

capital markets increased, with bond and equity market confidence being adversely affected. This increased uncertainty was reflected in downgrades in credit ratings and falls in market capitalization levels across the UK insurance and other industries. On December 20, 2002, Moody's downgraded the financial strength rating of Prudential Assurance's long-term fund from Aaa to Aa1 (stable outlook). On January 29, 2003, Standard and Poor's downgraded the financial strength rating of the long-term fund from AAA (negative outlook) to AA+ (stable outlook). As a result of weak investment markets, Prudential has since September 2002 reduced bonus rates on its UK with-profit policies more quickly and to a greater extent than previously anticipated. This will directly affect the future cash payments from the UK long-term with-profits fund to the group. The impact of bonus rates on future cash payments is discussed in more detail in Item 4, "Information on the Company—UK Business—UK Products and Profitability".

Despite continuing market uncertainty, there are attractive opportunities for Prudential in growth markets, notably Asia. Accordingly, Prudential is committed to retaining its financial flexibility when determining the 2003 dividend. While recognizing the importance of cash payments to shareholders, Prudential's Board of Directors stated at the time of its preliminary announcement in February 2003 that it believed it would be inappropriate to recommit to the previous dividend policy. The dividend for 2003 will be determined taking into account a number of factors, including the outlook for profits on a modified statutory basis under UK GAAP, the cash transfer from the UK long-term fund (comprising shareholders' profit with respect to with-profits business) and the balance sheet on an achieved profits basis (a widely accepted alternative profit measure for UK life assurance companies published in the United Kingdom as supplementary information which includes the current value to shareholders of future cashflows of in force business).

Exchange Rate Information

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

| December 31, | Year end rate |
|--------------|---------------|
| 1998 | 1.66 |
| 1999 | 1.61 |
| 2000 | 1.50 |
| 2001 | 1.46 |
| 2002 | 1.61 |

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

| | High | Low |
|---------------|------|------|
| December 2002 | 1.61 | 1.56 |
| January 2003 | 1.65 | 1.60 |
| February 2003 | 1.65 | 1.57 |
| March 2003 | 1.61 | 1.56 |
| April 2003 | 1.60 | 1.55 |
| May 2003 | 1.65 | 1.59 |

On June 20, 2003, the noon buying rate in New York City was £1.00 = \$1.66.

Forward-Looking Statements

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

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

- certain statements in Item 4, "Information on the Company" with regard to strategy and management objectives, trends in market shares, prices, market standing and product volumes and the effects of changes or prospective changes in regulation, and
- certain statements in Item 5, "Operating and Financial Review and Prospects" with regard to trends in results, prices, volumes, operations, margins, overall market trends, risk management and exchange rates and with regard to the effects of changes or prospective changes in regulation.

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

RISK FACTORS

Prudential's operating results, financial condition and trading price are affected by a number of factors including economic and market conditions, foreign currency exchange rate fluctuations, regulation, government policy and legislation,

competition, credit ratings, and operational systems and processes.

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

Prudential's businesses are inherently subject to the risks associated with economic and market fluctuations.

In the United Kingdom, this is largely because Prudential's shareholders' profit is related to bonuses for policyholders declared on its with-profits products, which are broadly based on historic and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns.

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

In all markets in which Prudential operates, its businesses are susceptible to general economic conditions, which can change the level of demand for Prudential's products. The uncertain trends in international economic and investment climates prevailing over the last two years have adversely affected Prudential's business and profitability. This adverse effect has been felt principally through reduced investment returns and credit defaults in fixed interest corporate bonds, and may continue to affect the business unless conditions improve. In addition, falling investment returns could impair Prudential's operational capability, including its ability to write significant volumes of new business.

See Item 4, "Information on the Company—Business of Prudential—Investments" for a description of Prudential's invested assets, investment strategies and investment yields. See also Item 5, "Operating and Financial Review and Prospects—Factors Affecting Results of Operations—General Economic and Market Conditions".

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

Due to the geographical diversity of Prudential's businesses, it is subject to the risk of exchange rate fluctuations. Prudential's international operations in the United States, Asia and Europe, which represent a significant proportion of total group income and expenses, generally write policies and invest in their local currency. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to fluctuations in Prudential's consolidated financial statements upon translation of results into pounds sterling. The currency exposure relating to the translation of reported earnings is not separately managed. Of core structural borrowings at December 31, 2002 of £2,452 million, £644 million was denominated in US dollars, partially to hedge the currency exposure arising from Prudential's investment in its US operations. The impact of gains or losses on currency translations is recorded as a component of shareholders' funds within the consolidated statement of total

recognized gains and losses. In 2002, a loss of £252 million was recorded in the consolidated statement of total recognized gains and losses. This loss primarily arises upon translation into pounds sterling of the investments in Prudential's US and Asian operations, but is after offset of exchange gains of £37 million on the carrying value of the US dollar denominated borrowings, reflecting movements in the US dollar to pounds sterling exchange rate from the beginning to end of 2002. See Item 11, "Quantitative and Qualitative Disclosures about Market Risk".

Prudential conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations in the markets in which it operates.

Changes in government policy, legislation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates may adversely affect Prudential's product range, distribution channels, capital requirements and, consequently, reported results and financing requirements. These changes include possible changes in the tax treatment of financial products and services, government pension arrangements and policies, the regulation of selling practices and solvency requirements. For instance, in the United Kingdom the Financial Services Authority ("FSA") consultation paper on reforming the UK polarization regime and the HM Treasury report on medium and long-term retail savings could have a significant effect on types of products sold by Prudential and how its products are priced, distributed and sold.

The EU Insurance Groups Directive, which was implemented in the United Kingdom in 2001, together with the Financial Conglomerates Directive, which will be implemented by 2005, will require European financial services groups to demonstrate net aggregate surplus capital in excess of solvency requirements at the group level in respect of shareholder owned entities. The EU is also currently reviewing future solvency requirements (the "Solvency II review"). The manner of the implementation of these directives may lead to Prudential being required to maintain a higher level of capital than currently necessary to support some of its businesses, or alternatively, to constrain the growth of those businesses. In addition, an inconsistent application of these directives by regulators in different EU member states may place Prudential at a competitive disadvantage to other European financial services groups.

Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise where Prudential, along with other companies, may be required to make such contributions. See Item 5, "Operating and Financial Review and Prospects—Factors Affecting Results of Operations—Government Policy and Legislation" and Item 4, "Information on the Company—Supervision and Regulation of Prudential".

The resolution of several issues affecting the UK financial services industry, including the requirement to provide redress to past purchasers of pension and mortgage endowment policies and regulatory reviews concerning the sale of free standing additional voluntary contributions and guaranteed annuities, could have a negative impact on Prudential's reported results or on its relations with current and potential customers.

Prudential is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the United Kingdom and internationally. Pending legal and regulatory actions include proceedings relating to aspects of Prudential's business and operations which are specific to Prudential and proceedings which are typical of the business it operates, including in the latter case businesses it has closed. Although Prudential believes it has adequately reserved in all material aspects for the costs of litigation and regulatory matters, no assurance can be provided that such reserves are

sufficient. It is possible that Prudential's future performance could be affected by an unfavorable outcome in these matters.

Companies operating in the UK insurance and financial services industries, including Prudential, currently face a number of regulatory and legal actions, including the requirement to provide redress to past purchasers of pension and mortgage endowment policies and regulatory reviews concerning the sale of free standing additional voluntary contributions and guaranteed annuities.

In addition, Prudential has held discussions with the FSA on the status of its inherited estate. 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. See Item 4, "Information on the Company-Business of Prudential-Shareholders' Interests in Prudential's Long-term Insurance Business-Surplus Assets in Prudential Assurance's Long-term With-profits Fund".

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

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

Within the United Kingdom, Prudential's principal competitors in the life market include many of the major stock and mutual retail financial services companies including, in particular, Aviva, Legal and General and Standard Life. During 2002, Prudential maintained its position as a leading distributor of with-profits bonds through independent financial advisors, albeit in a market which contracted by over 50% during the year, and believes it is the market leader in providing pension annuities, having increased its market share over each of the last five quarters to the end of 2002.

Jackson National Life's competitors in the United States include major stock and mutual insurance companies, mutual fund organizations, banks and other financial services companies. Jackson National Life's principal life insurance company competitors in the United States include AXA, Lincoln National Corporation, Transamerica Corporation, Nationwide Financial Services, Inc., SunAmerica, Inc. and Hartford Life, Inc. At December 31, 2002, in the United States, Jackson National Life was the tenth-largest life insurance company in terms of General Account assets, the sixth-largest provider of individual fixed annuities in terms of sales, and the sixth-largest provider of equity-indexed annuities in terms of sales.

Within Asia, Prudential's main regional competitors are international financial companies, including AIG, Allianz, ING and Manulife. By new business premiums Prudential has top five market positions in eight life markets (Singapore, Malaysia, Hong Kong, India, Vietnam, Philippines, Guangzhou China and Indonesia), two mutual fund markets (Taiwan and India) and Hong Kong's Mandatory Provident Fund market.

Prudential believes competition will intensify across all regions in response to consumer demand, technological advances, the impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures. See Item 4, "Information on the Company-Business of Prudential-Competition".

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

Prudential's financial strength and credit ratings, which are intended to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in most of Prudential's products, and as a result its competitiveness. Downgrades in Prudential's ratings could have an adverse effect on its ability to market products and retain current policyholders. In addition, the interest rates Prudential pays on its borrowings are affected by its debt credit ratings, which are in place to measure Prudential's ability to pay its contractual obligations. On December 20, 2002, Moody's downgraded the financial strength rating of Prudential Assurance's long-term fund from Aaa (on review for possible downgrade) to Aa1 (stable outlook). On January 29, 2003, Standard and Poor's downgraded the financial strength rating of Prudential Assurance's long-term fund from AAA (negative outlook) to AA+ (stable outlook). Prudential believes the downgrades that it, and the rest of the UK insurance industry, experienced have not to date had a discernible impact on its performance.

Adverse experience in the operational risks inherent in Prudential's business could have a negative impact on its results of operations.

Operational risks are present in all of Prudential's businesses, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events. Prudential's business is dependent on processing a large number of complex transactions across numerous and diverse products, and is subject to a number of different legal and regulatory regimes. Further, because of the long-term nature of much of Prudential's business, accurate records have to be maintained for significant periods. Prudential's systems and processes are designed to ensure that the operational risks associated with its activities are appropriately controlled, but any weakness in the systems could have a negative impact on its results of operations during the effective period. Other than each of the items discussed in the risk factor concerning several issues affecting the UK financial services industry, Prudential has not experienced or identified any operational risks in its systems or processes which have caused, or are expected to cause, a significant negative impact on its results or operations. See Item 11, "Quantitative and Qualitative Disclosures about Market Risk-Operational, Compliance and Fiscal Risk" and Item 4, "Business of Prudential-UK Business-Compliance".

Changes in mortality experienced by Prudential's UK pension annuity policyholders could significantly affect Prudential's results of operations.

Prudential is a major participant in the UK pensions annuity market. In exchange for a premium equal to the capital value of their accumulated pension fund, each pension annuity policyholder receives a guaranteed payment, usually monthly, for as long as they are alive. For a smaller monthly payment, certain annuity contracts extend the right to the payment to surviving spouses. As part of its pension annuity pricing and reserving policy Prudential assumes that current rates of mortality continuously improve over time. Prudential currently assumes a 1.84% annual mortality improvement in its pricing, and reserves on the basis of an average 2.90% annual improvement. If mortality rate improvements significantly exceed the improvement assumed, Prudential's results of operations could be adversely affected.

Item 4. Information on the Company

BUSINESS OF PRUDENTIAL

Overview

Prudential is a leading international financial services group, providing retail financial services and fund management in its chosen markets: the United Kingdom, the United States, Asia and continental Europe. At December 31, 2002, Prudential was one of the 30 largest public companies in the United Kingdom in terms of market capitalization on the London Stock Exchange. Prudential is not affiliated with Prudential Financial, Inc. or its subsidiary, The Prudential Insurance Company of America.

Prudential has been writing life insurance in the United Kingdom for over 150 years and has had the largest long-term fund in the United Kingdom for over a century. Prudential began writing property and casualty insurance in 1915, and expanded its business into British Commonwealth countries, including Singapore and Malaysia, in the 1920s and 1930s. In 1986, Prudential acquired Jackson National Life Insurance Company, a US insurance company writing life and fixed annuity business. A group strategy review in the early 1990s identified significant opportunities for Prudential in the Asian life sector and Prudential Corporation Asia (referred to as PCA) was established in 1994 to develop a material and profitable Asian business. In 1998, Prudential launched Egg, now a leading e-commerce retail financial services provider, and in 1999, Prudential acquired M&G, a leading UK fund manager. In June 2000, Prudential completed its listing on the New York Stock Exchange and completed an initial public offering of Egg plc on the London Stock Exchange. In November 2001, Prudential agreed to transfer its personal lines property and casualty insurance business to Winterthur Insurance and the Churchill Group, its UK subsidiary, for consideration of £353 million. The sale was completed on January 4, 2002.

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

At December 31, 2002, in the United Kingdom, Prudential was:

- the second-largest life insurance group in terms of market capitalization,
- the proprietor of the largest long-term fund of investment assets supporting long-term insurance products,
- one of the top three largest retail fund managers in terms of funds under management,
- through Egg, the world's largest pure on-line bank, and
- rated AAA (negative outlook) by Standard & Poor's and Aa1 (stable outlook) by Moody's in terms of financial strength rating for the long-term fund of Prudential Assurance Company ("Prudential Assurance"). At the time of publication Standard and Poor's had revised their rating of Prudential Assurance's long-term fund from AAA (negative outlook) to AA+ (stable outlook).

In the United States, Prudential offers a range of products through Jackson National Life Insurance Company, including fixed, equity-indexed and variable annuities, life insurance, guaranteed investment contracts and funding agreements. Prudential distributes these products through independent insurance agents, securities broker-dealers and banks, credit unions and other financial institutions. At December 31, 2002, in the United States, Jackson National Life was:

- the tenth-largest life insurance company in terms of General Account assets,
- the sixth-largest provider of individual fixed annuities in terms of sales,

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- the sixth-largest provider of equity-indexed annuities in terms of sales, and
- rated AAA (negative outlook) by Standard & Poor's, AA+ (negative outlook) by Fitch Ratings, A+ (stable outlook) by A.M. Best Co. and A1 (stable outlook) by Moody's in terms of financial strength rating. At the time of publication, Standard & Poor's had revised its rating to AA (negative outlook) and Fitch to AA (stable outlook).

PCA is the leading European-based life insurer in Asia, with 23 operations in 12 Asian countries. PCA offers life insurance with accident and health options, selected personal lines property and casualty insurance and mutual funds, a product range tailored to suit the individual country markets in which PCA operates. Its insurance products are distributed mainly through an agency sales-force and complementary bancassurance agreements while the majority of mutual funds are sold through banks and brokers.

At December 31, 2002 PCA had:

- top five new business market positions in eight life markets (Singapore, Malaysia, Hong Kong, India, Vietnam, the Philippines, Guangzhou (China) and Indonesia), two mutual fund markets (Taiwan and India) and Hong Kong's Mandatory Provident Fund market,
- over 89,000 agents and 18 bank distribution agreements covering ten countries, and
- over four million customers.

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

| Year Ended December 31, | | |
|----------------------------|------|------|
| 2002 | 2001 | 2000 |
| (In £ Millions) | | |