider the Board composition and membership of the principal Committees and to consider the suitability of all directors standing for re-election at the AGM. In addition, the Committee meets to consider candidates for appointment to the Board. The Group Chief Executive is closely involved in the work of the Committee and is invited to attend and contribute to meetings.

During 2011, the Committee met on eight occasions and details of Committee members' attendance is set out on page 114.

The appointments of Kai Nargolwala and Alistair Johnston, made by unanimous decision of the Board, was the culmination of a comprehensive search process which commenced in the first half of the year under the direction of the Committee. With the assistance of external search consultants, a number of candidates meeting the criteria set by the Committee were identified. As part of the process, Alistair and Kai met the Chairman and Group Chief Executive, as well as a number of other directors prior to being appointed to the Board. The Committee will continue to play a key role in the search for a successor to the current Chairman, Harvey McGrath.

The Committee Chairman reported to the Board on matters of particular significance after each meeting.

Group Risk Committee report

The responsibilities of the Group Risk Committee (the 'Committee') and the activities it carried out during the year are set out below.

Role of the Committee

The Committee provides leadership, direction and oversight in relation to the Group's overall risk appetite and tolerance and the risk management framework. Oversight of the framework includes reviewing the Group's risk policies and standards, supporting risk limits, methodologies adopted and the processes and controls in place for assessing the Group's risks.

The Committee also provides oversight in respect of the Group Chief Risk Officer's responsibilities and the Group Chief Risk Officer has open access to the Committee Chairman and the Committee.

In performing its duties, the Committee has access to employees and their relevant expertise across the Group and to the services of the Group Chief Risk Officer, the Group-wide Internal Audit Director and the Company Secretary. The Committee may also seek external professional advice at the Group's expense.

Responsibilities

The Committee's principal business during the year consisted of the following:

- Reviewing the Group risk, capital and liquidity management framework, as well as the Group's risk appetite, its risk policies and standards, including the parameters used and methodologies and processes adopted for identifying and assessing risks;
- Reviewing the material and emerging risk exposures of the Group, including market, credit, insurance, operational, liquidity and economic and regulatory capital risks as well as regulatory and compliance matters;
- Overseeing the Group's processes and policies for determining risk tolerance and reviewing management's measurement and effectiveness of the Group's risk tolerance levels;
- Receiving and reviewing Group-wide Internal Audit Reports on the risk management function;
- Assisting the Board in reviewing the risks inherent in the business plans; and
- Providing qualitative and quantitative advice to the Remuneration Committee on risk weightings applied to performance objectives incorporated in executive remuneration and evaluating whether the remuneration approach for senior executives was positioned within the Group's overall risk appetite framework.

The Committee's terms of reference, which are set by the Board and kept under regular review, are available on our website at www.prudential.co.uk/prudential-plc/aboutpru/corporate governance/ Alternatively, copies may be obtained by writing to the Company Secretary at the registered office.

Membership

The Committee is comprised of independent non-executive directors as set out below:

- **Howard Davies (Chairman)**
- **Ann Godbehere**
- **Kai Nargolwala (from 1 January 2012)**
- **James Ross (to 19 May 2011)**
- **Lord Turnbull**

Meetings

The Committee meets at least four times a year to consider the Group's risk appetite and provide oversight to the management of risk within the Group. The Chairman of the Committee is a member of the Group Audit Committee and works closely with that Committee in fulfilling the Committee's responsibilities.

The Chairman of the Board, the Group Chief Executive, the Chief Financial Officer and the General Counsel and Company Secretary are invited to attend the meetings. The Group Chief Risk Officer is closely involved in the work of the Committee and is invited to attend and contribute to the meetings. The Group-wide Internal Audit Director and the Group Risk Director are also invited to attend.

During 2011, the Committee met on five occasions and details of Committee members' attendance is set out on page 114.

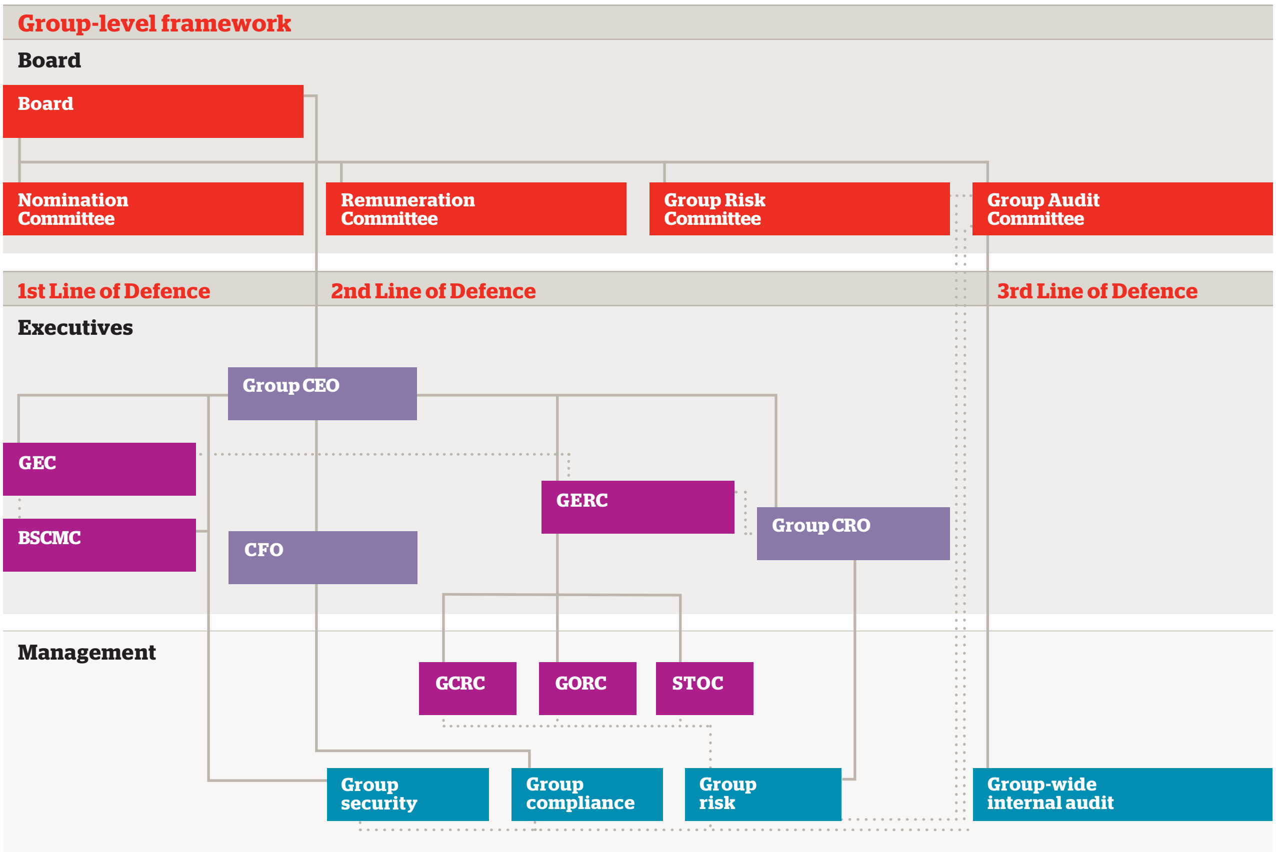
The Committee was constituted in November 2010 and agreed the work plan for its first year of operation early in 2011. The Committee undertook a comprehensive analysis of the Group's key risks and received presentations by the relevant managers in these areas. The Committee further received presentations from certain of the business units on the particular risks inherent in those businesses, as well as the systems and controls in place to monitor and manage those risks. The Group Chief Risk Officer briefed the Committee on the structure and organisation of the Group Risk function. The Committee worked closely with the Group Audit Committee to ensure any risk assurance relevant to financial reporting was referred to the Group Audit Committee and with the Remuneration Committee on providing risk adjustment measures for executive remuneration.

The Chairman reviewed the work of the Committee, and the risk framework with the Financial Services Authority as part of the regular processes of supervision. The Committee received regular reports from the Group-wide Internal Audit Director, the Group Executive Risk Committee, the Group Operational Risk Committee and the Group Credit Risk Committee. Further information on these committees appears on pages 124 and 125.

The effectiveness of the Committee was reviewed as part of the externally facilitated review of the Board and its committees. The findings will be discussed by the Board in March 2012.

The Committee Chairman reported to the Board on matters of particular significance after each meeting and the minutes were circulated to all Board members.

Risk governance



Key

- Board-level Committees
- Executive personnel
- Exec/Management Committee
- GHO Functions

- Direct Reporting Line
- Regular Communication and Escalation

GEC	Group Executive Committee
BSCMC	Balance Sheet & Capital Management Committee
GERC	Group Executive Risk Committee
GCRC	Group Credit Risk Committee
GORC	Group Operational Risk Committee
STOC	Solvency II Technical Oversight Committee (permanent successor to Technical Assurance Committee)

Organisation

Prudential's risk governance framework requires that all of the Group's businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Group. The framework is based on the concept of 'three lines of defence' (LoD): risk management, risk oversight and independent assurance.

The diagram above outlines the Group-level framework.

As described in this Corporate Governance Report, primary responsibility for strategy, performance management and risk control lies with the Board, which has established the Risk Committee to assist in providing leadership, direction and oversight, and with the Group Chief Executive and the chief executives of each business unit.

Risk management (1st LoD):

Balance Sheet and Capital Management Committee: Meets monthly to monitor the Group's liquidity and oversee the activities of Prudential Capital.

Risk oversight (2nd LoD):

Risk exposures are monitored and reviewed by Group-level risk committees chaired by the Group Chief Risk Officer or the Chief Financial Officer.

Group Executive Risk Committee: Meets monthly to oversee the Group's risk exposures (market, credit, liquidity, insurance and operational risks) and to monitor capital.

Group Credit Risk Committee: Reports to the Group Executive Risk Committee and meets monthly to review the Group's investment and counterparty credit risk positions.

Group Operational Risk Committee: Reports to the Group Executive Risk Committee and meets quarterly to oversee the Group's non-financial (operational, business environment and strategic) risk exposures.

Solvency II Technical Oversight Committee: Will be created when the Solvency II programme is complete, to provide ongoing technical oversight and advice to the executive and the Board in carrying out their duties with regard to the Group's Internal Model.

The committees' oversight is supported by the Group Chief Risk Officer with functional oversight provided by:

Group Security: Develop and deliver appropriate security measures to protect the Group's staff, physical assets and intellectual property.

Group Compliance: Verify compliance with regulatory standards and inform the Group's management and the Board on key regulatory issues affecting the Group.

Group Risk: Establish and embed a capital management and risk oversight framework and culture consistent with Prudential's risk appetite that protects and enhances the Group's embedded and franchise value.

Independent assurance (3rd LoD):

Group Audit Committee: The committee, supported by Group-wide Internal Audit, provides independent assurance and oversight of the effectiveness of the Group's system of internal control and risk management.

Principles and objectives

Risk is defined as the uncertainty that Prudential faces in successfully implementing its strategies and objectives. This includes all internal or external events, acts or omissions that have the potential to threaten the success and survival of Prudential.

The control procedures and systems established within the Group are designed to manage rather than eliminate the risk of failure to meet business objectives. They can only provide reasonable and not absolute assurance against material misstatement or loss and focus on aligning the levels of risk-taking with the achievement of business objectives.

Material risks will only be retained where this is consistent with Prudential's risk appetite framework and its philosophy towards risk-taking, that is:

- the retention of the risk contributes to value creation;
- the Group is able to withstand the impact of an adverse outcome; and
- the Group has the necessary capabilities, expertise, processes and controls to manage the risk.

The Group has five objectives for risk and capital management:

Framework: Design, implement and maintain a capital management and risk oversight framework consistent with the Group's risk appetite and Risk-Adjusted Profitability model.

Monitoring: Establish a 'no surprises' risk management culture by identifying the risk landscape, assessing and monitoring risk exposures and understanding change drivers.

Control: Implement risk mitigation strategies and remedial actions where exposures are deemed inappropriate and manage the response to extreme events.

Communication: Communicate the Group risk, capital and profitability position to internal and external stakeholders and rating agencies.

Culture: Foster a risk management culture, providing quality assurance and facilitating the sharing of best practice risk measurement and management across the Group.

Reporting

The Group's economic capital position and overall position against risk limits is reviewed regularly by the Group Executive Risk Committee. Key economic capital metrics, as well as risk-adjusted profitability information, are included in business plans, which are reviewed by the Group Executive Committee and approved by the Board.

The Group Risk Committee is provided with regular reports on the activities of the Group Risk function and where it affects the results of assurances under Turnbull, the Group Audit Committee receives appropriate reporting. Reports to the Group Risk Committee include information on the activities of the Group Executive Risk Committee, the Group Operational Risk Committee and Group Credit Risk Committee, as well as reports from Group-wide Internal Audit.

Group Head Office oversight functions have clear escalation criteria and processes for the timely reporting of risks and incidents by business units. As appropriate, these risks and incidents are escalated to the various Group-level risk committees and the Board.

Internal business unit routine reporting requirements vary according to the nature of the business. Each business unit is responsible for ensuring that its risk reporting framework meets both the needs of the business unit (for example, reporting to the business unit risk and audit committees) and the minimum standards set by the Group (for example, to meet Group-level reporting requirements).

Business units review their risks as part of the annual preparation of their business plans, and review opportunities and risks against business objectives regularly with Group Head Office. Group Risk reviews and reports to Group Head Office on the impact of large transactions or divergences from the business plan.

Remuneration

The report on the responsibilities and activities of the Remuneration Committee can be found in the Directors' Remuneration Report, which is set out on pages 134 to 157.

Relations with shareholders

Communication with shareholders

As a major institutional investor, the Company is very aware of the importance of maintaining good relations with its shareholders. Discussions are held regularly with major shareholders and a programme of meetings took place throughout the year. In addition, Prudential also held an investor conference in November in Kuala Lumpur, Malaysia.

Board members regularly receive copies of the latest analysts' and brokers' reports on the Company and the sector to further develop their knowledge and understanding of external views about the Company. The Chairman and the non-executive directors provided feedback to the Board on topics raised with them by major shareholders. Should major shareholders wish to meet newly appointed directors, or any of the directors generally, they are welcome to do so.

The Group maintains a corporate website www.prudential.co.uk containing a wide range of relevant information for private and institutional investors, including the Group's financial calendar. The shareholder information section on pages 476 and 477 contains further details which may be of interest to shareholders.

Annual General Meeting

The Annual General Meeting will be held in the Churchill Auditorium at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on 17 May 2012 at 11.00am.

The Company believes the Annual General Meeting is an important forum for both institutional and private shareholders and encourages all its shareholders to vote. Shareholders are given the opportunity during annual general meetings to put questions to the Board on matters relating to the Group's operations and performance.

At the 2011 Annual General Meeting the Company continued its practice of calling a poll on all resolutions. The voting results and all proxies lodged prior to the meeting were displayed at the meeting and published on the Company's website. This practice provides shareholders present with sufficient information regarding the level of support and opposition to each resolution and ensures all votes cast either at the meeting or through proxies are included in the result.

Shareholders holding 5 per cent or more of the fully paid up issued share capital of the Company, are able to require the directors to hold a general meeting. If the shareholders' request identifies a resolution to be moved at the meeting, the resolution must be included in the notice of meeting. Where such a request has been duly lodged with the Company, the directors are obliged to call a general meeting within 21 days of becoming subject to the request and must set a date for the meeting not more than 28 days from the date of the issue of the notice. Shareholders can also require the Company to circulate a statement of not more than 1,000 words on the subject matter of the resolution. Shareholders need not cover the costs of circulating such statements where the requests relate to the annual general meeting of a public company and provided sufficient requests to require the circulation are received prior to the financial year end preceding the meeting. Written shareholder requests should be addressed to the Company Secretary at the registered office.

Company constitution

The Company is governed by the Companies Act 2006, other applicable legislation and regulation as well as by provisions of its Articles of Association. The Memorandum and Articles of Association are available on our website at www.prudential.co.uk/prudential-plc/aboutpru/memorandum

Any change to the Articles must be approved by special resolution of the shareholders in accordance with the provisions of the Companies Act 2006. There were no changes to the Company's constitutional documents during 2011.

Share capital

On 31 December 2011, the Company's issued share capital, which is set out in note H11 on page 337, consisted of 2,548,039,330 (2010: 2,545,594,506) ordinary shares of 5 pence each, all fully paid up and listed on the London Stock Exchange and the Stock Exchange of Hong Kong. Subject to applicable local securities law, the Company's shares may be registered on the main register in the UK or the Company's branch registers in Ireland or Hong Kong. The number of accounts on the share registers at 31 December 2011 was 63,338 (2010: 66,048). The Company maintains secondary listings on the New York Stock Exchange in the form of American Depositary Receipts which are referenced to ordinary shares on the main UK register, under a depositary agreement with J.P. Morgan, and on the Singapore Stock Exchange in the form of interests in shares, which are referenced to the shares on the Hong Kong register under a depository agreement with the Central Depository (Pte) Limited (the 'CDP').

In compliance with the Hong Kong Listing Rules, the Company has maintained a sufficiency of public float throughout the period.

A number of dividend waivers are in place and these relate to shares issued but not allocated under the Group's employee share plans. These shares are held by the Trustees and will, in due course, be used to satisfy requirements under the Group's employee share plans.

Rights and obligations

The rights and obligations attaching to the Company's shares are set out in full in the Company's Articles of Association. There are currently no voting restrictions on the ordinary shares, all of which are fully paid, and each share carries one vote on a poll. If votes are cast on a show of hands, each shareholder present in person or by proxy, or in the case of a corporation, each of its duly authorised corporate representatives, has one vote except that if a proxy is appointed by more than one member, the proxy has one vote for and one vote against if instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

Where, under an employee share plan operated by the Company, participants are the beneficial owners of the shares but not the registered owners, the voting rights are normally exercisable by the registered owner in accordance with the relevant plan rules. Trustees may vote at their discretion, but do not vote on any unawarded shares held as surplus assets.

As at 12 March 2012, Trustees held 0.31 per cent of the issued share capital of the Company under the various plans in operation.

Rights to dividends under the various schemes are set out in note I4 on page 363.

Restrictions on transfer

In accordance with English company law, shares may be transferred by an instrument of transfer or through an electronic system (currently CREST) and transfer is not restricted except that the directors may in certain circumstances refuse to register transfers of shares, but only if such refusal does not prevent dealings in the shares from taking place on an open and proper basis. If the directors make use of that power, they must send the transferee notice of the refusal within two months.

Certain restrictions may be imposed from time to time by applicable laws and regulations (for example, insider trading laws) and pursuant to the Listing Rules of both the Financial Services Authority and the Stock Exchange of Hong Kong, as well as Prudential's own share dealing rules, whereby directors and certain employees of the Company require the approval of the Company to deal in the Company's ordinary shares.

Some of the Company's employee share plans include restrictions on transfer of shares while the shares are subject to the plan. All directors are required to obtain a number of qualification shares within one year of appointment, which they would also be expected to retain under guidelines approved by the Board and as described on page 143 of the Directors' Remuneration Report.

Significant shareholdings

As at 31 December 2011, the Company had received notification of interests in the shares of Prudential plc, in accordance with Rule 5.1.2 R of the Disclosure and Transparency Rules of the Financial Services Authority, from Capital Research and Management Company, BlackRock Inc., Norges Bank and Legal and General Group plc that they held 9.91 per cent, 4.99 per cent, 4.03 per cent and 3.99 per cent respectively of the Company's ordinary issued share capital at the time of notification. No further notifications have been received between the end of 2011 and the date of this report.

Authority to issue shares

The directors require authority from shareholders in relation to the issue of shares by the Company. Whenever shares are issued the Company has to offer the shares to existing shareholders pro rata to their holdings unless it has been given authority by shareholders to issue shares without offering them first to existing shareholders. The Company seeks authority from its shareholders on an annual basis to issue shares up to a maximum amount and to issue up to 5 per cent of its issued share capital without observing pre-emption rights, in line with relevant regulations and best practice. Dis-application of statutory pre-emption procedures is also sought for rights issues. The Company's existing authorities to issue shares and to do so without observing pre-emption rights are due to expire at the end of this year's Annual General Meeting. An ordinary resolution and a special resolution to approve the renewal of these authorities respectively will be put to shareholders at the Annual General Meeting on 17 May 2012.

Details of shares issued during 2011 and 2010 are given in note H11 on page 337.

In accordance with the terms of a waiver granted by the Hong Kong Stock Exchange, the Company confirms that it complies with the applicable law and regulation in the UK in relation to the holding of shares in treasury and with the conditions of the waiver in connection with the purchase of own shares and any treasury shares it may hold.

Authority to purchase own shares

The directors also require authority from shareholders in relation to the purchase of own shares by the Company. The Company seeks authority by special resolution on an annual basis for the buyback of its own shares in accordance with the relevant provisions of the Companies Act 2006 and other related guidance. The Company has not made use of that authority since it was last granted at its Annual General Meeting in 2011. This existing authority is due to expire at the end of this year's Annual General Meeting. A special resolution to approve the renewal of this authority will be put to shareholders at the Annual General Meeting on 17 May 2012.

Relations with shareholders

Model code for securities transactions by directors

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

US corporate governance and regulations

As a result of the listing of its securities on the New York Stock Exchange, the Company is required to comply with the relevant provisions of the Sarbanes-Oxley Act 2002 (the 'Act') as they apply to foreign private issuers and has adopted procedures to ensure this is the case.

In particular, in relation to the provisions of Section 302 of that Act, which covers disclosure controls and procedures, a Disclosure Committee has been established reporting to the Group Chief Executive, chaired by the Chief Financial Officer and comprising members of senior management. The objectives of this Committee are to:

- assist the Group Chief Executive and the Chief Financial Officer in designing, implementing and periodically evaluating the Company's disclosure controls and procedures;
- monitor compliance with the Company's disclosure controls and procedures;
- review and provide advice to the Group Chief Executive and Chief Financial Officer with regard to the scope and content of all public disclosures made by the Company which are of material significance to the market or investors; and
- review and consider, and where applicable follow up on, matters raised by other components of the disclosure process. These may include, to the extent they are relevant to the disclosure process, any matters to be raised with the Group Audit Committee, the internal auditors or the external auditor on the Company's internal controls.

In discharging these objectives, the Committee helps to support the certifications by the Group Chief Executive and the Chief Financial Officer of the effectiveness of disclosure procedures and controls required by Section 302 of the Act.

The provisions of Section 404 of the Act require the Company's management to report on the effectiveness of internal controls over financial reporting in its annual report on Form 20-F, which is filed with the US Securities and Exchange Commission. To comply with this requirement to report on the effectiveness of internal control, the Group has documented and tested its internal controls over financial reporting in the format required by the Act. The annual assessment and related report from the external auditor will be included in the Group's annual report on Form 20-F.

In addition, the Disclosure Committee evaluates whether or not a particular matter requires disclosure to the market, taking into account relevant regulations and reviews all forward looking statements.

Corporate responsibility governance

The Board is committed to achieving the highest standards of corporate responsibility in directing and controlling the business. In terms of the governance of our corporate responsibility strategy, Harvey McGrath, Chairman, has Board level responsibility for social, environmental and ethical risk management. The Board discusses Prudential's performance in these areas at least once a year and also reviews and approves Prudential's corporate responsibility report and strategy on an annual basis.

Below Board level, the Responsibility Committee is a specialist Group-wide committee. This committee is responsible for reviewing Prudential's business conduct and social and environmental policy and ensures consistency of approach across the Group's international businesses. Consideration of environmental, social and community matters is embedded in our Code of Business Conduct and supported by our corporate responsibility philosophy and programme, which takes into account local cultures and requirements across our businesses.

The Corporate Responsibility team, which is located in our Group Head Office, develops Prudential's corporate responsibility strategy and works closely with individual business units to provide advice. The team also assists with the development and adaptation of Group-wide initiatives so that they not only fit with our overall Group principles but are also adapted to meet local needs.