

PRU LIFE UK DELIVERING STRONG PERFORMANCE IN

New business sales increase 109%, highest for Prudential in Asia

MANILA -- Pru Life U.K. announced strong 2010 new business sales, growing 109% over the previous year. The results were published by Prudential plc, the U.K. parent of Pru Life U.K. Across the Asia region, new business sales increased 24%, the highest for any Prudential life insurer in the region. Pru Life U.K. announced 24% growth in new business sales for the year, with the Philippine business delivering 109% growth.

Commenting on the results, Barry Stowe, Chief Executive of Prudential Corporation Asia, said: "This is a milestone accomplishment for the Pru Life U.K. team in the Philippines. We remain a leading life insurer in the Philippines, with the Philippine business delivering 109% growth in new business sales across the country."



2010 Annual Report



2010 Annual Report

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PRESIDENT'S REPORT



The year 2010 was nothing less than amazing, not only for Pru Life UK, but for the rest of the Prudential Group as well. Pru Life UK grew by 109% over previous year, prompting our regional office, Prudential Corporation Asia, to confer on us the “No. 1 in APE Growth” award. This is a milestone for the local operations, and we could not have done it without your support.

Your Company's performance in these past few years have proven, time and again, the resilience, and the power of unit-linked policies. Our policyholders have shown their financial maturity by maintaining their policies through good times and bad, thereby allowing the funds to grow and take advantage of market movements. 20.5% of our APE was from existing customers, which is again a testament to the confidence that our customers have given us and our fund managers, Prudential Asset Management Singapore (PAMS), whose excellence is consistently demonstrated in our enviable fund performance since we launched our first unit-linked funds in 2002.

Another significant achievement of 2010 is our customers' movement from the investment space to a more balanced protection and savings product mix. We have learned to use unit-linked as a base for more comprehensive protection benefits such as critical illness, hospitalization, and other accident and health features. In these challenging times, it is always good to have a portfolio that covers both wealth protection and wealth accumulation. This represents real financial planning.

In the aftermath of various man-made and natural disasters, the mood surrounding many markets may not be as optimistic as we had foreseen 2011 to be. However, we can also historically observe that current consumers, armed with technology and more information, fuel recovery much faster than in previous decades. While the markets will continue to be cautious and volatility is anticipated, prospects for profit growth are positive and 2011 is expected to carry on the growth trend.

I encourage you to continue saving and be focused on the long-term. For our part, we are pledged to give you service dictated by the best international standards. That is the Pru Life UK promise of excellence.

Antonio Manuel de Rosas
Chief Executive Officer, Pru Life UK



All key economic fundamentals for the Philippines yielded strong performance in 2010. The 7.3% GDP growth has been described as stellar. The Bangko Sentral ng Pilipinas (BSP) has kept the policy rates steady at 4%, despite the inflation pressures which averaged at 3.8%. The PSEi growth of 38% which ended at 4,164.69 became one of the best, if not the best, performing equity indices in Asia. The robust remittance from our countrymen overseas which fueled and will continue to influence our consumption, increased to US\$18.8 billion or by 8.2% from the previous year. The peso continued to appreciate from P46.33 in 2009 to P43.9 to a dollar in 2010.

As a result of the good fundamentals, sovereign debt rating was raised by S&P to BB from BB-, marking the highest rating of the Philippines since 2003. The smooth transition of leadership coupled with high trust rating of President Benigno Aquino III ("P-NOY") have also contributed to making a positive impact in our economy.

The above has likewise been translated to Pru Life UK's stellar performance in 2010. As mentioned by our CEO Antonio de Rosas, our new business sales posted 109% growth—delivering the highest growth across Prudential in Asia. Our very own fund manager, Prudential Asset Management Singapore (PAMS), has managed to outperform benchmarks and industry competitors generating Linked Fund returns between 2.0% and 47.22% in 2010. As of December 2010, our Linked Fund's net asset balance increased by 76% which stood at P15.1 billion from P8.8 billion in the previous year.

Overall, we believe that the economic growth will continue. At Pru Life UK, and consistent with the Prudential Group's outlook, we remain to be positive on all fronts of fundamentals which will drive the Company's growth. We belong to the preferred markets where the prospects of sustainable growth continue to be strong. Therefore, our Linked Products will continue to provide protection and investment opportunities in our local financial market.

Lee Longa
Chief Financial Officer, Pru Life UK

FUND OBJECTIVES

The **PruLink Bond Fund** seeks to achieve an optimal level of income in the medium-term together with long-term capital growth through investments in fixed-income securities and money market instruments.

The **PruLink USD Bond Fund** seeks to achieve an optimal level of income in the medium-term together with long-term capital growth through investments in fixed-income securities and money market instruments denominated in US dollars (USD).

The **PruLink Managed Fund** seeks to optimize medium- to long-term capital and income growth through investments in fixed-income securities, money market instruments and shares of stocks listed in the Philippine Stock Exchange.

The **PruLink Proactive Fund** seeks to optimize medium- to long-term capital and income growth with emphasis on dynamic asset allocation by fund managers through investment in fixed-income securities, money market instruments and shares of stocks listed in the Philippine Stock Exchange.

The **PruLink Growth Fund** seeks to optimize medium- to long-term capital and income growth, with emphasis on strong capital growth, through a greater focus on investment in shares of stocks listed in the Philippine Stock Exchange. The Fund also invests in fixed-income securities and money market instruments.

The **PruLink Equity Fund** seeks to optimize medium- to long-term capital growth through investments in shares of stocks listed in the Philippine Stock Exchange.

MARKET REVIEW

Global equities started the year on an encouraging note underpinned by favourable economic data. However, investor worries about a double dip recession in the United States (US) on renewed housing sector weakness and expiration of various stimulus measures gained momentum as the year progressed. In Europe, there were grave concerns that the fiscal woes of Greece could ignite a contagion throughout Europe. The downgrading of sovereign credit ratings of Greece, Portugal and Spain by rating agency Standard & Poor's highlighted the extent of the problems in the region. Tighter US bank regulation proposals and China's earlier-than-expected move to tighten monetary policy too weighed heavily on equities. Asia, while fundamentally stronger, was not immune to the market weakness in the first half of the year.

The second half of 2010 saw markets higher, driven by improving economic data and expectations that the US Federal Reserve would re-start its "quantitative easing" programme. The Asian markets ex-Japan gained and outperformed the global equities. In contrast, European countries dealing with sovereign debt issues, were the worst performers.

The MSCI AC Asia Ex-Japan gained 17%¹ (in local currency terms), and with emerging markets in this region leading global growth. The best performing regional markets were Thailand, Malaysia and Indonesia. China lagged most as it sought to curb inflation. Investor sentiment was muted in the first half of 2010 on concerns that China's tightening measures could result in a serious slowdown in the world's second largest economy. Asian markets ex-China and Japan rallied in the second half, and outperformed the developed nations at the end of 2010.

Asian markets and currencies enjoyed strong liquidity inflows, thanks to quantitative easing and fiscal measures worldwide. The anticipation of further asset purchases by the US Federal Reserve fuelled the rally, but year-end headwinds came in the form of escalating North-South Korea's tension, Ireland's debt crisis and further monetary tightening from China.

Positive macroeconomic data to record low interest rates and expectations of investor-friendly policy reform announcements from the new government of President Benigno Aquino III lifted market sentiment in 2010. Mr. Benigno Aquino III was officially sworn as President following a landslide victory in the election in June 2010. The Philippine Stock

Exchange Index (PSEi) surged 37.6%¹ (in local currency) in 2010, its second consecutive annual gain. In November, Standard & Poor's upgraded Philippines' foreign currency rating to BB from BB-, citing strong external liquidity, robust economic growth and improved political stability. Meanwhile, remittances from overseas Filipino workers remained resilient in the year, boosting private consumption growth.

The year 2010 proved to be eventful for bonds and in particular, government bonds. Europe's sovereign debt crises, worries over a double-dip recession in the US and the pursuit of easier monetary policy among the G3 countries (US, Japan and Germany) were key influences in the credit markets. The corporate bond space fared better in 2010 as investors sought to enhance investment returns amid the low interest rate environment. In addition, strengthened corporate fundamentals as evidenced by declining leverage, increased cash on balance sheets and lower default rates underpinned the corporate bond markets.

¹ Bloomberg, December 2010

FUND PERFORMANCE REVIEW

PruLink Bond Fund

Philippine local government bonds rallied in 2010, supported by strong portfolio inflows and an accommodative monetary policy. In contrast to the rate hikes seen in a number of Asian countries, the Philippines' central bank kept policy rate unchanged at a record low of 4% as domestic inflation rates remained well-behaved. Additionally, the robust economic growth during the year and improving fiscal performance following the installation of a new government led by President Benigno Aquino III also bolstered investor confidence.

Against the backdrop, the PruLink Bond Fund rose 10.34% for the review period, slightly underperforming its benchmark (HSBC Philippines Local Currency Government Bond), which returned 12.09%. The Fund's diversification into corporate bonds helped relative performance due to the yield support. However, security selection, including the tactical duration underweight at the long end of the yield curve during second quarter 2010, detracted somewhat from performance.

PruLink Managed Fund

The PruLink Managed Fund rose 16.96% over the review period, underperforming its composite benchmark (comprising 80% HSBC Philippines Local Currency Government Bond Index and 20% Philippine Composite Index) by 1.05%. The underperformance over the review period was mainly due to the negative securities selection of the fixed-income sub-fund. On a positive note, the equity sub-fund outperformed its benchmark over the review period. In terms of asset allocation, the Fund's broad strategy of neutral allocation between equities and bonds meant that there was little asset allocation impact on the fund performance.

Looking forward, the Fund is maintaining a neutral allocation between bonds and equities. The fund manager remains cautious on Philippine equities, given that domestic equities have outperformed and valuations are among the most unattractive in the region. However, the fund manager acknowledges that in line with other equities, domestic markets could continue to deliver decent returns, as long as the recovery in growth and earnings remains on track. Also, the fund manager does not expect a major sell-off in domestic bond markets, but yields are likely to face upward pressure as growth recovers and the central bank moves to tighten monetary policy. This is likely to result in muted total returns for bonds. In the

absence of a strong view on relative returns between domestic bonds and equities, the Fund is maintaining a neutral stance between the two assets.

PruLink Growth Fund

The PruLink Growth Fund rose 39.21% over the review period, outperforming its composite benchmark (comprising 80% Philippine Composite Index and 20% HSBC Philippines Local Currency Government Bond Index) by 2.49%. The outperformance over the review period was mainly due to the positive securities selection of the equity sub-fund. On a negative note, bond sub-fund underperformed its benchmark over the review period. In terms of asset allocation, the Fund's broad strategy of neutral allocation between equities and bonds meant that there was little asset allocation impact on the Fund performance.

Looking forward, the Fund is maintaining a neutral allocation between bonds and equities. The fund manager remains cautious on Philippine equities, given that domestic equities have outperformed and valuations are among the most expensive in the region. However, the fund manager acknowledges that in line with other equities, domestic markets could continue to deliver decent returns, as long as the recovery in growth and earnings remains on track. Also, the fund manager does not expect a major sell-off in domestic bond markets, but yields are likely to face upward pressure as growth recovers and the central bank moves to tighten monetary policy. This is likely to result in muted total returns for bonds. In the absence of a strong view on relative returns between domestic bonds and equities, the Fund is maintaining a neutral stance between the two assets.

PruLink ProActive Fund

The PruLink ProActive Fund rose 26.45% over the review period, underperforming its composite benchmark (comprising 50% Philippine Composite Index and 50% HSBC Philippines Local Currency Government Bond Index) by 0.74%. The underperformance over the review period was mainly due to the negative asset allocation as well as the underperformance of the bond sub-fund. The Fund's broad strategy of slight underweighting equities and bonds into cash for most part of the review period detracted from Fund's performance as both equities and bonds performed well over the year. On a positive

FUND PERFORMANCE REVIEW

note, the strong outperformance of the equity sub-fund helped to mitigate some of the underperformance.

Looking forward, the Fund is maintaining a neutral allocation between bonds and equities. The fund manager remains cautious on Philippine equities, given that domestic equities have outperformed and valuations are among the most expensive in the region. However, the fund manager acknowledges that in line with other equities, domestic markets could continue to deliver decent returns, as long as the recovery in growth and earnings remains on track. Also, the fund manager does not expect a major sell-off in domestic bond markets, but yields are likely to face upward pressure as growth recovers and the central bank moves to tighten monetary policy. This is likely to result in muted total returns for bonds. In the absence of a strong view on relative returns between domestic bonds and equities, the Fund is maintaining a neutral stance between the two assets.

PruLink Equity Fund

The Fund returned 47.22% over the review period, outperforming its benchmark by 3.96%. The Fund's natural underweight in the Philippine Long Distance Telephone Co. (PLDT) boosted its performance last year as the stock lagged amid concerns of rising competitive pressures. The Fund's overweight position in Aboitiz Power Corp. also helped performance as the stock rallied following its inclusion in the MSCI Philippine Index, and the high wholesale electricity spot market prices and tight power supply situation in the medium-term. The overweight in Universal Robina Corp. aided performance as the stock benefited from rising domestic consumption. The overweight in Alliance Global Group also contributed positively to the Fund's performance as the stock outperformed in anticipation of record earnings on the back of strong gaming revenue.

The Fund's cash position was a drag on performance in 2010. Exposure to GMA Holdings hurt the Fund as the Philippine Deposit Receipts (PDRs) corrected last year in the face of intensifying competition from TV5. The lack of exposure to San Miguel Corp. also hurt the Fund's performance as the stock surged on news that it would invest in Australia-based Indophil Resources, which has a stake in the largest untapped gold and copper deposits in Southeast Asia. The Fund's overweight position in Globe Telecom dampened its performance as telecom stocks lagged in the broader market.

PruLink US Dollar Bond Fund

Over the year, the Philippine USD-denominated government bonds rose in tandem with Asian credits due to a combination of tighter credit spreads and lower US Treasury yields. While headwinds arising from fiscal uncertainties in the peripheral European nations and concerns over the US economy contributed to declines in US Treasury yields, risk sentiment held generally firm in Asia; investors were cheered by the resilient economic expansion in Asia and the prospects of a second round of quantitative easing in the US, leading to a tightening of Asian credit spreads. Additionally, demand for Asian credits was underpinned by the strong portfolio inflows into emerging market bond funds as investors piled into the markets seeking higher yields for their investments.

The positive macro backdrop was also reflected in the Philippines, where robust growth of its domestic economy and improving fiscal conditions added to investor confidence in the Philippine bond market. Affirming the more positive fundamentals of the country, its long-term external sovereign debt rating was raised by Standard & Poor's from BB- to BB in November, which marked the Philippines' highest sovereign rating since 2003.

Overall, the PruLink US Dollar Bond Fund rose 12.40% for the review period, underperforming its benchmark, JP Morgan US Dollar (JPM USD) EMBI Global Philippine Index, which returned 13.37%. The Fund's diversification into corporate bonds contributed positively to relative performance given the outperformance of corporate bonds, as well as their higher yield support. However, duration positioning via the USD-denominated Philippine government bonds negated some gains at various points during the year.

FUND PERFORMANCE REVIEW

Fund Performance

PruLink Funds	Actual year-on-year Dec. 29–Jan. 3, 2011	Since inception (per annum)	Unit price as of Jan. 3, 2011
PruLink Peso Bond Fund	10.34%	8.68%	1.99156
PruLink USD Bond Fund	12.41%	8.36%	1.83850
PruLink Managed Fund	16.96%	11.04%	2.37763
PruLink ProActive Fund	26.44%	31.19%	1.66069
PruLink Growth Fund	39.19%	17.55%	2.41615
PruLink Equity Fund	47.21%	6.80%	1.23364

Fund returns are net of Annual Management Charge; based on unit price as of Jan. 3, 2011; Peso Bond and Managed Funds are 100 months from inception; Growth Fund is 65 months from inception; Equity Fund is 38 months from inception, ProActive Fund is 22 months from inception. (Launch dates: Peso Bond and Managed Funds – September 2002, USD Bond Fund – June 2003, Growth Fund – July 2005, Equity Fund– October 2007, ProActive Fund –February 2009). Past performance is not necessarily indicative of the future or likely performance of the Fund.

INVESTMENT OUTLOOK

On the domestic front, the Philippine economy expanded 7.3%¹ in 2010, the highest growth rate since 1976, boosted by business and consumer spending. The Philippine central bank believes that stellar performance can be repeated in 2011 and is targeting real GDP growth of 7.0%-8.0%².

Meanwhile, inflation averaged 3.8%³ in 2010, well within the government's target range of 3.5%-5.5%³ for the year. The latest medium-term inflation forecasts of the Bangko Sentral Ng Pilipinas (BSP) also continue to show inflation settling within the target range of 3%-5%³ for 2011 and 2012. The benign inflation pressures allowed the Philippine central bank to hold off policy rate hike in 2010, deviating from the slew of interest rate tightening seen in other Asian countries. The BSP's policy rates have been kept steady since July 2009.

Elsewhere, cumulative remittances from overseas Filipinos were more robust than expected in 2010, rising year-on-year by 8.2%³ to US\$18.8 billion. The 2010 level slightly exceeded the BSP's forecast of US\$18.7 billion³ remittances, or an 8.0%² year-on-year growth for the year.

Despite the Bureau of Customs and the Bureau of Internal Revenue missing their respective revenue collection targets for 2010, the government managed to post a budget deficit of P310 billion¹ (US\$7.1 billion) in 2010, lower than the P325 billion¹ ceiling set for last year. The country targets to cap the budget deficit for 2011 at P290 billion.⁴

On the whole, the country's economic fundamentals remain intact, with domestic consumption being underpinned by remittances from overseas Filipinos. We believe that valuation is no longer attractive relative to history and other emerging markets in Asia. The smooth transition of leadership is expected to have a positive effect on the country as the previous administration has been marred by allegations of corruption and rising public dissatisfaction.

¹ Bloomberg, December 2010

² Asia Pacific Consensus Forecasts, January 2011

³ Bangko Sentral ng Pilipinas, February 2011

⁴ Bloomberg, 16 February 2011

All fund performance figures are net of management fees.

PORTFOLIO STATEMENT

ASSET MIX

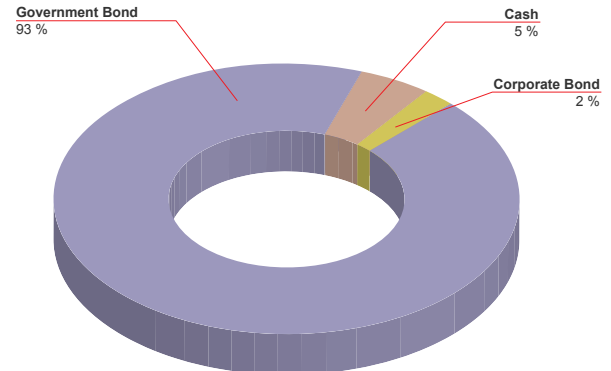
FUND NAME : PruLink Bond Fund

FUND CCY : P

AS AT 31 Dec 2010

ISIN CODE	SECURITY NAME	SEC CCY	Quantity
NPCZ0712K017	NATIONAL POWER CORP 0% 29112012	PHP	140,000,000.00
PHY6244VAN74	NATIONAL POWER CORP 5.875% 19/12/2016	PHP	130,000,000.00
PHY6244VAP23	NATIONAL POWER CORP 5.25% 20/12/2011	PHP	84,000,000.00
	PHILIPPINE GOVERNMENT 8.125% 16/12/2035	PHP	252,866,695.00
PHY6972FAV23	PHILIPPINE GOVERNMENT 8.5% 03/03/2011	PHP	386,193.00
PHY6972FAZ37	PHILIPPINE GOVERNMENT 8.75% 03/03/2013	PHP	259,577,343.00
PHY6972FBK58	PHILIPPINE GOVERNMENT 9.125% 04/09/2016	PHP	331,000,000.00
PHY6972FCN88	PHILIPPINE GOVERNMENT 8% 07/12/2026	PHP	40,000,000.00
PHY6972FAY61	PHILIPPINE GOVERNMENT 9.25% 12/01/2016	PHP	15,000,000.00
PHY6972EDM22	PHILIPPINE GOVERNMENT 15% 14/03/2022	PHP	800,000.00
PHBD1013E320	PHILIPPINE GOVERNMENT 11.75% 15052013	PHP	43,178,000.00
PHY6972FFR65	PHILIPPINE GOVERNMENT 10.125% 15/12/2015	PHP	10,000,000.00
PHY6972FBS84	PHILIPPINE GOVERNMENT 10.25% 19/01/2026	PHP	167,000,000.00
PHY6972FGD60	PHILIPPINE GOVERNMENT 12.125% 20/10/2025	PHP	10,000,000.00
PHY6972FCX60	PHILIPPINE GOVERNMENT 5.75% 21/02/2012	PHP	162,000,000.00
PHY6972FDZ00	PHILIPPINE GOVERNMENT 7.75% 23/08/2017	PHP	135,000,000.00
PHY6972EEZ26	PHILIPPINE GOVERNMENT 11.875% 25/08/2015	PHP	9,000,000.00
PHY6972FBF63	PHILIPPINE GOVERNMENT 7% 27/04/2016	PHP	60,000,000.00
PHY6972FGJ31	PHILIPPINE GOVERNMENT 12.5% 28/07/2030	PHP	15,000,000.00
SPTB1012A021	PHILIPPINE GOVERNMENT 14% 31/01/2012	PHP	11,000,000.00
PHY6972FFF28	PHILIPPINE GOVERNMENT 5.875% 31/01/2018	PHP	28,000,000.00
PHY6972FGN43	PHILIPPINE GOVERNMENT 8.375% 22/05/2015	PHP	61,000,000.00
PHY6972FKS83	PHILIPPINE GOVERNMENT 9% 31/07/2013	PHP	60,000,000.00
PHY6972FHQ64	PHILIPPINE GOVERNMENT 7% 27/01/2016	PHP	435,358,552.00
PHY6972FJC50	PHILIPPINE GOVERNMENT 6.25% 27/01/2014	PHP	466,580,187.00
PHY6972FHT04	PHILIPPINE GOVERNMENT 7.875% 19/02/2019	PHP	211,000,000.00
PHY6972FJX97	PHILIPPINE GOVERNMENT 6.25% 24/09/2014	PHP	170,000,000.00
PHY6972FJY70	PHILIPPINE GOVERNMENT 7% 24/09/2016	PHP	35,000,000.00
PHY6972FKF62	PHILIPPINE GOVERNMENT 9.25% 05/11/2034	PHP	67,898,000.00
PHY6972FEM87	PHILIPPINE GOVT RPPG 6.5% 04/10/2014	PHP	106,000,000.00
PHY6972FRN96	PHILIPPINE GOVERNMENT 5.25% 07/01/2013	PHP	50,000,000.00
PHY6972FKV13	PHILIPPINE GOVERNMENT 7.75% 18/02/2020	PHP	150,000,000.00
PHY6972FEW69	PHILIPPINE GOVERNMENT 8.5% 29/11/2032	PHP	15,000,000.00
PHY6972FLN87	PHILIPPINE GOVERNMENT 6.375% 13/05/2015	PHP	40,000,000.00

PHY6972FLS74	PHILIPPINE GOVERNMENT 8.75% 27/05/2030	PHP	80,000,000.00
PHY6972FLC23	PHILIPPINE GOVERNMENT 7% 31/03/2017	PHP	100,000,000.00
PHY6972FHF00	PHILIPPINE GOVERNMENT 9.5% 04/12/2028	PHP	20,000,000.00
PHY6972FBV14	PHILIPPINE GOVERNMENT 9.375% 05/10/2031	PHP	35,000,000.00
PHY6972FFS49	PHILIPPINE GOVERNMENT 14.375% 24/04/2017	PHP	50,000,000.00
	PHILIPPINE GOVERNMENT 6.625% 19/08/2017	PHP	94,250,000.00
	PHILIPPINE GOVERNMENT 5.875% 19/08/2015	PHP	120,000,000.00
	PHILIPPINE GOVERNMENT 7.25% 19/08/2020	PHP	100,000,000.00
US718286BJ59	REPUBLIC OF PHILIPPINES 4.95% 15/01/2021	PHP	19,000,000.00
PHY6972FML13	PHILIPPINE GOVERNMENT 8% 30/09/2035	PHP	40,000,000.00
PHY6972FMR82	PHILIPPINE GOVERNMENT 5.375% 28/10/2017	PHP	100,000,000.00
PHY6972FCC24	PHILIPPINE GOVERNMENT 7.125% 02/11/2013	PHP	71,000,000.00
	ROBINSONS LAND CORP 8.25 27/08/2014	PHP	20,000,000.00
	ROBINSONS LAND CORP 8.5% 14/07/2014	PHP	30,000,000.00
	JG SUMMIT HOLDINGS INC 8.25% 20/11/2014	PHP	20,000,000.00
	SAN MIGUEL BREWERY INC 8.25% 03/04/2012	PHP	40,000,000.00
	POWER SECTOR ASSETSS&LI 6.875% 22/04/2015	PHP	50,000,000.00
	AYALA CORPORATION 7.2% 30/04/2017	PHP	29,000,000.00



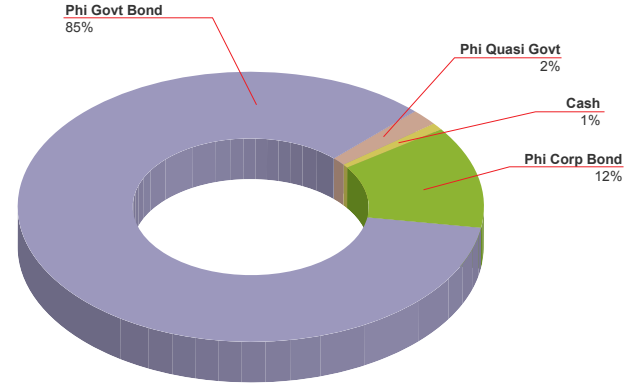
PORTFOLIO STATEMENT

ASSET MIX

FUND NAME : PruLink Bond Fund
 FUND CCY : USD

AS AT 31 Dec 2010

ISIN CODE	SECURITY NAME	SEC CCY	QUANTITY
XS0550961477	BANCO DE ORO UNIBANK 3.875% 22/04/2016	USD	1,500,000.00
US718286AY36	PHILIPPINES(REP) PHILIP 9.50% 02/02/2030	USD	4,200,000.00
US718286BA41	PHILIPPINES(REP) PHILIP 8% 15/01/2016	USD	1,500,000.00
US718286AL15	PHILIPPINES(REP) PHILIP 9.50% 21/10/2024	USD	1,080,000.00
US718286BB24	PHILIPPINES(REP) PHILIP 7.75% 14/01/2031	USD	5,200,000.00
US718286AQ02	PHILIPPINES(REP) PHILIP 9.375% 18/01/2017	USD	700,000.00
US718286AK32	PHILIPPINES(REP) PHILIP 9.875% 15/01/2019	USD	1,800,000.00
US718286BD89	PHILIPPINES(REP) PHILIP 6.375% 15/01/2032	USD	3,308,000.00
US718286AP29	PHILIPPINES(REP) PHILIP 10.625% 16/03/2025	USD	4,050,000.00
US718286AW79	PHILIPPINES(REP) PHILIP 8.875% 17/03/2015	USD	150,000.00
US718286BE62	PHILIPPINES(REP) PHILIP 8.375% 17/6/2019	USD	2,590,000.00
US718286BF38	PHILIPPINES(REP) PHILIP 6.5% 20/01/2020	USD	3,000,000.00
US718286BG11	PHILIPPINES(REP) PHILIP 6.375%23/10/2034	USD	4,000,000.00
US718286BC07	PHILIPPINES(REP) PHILIP 7.5% 25/09/2024	USD	1,500,000.00
US718286BK23	PHILIPPINES(REP) PHILIP 4% 15/01/2021	USD	6,974,000.00
USY7083VAB54	POWER SECTOR ASSETS &LI 7.25% 27/05/2019	USD	2,500,000.00
USY7083VAD11	POWER SECTOR ASSETS &LI 7.39% 02/12/2024	USD	3,400,000.00
XS0267389384	DEV BANK PHILIPNES VAR8.375%15/09/49	USD	950,000.00
XS0271265299	LAND BANK OF PHILIPPINES7.25% 19/10/2016	USD	500,000.00
USY6244HAE81	NATIONAL POWER CORP 6.875% 02/11/2016	USD	1,330,000.00
US637193BA03	NATIONAL POWER CORP 9.625% 15/05/2028	USD	500,000.00
XS0484494843	RCBC 6.25 09/02/2015	USD	1,400,000.00
XS0493501125	ICTPM 7.375% 17/03/2020	USD	1,400,000.00
US71825PAD06	PHILIPPINE LONG DIST TEL8.35% 06/03/2017	USD	1,300,000.00
XS0543421100	SM INVESTMENTS CORP 5.5 % 13/10/2017	USD	2,023,000.00



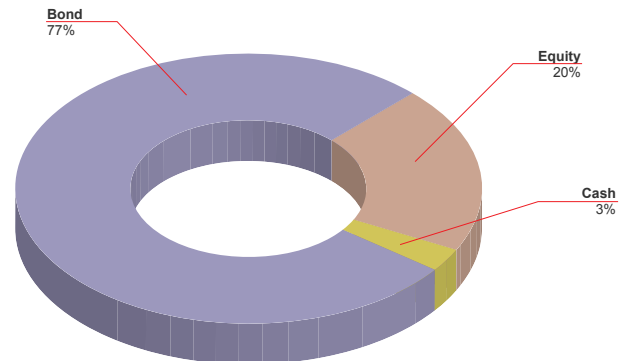
PORTFOLIO STATEMENT

ASSET MIX

FUND NAME : PruLink Managed Fund
FUND CCY : P

AS AT 31 Dec 2010

ISIN CODE	SECURITY NAME	SEC CCY	Quantity
PHY000038074	PRULIFE UK- PRULINK BOND FUND	PHP	1,199,893,194.76
PHY000038073	PRULIFE UK - PRULINK EQUITY FUND	PHP	519,309,358.36



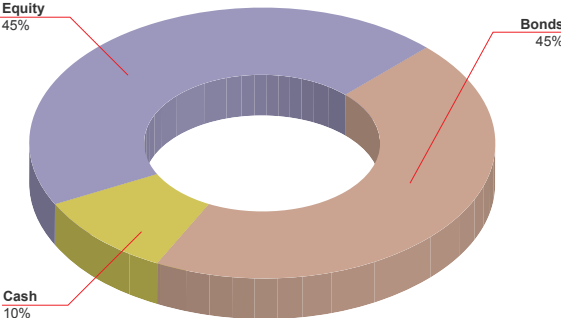
PORTFOLIO STATEMENT

ASSET MIX

FUND NAME : PruLink ProActive Fund
FUND CCY : P

AS AT 31 Dec 2010

ISIN CODE	SECURITY NAME	SEC CCY	Quantity
PHY000038074	PRULIFE UK- PRULINK BOND FUND	PHP	495,001,722.99
PHY000038073	PRULIFE UK - PRULINK EQUITY FUND	PHP	791,284,285.86



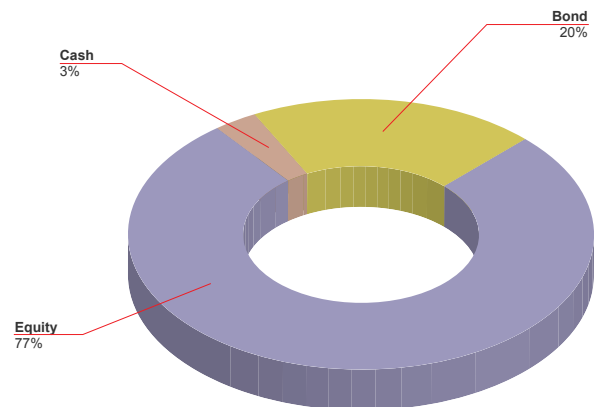
PORTFOLIO STATEMENT

ASSET MIX

FUND NAME : PruLink Growth Fund
FUND CCY : P

AS AT 31 Dec 2010

ISIN CODE	SECURITY NAME	SEC CCY	Quantity
PHY000038074	PRULIFE UK- PRULINK BOND FUND	PHP	215,899,364.78
PHY000038073	PRULIFE UK - PRULINK EQUITY FUND	PHP	1,400,168,233.57



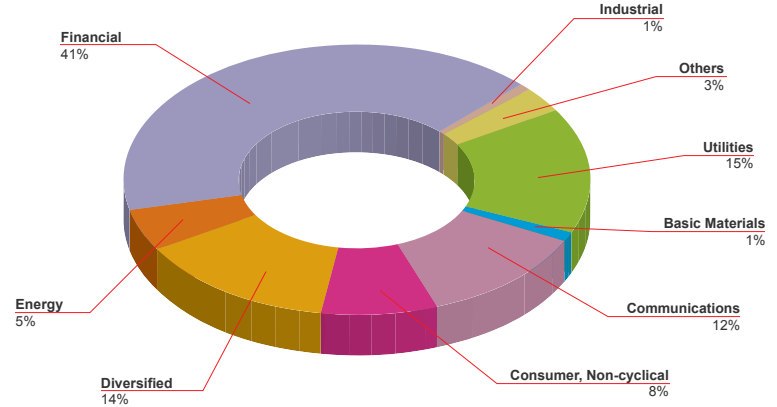
PORTFOLIO STATEMENT

ASSET MIX

FUND NAME : PruLink Equity Fund
 FUND CCY : P

AS AT 31 Dec 2010

ISIN CODE	SECURITY NAME	SEC CCY	Quantity
PHY0001Z1040	ABOITIZ EQUITY VENTURES INC	PHP	9,570,000.00
PHY0005M1090	ABOITIZ POWER CORPORATION	PHP	7,823,600.00
PHY003341054	ALLIANCE GLOBAL GROUP INC	PHP	20,414,600.00
PHY0486V1154	AYALA CORPORATION	PHP	668,288.00
PHY0488F1004	AYALA LAND INC	PHP	23,164,107.00
PHY0560W1046	BANCO DE ORO - EPCI INC	PHP	3,658,176.00
PHY0967S1694	BANK OF PHILIPPINE ISLANDS	PHP	6,109,520.00
PHY1234G1032	CEBU AIR INC	PHP	331,200.00
PHY138161062	CHINA BANKING CORPORATION	PHP	422,379.00
PHY2088F1004	DMCI HOLDINGS INC	PHP	2,111,500.00
PHY2292T1026	ENERGY DEVELOPMENT CORP	PHP	52,249,750.00
PHY249161019	FILINVEST LAND INC	PHP	109,386,000.00
PHY2518H1143	FIRST GEN CORPORATION	PHP	13,160,039.00
PHY2558N1203	FIRST PHILIPPINE HOLDINGS CORPORATION	PHP	1,833,967.00
PHY272571498	GLOBE TELECOM INC	PHP	160,813.00
PHY2728R1006	GMA HOLDINGS INC-PDR	PHP	12,341,800.00
PHY411571011	INTERNATIONAL CONTAINER TERMINAL SERVICE	PHP	2,865,300.00
PHY444251177	JG SUMMIT HOLDINGS INC	PHP	5,866,900.00
PHY4466S1007	JOLLIBEE FOODS CORPORATION	PHP	813,700.00
PHY5764J1483	MANILA ELECTRIC COMPANY	PHP	449,357.00
PHY569991086	MANILA WATER COMPANY	PHP	9,237,840.00
PHY594811127	MEGAWORLD CORPORATION	PHP	24,341,000.00
PHY603051020	METRO PACIFIC INVESTMENTS CORPORATION	PHP	28,327,000.00
PHY6028G1361	METROPOLITAN BANK & TRUST COMPANY	PHP	5,044,500.00
PHY689911352	PHILEX MINING CORP	PHP	3,502,362.00
PH7182521093	PHILIPPINE LONG DISTANCE TELEPHONE CO	PHP	229,824.00
PHY731961264	ROBINSONS LAND CORPORATION	PHP	2,766,100.00
PHY7571C1000	SECURITY BANK CORP	PHP	1,327,047.00
PHY806761029	SM INVESTMENTS CORP	PHP	628,655.00
PHY8076N1120	SM PRIME HOLDINGS INC	PHP	13,194,077.00
PHY9297P1004	UNIVERSAL ROBINA CORPORATION	PHP	4,296,000.00
PHY9382G1068	VISTA LAND & LIFESCAPES INC	PHP	27,235,000.00





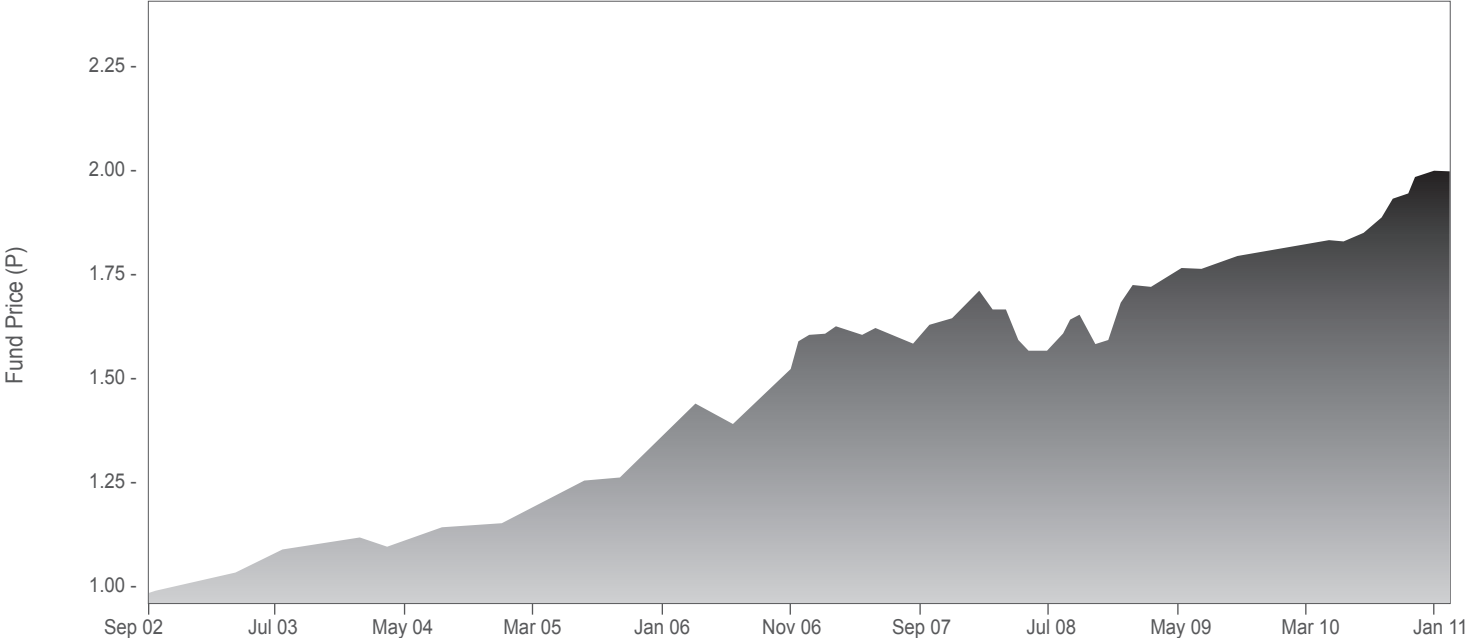
Top 10 Holdings (equity only) as of 31 December 2010:

Security Code	Security	% of Total Fund
PH7182521093	PHILIPPINE LONG DISTANCE TELEPHONE	9.568%
PHY0488F1004	AYALA LAND INC	6.215%
PHY6028G1361	METROPOLITAN BANK & TRUST CO	5.920%
PHY0967S1694	BANK OF PHILIPPINE ISLANDS	5.876%
PHY0001Z1040	ABOITIZ EQUITY VENTURES INC	5.787%
PHY806761029	SM INVESTMENTS CORPORATION	5.564%
PHY2292T1026	ENERGY DEV CORP	4.999%
PHY0486V1154	AYALA CORPORATION	4.292%
PHY003341054	ALLIANCE GLOBAL GROUP INC	4.159%
PHY0005M1090	ABOITIZ POWER CORP.	3.966%

FUND PERFORMANCE

PESO BOND FUND

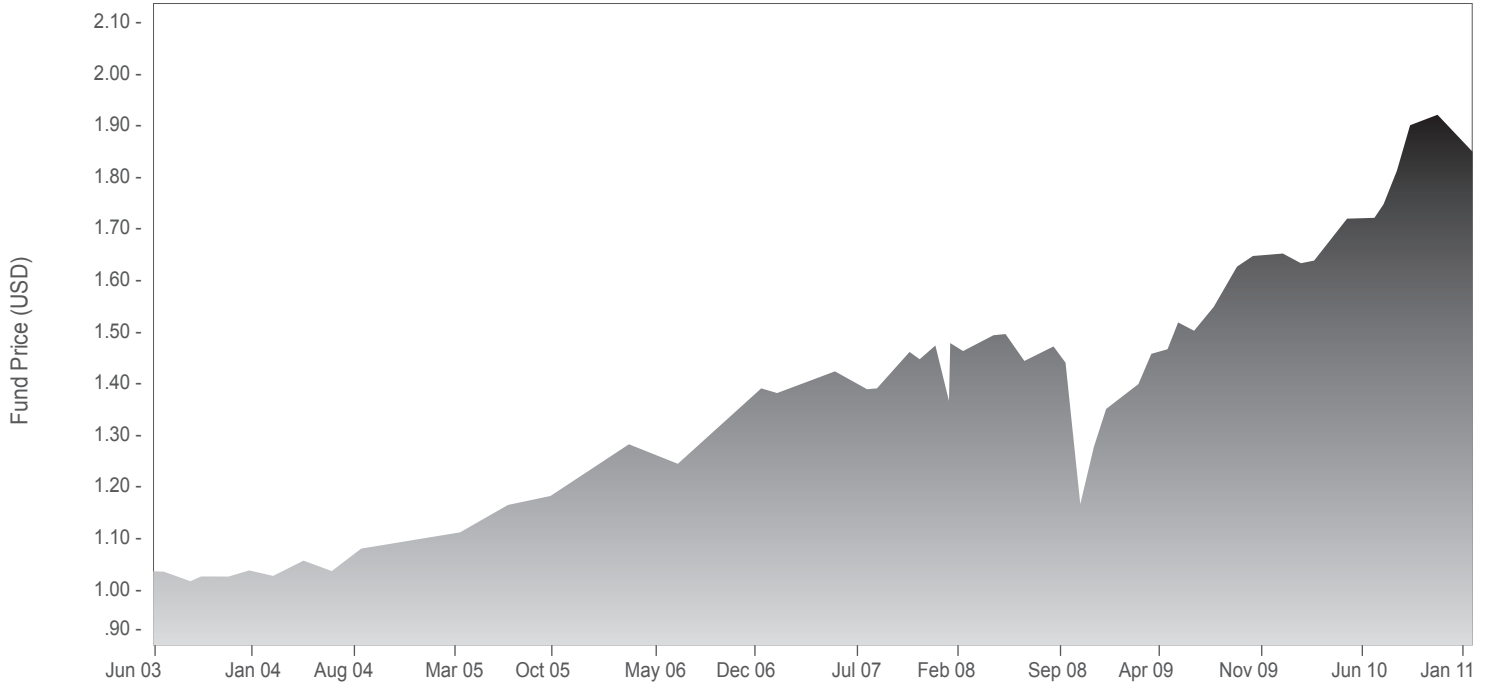
1.99156
as at Jan. 3, 2011



FUND PERFORMANCE

USD BOND FUND

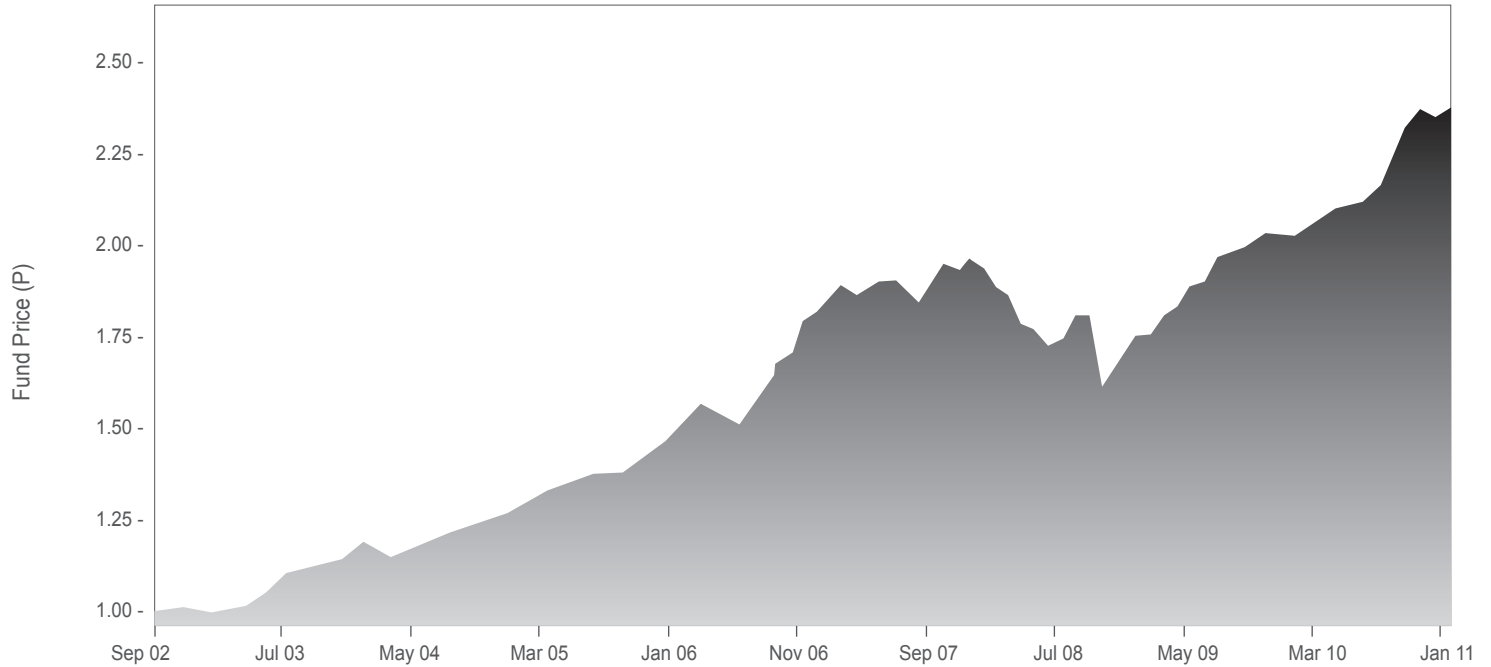
1.83850
as at Jan. 3, 2011



FUND PERFORMANCE

MANAGED FUND

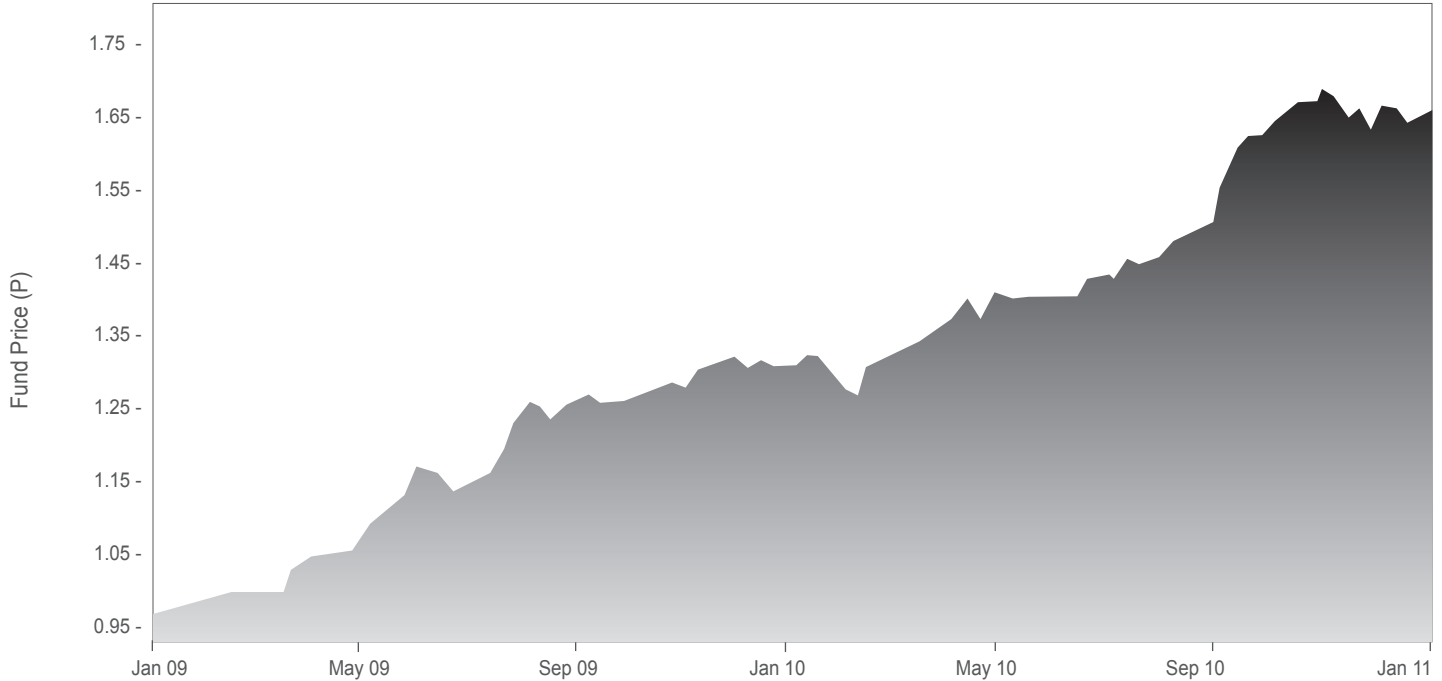
2.37763
as at Jan. 3, 2011



FUND PERFORMANCE

PROACTIVE FUND

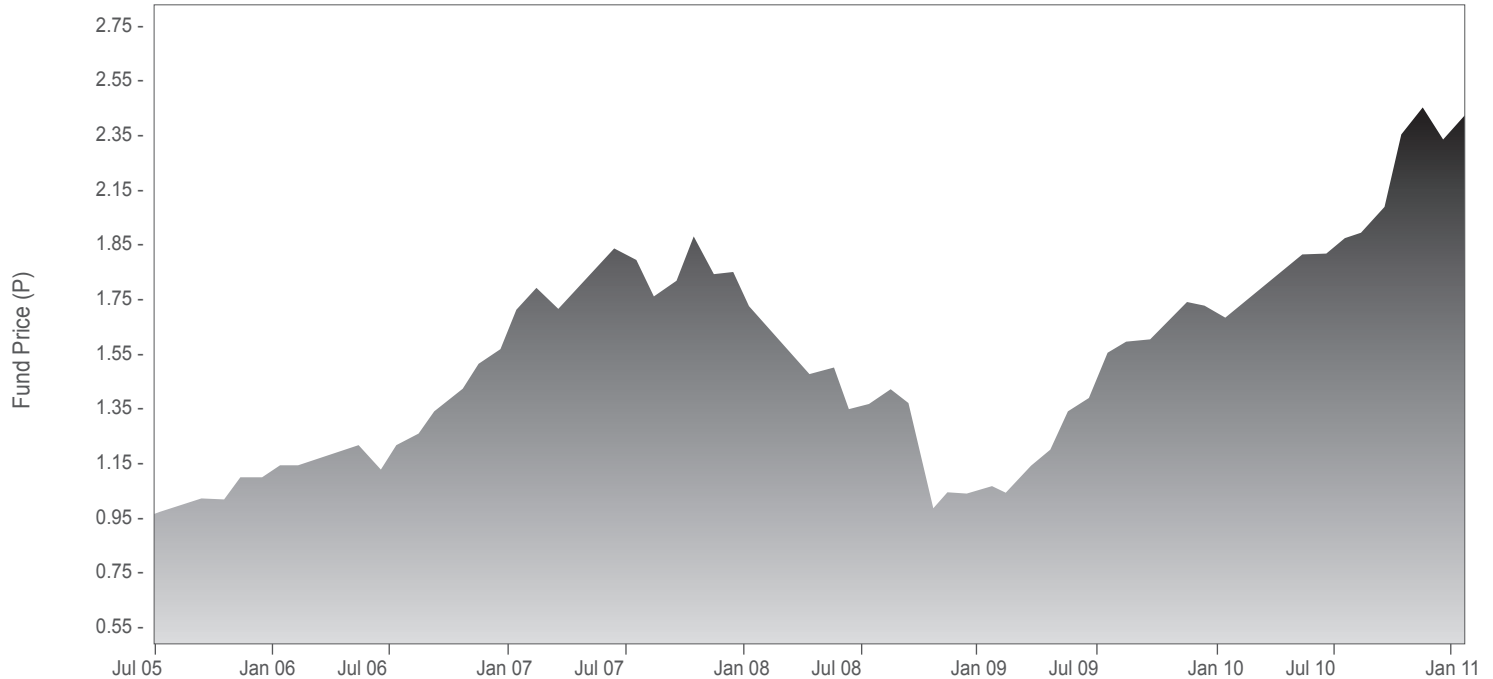
1.66069
as at Jan. 3, 2011



FUND PERFORMANCE

GROWTH FUND

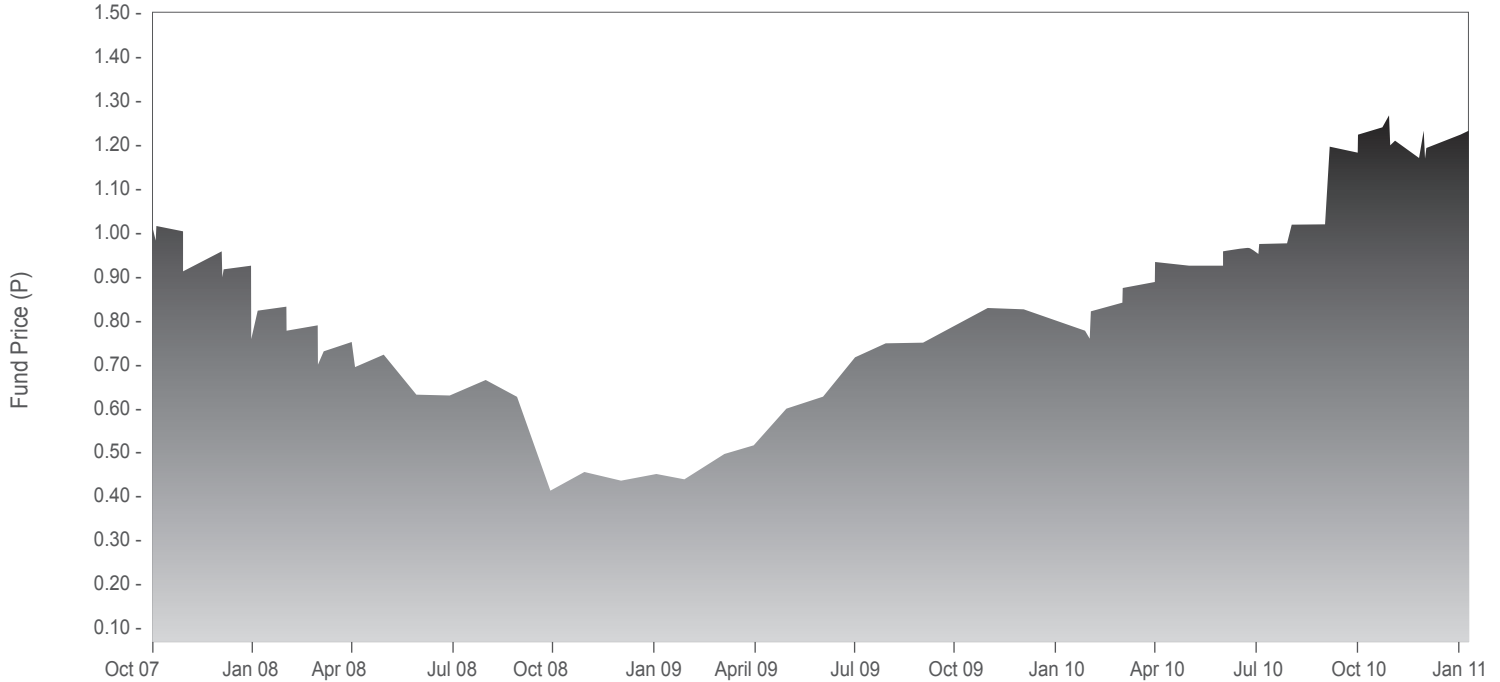
2.41615
as at Jan. 3, 2011



FUND PERFORMANCE

EQUITY FUND

1.23364
as at Jan. 3, 2011



FUND MANAGERS' PROFILE

Chow Wing Kin, Investment Director

Chow Wing Kin is an Investment Director, Asian equities at Prudential. Wing Kin joined Prudential in 1999 and is the country specialist managing the funds in the Philippines, Indonesia and Thailand. In addition, Wing Kin is the manager for ASEAN advisory mandate as well as the Japan-domiciled PCA Growing Asia Equity Fund. Wing Kin has over 14 years of investment experience. Prior to Prudential, Wing Kin was an investment analyst at The Insurance Corporation of Singapore. Wing Kin holds a Bachelor's degree in Business from the Nanyang Technological University in Singapore.

Low Guan Yi, Assistant Director – Fixed-Income

The PruLink Bond Fund is managed by Guan Yi who has 12 years of investment experience in Asian fixed income. She is currently responsible for the pan-Asian local currency bond portfolios and the Philippines' country fund. Prior to joining Prudential, she helped to launch and manage an Asian local currency fund at Bank Pictet et Cie Asia Ltd. Before that, she was managing Asian local currency and credit portfolios at Fullerton Fund Management Company (a member of Temasek Holdings), and at Standard Chartered Bank Singapore. Guan Yi holds a Bachelor's degree in Business from the Nanyang Technological University in Singapore and is a Chartered Financial Analyst since 2001.

Leong Wai Mei, Assistant Director – Fixed-Income

The PruLink USD Bond Fund is managed by Wai Mei who has 10 years of investment experience. Prior to joining the firm, Wai Mei has worked in various capacities in relation to credit, including holding positions as Senior Analyst at the Bank of Nova Scotia Asia Ltd., Commerce International Merchant Bankers (CIMB), Malaysia and ABN AMRO Bank, Singapore. Wai Mei holds a post-graduate diploma in Finance from the Melbourne University and Bachelor's degree in Business (Accounting) from RMIT in Australia. She is a Certified Public Accountant since 1996.

Riki Frindos, Investment Director – Global Asset Allocation

The PruLink Managed Fund, PruLink ProActive Fund and the PruLink Growth Fund are managed by Riki Frindos who has over 14 years of investment experience. He joined Prudential Life Assurance Indonesia, the Indonesian life company of Prudential Group, as Portfolio Manager in 2002 and transferred to Prudential Asset Management Singapore (PAMS) in 2005. Prior to joining Prudential, Riki worked as an Investment Manager for ING Investment Management. Riki holds a B.Eng from the Institut Teknologi Bandung in Indonesia.

PRU LIFE INSURANCE CORPORATION OF U.K.
(A wholly-owned subsidiary of Prudential Corporation Holdings Limited)
COMBINED STATEMENTS OF ASSETS AND ACCOUNTABILITIES
OF THE PRULINK
OPERATED BY THE LINKED FUND
AS AT DECEMBER 31
(In thousand pesos)

Notes	2010											2009									
	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Secured Return Fund	Secured Return Fund II	Money Market Fund	Proactive Fund	Combined	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Secured Return Fund	Secured Return Fund II	Money Market Fund	Proactive Fund	Combined	
Assets																					
Cash and cash equivalents	P86,203	P254,329	P30,034	P6,293	P257,822	P1,663	P284	P112,049	P218,782	P967,459	P34,214	P29,653	P154,181	P9,659	P166,018	P1,461	P2	P104,002	P26,392	P525,618	
Interest receivables	6	74,499	53,454	1	1,695	897	601	9	8	131,170	8	62,246	32,863	2	29	1,426	899	82	6	97,561	
Receivable from life fund	2	2,735	9,572	13,424	542	9,779	-	-	33,556	69,608	9,942	7,814	20,259	4,483	2,221	-	-	-	633	45,352	
Investments at fair value through profit or loss	5	3,030,300	5,186,298	2,956,563	2,157,280	5,971,982	28,809	19,327	1,961,986	21,312,545	2,220,513	3,376,044	1,408,169	1,645,167	3,462,623	41,977	26,459	(8)	174,819	12,355,763	
Other assets	-	1	-	35,000	5	-	-	-	-	35,006	-	98	-	-	543	-	-	-	-	641	
	3,119,244	5,524,699	3,053,475	2,199,116	6,241,283	31,369	20,212	112,058	2,214,332	22,515,788	2,264,677	3,475,855	1,615,472	1,659,347	3,631,434	44,864	27,360	104,076	201,850	13,024,935	
Liability to Life Fund and other Linked Funds	(161)	(3,806,825)	-	(46,554)	(3,405,063)	-	(1,610)	(103,679)	-	(7,363,892)	-	(2,198,546)	-	-	(1,841,954)	-	-	(101,844)	-	(4,142,344)	
Accrued expenses	(99)	(1,908)	(1,053)	(54)	(3,065)	(7)	(4)	(35)	(260)	(6,485)	(76)	(1,372)	(630)	(64)	(2,079)	(11)	(30)	(33)	(30)	(4,325)	
Trade payable	-	-	-	-	(42,263)	-	-	-	-	(42,263)	-	-	-	-	(794)	-	-	-	-	(794)	
Net assets	P3,118,984	P1,715,966	P3,052,422	P2,152,508	P2,790,892	P31,362	P18,598	P8,344	P2,214,072	P15,103,148	P2,264,601	P1,275,937	P1,614,842	P1,659,283	P1,786,607	P44,853	P27,330	P2,199	P201,820	P8,877,472	

See notes to the Combined Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.
(A wholly-owned subsidiary of Prudential Corporation Holdings Limited)
**COMBINED STATEMENTS OF CHANGES IN NET ASSETS
OF THE PRULINK**
OPERATED BY THE LINKED FUND FOR THE YEARS ENDED DECEMBER 31
(In thousand pesos)

Note	2010										2009										
	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Secured Return Fund	Secured Return Fund II	Money Market Fund	Proactive Fund	Combined	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Secured Return Fund	Secured Return Fund II	Money Market Fund	Proactive Fund	Combined	
Net assets at the beginning of year	P2,264,601	P1,275,937	P1,614,842	P1,659,283	P1,786,607	P44,853	P27,330	P2,199	P201,820	P8,877,472	P1,595,367	P1,059,202	P1,171,642	P893,509	P850,271	P36,967	P-	P-	P-	P5,606,958	
Net additions/withdrawals to the funds for creation of units	428,659	(6,520)	1,285,967	(152,228)	(817,770)	(18,135)	(11,544)	4,162	1,833,082	2,545,673	366,153	47,472	201,623	161,050	(641,785)	3,708	25,387	342	192,542	356,492	
	2,693,260	1,269,417	2,900,809	1,507,055	968,837	26,718	15,786	6,361	2,034,902	11,423,145	1,961,520	1,106,674	1,373,265	1,054,559	208,486	40,675	25,387	342	192,542	5,963,450	
FUND INCOME																					
Dividend income	(1)	-	-	-	137,689	-	-	-	-	137,688	-	-	-	-	97,581	-	-	-	-	97,581	
Interest income	423	307,010	138,494	121	3,640	2,213	1,456	4,075	1,152	458,584	564	219,438	89,959	286	3,268	6,280	1,930	3,741	109	325,575	
Unrealized appreciation (depreciation) of investments at fair value through profit or loss	377,463	261,857	36,760	560,635	1,287,479	981	715	8	178,672	2,704,570	321,030	22,111	166,144	625,048	1,705,134	310	196	(8)	9,421	2,849,386	
Gain (loss) on sale of investment at fair value through profit or loss	51,062	9,853	11,151	87,424	499,803	1,784	863	-	3,366	665,306	(15,730)	18,381	6,002	(18,388)	(165,144)	-	-	-	28	(174,851)	
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
FUND EXPENSES																					
Taxes	(92)	(64,897)	(2)	(24)	(723)	(9)	(2)	(816)	(237)	(66,802)	(113)	(43,682)	29	(57)	(655)	(1,957)	-	(745)	(22)	(47,202)	
Management fees	6	(3,131)	(67,274)	(34,790)	(2,703)	(105,833)	(325)	(220)	(1,284)	(3,783)	(219,343)	(2,670)	(46,985)	(20,557)	(2,165)	(62,063)	(455)	(183)	(1,131)	(258)	(136,467)
Others																					
	425,724	446,549	151,613	645,453	1,822,055	4,644	2,812	1,983	179,170	3,680,003	303,081	169,263	241,577	604,724	1,578,121	4,178	1,943	1,857	9,278	2,914,022	
NET ASSETS AT END OF YEAR	P3,118,984	P1,715,966	P3,052,422	P2,152,508	P2,790,892	P31,362	P18,598	P8,344	P2,214,072	P15,103,148	P2,264,601	P1,275,937	P1,614,842	P1,659,283	P1,786,607	P44,853	P27,330	P2,199	P201,820	P8,877,472	

See notes to the Combined Financial Statements.

PRU LIFE INSURANCE CORPORATION OF U.K.
(A wholly-owned subsidiary of Prudential Corporation Holdings Limited)
COMBINED STATEMENTS OF CASH FLOWS
OF THE PRULINK
OPERATED BY THE LINKED FUND FOR THE YEARS ENDED DECEMBER 31
(In thousand pesos)

	2010										2009										
	Note	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Secured Return Fund	Secured Return Fund II	Money Market Fund	Proactive Fund	Combined	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Secured Return Fund	Secured Return Fund II	Money Market Fund	Proactive Fund	Combined
CASH FLOWS FROM OPERATING ACTIVITIES																					
Net increase (decrease) in net assets from operations for the year		P425,724	P446,549	P151,613	P645,453	P1,822,055	P4,644	P2,812	P1,983	P179,170	P3,680,003	P303,081	P169,263	P241,577	P604,724	P1,578,121	P4,178	P1,943	P1,857	P9,278	P2,914,022
Adjustments for:																					
Unrealized (appreciation depreciation of investment at fair value through profit or loss	2, 5, 8	(377,463)	(261,857)	(36,760)	(560,635)	(1,287,479)	(981)	(715)	(8)	(178,672)	(2,704,570)	(321,030)	(22,111)	(166,144)	(625,048)	(1,705,134)	(310)	(196)	8	(9,421)	(2,849,386)
Loss (gain) on sale of investment	5, 8	(51,062)	(9,853)	(11,151)	(87,424)	(499,803)	(1,784)	(863)	-	(3,366)	(665,306)	15,730	(18,381)	(6,002)	18,388	165,144	-	-	-	(28)	174,851
Interest income		(423)	(307,010)	(138,494)	(121)	(3,640)	(2,213)	(1,456)	(4,075)	(1,152)	(458,584)	(564)	(219,438)	(89,959)	(286)	(3,268)	(6,280)	(1,930)	(3,741)	(109)	(325,575)
Dividend income		1	-	-	-	(137,689)	-	-	-	-	(137,688)	-	-	-	-	(97,581)	-	-	-	-	(97,581)
Operating loss before working capital changes		(3,223)	(132,171)	(34,792)	(2,727)	(106,556)	(334)	(222)	(2,100)	(4,020)	(286,145)	(2,783)	(90,667)	(20,528)	(2,222)	(62,718)	(2,412)	(183)	(1,876)	(280)	(183,669)
Decrease (increase) in: Receivable from life fund		7,207	(1,758)	6,836	3,941	(7,558)	-	-	-	(32,924)	(24,256)	(2,129)	(3,219)	(20,259)	(2,006)	444	3,592	-	-	(633)	(24,210)
Other assets		-	98	-	(35,000)	-	-	-	-	-	(34,902)	-	(98)	-	-	-	-	-	-	-	(98)
Liability to Life Fund and other Linked Funds		161	1,608,277	-	46,554	1,563,104	-	1,610	1,834	-	3,221,540	(142)	808,649	(4,817)	(99)	761,890	-	-	101,844	-	1,667,325
Increase (decrease) in accountabilities		23	536	423	(9)	42,455	(4)	(26)	3	230	43,631	76	1,272	593	64	2,776	11	30	33	30	4,885
Net cash from (used in) operating activities		P4,168	P1,474,982	(P27,533)	P12,759	P1,491,445	(P338)	P1,362	(P263)	(P36,714)	P2,919,868	(P4,978)	P715,937	(P45,011)	(P4,263)	P702,392	P1,191	(P153)	P100,001	(P883)	P1,464,233

Forward.

PRU LIFE INSURANCE CORPORATION OF U.K.
(A wholly-owned subsidiary of Prudential Corporation Holdings Limited)
COMBINED STATEMENTS OF CASH FLOWS
OF THE PRULINK
OPERATED BY THE LINKED FUND FOR THE YEARS ENDED DECEMBER 31
(In thousand pesos)

Note	2010										2009										
	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Secured Return Fund	Secured Return Fund II	Money Market Fund	Proactive Fund	Combined	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Secured Return Fund	Secured Return Fund II	Money Market Fund	Proactive Fund	Combined	
CASH FLOWS FROM INVESTING ACTIVITIES																					
Acquisition of investments - net	5.8	(P381,262)	(P1,538,543)	(P1,500,485)	P135,944	(P722,078)	P15,932	P8,711	P -	(P1,605,128)	(P5,586,909)	(P338,500)	(P969,538)	(P150,852)	(P151,500)	(P119,159)	(P8,292)	(P26,263)	P -	(P165,370)	(P1,929,474)
Interest received	5.8	425	294,757	117,904	123	3,648	2,743	1,753	4,148	1,150	426,651	562	201,027	90,410	286	3,309	4,854	1,031	3,659	103	305,241
Dividends received	5.8	(1)	-	-	-	136,559	-	-	-	-	136,558	-	-	-	-	97,466	-	-	-	-	97,466
Net cash used in investing activities		(380,838)	(1,243,786)	(1,382,581)	136,067	(581,871)	18,675	10,464	4,148	(1,603,978)	(5,023,700)	(337,938)	(768,511)	(60,442)	(151,214)	(18,384)	(3,438)	(25,232)	3,659	(165,267)	(1,526,767)
CASH FLOWS FROM A FINANCING ACTIVITY																					
Net additions/withdrawals to the Fund for creation of units		428,659	(6,520)	1,285,967	(152,228)	(817,770)	(18,135)	(11,544)	4,162	1,833,082	2,545,673	366,153	47,472	201,623	161,050	(641,785)	3,708	25,387	342	192,542	256,492
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		51,989	224,676	(124,147)	(3,402)	91,804	202	282	8,047	192,390	441,841	23,237	(5,102)	96,170	5,573	42,223	1,461	2	104,002	26,392	293,958
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		34,214	29,653	154,181	9,695	166,018	1,461	2	104,002	26,392	525,618	10,977	34,755	58,011	4,122	123,795	-	-	-	-	231,660
CASH AND CASH EQUIVALENTS AT END OF YEAR		P86,203	P254,329	P30,034	P6,293	P257,822	P1,663	P284	P112,049	218,782	P967,459	P34,214	P29,653	P154,181	P9,695	P166,018	P1,461	P2	P104,002	P26,392	P525,618

See notes to the Combined Financial Statements.

1. Organization and business

Pru Life Insurance Corporation of U.K. (the "Company") was incorporated in the Philippines on January 17, 1996, primarily to engage in the business of life insurance. On September 11, 2002, the Insurance Commission ("IC") also approved the Company's license to sell variable or unit-linked life insurance contracts, an insurance policy either on a group or on an individual basis, which provides for benefits or other contractual payments or values thereunder to vary so as to reflect investment results. The objective of PruLink (the "Funds") is to provide policyholders with above average return over the medium- and long-term periods through both capital appreciation and income. Currently, there are nine funds available for investment, for which these combined financial statements have been prepared.

a. *Managed Fund* – a fund denominated in Philippine peso that seeks to optimize medium- to long-term capital and income growth through investments in fixed-income securities, money market instruments and shares of stocks listed in the Philippine Stock Exchange.

b. *Bond Fund (Peso)* – a fund denominated in Philippine peso that seeks to achieve an optimal level of income in the medium-term together with long-term capital growth through investments in fixed-income securities and money market instruments.

c. *Bond Fund (Dollar)* – a fund denominated in US dollars that seeks to achieve an optimal level of income in the medium-term together with long-term capital growth through investments in fixed-income securities and money market instruments denominated in US dollars (USD).

d. *Growth Fund* – a fund denominated in Philippine peso that seeks to optimize medium- to long-term capital and income growth with emphasis on strong capital growth, through investments in fixed-income securities, money market instruments with a greater focus on investment in shares of stocks listed in the Philippine Stock Exchange.

e. *Equity Fund* – a fund denominated in Philippine peso that seeks to optimize medium- to

long- term capital growth through investments in shares of stocks listed in the Philippine Stock Exchange.

f. *Secured Return Fund I and II* – seek to achieve a stable return in the medium-term through investment in a dollar-denominated bond instrument issued by the Republic of the Philippines, which is held to its maturity date. The interest coupons of the bond and the maturity value are converted to peso amounts at a peso-dollar exchange rate which is locked-in at the time the bond is purchased.

g. *Money Market Fund* – seeks to provide a stable return through investment in fixed-income instruments issued by the Philippine government and short-term instruments such as deposit placements.

h. *Proactive Fund* – seeks to optimize medium- to long-term capital and income growth with emphasis on dynamic asset allocation by fund managers through investment in fixed-income securities, money market instruments and shares of stocks listed in the Philippine Stock Exchange.

The Company's Money Market Fund and Proactive Fund were launched in January 2009. Secured Return Fund II became available for investment starting February 2009.

For in-house managed Funds, the administration is delegated to the Company. For investment activities of the Funds that are managed by Prudential Asset Management Singapore ("PAMS"), (see Note 6), an entity under common control with the Company, the valuation and unit pricing calculation are done by Standard Chartered Bank as per Prudential Corporation Asia (PCA) mandate.

The Company's principal address is at the 22nd Floor, The Marajo Tower, 312 26th Street West corner Fourth Avenue, Bonifacio Global City, Taguig City 1634.

2. Basis of preparation

Statement of compliance

The combined financial statements were prepared from the accounts maintained in the Linked Fund of Pru Life Insurance Corporation of U.K. Such combined financial statements of the Funds have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS).

The combined financial statements are intended for use by the Company's Board of Directors, stockholders and management. The combined financial statements are intended to be filed with the IC of the Philippines and should not be used for any other purpose.

The combined financial statements of the Funds as of and for the years ended December 31, 2010 and 2009 were authorized for issue by the Board of Directors of Pru Life Insurance Corporation of U.K. on February 24, 2011.

Basis of measurement

The combined financial statements are prepared on a fair value basis for financial assets at fair value through profit or loss. Loans and receivables are carried at cost or at amortized cost using effective interest method. Financial liabilities which include accrued expenses and trade payable are stated at amortized cost or redemption amount.

For the purpose of the combined financial statements, interfund investments are not eliminated. The interfund investments are as follows:

	<i>Note</i>	2010	2009
Managed Fund invested at Bond Fund (Peso)	5	P2,389,660	P1,778,120
Growth Fund invested at Equity Fund	5	1,727,303	1,311,730
Managed Fund invested at Equity Fund	5	640,640	442,393
Growth Fund invested at Bond Fund (Peso)	5	429,977	333,437
Proactive Fund invested in Bond Fund (Peso)	5	985,825	86,989
Proactive Fund invested in Equity Fund	5	976,161	87,831
		P7,149,566	P4,040,500

Other assets not eliminated are as follows:

	2010	2009
Life Fund invested at Bond Fund (Peso)	P1,362	P -
Life Fund invested at Bond Fund (Dollar)	-	-
Life Fund invested at Equity Fund	60,957	-
Life Fund invested at Managed Fund	160	-
Life Fund invested at Growth Fund	46,553	-
Life Fund invested at Money Market Fund	103,678	101,844
Life Fund invested at Secured Return Fund	-	-
Life Fund invested at Secured Return Fund II	1,610	-
Life Fund invested at Proactive Fund	-	-
	P214,320	P101,844

Interfund investments amounting to P7,149,566 and P4,040,500 in 2010 and 2009, respectively, and other assets amounting to P214,320 and P101,844 in 2010 and 2009 comprise the "Liability to life fund and other linked funds" account in the Combined Statement of Assets and Accountabilities.

Income from interfund investments are as follows:

	2010	2009
Managed Fund invested at Bond Fund (Peso)		
Realized gain on sales of interfund investments	P 5,014	P -
Unrealized gain on investments	208,750	88,456
	213,764	88,456
Managed Fund invested at Equity Fund		
Realized loss on sales of interfund investments	46,048	(15,730)
Unrealized gain (loss) on investments	168,713	232,574
	214,761	216,844
Growth Fund invested at Bond Fund (Peso)		
Realized gain on sales of interfund investments	6,588	1,893
Unrealized gain (loss) on investments	32,510	12,672
	39,098	14,565
Growth Fund invested at Equity Fund		
Realized gain (loss) on sales of interfund investments	80,836	(20,281)
Unrealized gain (loss) on investments	528,125	612,376
	608,961	592,095
Proactive Fund invested in Bond Fund (Peso)		
Realized gain (loss) on sales of interfund investments	3,183	-
Unrealized gain (loss) on investments	40,866	-
	44,049	-
Proactive Fund invested in Equity Fund		
Realized gain (loss) on sales of interfund investments	184	-
Unrealized gain (loss) on investments	137,806	-
	137,990	-
	P1,258,623	P911,960

Receivables from life fund amounting to P69,608 and P63,207 as of December 31, 2010 and 2009, respectively, are also not eliminated.

Functional and presentation currency

The combined financial statements are presented in Philippine peso, which is the Funds' functional currency. Transactions in foreign currencies are translated to the functional currency using the foreign currency exchange rate prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Philippine peso using the foreign currency closing exchange rate prevailing at the reporting date. Foreign currency exchange difference arising from translation and realized gains and losses on disposals or settlement of monetary assets and liabilities denominated in foreign currency that is measured at fair value is translated to peso using the foreign currency exchange rates prevailing at the dates that the value was determined. Foreign currency exchange differences relating to investments at fair value through profit and loss are included in gains and losses from investments.

Use of estimates and judgments

The preparation of the combined financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the combined financial statements is described in Note 4.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by the Company, except for the changes in accounting policies as explained below.

Adoption of new or revised standards, amendments to standards and interpretations

The Financial Reporting Standards Council approved the adoption of a number of new or

revised standards, amendments to standards and interpretations based on International Financial Reporting Interpretations Committee (IFRIC) Interpretations as part of PFRSSs.

Revised standard, amendments to standards and interpretations adopted in 2010

The Company adopted the following revised standard and amendments to standard in preparing its 2010 financial statements:

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*, provide for the following: a) new application guidance to clarify the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedge relationship; and b) additional application guidance on qualifying items; assessing hedge effectiveness; and designation of financial items as hedged items. The amendments are effective for annual periods beginning on or after July 1, 2009.
- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*, becomes effective for the financial years beginning on or after July 1, 2009. This interpretation provides guidance on the accounting for non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. It also applies to distributions in which the owners may elect to receive either the non-cash asset or a cash alternative. The liability for the dividend payable is measured at the fair value of the assets to be distributed. The Company will assess the impact of this interpretation after its adoption on July 1, 2009.
- *Improvements to PFRSSs 2009*, contain 15 amendments to 12 standards. The improvements are generally effective for annual periods beginning on or after January 1, 2010. The following are the said improvements or amendments to PFRSSs, none of which has a significant effect on the financial statements of the Company:
- PAS 38, *Intangible Assets*. The amendments clarify that: (i) an intangible asset that is separable only together with a related contract, identifiable asset or liability is recognized separately from goodwill together with the related item; and (ii) complementary intangible assets with similar useful lives may be recognized as a single asset. The amendments also describe valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination for which no active market exists.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*. The IASB amended the scope of IFRIC 9 so that embedded derivatives in contracts acquired in business combinations as defined in PFRS 3 (2008), joint venture formations and common

control transactions remain outside the scope of IFRIC 9.

- PAS 1, *Presentation of Financial Statements*. The amendments clarify that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of equity instruments.
- PAS 7, *Statement of Cash Flows*. The amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities.
- PAS 17, *Leases*. The IASB deleted guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. The amendments clarify that when a lease includes both the land and building elements, an entity should determine the classification of each element based on paragraphs 7 to 13 of PAS 17, taking account of the fact that land normally has an indefinite economic life.
- PAS 36, *Impairment of Assets*. The amendments clarify that the largest unit to which goodwill should be allocated is the operating segment level as defined in PFRS 8 before applying the aggregation criteria of PFRS 8.
- PAS 39, *Financial Instruments: Recognition and Measurement*. The amendments provide: (i) additional guidance on determining whether loan prepayment penalties result in an embedded derivative that needs to be separated; (ii) clarify that the scope exemption in PAS 39 paragraph 2(g) is restricted to forward contracts, i.e. not options, between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date within a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and (iii) clarify that the gains or losses on a cash flow hedge should be reclassified from other comprehensive income to profit or loss during the period that the hedged forecast cash flows impact profit or loss.

New or revised standards, amendments to standards and interpretations not yet adopted

The following are the new or revised standards and amendments to standards that have been approved by the FRSC but are not yet effective for the year ended December 31, 2010, and have not been applied in preparing the financial statements. None of these is expected to have a significant effect on the financial statements of the Company.

The Company will adopt the following new or revised standards, amendments to standards and interpretations in the respective effective dates:

To be adopted on January 1, 2011

- Philippine Interpretation IFRIC-19 *Extinguishing Financial Liabilities with Equity Instruments*, addresses issues in respect of the accounting by the debtor in a debt-for-equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt-for-equity swap are consideration paid in accordance with PAS 39 paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010.
- Revised PAS 24 *Related Party Disclosures* (2009) amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011.

To be adopted on January 1, 2013

- PFRS 9 Financial Instruments (2009) was issued as the first phase of the PAS 39 replacement project. The chapters of the standard released in 2009 only related to the classification and measurement of financial assets. PFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial asset. In October 2010, a new version of PFRS 9 Financial Instruments (2010) was issued and which now includes all the requirements of PFRS 9 (2009) without amendment. The new version of PFRS 9 also incorporates requirements with respect to the classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. The new standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. PFRS 9 (2010) supersedes PFRS 9 (2009). However, for annual periods beginning before January 1, 2013, an entity may elect to apply PFRS 9 (2009) rather than PFRS 9 (2010).

Under prevailing circumstances, the adoption of the above new or revised standards, amendments to standard and interpretations in 2011 and 2013 is not expected to have any material effect on the financial statements. Additional disclosures required by the new

or revised standards, amendments to standards and interpretation will be included in the financial statements, where applicable.

The accounting policies set out below have been consistently applied to all periods presented in these combined financial statements.

Financial instruments

Classification

Financial assets are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivable, held-to-maturity (HTM) investments, and AFS investments. The Company determines the classification of financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

The Funds consist of all debt and equity investments under the financial assets at FVTPL category.

Financial liabilities are classified as either financial liabilities designated at fair value through profit or loss or other financial liabilities. The Funds do not have financial liabilities designated at fair value through profit or loss. The Funds' other financial liabilities consist of accrued expenses and trade payable.

Recognition

Financial assets and financial liabilities are recognized on the date it becomes a party to the contractual provisions of the instrument.

A regular way purchase of financial assets is recognized using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded in the profit or loss. Financial liabilities are not recognized unless one of the parties has performed or the contract is a derivative contract not exempted from the scope of PAS 39, *Financial Instruments – Recognition and Measurement*.

Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognized in the combined statements of changes in net assets.

Financial liabilities not classified as fair value through profit or loss are recognized at cost or at amortized cost using the effective interest rate method.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the reporting date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices.

If a quoted market price is not available on a recognized stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the reporting date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the reporting date. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

Derecognition

The Funds derecognize a financial asset when the contractual rights to the cash flows from the financial asset expires or it transfers the financial asset and the transfer qualifies for derecognition in accordance with PAS 39.

The Funds use the weighted average method to determine realized gains and losses on derecognition. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an

insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes with maturities of three months or less from the date of acquisition.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity, if any. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

Investment income

Investment income consists of fair value changes of investments at FVTPL, interest income from all interest-bearing investments, dividend income from stock investments and gain on sale of investments. Investment income, which is net of investment management fees, is presented net of final tax.

Interest income for all interest-bearing financial instruments, including financial instruments measured at FVTPL, is recognized in the profit or loss using the effective interest method.

Dividend income for stock investments is recognized in the combined statements of changes in net assets when the right to receive payment is established.

Gain on sale of investments is recognized upon sale of investments when the consideration received is higher than the recorded cost of the investments.

Expenses

All expenses, including management fees and custodian fees, are recognized on an accrual basis.

Taxation

Dividend and interest income received by the Funds may be subject to withholding tax imposed in the country of origin. Interest income from interest-bearing investments is recorded gross of final tax.

4. Critical accounting estimates and judgments

The Company makes estimates and assumptions that affect the reported amounts of

assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Fair value estimation

The fair value of financial instruments traded in active markets (such as investments at FVTPL) is based on quoted market prices at the reporting date. If the financial instrument is not traded in an active market, the fair value is determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

Impairment of investments

The Company considers that investments are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share/market price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

5. Investments

This account, as at December 31 consists of:

	2010										2009									
	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Secured Return Fund	Secured Return Fund II	Money Market Fund	Proactive Fund	Combined	Managed Fund	Bond Fund (Peso)	Bond Fund (Dollar)	Growth Fund	Equity Fund	Secured Return Fund	Secured Return Fund II	Money Market Fund	Proactive Fund	Combined
Investment in shares of stocks	P -	P -	P -	P -	P4,279,399	P -	P -	P -	P -	P4,279,399	P -	P -	P -	P -	P3,057,092	P -	P -	P -	P -	P3,057,092
Accumulated market valuation gain (loss)	-	-	-	-	1,692,583	-	-	-	-	1,692,583	-	-	-	-	405,531	-	-	-	-	405,531
	-	-	-	-	5,971,982	-	-	-	-	5,971,982	-	-	-	-	3,462,623	-	-	-	-	3,462,623
Investment in bond funds	1,949,801	-	-	375,495	-	-	-	-	944,166	3,269,462	1,547,012	-	-	311,209	-	-	-	-	86,110	1,944,331
Accumulated market valuation gain	439,859	-	-	54,482	-	-	-	-	41,659	535,000	231,108	-	-	22,228	-	-	-	-	878	254,214
	2,389,660	-	-	429,977	-	-	-	-	985,825	3,805,462	1,778,120	-	-	333,437	-	-	-	-	86,998	2,194,545
Investment in equity funds	369,060	-	-	1,037,108	-	-	-	-	829,811	2,235,979	339,588	-	-	1,149,659	-	-	-	-	79,288	1,568,535
Accumulated market valuation gain (loss)	271,580	-	-	690,195	-	-	-	-	146,350	1,108,125	102,805	-	-	162,071	-	-	-	-	8,543	273,419
	640,640	-	-	1,727,303	-	-	-	-	976,161	3,344,104	442,393	-	-	1,311,730	-	-	-	-	87,831	1,841,954
Treasury notes	-	4,834,694	2,760,428	-	-	27,518	18,417	-	-	7,641,057	-	3,290,302	1,330,810	-	-	41,667	26,264	-	-	4,689,043
Accumulated market valuation (loss) gain	-	351,604	196,135	-	-	1,291	910	-	-	549,940	-	85,742	77,359	-	-	310	195	(8)	-	163,598
	-	5,186,298	2,956,563	-	-	28,809	19,327	-	-	8,190,997	-	3,376,044	1,408,168	-	-	41,977	26,459	(8)	-	4,852,641
	P3,030,300	P5,186,298	P2,956,563	P2,157,280	P5,971,982	P28,809	P19,327	P -	P1,961,986	P21,312,545	P2,220,513	P3,376,044	P1,408,169	P1,645,167	P3,462,623	P41,977	P26,459	(P8)	P174,819	P12,355,763

6. Management fees

The Company has an investment management services agreement with PAMS whereby the latter shall act as investment advisor to the Company in the management of funds, including Linked Funds, in consideration for a quarterly service fee as may be agreed upon by both parties on an annual basis.

Management fees are calculated in accordance with the provision of the policy document which is equivalent to the following rates per annum of investments valued at market value at valuation date as follows:

	2010	2009
Managed Fund	1.75%	1.75%
Bond Fund (Peso)	1.50%	1.50%
Bond Fund (Dollar)	1.50%	1.50%
Growth Fund	2.20%	2.20%
Equity Fund	2.20%	2.20%
Secured Return Fund I	1.00%	1.00%
Secured Return Fund II	1.00%	1.00%
Proactive Fund	2.20%	2.20%
Money Market Fund	1.25%	1.25%

7. Number of units and unit prices

As of December 31, the Funds' numbers of units in issue are as follows:

	2010	2009
Managed Fund	1,311,802	1,113,993
Bond Fund (Peso)	2,772,415	1,925,029
Bond Fund (Dollar)	37,833	21,298
Growth Fund	890,885	955,909
Equity Fund	4,973,088	4,329,940
Secured Return Fund I	24,755	40,698
Secured Return Fund II	15,139	25,426
Proactive Fund	1,333,226	153,665
Money Market Fund	108,048	102,159
	P11,467,191	P8,668,117

The corresponding published unit prices are as follows:

	2010	2009
Managed Fund	2.37763	2.03287
Bond Fund (Peso)	1.99156	1.80485
Bond Fund (Dollar)	1.83850	1.63560
Growth Fund	2.41615	1.73582
Equity Fund	1.23364	0.83803
Secured Return Fund I	1.26685	1.10211
Secured Return Fund II	1.22849	1.07482
Proactive Fund	1.66069	1.31338
Money Market Fund	1.03680	1.01844

8. Financial risk management

The Funds invest in equity and debt instruments as dictated by the individual Fund's investment management strategy. Asset allocation is determined by the Funds' Fund Manager who manages the distribution of the assets to achieve the investment objectives. Divergence from target asset allocations and the composition of the Funds' portfolio is monitored by the Investment Committee.

The nature and extent of the financial instruments outstanding at the reporting date and the risk management policies employed by the Funds are discussed below.

Market risk

Market risk embodies the potential for both loss and gains and includes currency risk, interest rate risk and equity price risk.

The Funds' strategies on the management of investment risk are driven by the individual Fund's investment objective (see Note 1). The Funds' market risk is managed on a daily basis by the Fund Manager in accordance with policies and procedures in place. The Funds' overall market positions are monitored on at least a quarterly basis by the Investment Committee of the Company.

Details of the nature of the Funds investment portfolio at the reporting date are disclosed in Note 5.

Investment risk

The investment risk represents the exposure to loss resulting from cash flows from invested assets primarily for long-term fixed rate investments, being less than the cash flows to meet the obligations of the expected policy and contract liabilities and the necessary return on investments. Additionally, there exists a future investment risk associated with certain policies currently in-force which will have premium receipts in the future.

To maintain an adequate yield to match the interest necessary to support future policy liabilities, management focus is required to reinvest the proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality.

The Company adopts the Prudential's investment strategy to invest primarily in high quality securities while maintaining diversifications to avoid significant exposure to issuer and industry.

The Company invests in equity and debt instruments as dictated by the Company's investment management strategy. Asset allocation is determined by the Company's Fund Manager who manages the distribution of the assets to achieve the investment objectives. Divergence from target asset allocations and the composition of the Company's portfolio is monitored by the Investment Committee.

Currency risk

The Funds may invest in financial instruments and enter into transactions denominated in currencies other than Philippine peso. Consequently, the Funds are exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Funds assets or liabilities denominated in currencies other than Philippine peso.

The Funds' most significant exposure to fluctuations in foreign currency exchange rates through its investments held in the Bond Fund (Dollar). The Funds' net exposure to the U.S. dollar amounts to US\$63 million and US\$29 million as of December 31, 2010 and 2009, respectively, based on the carrying value of monetary assets and liabilities of the Bond Fund (Dollar).

Had the Philippine peso strengthened by 5% in relation to the US Dollar, with all other variables held constant, the carrying value of investments held in the Bond Fund (Dollar) denominated in US dollar would have decreased by P120 million and P71 million as of December 31, 2010 and 2009, respectively. A 5% weakening of the Philippine peso in

relation to the US dollar would have an equal but opposite effect, on the basis that all other variables remain constant.

Interest rate risk

There are two types of interest rate risk:

- *Fair value interest rate risk* - the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and
- *Cash flow interest rate risk* - the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

A significant portion of the Funds' investments in debt instruments carried at fair value through profit or loss is interest-bearing. As a result, the Funds are subject to exposure to fair value interest rate risk. The Funds do not carry debt instruments with variable interest rates and, thus, are not exposed to cash flow interest rate risk.

Interest rate risk is mitigated by the Funds' Fund Manager by constructing a portfolio of debenture instruments with diversified maturities.

Any excess cash and cash equivalents of the Fund are invested in short-term commercial paper with the term to maturity of up to three or six months.

The analysis below details the impact of changes in market interest rates on the fair value of the Funds' investment in fixed-rate debt instruments. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Changes in variables

December 31, 2010	50 basis-point increase	50 basis-point decrease
<i>Currency</i>		
Philippine peso	(P124,404)	P129,859
US dollar	(120,400)	128,154
Fair value sensitivity (net)	(P244,804)	P258,013

Changes in Variables

December 31, 2009	50 basis-point increase	50 basis-point increase
<i>Currency</i>		
Philippine peso	(P68,227)	P70,480
US dollar	(52,635)	55,866
Fair value sensitivity (net)	(P120,862)	P126,346

Equity price risk

Equity price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

The Funds' equity price risk exposure relates to investments in equity securities held in the Equity Fund amounting to P5,972 million and P3,462 million as of December 31, 2010 and 2009, respectively. The value of these equity securities will fluctuate with changes in market conditions.

Equity price risk is managed by the Funds' Manager by constructing a diversified portfolio of instruments.

All of the Funds' equity investments are listed in the Philippine Stock Exchange. A 5% increase in stock prices would have increased the carrying value of these investments by P299 million and P173 million as of December 31, 2010 and 2009, respectively. An equal change in the opposite direction would have decreased the carrying value of these investments by an equal but opposite amount.

Credit risk

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund.

The carrying amounts of financial assets represent the maximum credit risk exposure at the reporting dates.

Except for investments in debt securities which mature on various dates, all of the Funds' financial assets are current. The Funds' investments in debt securities consist primarily of government treasury securities. Since these are backed by the full faith and credit of their respective governments, these are generally considered to be free of credit risk.

Credit risk arising from transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used. The Company monitors the credit ratings of the brokers used to further mitigate this risk.

Substantially all of the assets, including cash and cash equivalents, of the Funds are held by Citibank N.A. pursuant to a custodianship agreement entered into by the Company with Citibank N.A. The Company monitors its risks by monitoring the credit quality of Citibank N.A.

Liquidity risk

The Funds are exposed to the liquidity risk of meeting policyholders' redemptions at any time. The Funds do not hold significant financial liabilities.

The Funds' investment in equity and debenture instruments are considered to be readily realizable as they are all listed on the major stock and debt exchanges. Thus, the Funds have limited exposure to liquidity risk.

Fair value information

Many of the Funds' financial instruments are carried at fair value on the combined statements of assets and accountabilities. Usually the fair value of the financial instruments can be reliably determined within a reasonable range of estimates. For other financial instruments, including cash and cash equivalents, interest receivables, receivable from life fund, other assets and accrued expenses, the carrying amounts approximate the fair value due to the immediate or short-term nature of these financial instruments.

The major methods and assumptions used in estimating the fair values of financial instruments were disclosed in Note 3 to the combined financial statements.

Fair value hierarchy

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2010				
	Level 1	Level 2	Level 3	Level 4
Financial assets				
Financial assets at FVTPL	P21,312,545	P -	P -	P21,312,545

December 31, 2009				
	Level 1	Level 2	Level 3	Level 4
Financial assets				
Financial assets at FVTPL	P12,355,763	P -	P -	P12,355,763

9. Reclassification

The Company reclassified certain accounts in 2009 combined financial statements to conform with the 2010 combined financial statement presentation.

REPORT OF INDEPENDENT AUDITORS

We have audited the accompanying financial statements of PruLink operated by the Linked Fund of Pru Life Insurance Corporation of U.K. (a wholly-owned subsidiary of the Prudential Corporation Holdings Limited) as at December 31, 2010 and 2009, which comprise the combined statements of assets and liabilities, combined statements of changes in net assets and combined statements of cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements present fairly, in all material respects,

the financial position of the PruLink operated by the Linked Fund of Pru Life Insurance Corporation of U.K. as of December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended, as carried in the accounts maintained in the Linked Fund of Pru Life Insurance Corporation of U.K., in accordance with Philippine Financial Reporting Standards as described in Note 2 to the combined financial statements.

As discussed in Note 2 to the combined financial statements, the combined financial statements are intended solely for the information and use of the Board of Directors, stockholders, and management of Pru Life Insurance Corporation of U.K. The combined financial statements are intended to be filed with the Insurance Commission of the Philippines and should not be used for any other purpose.

MANABAT SANAGUSTIN & CO., CPAs

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Makati City, Philippines

Manabat Sanagustin & Co.
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Pru Life UK is an indirect subsidiary of financial services giant Prudential plc through its Regional Headquarters, Prudential Corporation Asia. It started operations in the Philippines in 1996. Prudential plc has an extensive network of life insurance and mutual funds operations around the world, active in the United Kingdom (UK), Europe, the United States (US) and 13 markets in Asia. It has 25 million customers worldwide and manages £340 billion of assets as of December 2010.

Prudential plc is a United Kingdom-registered company. Pru Life UK and Prudential plc are not affiliated with Prudential Financial, Inc. (a US-registered company), Prudential Life or Prudentiallife Plans, Inc. (both Philippine-registered companies).



PRU LIFE U.K.

Always Listening. Always Understanding.

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