PRUDENTIAL

Prudential plc

英國保誠有限公司*

(Incorporated and registered in England and Wales under the number 01397169)

(Stock code: 2378)

PRESS RELEASE AND ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

NEWS RELEASE

PRUDENTIAL

PRUDENTIAL PLC
GROUP COMMUNICATIONS
12 ARTHUR STREET
LONDON EC4R 9AQ
TEL 020 7220 7588
FAX 020 7548 3725
www.prudential.co.uk

10 March 2015

PRUDENTIAL PLC FULL YEAR 2014 RESULTS

PRUDENTIAL CONTINUES TO DELIVER STRONG GROWTH IN A CHALLENGING ENVIRONMENT AND REBASES DIVIDEND UPWARDS

Group Performance Highlights (on constant exchange rate basis):
- IFRS operating profit of £3,186 million, up 14 per cent[1]
- EEV new business profit[2] of £2,126 million, up 10 per cent[1]
- Underlying free surplus generation[3] (after investment in new business) of £2,579 million, up 9 per cent[1]
- Net cash remittances from business units up 11 per cent to £1,482 million

Business Units Performance Highlights (on constant exchange rate basis):
- Asia life and asset management IFRS operating profit of £1,140 million, up 17 per cent[1]
- Jackson life IFRS operating profit of £1,431 million, up 21 per cent[1]
- UK life IFRS operating profit of £752 million, up 7 per cent
- M&G IFRS operating profit of £446 million, up 13 per cent

Capital & Dividend:
- IFRS shareholders' funds of £11.8 billion, up 22 per cent[4]
- EEV shareholders' funds of £29.2 billion, up 17 per cent[4], equivalent to 1,136 pence per share
- Insurance Groups Directive (IGD) capital surplus[5] estimated at £4.7 billion; solvency requirements covered 2.4 times
- 2014 full year dividend increased by 10 per cent to 36.93 pence per share

Commenting on the results, Tidjane Thiam, Group Chief Executive, said:

"The Group delivered a strong performance in 2014. We continued to grow across our key metrics despite the challenges presented by historically low long-term interest rates in the US and the UK, major currency discontinuities in some of our key Asian markets and unprecedented regulatory changes in the UK life market. IFRS operating profit increased 14 per cent to £3,186 million and EEV new business profit grew 10 per cent to £2,126 million. The Group's underlying free surplus generation increased by 9 per cent to £2,579 million and cash remitted by our business units increased by 11 per cent to £1,482 million. These results represent solid progress towards our 2017 growth and cash objectives, which we set out at the December 2013 investor day in London.

"In Asia, our business remains focused on meeting the protection and savings needs of the region's growing middle classes through a high-quality agency force and strong bank partnerships. Our portfolio of life businesses in the region delivered a combined IFRS operating profit of £1,050 million, up by 16 per cent. New business profit in the region was up 13 per cent to £1,162 million. We announced in March 2014 the renewal for 15 years of our pan-Asian distribution partnership with Standard Chartered Bank. This new agreement got off to a great start in its first year as sales through Standard Chartered Bank grew by 33 per cent in the second half of the year compared to the same period in 2013.

"In the US, Jackson has continued to proactively manage sales of variable annuities with living benefits to match our annual risk appetite. We continued to diversify our product mix, with APE sales of Elite Access, our innovative variable annuity without guarantees, increasing by 26 per cent to £311 million. This contributed to an increase in the proportion of variable annuities sold without living benefit guarantees to a record 34 per cent of total variable annuity sales. Jackson's strategy delivered strong returns to our shareholders. In 2014, IFRS operating profit from our US life business increased by 21 per cent to £1,431 million and cash remittances grew by 41 per cent to a record £415 million.

[1] The period since June 2013 has seen depreciation of currencies in some of the Group's key Asia markets and significant strengthening of sterling. In order to reflect underlying performance, and to be consistent with the currency of transactions of our businesses in Asia and US, year-on-year percentage increases referred to in this press release are stated on a constant exchange rate basis. Increases on an actual exchange rate basis, which incorporate the effect of the exchange rate movements, are shown in the Financial Highlights section and in the Chief Financial Officer's report.
[2] The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly 2013 results are shown on a comparable basis.
[3] Underlying free surplus generated comprises free surplus generated based on operating movements from long-term business (net of investment in new business) and that generated from asset management operations.
[4] Comparable to 31 December 2013.
[5] Before allowing for final dividend.
[6] 'Sweet spot' markets are Indonesia, Singapore, Hong Kong, Malaysia, Philippines, Vietnam and Thailand.

“In the UK, our life business delivered a strong performance, with IFRS operating profit rising 7 per cent to £752 million despite an unprecedented level of regulatory change affecting annuities, a core product for us. In this context, the UK achieved a material increase in both APE sales of accumulation products (with-profits bonds sales increased by 34 percent year-on-year) and in APE sales of bulk annuities (bulk transactions increased from £28 million in 2013 to £171 million in 2014).

“In asset management:

- M&G produced a strong set of results. IFRS operating profit rose 13 per cent to £446 million and cash remitted increased by a record 21 per cent to £285 million. M&G continued its successful strategy of geographic diversification, with net flows from continental Europe growing by 7 per cent to £8.1 billion.
- Eastspring Investments delivered an excellent performance attracting a record level of asset inflows of £5.4 billion. Thanks to these inflows and the flows from our life businesses together with market movements, funds under management increased by 28 per cent to a new high of £77.3 billion. IFRS operating profit increased 32 per cent to £90 million.

“During the year, the Group faced the depreciation of currencies in some of our Asian ‘sweet spot’ markets[6], a global investment environment where interest rates are expected to continue to remain low and geopolitical challenges which increased uncertainty, particularly in the Eurozone.

“Looking ahead, the economic environment in the US and the UK appears to show signs of improvement. Furthermore, we are optimistic about the outlook for the emerging economies of Asia, where the long-term fundamentals of our life insurance business remain compelling. We continue to see strong economic growth and increasing demand for insurance from a rapidly growing and prosperous middle class which is under-insured.

“We remain confident in our ability to produce profitable growth over the long-term and continue to create value for our customers and shareholders.”

<u>Contact:</u>

Media		**Investors/Analysts**	
Jonathan Oliver	+44 (0)20 7548 3719	Raghu Hariharan	+44 (0)20 7548 2871
Tom Willetts	+44 (0)20 7548 2776	Richard Gradidge	+44 (0)20 7548 3860

Notes to Editors:

1. The results in this announcement are prepared on two bases: International Financial Reporting Standards (IFRS) and European Embedded Value (EEV). The IFRS basis results form the basis of the Group's statutory financial statements. The supplementary EEV basis results have been prepared in accordance with the European Embedded Value principles (EEV Principles) issued by the CFO Forum of European Insurance Companies in May 2004 and expanded by the Additional Guidance on EEV disclosures published in October 2005. The Group applies these EEV Principles to its long-term business and combines this with the post-tax IFRS results of its other operations to give the EEV basis results. The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly 2013 results are shown on a comparable basis. Year-on-year percentage increases are stated on a constant exchange rate basis unless otherwise stated. Constant exchange rates results are calculated by translating prior year results using the current year foreign exchange rate i.e. current year average rates for the income statement and current year closing rates for the balance sheet.

2. Annual Premium Equivalent (APE) sales comprise regular premium sales plus one-tenth of single premium insurance sales.

3. Operating profit is determined on the basis of including longer-term investment returns. EEV and IFRS operating profit is stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions, gain on sale of PruProtect and PruHealth, the costs arising from the domestication of our Hong Kong business, and loss attaching to held for sale Japan Life insurance business. Furthermore, for EEV basis results, operating profit based on longer-term investment returns excludes the effect of changes in economic assumptions and the mark-to-market value movement on core borrowings. Separately on the IFRS basis, operating profit also excludes amortisation of accounting adjustments on the acquisition of REALIC.

4. Total number of Prudential plc shares in issue as at 31 December 2014 was 2,567,779,950.

5. A presentation for analysts and investors will be held today at 08.30 (UK)/ 16.30 (Hong Kong) in the conference suite at Nomura International plc, 1 Angel Lane, London EC4R 3AB. The presentation will be webcast live and as a replay on the corporate website via the link below:
http://prudential.co.uk/investors/results-and-presentations/results-day

A dial-in facility will be available to listen to the presentation. Please allow time ahead of the presentation to join the call (lines open half an hour before the presentation is due to start, ie from 08.00 (UK) / 16.00 (Hong Kong)). Dial-in: +44 (0)203 059 8125 / 0800 368 0649 (Freephone UK), Passcode: ‘Prudential’ (this must be quoted to the operator to gain access to the call). Playback: +44 (0)121 260 4861, Passcode: 0347515#. This will be available from approximately 15.00 (UK) / 23.00 (Hong Kong) on 10 March 2015 until 23.59 (UK) on 24 March 2015 / 07.59 (Hong Kong) on 25 March 2015.

6. High-resolution photographs are available to the media free of charge at www.prudential.co.uk/prudential-plc/media/media_library

7. 2014 Dividend

Ex-dividend date	26 March 2015 (UK, Ireland and Hong Kong) 25 March 2015 (Singapore)
Record date	27 March 2015
Payment of dividend	21 May 2015 (UK, Ireland and Hong Kong) On or about 28 May 2015 (Singapore) On or about 29 June 2015 (ADR holders)

8. About Prudential plc

Prudential plc is incorporated in England and Wales, and its affiliated companies constitute one of the world's leading financial service groups serving around 24 million customers and has £496 billion of assets under management (as at 31 December 2014). Prudential plc is listed on the stock exchanges in London, Hong Kong, Singapore and New York. Prudential plc is not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America.

9. Forward-Looking Statements

This document may contain 'forward-looking statements' with respect to certain of Prudential's plans and its goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty. A number of important factors could cause Prudential's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, future market conditions, including fluctuations in interest rates and exchange rates and the potential for a sustained low-interest rate environment, and the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives related to the financial crisis and the effect of the European Union's 'Solvency II' requirements on Prudential's capital maintenance requirements; the impact of continuing designation as a Global Systemically Important Insurer or 'G-SII'; the impact of competition, economic growth, inflation, and deflation; experience in particular with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; and the impact of legal actions and disputes. These and other important factors may for example result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Further discussion of these and other important factors that could cause Prudential's actual future financial condition or performance or other indicated results to differ, possibly materially, from those anticipated in Prudential's forward-looking statements can be found under the 'Risk Factors' heading in this document.

Any forward-looking statements contained in this document speak only as of the date on which they are made. Prudential expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST listing rules or other applicable laws and regulations.

Summary 2014 financial performance

Financial highlights

Life APE new business sales (APE sales)

	Actual Exchange Rate			Constant Exchange Rate	
	2014 £m	**2013 £m**	**Change %**	**2013 £m**	**Change %**
Asia	**2,237**	2,125	5	1,946	15
US	**1,556**	1,573	(1)	1,494	4
UK	**857**	725	18	725	18
Total Group	**4,650**	4,423	5	4,165	12

Life EEV new business profits and investment in new business

	Actual Exchange Rate						Constant Exchange Rate			
	2014 £m		**2013 £m**		**Change %**		**2013 £m**		**Change %**	
	New Business Profit[1]	**Free surplus invested in new business**	**New Business Profit[1]**	**Free surplus invested in new business**	**New Business Profit[1]**	**Free surplus investment in new business**	**New Business Profit[1]**	**Free surplus investment in new business**	**New Business Profit[1]**	**Free surplus investment in new business**
Asia	**1,162**	**346**	1,139	310	2	12	1,032	285	13	21
US	**694**	**187**	706	298	(2)	(37)	670	283	4	(34)
UK	**270**	**73**	237	29	14	152	237	29	14	152
Total Group	**2,126**	**606**	2,082	637	2	(5)	1,939	597	10	2

IFRS Profit

	Actual Exchange Rate			Constant Exchange Rate	
	2014 £m	**2013 £m**	**Change %**	**2013 £m**	**Change %**
Operating profit before tax					
Long-term business:					
Asia[2]	**1,050**	1,001	5	905	16
US	**1,431**	1,243	15	1,181	21
UK	**752**	706	7	706	7
Long-term business operating profit[2]	**3,233**	2,950	10	2,792	16
UK general insurance commission	**24**	29	(17)	29	(17)
Asset management business:					
M&G (including Prudential Capital)	**488**	441	11	441	11
Eastspring Investments	**90**	74	22	68	32
US	**12**	59	(80)	56	(79)
Other income and expenditure	**(661)**	(599)	(10)	(599)	(10)
Total operating profit based on longer-term investment returns before tax	**3,186**	2,954	8	2,787	14
Non-operating items	**(572)**	(1,319)	57	(1,255)	54
Profit before tax attributable to shareholders	**2,614**	1,635	60	1,532	71
Tax charge attributable to shareholders' returns	**(398)**	(289)	(38)	(262)	(52)
Profit for the year attributable to shareholders	**2,216**	1,346	65	1,270	74

Post-tax profit - EEV[1]

	Actual Exchange Rate			Constant Exchange Rate	
	2014 £m	**2013 £m**	**Change %**	**2013 £m**	**Change %**
Post-tax operating profit					
Long-term business:					
Asia [2]	**1,900**	1,891	-	1,704	12
US	**1,528**	1,526	-	1,449	5
UK	**746**	832	(10)	832	(10)
Long-term business post-tax operating profit[2]	**4,174**	4,249	(2)	3,985	5
UK general insurance commission	**19**	22	(14)	22	(14)
Asset management business:					
M&G (including Prudential Capital)	**386**	346	12	346	12
Eastspring Investments	**78**	64	22	59	32
US	**6**	39	(85)	37	(84)
Other income and expenditure	**(567)**	(516)	(10)	(516)	(10)
Post-tax operating profit based on longer-term investment returns	**4,096**	4,204	(3)	3,933	4
Non-operating items	**247**	154	60	188	31
Post-tax profit attributable to shareholders	**4,343**	4,358	-	4,121	5

Basic earnings per share - based on operating profit after tax

	Actual Exchange Rate			Constant Exchange Rate	
	2014 pence	**2013 pence**	**Change %**	**2013 pence**	**Change %**
IFRS	**96.6**	90.9	6	85.9	12
EEV	**160.7**	165.0	(3)	154.4	4

Underlying free surplus generated [3]

	Actual Exchange Rate						Constant Exchange Rate			
	2014 £m		**2013 £m**		**Change %**		**2013 £m**		**Change %**	
	Long-term	**Total**	**Long-term**	**Total**	**Long-term**	**Total**	**Long-term**	**Total**	**Long-term**	**Total**
Asia	**514**	**592**	509	573	1	3	457	516	12	15
US	**1,004**	**1,010**	831	870	21	16	789	826	27	22
UK	**572**	**591**	651	673	(12)	(12)	651	673	(12)	(12)
M&G (incl. Prudential Capital)	-	**386**	-	346	-	12	-	346	-	12
Total Group	**2,090**	**2,579**	1,991	2,462	5	5	1,897	2,361	10	9

Cash remitted by the business units to the Group

	2014 £m	**2013 £m**	**Change %**
	Total	**Total**	**Total**
Asia	**400**	400	-
US	**415**	294	41
UK	**325**	355	(8)
M&G	**285**	235	21
Prudential Capital	**57**	57	-
Total Group	**1,482**	1,341	11

Cash and capital

	2014	**2013**	**Change %**
Dividend per share relating to the reporting period	**36.93p**	33.57p	10
Holding company cash and short-term investments	**£1,480m**	£2,230m	(34)
IGD capital surplus before final dividend[4]	**£4.7bn**	£5.1bn	(8)
Group economic capital ratio before final dividend[5]	**218%**	257%	(39)**%**

Group shareholders' funds (including goodwill attributable to shareholders)

	2014	**2013**	**Change %**
IFRS	**£11.8bn**	£9.7bn	22
EEV	**£29.2bn**	£24.9bn	17

	2014%	**2013%**
Return on IFRS shareholders' funds[6]	**26**	23
Return on embedded value [6]	**16**	19

	2014	**2013**	**Change %**
EEV shareholders' funds per share (including goodwill attributable to shareholders)	**1,136 p**	971p	17
EEV shareholders' funds per share (excluding goodwill attributable to shareholders)	**1,079 p**	914p	18

Notes:
1 The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly 2013 results are shown on a comparable basis.
2 After Asia development costs.
3 Underlying free surplus generated comprises underlying free surplus generated from the Group's long-term business (net of investment in new business) and that generated from asset management operations. In addition, following its reclassification as held for sale during 2013, operating results exclude the result of the Japan Life insurance business.
4 Estimated.
5 The methodology and assumptions used in calculating the economic capital result are set out in note II (c) of Additional unaudited financial information. The economic capital ratio is based on outputs from the Group's Solvency II internal model which will be subject to Prudential Regulation Authority review and approval before its formal adoption in 2016. We remain on track to submit our Solvency II internal model to the Prudential Regulation Authority for approval in 2015 but given the degree of uncertainty remaining these economic capital disclosures should not be interpreted as outputs from an approved internal model.
6 Operating profit after tax and non-controlling interests, as a percentage of opening shareholders' funds.

Group Chief Executive's Report

I am pleased to report that Prudential delivered a strong, broad-based performance in 2014.

Our core strategy of focusing on the three main opportunities available to us in Asia, the US and the UK – serving the protection and investment needs of the growing middle class in Asia, providing income in retirement to American baby boomers and meeting the financial needs of an ageing British population – is unchanged. It continues to serve us well. The execution of this strategy, driven by the operating principles set out in 2009, is central to the Group's continued success and reflects the dedication and quality of our people and their focus on meeting the distinct needs of our customers across the business. This has been one of the key factors enabling Prudential to outperform in the markets in which it competes, delivering value for our customers and sustainable returns for our shareholders.

Currency volatility

The last two years have seen significant fluctuations in the value of sterling against the local currencies in the US and in some of our key markets in Asia. This has been driven by ongoing speculation about the relative growth trajectories in the world's major economies, together with often divergent views on the timing, extent and effectiveness of government and central bank intervention. While sterling strengthened significantly in the second half of 2013, driven by expectations that a stronger recovery of the UK economy would lead to an earlier shift in UK monetary policy, the latter part of 2014 has seen a partial reversal of this movement as the relative outlook improved in other areas of the global economy, particularly in the US. However, the negative impact of sterling strength in late 2013 and early 2014 on the financial performance of our overseas businesses is recognised mainly in 2014, as we use average actual exchange rates to report our results in sterling.

In that context, it is important to note that the actual flows that we collect from our customers in Asia and the US are received in local currency. We believe that in periods of currency volatility, the most appropriate way to assess the actual performance of these businesses is to look at what they have achieved on a local currency basis, in other words in terms of the actual flows they have collected, rather than the translation of those flows into sterling. Therefore, in this section, every time we comment on the performance of our businesses, we focus on their performance measured in local currency (presented here by reference to percentage growth expressed at constant exchange rates) unless otherwise stated.

Group performance[1]

The Group delivered double-digit growth across our key metrics of IFRS operating profit, new business profit and cash with all four of our business units delivering good performance in challenging operating conditions.

Our Group **IFRS operating profit** based on longer-term investment returns increased by 14 per cent during the year to £3,186 million.

- Asia life and asset management operating profit was up 17 per cent to £1,140 million. Our ability to proactively manage our diverse portfolio of businesses at the regional level has enabled us to partially offset the short-term headwinds experienced in a few of our key Asian markets. Strong external net inflows of £5.4 billion and positive market movements have driven operating profit and total funds under management to record levels at Eastspring, our Asia-based asset management business.

- US life IFRS operating profit increased 21 per cent to £1,431 million. The strong variable annuity inflows we have been able to capture at attractive margins generate higher levels of fee income. This combined with favourable market movements increased the value of separate account assets, a key driver of our profits in the US.

- UK life IFRS operating profit grew by 7 per cent to £752 million, benefiting from higher contributions from bulk annuities, which outweighed the impact of significantly lower sales of individual annuities following UK market reforms.

- M&G delivered operating profit of £488 million[2], an increase of 11 per cent, reflecting continued strong third-party net inflows combined with favourable market movements in the period, which together have increased M&G's external funds under management by £11.0 billion to a record £137.0 billion.

Net cash remittances from our businesses increased by 11 per cent to £1,482 million, driven by strong organic cash generation and supported by robust local capital positions. Cash remittances of £400 million from Asia were consistent with 2013, the US was up 41 per cent to a record of £415 million, the UK remitted cash of £325 million, as we have been increasing our level of investment in the business in response to the UK market reforms, while M&G (including Prudential Capital) delivered an increase of 17 per cent to a new high of £342 million. Such levels of cash generation are the bedrock of our financial strength. **Underlying free surplus** generation from our life and asset management businesses, a key indicator of cash production in these businesses, was 9 per cent higher at £2,579 million after reinvestment in new business. We deliberately run the Group to seek to generate organically significant amounts of cash in each of our businesses. The successful implementation of this approach gives us added strategic and financial flexibility, as illustrated by our ability to agree a new deal with Standard Chartered Bank in 2014. The ability of the Group to generate both growth and cash remains a distinctive feature of Prudential in our industry.

New business profit[3] was up 10 per cent to £2,126 million, driven in 2014 by a combination of higher volumes and pricing and product actions aimed at enhancing profitability. All three of our life businesses made strong contributions, with new business profits from Asia growing by 13 per cent to £1,162 million, the US delivering £694 million, up 4 per cent, and the UK reporting £270 million, up 14 per cent.

APE sales[4] increased by 12 per cent to £4,650 million. In Asia, APE sales were 15 per cent higher at £2,237 million with APE sales from our 'sweet spot' markets[5] continuing to be a strong driver of growth. In the US, APE sales were up 4 per cent at £1,556 million as we continued to proactively manage our sales of variable annuities with guarantees. We continue to diversify our product mix with sales of Elite Access, our innovative variable annuity without guarantees, increasing by 26 per cent and contributing to an increase in the proportion of variable annuities sold without living benefit guarantees to 34 per cent of total variable annuity sales. In the UK, APE sales grew by 18 per cent to £857 million, reflecting strong bulk annuity and investment bond volumes which offset the significant contraction of the retail annuity market that followed the Budget reform. M&G delivered net inflows of £7.1 billion (2013: £9.5 billion) as it continued to benefit from high levels of retail sales from Continental Europe, while Eastspring Investments, our Asia asset management business, delivered record third party net inflows of £5.4 billion (2013: £1.4 billion, on a constant exchange rate basis).

Our balance sheet continues to be defensively positioned and at the end of the period our IGD surplus[6] was estimated at £4.7 billion, equating to coverage of 2.4 times.

We are continuing to make solid progress towards our 2017 objectives announced in December 2013 as for the Asia objectives, we have now passed four half-year reporting periods out of the ten half-year reporting periods of this programme.

	Reported actuals			Objectives*
Asia Objectives	**2012 £m**[8]	**2013 £m**	**2014 £m**	**2017**
Asia life and asset management IFRS operating profit	924	1,075	1,140	>£1,858 million**
Asia underlying free surplus generation[7]	484	573	592	£0.9 - £1.1 billion

Group Objective for cumulative period 1 January 2014 to 31 December 2017	**Actual**	**Objective**
	1 Jan 2014 to 31 Dec 2014	**1 Jan 2014 to 31 Dec 2017**
Cumulative Group underlying free surplus generation from 2014 onwards	£2.6 billion	> £10 billion

* The objectives assume exchange rates at December 2013 and economic assumptions made by Prudential in calculating the EEV basis supplementary information for the half year ended 30 June 2013, and are based on regulatory and solvency regimes applicable across the Group at the time the objectives were set. The objectives assume that the existing EEV, IFRS and Free Surplus methodology at December 2013 will be applicable over the period.

** Asia life and asset management pre-tax IFRS operating profit to grow at a compound annual rate of at least 15 per cent over the period 2012-2017.

Our operating performance by business unit

Asia

Asia delivered excellent results across all metrics during 2014. IFRS operating profit of £1,140 million was up 17 per cent over 2013 (6 per cent on actual exchange rate basis) and free surplus generation increased 15 per cent to £592 million (3 per cent on actual exchange rate basis), reflecting our discipline and our focus on quality growth and value creation. Net cash remittances were £400 million, in line with 2013.

Our consistent delivery in Asia is underpinned by our focus on regular premium, protection-orientated solutions that genuinely address the long term financial needs of Asia's growing middle classes in the 'sweet spot' markets[5] of South-East Asia and Hong Kong. Our strategy is to be strongly diversified in terms of geography, products and distribution in a world economy that is increasingly hard to predict. That diversification is at the heart of our ability to continue to perform well across a broad range of metrics as the breadth of our portfolio provides considerable resilience against the impacts of short-term market disturbances in individual countries, such as the elections and natural disasters experienced during 2014.

Our multi-channel distribution platform continues to play a key role in our strategy:

- In the agency channel we continued to add to the existing scale of our platform during 2014 through recruitment. In parallel we also improved individual productivity, thanks to our investments in agency management technology and analytics.
- Regarding our bank partnerships, we announced in the first quarter that we extended and expanded our long-established and market-leading partnership with Standard Chartered Bank for another 15 years to 2029, effective since July 2014. Encouragingly second-half APE sales via Standard Chartered Bank grew over 33 per cent compared to the same period in 2013, including a record month in December. The distribution channel mix remained in line with prior year with agency generating 61 per cent, bancassurance 32 per cent and other channels, mainly direct and telemarketing, 7 per cent.

In our product portfolio, the proportion of protection business has remained consistent with prior years at 28 per cent of APE sales. Within the savings products, we have seen an increase in participating business, driven mainly by strong demand for our established with-profits products in Hong Kong. We continue to innovate with new benefits and features, with more than 25 per cent of APE sales in 2014 from products that were launched in the past two years.

While product innovations are important we are increasingly finding that customer service is a key differentiator in the marketplace, an evolution we welcome given the emphasis we have always placed on service and customer satisfaction. For example our pioneering PRUhospital Friend concierge service in Indonesia is now four years old and has been extended to 49 hospitals covering 15 cities. It handles over 50 per cent of all protection claims. In Singapore, PRUhealthcare assist is the first-to-market dedicated hotline, staffed by experts who help customers to decide what treatments to pursue and which hospitals to use. Across the region, our success in looking after our customers and anticipating their needs is demonstrated by our 'repeat sales' to our existing customers: more than 40 per cent of new business APE sales in 2014 were generated by existing customers and our customer retention rate was over 90 per cent, a very important indicator of quality for us. The incentives of our staff in Asia are well aligned with this philosophy of emphasising quality growth and customer satisfaction.

In 2014 we produced £1,162 million of new business profit, 13 per cent higher than 2013, reflecting our continued progress in Asia.

In **Hong Kong**, APE sales grew 39 per cent, driven mainly by increases in agency headcount as well as increases in productivity. Hong Kong also directly benefited from significantly improved second-half sales following the renewal of the Standard Chartered Bank partnership. We have been working for a few years on increasing the proportion of protection sales in Hong Kong and this has paid off in 2014 contributing to a strong sales increase of 50 per cent. The Hong Kong branch of the Prudential Assurance Company was successfully domesticated with effect from 1 January 2014.

In **Singapore**, we continue to lead the market with our popular regular premium and PRUshield products. Agency APE sales grew by 16 per cent as a result of increases in manpower and productivity. Bancassurance sales volumes were impacted by the cessation of the Maybank partnership during 2014, although volumes increased from our successful partnerships with Standard Chartered Bank and United Overseas Bank ('UOB').

Indonesia had a challenging year, with exceptional flooding disrupting sales in the first quarter, and the transition to a new president impacting sentiment during the year. Although APE sales were down 4 per cent on prior year, the resilience of our business is demonstrated by our significant market outperformance, which has seen our market share increased to 24 per cent[9] as other providers were more severely affected by these factors than we were. We remain very optimistic about the outlook for the Indonesian economy and we experienced an encouraging rebound in activity during December 2014, with APE sales 36 per cent higher than November, passing the 1 trillion Rupiah level for the first time.

In **Malaysia**, our decision to refocus our agency business on health and protection and to grow distribution by Bumiputra agents ('Bumi'), delivered an encouraging 17 per cent increase in agency activity. The overall increase in APE sales of 6 per cent during 2014 reflects structurally lower average case sizes in the Bumi channel, where we are determined to grow in the next phase of development of our strategy in the country. We deliberately de-emphasised sales of some top-up products that negatively impacted top line growth – an indicator which for us always comes second to growth in new business profit. Finally, fuel reforms and the prospect of the introduction of a new Goods and Services tax generated market uncertainty, which weighed on the economy and on our sector.

Thailand includes the first full year of operation of our exclusive bancassurance agreement with Thanachart Bank, which together with our other bancassurance partners, UOB and Standard Chartered Bank has driven a 36 per cent increase in APE sales. The transformation of our business in the **Philippines** is continuing, with a significant increase in agency activity. Reflecting this, regular premium sales were up 30 per cent on prior year and protection business increased by 36 per cent. **Vietnam** also had a good year, growing APE sales by 20 per cent on higher levels of agency activity.

Our joint venture with CITIC in **China** continues to perform well with APE sales increasing by 35 per cent, with progress in both the agency and bank channels. In **India** our joint venture with ICICI Bank remains the leader in the private sector with a market share of 10 per cent and post elections in May we have seen a significant increase in new business.

In **Taiwan** and **Korea** we remain selective in our participation and as a result we are content to experience fluctuations in new business volumes. Both businesses have generated higher IFRS operating profit in 2014.

In addition to running these established businesses, we continue to keep an eye on the future and are setting foundations for growth in new markets. Following the successful launch of our life business in **Cambodia** in 2013, we are now the market leader. We also opened a representative office in **Myanmar** during 2014 and recently received a licence for a representative office in **Laos**.

In 2014, Asia EEV life operating profit[3] increased by 12 per cent to £1,900 million, largely as a result of the growth in new business profit and a 10 per cent increase in the contribution from the larger in-force book.

Eastspring Investments, our Asia asset management business, generated record third-party net inflows of £5.4 billion, 3.8 times higher than in 2013, with success in securing new equity flows, particularly from institutional clients, mitigating lower net inflows in fixed income. Including internal funds, total funds under management as at 31 December 2014 were a record £77.3 billion, up 28 per cent on the prior year as a result of net inflows and positive market movements. IFRS operating profit increased 32 per cent to £90 million, driven by the positive impact on revenue from higher levels of average assets under management.

US

Our US business delivered a strong performance in 2014, with total IFRS operating profit of £1,443 million, up 17 per cent (11 per cent on an actual exchange rate basis). Jackson's life IFRS operating profit grew 21 per cent (15 per cent on an actual exchange rate basis) to £1,431 million, driven primarily by increased fee income from higher levels of separate account assets. The growth in operating profit underpinned significant levels of capital generation in the period, enabling Jackson to remit a record £415 million of cash to the Group (2013: £294 million), while maintaining a healthy balance sheet. Jackson's Risk-Based Capital ratio at the end of 2014 was 456 per cent, compared to 450 per cent at the end of 2013.

During 2014, the US continued to see signs of an improving economy, with declining unemployment rates, evidence of recovery in the housing market and stronger GDP growth. The S&P 500 Index rose 11 per cent and the 10-year Treasury rate remained above the 2012 low levels, but declined significantly during the course of the year. Overall, the US competitive landscape has been more stable than in recent periods, as most annuity writers appear to have committed to a particular course of action for the near term. Variable annuity providers continue to modify their product offerings through reductions in fund availability and increased fees. In addition, an increasing number of investment-only variable annuity products have been launched, following the success of Elite Access, our variable annuity without living benefits.

Jackson achieved total retail APE sales of £1,491 million in 2014, an increase of 6 per cent compared to 2013. These sales were achieved while continuing to write new business at aggregate internal rates of return in excess of 20 per cent and with a payback period of one year. Including institutional sales, total APE sales increased 4 per cent to £1,556 million, driving new business profit[3] growth of 4 per cent to £694 million.

Total **variable annuity** APE sales increased 10 per cent to £1,401 million in 2014. Within this, APE sales of Elite Access rose 26 per cent to £311 million. The economics of our variable annuity business continue to be very attractive. With the success of Elite Access, we continue to improve the diversification of our product mix, contributing to an increase in the share of non-living benefit variable annuity sales to a new high of 34 per cent of total variable annuity APE sales (2013: 31 per cent).

Jackson remains focused on proactively managing sales volumes of variable annuities with living benefits to match our annual risk appetite. Jackson's statutory separate account assets increased by 17 per cent, from £69.8 billion in 2013 to £81.7 billion in 2014 (up 24 per cent on an actual exchange rate basis), reflecting both positive net flows and the growth in the underlying market value of the separate account assets.

Fixed annuity APE sales of £53 million remained relatively flat compared to 2013, while **fixed index annuity** APE sales of £37 million decreased 57 per cent, primarily as a result of product changes implemented in late 2013 to ensure appropriate returns on shareholder capital.

EEV life operating profit[3] was £1,528 million, up 5 per cent from 2013, reflecting growth in the scale of our in-force book, favourable experience variances, and higher new business profit. We continue to write business at overall new business margins close to post-crisis highs, demonstrating the positive effect of proactive product and pricing actions that have helped to mitigate the adverse impact of the low interest rate environment.

IFRS operating profit from non-life operations in the US decreased to £12 million (2013: £56 million), due to a Curian loss of £18 million that included a £38 million charge related primarily to the refund of certain fees by Curian.

Jackson's strategy is unchanged, serving the 77 million baby boomers as they enter retirement, while delivering operating earnings and cash. We continue to price new business on a conservative basis, targeting value over volume. Our hedging remains focused on optimising the economics of our exposures, therefore accepting a degree of volatility in our accounting results where they are not aligned with the underlying economics. Thanks to this approach, Jackson has been able to deliver significant profitable growth across the cycle, while maintaining a strong balance sheet. Since 1 January 2008, Jackson has remitted nearly US$2.6 billion of cash to the Group. Jackson's approach has successfully translated into value for customers and into profits and cash for shareholders, the metrics through which we ultimately measure the success of our strategy.

UK, Europe and Africa

Our UK business continues to focus on its core strengths of investment (with the with-profits offering as a core proposition) and retirement solutions. In 2014, Prudential UK delivered life IFRS operating profit of £752 million, up 7 per cent year-on-year, primarily as a result of higher sales of bulk annuities, partially offset by the impact of the contraction of the individual annuities market following market reforms. Cash remitted to the Group was £325 million, compared to £355 million in 2013 as we increased our investment in new business and upgraded our UK pre and post-retirement customer proposition.

The UK market continues to be heavily influenced by a high level of regulatory and legislative change. The significant reforms of the pensions industry announced by the UK Government, including removal of the requirement to purchase a pension annuity from April 2015, have resulted in an increasing proportion of customers deferring the decision to convert their pension savings into retirement income. The increased flexibility afforded by these reforms should ultimately help create an environment where more people are encouraged to save. The changes have also opened up opportunities for us to meet customer needs for alternative retirement solutions, including income drawdown. In December 2014 we launched a Flexible Drawdown product ahead of the introduction of the April 2015 pension reforms. This product will allow customers to access income drawdown without limits from April 2015, and is suited to customers who want more choice over how they use their retirement savings for income.

Retail sales growth across our range of investment products reflected the strength of our distribution capability, particularly our intermediary channel, as we responded to the challenges and opportunities created by the pension reforms. Sales in this segment, which includes onshore and offshore bonds, individual pensions and income drawdown, together delivered APE sales growth of 41 per cent. We will continue to develop our with-profits proposition, enhancing the range of investment choices available to policyholders and have recently made PruFund available in the Individual Savings Account market. The growth in our investment products was offset by a 49 per cent reduction in APE sales of **individual annuities**, reflecting the market contraction since the UK Budget announcement. Despite this market disruption, overall retail APE sales of £686 million were 2 per cent lower than 2013 and increased by 3 per cent in the second half of the year compared with the same period in 2013. Retail new business profit was 23 per cent lower at £165 million, largely due to the reduced sales of higher margin individual annuities.

Onshore bonds APE sales of £232 million increased by 32 per cent, reflecting the strength of our investment proposition. APE sales from with-profits bonds of £214 million were 34 per cent higher, due to continuing demand for our non-guaranteed bond. We expect significant ongoing demand for our with-profits bond, with customers attracted by the benefit of a smoothed return to help manage market volatility and a strong track record of investment growth.

APE sales from **other retail products**, including individual pensions, income drawdown and offshore bonds, increased by 44 per cent to £201 million. Offshore bond APE sales were 44 per cent higher, reflecting the growing popularity of our with-profits fund. Income drawdown APE sales grew by 133 per cent to £35 million and individual pensions APE sales increased by 44 per cent to £72 million, both driven by the strength of our with-profits PruFund offering, and by customers selecting more flexible retirement income solutions in anticipation of the pension reforms.

In total, PruFund assets under management increased 27 per cent to £11.6 billion in 2014.

Corporate pensions APE sales of £147 million were 15 per cent lower, mainly due to changes to public sector pension schemes. We remain the largest provider of Additional Voluntary Contribution plans within the public sector, where we provide schemes for 72 of the 99 public sector authorities in the UK (2013: 69 of the 99).

Prudential's continuing focus on the delivery of excellent customer service was recognised at the 2014 Financial Adviser Service Award where we received an outstanding achievement award for retaining our two 'Five Star' ratings in the Life & Pensions and Investment categories for the fourth year running.

In the **wholesale** market we wrote seven new **bulk annuity** deals in 2014 (2013: three), generating APE sales of £171 million (2013: £28 million) and new business profit[3] of £105 million (2013: £24 million). Our approach to bulk transactions in the UK will continue to be one of selective participation, where we can bring both significant value to our customers and meet our shareholder return requirements. Through our longstanding presence in this segment of the life and pensions market, we have developed considerable longevity experience, operational scale and a good investment track record, which together represent expertise and capabilities that are increasingly in demand.

In Poland, our new life company, Prudential Polska conducted its second year of business in 2014, growing ahead of plan. Headquartered in Warsaw, the business now has 15 branches across the country and 712 financial planning consultants. Its success is evidence of our ability to build franchises in new territories, leveraging effectively in this case some of our Asian staff and skills.

EEV life operating profit[3] of £746 million was 10 per cent lower than 2013, reflecting a non-recurring contribution of £98 million in 2013 from the reduction in the rate of UK corporation tax.

On 10 November 2014, Prudential Assurance Company Limited announced the sale of its 25 per cent equity stake in the PruHealth and PruProtect businesses to Discovery Group Europe Limited for £155 million in cash, generating an IFRS profit on disposal of £86 million. This transaction enabled Prudential UK to realise its investment at attractive terms and creates strategic flexibility for future participation in the UK protection market.

During 2014, we completed the acquisition of Express Life in Ghana and Shield Assurance Company in Kenya, marking the Group's entry into the nascent African life insurance industry. We are positive about the long-term opportunities in Africa, where we see many of the favourable structural characteristics of our preferred Asian markets, although most sub-Saharan life insurance markets are in the very early stages of development and therefore are not likely to be material in the short term.

M&G

M&G is an investment-led business which has managed money on behalf of individual and institutional investors for more than 80 years. Its focus on producing superior long-term investment returns, coupled with well-established distribution in the UK and across Europe, has underpinned another strong set of financial results, with funds under management and profits both reaching new highs.

IFRS operating profit increased 13 per cent to £446 million in 2014, marking the fifth consecutive year of record profits. Over this period operating profit has grown by a compound annual growth rate of 16 per cent. While higher equity markets and buoyant bond markets have both contributed to improving profitability, strong net inflows of client assets since 2009, particularly in the retail market, have been a key driver of the increase in profit achieved by M&G. Reflecting this continued strong operating performance, M&G remitted £285 million of cash to Group in 2014, 21 per cent more than in 2013.

During 2014, the combination of continued net fund inflows and generally positive market movements increased M&G's total funds under management by 8 per cent to £264 billion at the end of the year. Within this, external funds under management grew by 9 per cent to £137 billion and now account for 52 per cent of M&G's total funds under management, compared with 40 per cent five years ago.

Within our retail business, we continue to make strong progress, with expansion of distribution in Continental Europe in recent years transforming the scale of funds under management and helping to diversify the business. Today, international clients account for 43 per cent of retail funds under management, compared with just 16 per cent five years ago, and M&G's retail funds are now registered in 22 jurisdictions. Net inflows across Continental Europe were at a record level of £8.1 billion in 2014, compared to £7.6 billion in 2013. This more than offset a net outflow of £1.7 billion in the UK (2013: net outflow of £0.7 billion). In the UK M&G achieved record net inflows into the M&G Property Portfolio fund, which directly invests across different property sectors such as retail, offices and industrial on behalf of its UK retail client base. The Property Portfolio fund finished 2014 with external funds under management of £3.0 billion, placing it as the largest retail property fund in the UK market.

M&G also continues to pursue business diversification by fund, with seven of its retail funds, representing all the major asset classes, achieving net inflows of at least £250 million during the year. One of these, the M&G Optimal Income Fund became the top[10] selling European cross-border fund in 2014, based on annual net flows as of 31 December 2014.

At the end of 2014 retail funds under management were £74.3 billion, up 11 per cent from 2013 levels, driven by positive net inflows, which totalled £6.7 billion (2013: net inflows of £7.3 billion), including the contribution from our associate entity in South Africa.

A track record of innovation in the institutional market has enabled M&G to be at the forefront of a number of specialist fixed income markets, including leveraged finance and infrastructure investment. The consistency of institutional investment performance and its reputation for innovation earned M&G the prestigious 2014 Financial News Institutional Asset Management Awards for both fixed income and real estate for the second consecutive year.

Net institutional inflows were £401 million, compared with £2.1 billion in 2013. As expected, a number of segregated clients withdrew money from public debt funds as they reallocated scheme assets. There were also further planned redemptions from a large low-margin mandate. In general, outgoing assets have been replaced by flows into higher-margin products, helping to improve the profitability of the institutional business. M&G has in place a multi-billion pound pipeline of institutional commitments at the end of 2014 across a diverse range of investment strategies that has yet to be invested.

External institutional funds under management increased 7 per cent in 2014 to £62.7 billion.

The recent increase in headcount and investment in operational infrastructure required to preserve service quality as the scale of the business grows, has been more than matched by revenue growth in 2014. As a result the cost income ratio[11] of 58 per cent in 2014 has improved slightly over the prior year (2013: 59 per cent).

M&G remains focused on producing superior long-term investment returns for clients, while continuing to diversify its business by geography and asset class and providing capital efficient profits and cash generation for the Group.

Capital and risk management

We continue to take a disciplined approach to capital management and have implemented a number of measures over the last few years to enable us to make our capital work both more efficiently and more effectively for the Group. Using the regulatory measures of the Insurance Groups Directive (IGD), our Group capital surplus position[6] at 31 December 2014 was estimated at £4.7 billion (2013: £5.1 billion), after funding the fees payable for the new 15 year exclusive distribution agreement with Standard Chartered Bank. The IGD surplus is stated before allowing for the final dividend and is equivalent to a cover of 2.4 times.

In July 2013, Prudential plc was listed by the Financial Stability Board as one of nine companies to be designated as a Global Systemically Important Insurer (GSII). In July 2014 the International Association of Insurance Supervisors released a consultation paper on the Basic Capital Requirement, one of the two types of capital requirement proposed under the GSII framework. Prudential is monitoring the development and potential impact of the framework of policy measures and engaging closely with the Prudential Regulation Authority on the implication of this designation.

Solvency II is scheduled to come into effect on 1 January 2016 and our preparations are well advanced. While the Omnibus II Directive is now in place, there are still many areas which require further interpretation. We continue to work with the Prudential Regulation Authority on shaping the outcome to ensure that the practical details of Solvency II, including the final implementing measures, are both workable and effective.

On an economic capital basis[12] our surplus at 31 December 2014 of £9.7 billion (2013: £11.3 billion) is equivalent to an economic capital ratio of 218 per cent (2013: 257 per cent). These results are based on outputs from our Solvency II internal model, which has not yet been approved by the Prudential Regulation Authority. The results assume US equivalence, place no restrictions on the economic value of overseas surplus, and incorporate a number of other working assumptions. Certain aspects of the methodology and assumptions underpinning these results will differ from those which are applied in obtaining final Solvency II Pillar I internal model approval. The eventual Solvency II Pillar I ratio, therefore, remains uncertain and is expected to be lower than our economic capital ratio.

Dividend

The Board has decided to rebase the full year dividend upwards by 10 per cent, reflecting the 2014 financial performance of the Group. In line with this, the directors recommend a final dividend of 25.74 pence per share (2013: 23.84 pence), which brings the total dividend for the year to 36.93 pence (2013: 33.57 pence). This rebase has been made possible by the continued exceptionally strong performance of the Group.

Although the Board has been able to recommend such a rebase in 2014, the Group's dividend policy remains unchanged. The Board will maintain its focus on delivering a growing dividend from this new higher base, which will continue to be determined after taking into account the Group's financial flexibility and our assessment of opportunities to generate attractive returns by investing in specific areas of the business. The Board believes that in the medium term a dividend cover of around two times is appropriate.

Outlook

2014 was a successful year for the Group, where the strength and focus of our teams and of our businesses enabled us to deliver good financial and operational progress and maintain a robust capital position, despite a number of challenges both globally and locally.

It is clear that we are operating in a period of considerable change. 2015 has already seen a continuation of macroeconomic volatility, political upheaval and unexpected shifts in central bank positioning, with the uncertainty of election outcomes in many countries in Europe, including in the UK, still to come before the end of the year. As a result, investment markets generally remain cautious on the global outlook, reflected in further declines in long-term interest rates in most of the major economies in early 2015. The persistently low level of interest rates is a challenge for insurance companies, however in recent years we have positioned the Group through proactive actions on product mix, pricing and our balance sheet to mitigate the negative effects of the low interest rate environment and continue to grow our earnings. We have had the same strategy since 2009 and it has served us well. We continue to execute with discipline and purpose and we believe our strategy and operating principles enable us to deliver relative outperformance across the cycle, as evidenced during the financial crisis.

Asia, with its strong economic growth, young and growing population with savings and protection needs, and low levels of insurance penetration, continues to represent the most attractive opportunity in our industry today and therefore remains the primary focus of our profitable growth ambitions. Our established, growing multi-distribution platform puts us in a strong position to continue to capture profitably the opportunities available to us in Asia, while the breadth of our franchise, by geography, product and channel, provides us with the resilience that has allowed us to achieve relative outperformance through the cycle, even when individual countries presented short-term challenges. We will continue to invest in enhancing our agency and bancassurance distribution capabilities, to ensure our customers have effective advice-led access to our products. This was most recently evidenced by the renewal in 2014 of our pan regional relationship with Standard Chartered Bank for another 15 years. The strong underlying fundamentals of economic growth and increasing affluence in Asia, and the quality of our products, people and distribution, remain powerful drivers of our ability to generate profitable growth while delivering value for our customers.

In the US and the UK, we continue to utilise our established market position, distribution strength and distinctive products to ensure the delivery of earnings and cash, with strict allocation of capital to segments of the market that offer higher, capital efficient margins. The UK life insurance market has been subject to significant reform, the ramifications of which are still playing out, but which we believe will ultimately lead to greater customer demand for savings and retirement solutions and create new opportunities for Prudential UK and M&G to leverage their existing expertise.

We remain confident in our ability to produce profitable growth over the long term and to continue to create value for our customers and shareholders.

Notes:

[1] The comparative results referenced above and elsewhere in this document have been prepared using constant exchange rates basis except where otherwise stated. Comparative results on an actual exchange rate basis are also shown in financial tables in the Chief Financial Officer's report on our 2014 financial performance.

[2] Including Prudential Capital.

[3] The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly 2013 results are shown on a comparable basis.

[4] Annual Premium Equivalent (APE) sales comprise regular premium sales plus one-tenth of single premium insurance sales.

[5] 'Sweet spot' markets are Indonesia, Singapore, Hong Kong, Malaysia, Philippines, Vietnam and Thailand.

[6] Before allowing for final dividend.

[7] Underlying free surplus generation comprises underlying free surplus released from long-term business (net of investment in new business) and that generated from asset management operations. The 2012 comparative is based on the retrospective application of new and amended accounting standards and excludes the 2012 one-off gain of £51 million from the sale of the Group's holding in China Life Insurance Company of Taiwan.

[8] Asia 2012 IFRS operating profit of £924 million is based on the retrospective application of new and amended accounting standards as at 31 December 2013, and excludes the 2012 one-off gain of £51 million from the sale of the Group's holding in China Life Insurance Company of Taiwan.

[9] Based on AAJI statistics to 30 September 2014.

[10] Source: Lipper FMI, FundFile as of 31 December 2014.

[11] Excluding performance fees, carried interest and share of profits from associate entity, PPM South Africa.

[12] The methodology and assumptions used in calculating the economic capital results are set out in note II (c) of Additional unaudited financial information. The economic capital ratio is based on outputs from the Group's Solvency II internal model which will be subject to Prudential Regulation Authority review and approval before its formal adoption in 2016. We remain on track to submit our Solvency II internal model to the Prudential Regulation Authority for approval in 2015 but given the degree of uncertainty remaining these economic capital disclosures should not be interpreted as outputs from an approved internal model.

Chief Financial Officer's report on our 2014 financial performance

In 2014 Prudential delivered strong growth in IFRS operating profit and underlying free surplus generation, the two metrics that underpin our 2017 financial objectives. The Group's overall financial performance increasingly benefits from ongoing enhancements in the quality of our earnings – delivered through stronger growth in non-interest sensitive sources – and from improvements in the balance of profit and cash across different geographies, products and distribution channels. The resilience of our earnings during another year of market volatility and macro-economic uncertainty, is underpinned by our focus on business with high return fast payback characteristics and by our cautious approach to risk management. Prudential's balance sheet remains conservatively-positioned and the Group is strongly capitalised, with sufficient capital available to both fund new growth opportunities and absorb the effects of unexpected market shocks.

During 2014 the performance of the equity markets in the countries that we operate in has been broadly positive, with the US S&P 500 index up 11 per cent, while the UK FTSE 100 index and the MSCI Asia ex-Japan index were flat. Continued speculation on global growth prospects and the timing of key interest rate decisions has led to some volatility in long-term yields, with most markets experiencing a significant decline in 10-year bond yields during 2014, largely reversing the increases seen in 2013. As significant long-term holders of investment securities, insurance company results reflect the negative and positive fluctuations in the value of these assets. We include the impact of these short-term market movements outside the operating result, which is based on longer-term investment assumptions, on both the IFRS and the European Embedded Value ('EEV') reporting bases. In addition, we continue to take steps to protect ourselves from the downside risks to the Group's financial position associated with the guarantees that we offer to our customers and this also gives rise to short-term investment fluctuations, particularly on the IFRS reporting basis where the corresponding movement in the economic effects associated with these fluctuations is not recognised. Therefore, in the remainder of my report, my comments on the Group's operating performance exclude these short-term market driven effects.

In evaluating the 2014 financial performance of the Group, I have presented percentage growth rates before the impact of the pronounced fluctuations in the value of sterling against local currencies in the US and Asia, as this approach allows a more meaningful assessment of underlying performance trends. This is because our businesses in the US and Asia receive premiums and pay claims in local currencies and are, therefore, not exposed to any cross-currency trading effects. Growth rates based on actual exchange rates are also shown in the financial tables presented in this report. As the assets and liabilities of our overseas businesses are translated at period-end exchange rates, the effect of these currency movements has been fully incorporated within reported shareholders' equity as at 31 December 2014.

The key financial highlights of 2014 were:

- **Group IFRS operating profit** of £3,186 million, up 14 per cent
- **Group profit before tax attributable to shareholders** on an IFRS basis increased to £2,614 million from £1,532 million in 2013, including the financial impact of short-term movements in investment values and other items reported outside the operating result
- **Underlying free surplus generation**[9] (net of investment in new business) of £2,579 million, 9 per cent higher
- On the European Embedded Value (EEV) basis of reporting performance, **new business profit**[1] increased 10 per cent to £2,126 million, contributing to a 4 per cent increase in **EEV operating profit**[1] to £4,096 million
- **EEV basis shareholders' funds** at 31 December 2014 increased to £29.2 billion, 17 per cent higher than the previous year-end on an actual exchange rate basis.

IFRS Profits

	Actual Exchange Rate			Constant Exchange Rate	
	2014 £m	**2013 £m**	**Change %**	**2013 £m**	**Change %**
Operating profit before tax					
Long-term business:					
Asia[2]	**1,050**	1,001	5	905	16
US	**1,431**	1,243	15	1,181	21
UK	**752**	706	7	706	7
Long-term business operating profit[2]	**3,233**	2,950	10	2,792	16
UK general insurance commission	**24**	29	(17)	29	(17)
Asset management business:					
M&G (including Prudential Capital)	**488**	441	11	441	11
Eastspring Investments	**90**	74	22	68	32
US	**12**	59	(80)	56	(79)
Other income and expenditure[3]	**(661)**	(599)	(10)	(599)	(10)
Total operating profit based on longer-term investment returns	**3,186**	2,954	8	2,787	14
Short-term fluctuations in investment returns:					
Insurance operations	**(461)**	(1,083)	57	(1,036)	56
Other operations	**(113)**	(27)	(319)	(27)	(319)
	(574)	(1,110)	48	(1,063)	(46)
Other non-operating items[3]	**2**	(209)	(101)	(192)	(101)
Profit before tax attributable to shareholders	**2,614**	1,635	60	1,532	71
Tax charge attributable to shareholders' returns	**(398)**	(289)	(38)	(262)	(52)
Profit for the year attributable to shareholders	**2,216**	1,346	65	1,270	74

IFRS Earnings per share

	Actual Exchange Rate			Constant Exchange Rate	
	2014 pence	**2013 pence**	**Change %**	**2013 pence**	**Change %**
Basic earnings per share based on operating profit after tax	**96.6**	90.9	6	85.9	12
Basic earnings per share based on total profit after tax	**86.9**	52.8	65	49.8	74

IFRS Operating Profit
Total IFRS operating profit increased by 14 per cent in 2014 to £3,186 million. The improvement in profitability was broad-based, with all four of our business operations in Asia, the US, UK life and M&G reporting higher operating profit.

- **Asia total operating profit** of £1,140 million was 17 per cent higher than the previous year, (6 per cent on an actual exchange rate basis), with strong growth in both life insurance and Eastspring Investments, our Asia-based asset management business
- **US total operating profit** at £1,443 million increased by 17 per cent (11 per cent on an actual exchange rate basis), driven by higher fee income from growth in separate account assets held by the life operations
- **UK total operating profit** was 6 per cent higher at £776 million, reflecting higher contributions from bulk annuity transactions
- **M&G operating profit** (excluding Prudential Capital) was 13 per cent higher at £446 million, benefiting from continued growth in assets managed.

Life insurance operations: Taken together, IFRS operating profit from our life insurance operations in Asia, the US and the UK increased 16 per cent to £3,233 million. This increase reflects the growth in the scale of these operations, driven primarily by positive business inflows. We track the progress that we make in growing our life insurance business by reference to the scale of our obligations to our customers, which are referred to in the financial statements as policyholder liabilities. Each year these liabilities increase as we collect premiums and decrease as we pay claims and policies mature. The overall scale of these policyholder liabilities is relevant in evaluating our profit potential, in that it reflects, for example, our ability to earn fees on the unit-linked element and it sizes the risk that we carry on the insurance element, for which Prudential needs to be rewarded.

Shareholder-backed policyholder liabilities and net liability flows[4]

	2014 £m				2013 £m			
	Actual Exchange Rate				Actual Exchange Rate			
	At 1 January 2014	**Net liability flows[5]**	**Market and other movements**	**At 31 December 2014**	**At 1 January 2013**	**Net liability flows[5]**	**Market and other movements***	**At 31 December 2013**
Asia	**21,931**	**1,937**	**2,542**	**26,410**	21,213	2,349	(1,631)	21,931
US	**107,411**	**8,263**	**11,072**	**126,746**	92,261	9,635	5,515	107,411
UK	**50,779**	**(610)**	**4,840**	**55,009**	49,505	(1,038)	2,312	50,779
Total Group	**180,121**	**9,590**	**18,454**	**208,165**	162,979	10,946	6,196	180,121

*including reduction of £1,026 million following reclassification of Japan as held for sale

Focusing on the business supported by shareholder capital, which generates the majority of the life profits, in the course of 2014 policyholder liabilities increased from £180.1 billion at the start of the year to £208.2 billion at 31 December 2014. The consistent addition of high-quality profitable new business and proactive management of the existing in-force portfolio underpins this increase, resulting in positive net flows[5] into policyholder liabilities of £9.6 billion in 2014 driven by our US and Asia businesses. Net flows into our Jackson business in the US were £8.3 billion in 2014, reflecting continued success in attracting new variable annuity business. Net flows into Asia continue to be positive at £1.9 billion, representing the increased levels of new regular premium business added this year, offset by higher levels of maturities of products reaching their term. Positive foreign currency translation effects together with favourable investment market and other movements have contributed a further £18.5 billion to the increase in policyholder liabilities since the start of the year.

Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver[6]

	Actual Exchange Rate						Constant Exchange Rate		
	2014 £m			2013 £m			2013 £m		
	Operating profit	**Average liability**	**Margin bps**	**Operating profit**	**Average liability**	**Margin bps**	**Operating profit**	**Average liability**	**Margin bps**
Spread income	**1,131**	**67,252**	**168**	1,073	64,312	167	1,029	62,909	164
Fee income	**1,618**	**110,955**	**146**	1,391	96,337	144	1,318	93,339	141
With-profits	**298**	**101,290**	**29**	298	97,393	31	295	97,374	30
Insurance margin	**1,441**			1,356			1,264		
Margin on revenues	**1,721**			1,749			1,600		
Acquisition costs*	**(2,014)**	**4,650**	**(43)%**	(2,039)	4,423	(46)%	(1,899)	4,165	(46)%
Administration expenses	**(1,454)**	**186,049**	**(78)**	(1,428)	169,158	(84)	(1,338)	164,362	(81)
DAC adjustments	**277**			334			315		
Expected return on shareholder assets	**215**			216			208		
Operating profit based on longer-term investment returns	**3,233**			2,950			2,792		

*The ratio of acquisition costs is calculated as a percentage of APE sales including with-profits sales. Acquisition costs include only those relating to shareholder-backed business.

In 2014, alongside growing our overall level of life operating profit we continued to focus on improving its quality. We achieved this by maintaining our bias for sources of income such as insurance margin and fee income, ahead of spread income: insurance margin because it is relatively insensitive to the equity and interest rate cycle, and fee income because it is capital-efficient. Our strategic emphasis on growing our offering of risk products such as health and protection, drove insurance margin 14 per cent higher (6 per cent on an actual exchange rate basis), while fee income was up 23 per cent (16 per cent on an actual exchange rate basis) primarily reflecting the growth in the level of assets that we manage on behalf of our customers. In contrast, the contribution to our profits from spread income increased at a more subdued rate of 10 per cent (5 per cent on an actual exchange rate basis).

The fact that insurance margin and fee income generated a higher and growing proportion of our income represents a healthy evolution in the quality, resilience and balance of our earnings. Our share of returns from with-profits operations was in line with 2013, providing a stable and reliable source of income for both shareholders and customers invested in these funds.

The costs we have incurred in writing new business and in administering the in-force life businesses also increased but at a more modest rate than total income, highlighting the advantages of increased scale as we build out our business, while maintaining control of costs.

IFRS operating profit from our portfolio of life insurance operations in **Asia** was up 16 per cent to £1,050 million, driven by the increasing scale of the in-force business and our regular premium health and protection oriented product focus. Indonesia IFRS operating profit, our largest market on this measure, was up by 27 per cent to £309 million, reflecting growth in insurance and fee income following the high level of protection and savings product sales in recent years. We are also encouraged to see further progress among our smaller, fast-growing businesses in South-east Asia, with Thailand, the Philippines and Vietnam now accounting for 15 per cent of Asia's life operating profit compared to just 5 per cent only 2 years ago.

In the **US,** life IFRS operating profit increased by 21 per cent to £1,431 million, primarily as a result of a 26 per cent increase in fee income, which is now Jackson's main source of income. The uplift in fee income reflects the growth in average separate account assets from £57.1 billion in 2013 to £72.5 billion in 2014, equating to an increase of 27 per cent on a constant exchange rate basis, driven by variable annuity net premium inflows and appreciation in US equity markets. The contribution from insurance margin has also increased by 20 per cent, as we continue to realise the benefits of the REALIC acquisition. We remain focused on improving the balance of Jackson's profits and diversifying its sources of earnings and we are pleased with the growing contribution to sales of Elite Access, our variable annuity product without living benefits.

UK life IFRS operating profit was 7 per cent higher than 2013 at £752 million (2013: £706 million), principally due to a £105 million profit contribution from bulk annuity transactions (2013: £25 million), the result of our selective approach of only writing this business on attractive returns. The UK market reforms announced in March 2014 triggered a dramatic market-wide decline in sales of individual annuities. Our UK life business was similarly affected and experienced a £53 million decline in profit from new retail annuity sales (from £110 million in 2013 to £57 million in 2014). Life IFRS operating profit includes a contribution of £23 million from our 25 per cent share of the PruHealth and PruProtect businesses which we disposed in November 2014.

Asset management net inflows and external funds under management [7]

	External net inflows					External funds under management		
	Actual Exchange Rate			Constant Exchange Rate		Actual Exchange Rate		
	2014 £m	**2013 £m**	**Change %**	**2013 £m**	**Change %**	**2014 £m**	**2013 £m**	**Change %**
M&G								
Retail	**6,686**	7,342	(9)	7,342	(9)	**74,289**	67,202	11
Institutional	**401**	2,148	(81)	2,148	(81)	**62,758**	58,787	7
M&G	**7,087**	9,490	(25)	9,490	(25)	**137,047**	125,989	9
Eastspring[8]	**5,430**	1,575	245	1,439	277	**25,333**	17,927	41
Total asset management	**12,517**	11,065	13	10,929	15	**162,380**	143,916	13
Total asset management (including MMF)	**12,526**	11,587	8	11,409	10	**167,180**	148,212	13

Asset management: Our asset management businesses in the UK and Asia collectively contributed IFRS operating profit of £578 million, up 14 per cent on 2013. Similar to the trend observed in our life operations, growth in asset management operating profit primarily reflects the increased scale of these businesses, as measured by funds managed on behalf of external institutional and retail customers and our internal life insurance operations. Net inflows from external parties into these funds, excluding Money Market Funds (MMF), were £12.5 billion in 2014 (2013: £10.9 billion on a constant exchange rate basis) and helped drive external retail and institutional funds under management (excluding MMF) to £162.4 billion at 31 December 2014 compared to £143.9 billion at 31 December 2013.

M&G's IFRS operating profit increased 13 per cent to £446 million (2013: £395 million), reflecting a 12 per cent rise in underlying profit to £400 million (2013: £358 million), higher performance-related fees at £33 million (2013: £25 million) and £13 million from earnings from associates (2013: £12 million). The increase in underlying profit was principally driven by higher average levels of funds under management, following a period of strong net inflows and positive market movements. The increasing proportion of higher-margin external retail business improved M&G's average fee income to 38 basis points (2013: 37 basis points). Higher income more than matched the rise in operating costs driven by increased headcount and infrastructure investment. Reflecting this, the underlying cost income ratio, which excludes revenue from performance-related payments and earnings from associates, improved to 58 per cent (2013: 59 per cent).

Our Asia asset management business, **Eastspring Investments**, has also benefited from growth in funds under management, with IFRS operating profit of £90 million up 32 per cent. In the US, our asset management businesses, PPM America and Curian, together with our broker-dealer network, National Planning Holdings, collectively generated IFRS operating profit of £12 million (2013: profit of £56 million on a constant exchange rate basis) after a £38 million charge which related primarily to the refund of certain fees by Curian.

IFRS short-term fluctuations

IFRS operating profit is based on longer-term investment return assumptions. The difference between actual investment returns recorded in the income statement and the assumed longer-term returns is reported within short-term fluctuations in investment returns. In 2014 the total short-term fluctuations in investment returns relating to the life operations were negative £461 million, comprising positive £178 million for Asia, negative £1,103 million in the US and positive £464 million in the UK.

In Asia, the positive short-term fluctuations of £178 million primarily reflect net unrealised gains on fixed income securities following falls in bond yields across the region during the year.

Negative short-term fluctuations of £1,103 million in the US mainly reflected the net value movement on the guarantees offered by Jackson and the associated derivatives held to manage market exposures. Under IFRS accounting the movement in the valuation of derivatives, which are fair valued, is asymmetrical to the movement in the guarantee liabilities, which are not fair valued in all cases. The rise in equity markets in 2014 generated negative value movements on the equity derivatives that are held to mitigate against the downside risk of a decline in equity markets. Due to IFRS accounting practice, the corresponding offset in the valuation of obligations to customers is not fully recognised leading to a negative overall movement within IFRS profits. Declining interest rates and unfavourable movements in implied volatility also led to net negative value movements, due to similar accounting asymmetries. Jackson designs its hedge programme to protect the economics of the business from large movements in investment markets and therefore accepts variability in the accounting results. Viewed through the local regulatory risk based capital lens, the hedge programme was essentially breakeven on this basis, as movements in hedge assets and guarantee reserves broadly offset. As a result, Jackson's regulatory risk-based capital ratio was broadly unchanged at 456 per cent at the end of 2014 (31 December 2013: 450 per cent).

The positive short-term fluctuations of £464 million in the UK include net unrealised gains on fixed income assets supporting the capital of the shareholder-backed annuity business.

IFRS effective tax rates

In 2014, the effective tax rate on IFRS operating profit based on longer-term investment returns was 23 per cent, in line with the 22 per cent equivalent rate in 2013.

The 2014 effective tax rate on the total IFRS profit was 15 per cent (2013: 18 per cent), reflecting corporate tax rate reductions in certain jurisdictions and a change in the overall geographic mix of profit which is subject to different tax rates.

Total tax contribution

The Group continues to make significant tax contributions in the countries in which it operates, with £2,237 million remitted to tax authorities in 2014. This was higher than the equivalent amount of £1,797 million in 2013, reflecting increased profits and the non-recurrence of the 2013 tax refunds for previous overpaid taxes.

	2014 £m				**2013 £m**			
	Corporation taxes	**Other taxes**	**Taxes collected**	**Total**	**Corporation taxes**	**Other taxes**	**Taxes collected**	**Total**
Taxes paid in:								
Asia	**199**	**52**	**87**	**338**	148	48	123	319
US	**205**	**35**	**375**	**615**	(58)	35	315	292
UK	**314**	**202**	**759**	**1,275**	327	152	702	1,181
Other	**3**	**4**	**2**	**9**	1	1	3	5
Total tax paid	**721**	**293**	**1,223**	**2,237**	418	236	1,143	1,797

Corporation taxes include amounts paid on taxable profits which, in certain countries such as the UK, include policyholder investment returns on certain life insurance products. Other taxes include property taxes, withholding taxes, employer payroll taxes and irrecoverable indirect taxes. Taxes collected are other taxes that Prudential remits to tax authorities which it is obliged to collect from employees, customers and third parties which include sales taxes, employee and annuitant payroll taxes.

Free surplus generation

Free surplus generation is the financial metric we use to measure the internal cash generation of our business operations. For life insurance operations it represents amounts maturing from the in-force business during the year, net of amounts reinvested in writing new business. For asset management it equates to post-tax IFRS profit for the year. In 2014 underlying free surplus generation, after investment in new business, increased by 9 per cent to £2,579 million.

Free surplus generation

	Actual Exchange Rate			**Constant Exchange Rate**	
	2014 £m	**2013 £m**	**Change %**	**2013 £m**	**Change %**
Free surplus generation[9]					
Asia	**938**	883	6	801	17
US	**1,197**	1,168	2	1,109	8
UK	**664**	702	(5)	702	(5)
M&G (incl. Prudential Capital)	**386**	346	12	346	12
Underlying free surplus generated from in-force life business and asset management	**3,185**	3,099	3	2,958	8
Investment in new business	**(606)**	(637)	5	(597)	(2)
Underlying free surplus generated	**2,579**	2,462	5	2,361	9
Market related movements, timing differences and other movements	**(6)**	(807)			
Net cash remitted by business units	**(1,482)**	(1,341)			
Total movement in free surplus	**1,091**	314			
Free surplus at 1 January	**4,003**	3,689			
Effect of domestication of Hong Kong branch	**(35)**	-			
Free surplus at end of year	**5,059**	4,003			

The increase in free surplus generated by our life insurance businesses reflects our growing scale and the highly capital generative nature of our business model. We drive this metric by targeting markets and products that have low-strain, high-return and fast payback profiles and by delivering both good service and value to improve customer retention. Our ability to generate both growth and cash is a distinctive feature of Prudential in our industry. In line with this approach, **Asia** and the **US** reported strong increases in free surplus generation. In the **UK**, a higher underlying contribution from the in-force portfolio was masked by the non-recurrence of a positive assumption change in 2013. The closing value of free surplus in our life and asset management operations increased to £5,059 million at 31 December 2014 (31 December 2013: £4,003 million, on an actual exchange rate basis), after financing reinvestment in new business and funding cash remittances from the business units to Group.

We invested £606 million of the free surplus generated during the year in writing new business (2013: £597 million on a constant exchange rate basis) equivalent to a re-investment rate[10] of 19 per cent, which is in line with recent periods. **Asia** remained the primary destination of our new business investment, given the superior profitable growth opportunities available in that region. In the **US**, new business investment decreased despite higher new business volumes, mainly due to proactive actions to reduce commissions and changes in product mix. New business investment in the **UK** increased to £73 million (2013: £29 million), reflecting changes to business mix, in particular the higher level of bulk annuity business written in 2014.

The internal rates of return achieved on new business remain attractive at over 20 per cent across all three business operations and the average payback period[11] for business written in 2014 was three years for Asia, one year for the US and four years for the UK.

We continue to manage cashflows across the Group with a view to achieving a balance between ensuring sufficient remittances are made to service central requirements (including paying the external dividend) and maximising value to shareholders through retention and reinvestment of capital in business opportunities.

Holding company cash[12]

	Actual Exchange Rate		
	2014 £m	**2013 £m**	**Change %**
Net cash remitted by business units:			
Asia	**400**	400	-
US	**415**	294	41
UK	**325**	355	(8)
M&G	**285**	235	21
Prudential Capital	**57**	57	-
Net cash remitted by business units	**1,482**	1,341	11
Holding company cash at 31 December	**1,480**	2,230	

Cash remitted by the business units to the corporate centre in 2014 increased by 11 per cent to £1,482 million with significant contributions from each of our four major business units. The higher overall total in 2014 has been driven by growth in the remittance from the US to a record £415 million (2013: £294 million), reflecting both the strong capital generation of Jackson's life business in the year and its effective approach to risk management. Notwithstanding the depreciation of many Asian currencies against sterling, net remittances from these operations proved resilient at £400 million. As announced earlier in the year, regulatory developments in the UK require us to increase the level of investment in new business and in upgrading our UK pre and post-retirement customer proposition. This investment will temper remittances in the short term from our UK life business. M&G increased its remittance to £285 million, reflecting underlying earnings growth.

Cash remitted to the Group in 2014 was used to meet central costs of £353 million (2013: £315 million), pay dividends of £895 million (2013: £781 million) and repay £445 million (US$750 million) of 11.75 per cent perpetual subordinated debt. In addition, £503 million (US$850 million) of central cash was used to finance the initial upfront payment for the renewal of the distribution agreement with Standard Chartered Bank. Reflecting these movements in the year, total holding company cash at the end of 2014 was £1,480 million compared to £2,230 million at the end of 2013.

EEV Profits[1]

	Actual Exchange Rate			Constant Exchange Rate	
	2014 £m	**2013 £m**[1]	**Change %**	**2013 £m**[1]	**Change %**
Post-tax operating profit					
Long-term business:					
Asia[2]	**1,900**	1,891	-	1,704	12
US	**1,528**	1,526	-	1,449	5
UK	**746**	832	(10)	832	(10)
Long-term business operating profit[2]	**4,174**	4,249	(2)	3,985	5
UK general insurance commission	**19**	22	(14)	22	(14)
Asset management business:					
M&G (including Prudential Capital)	**386**	346	12	346	12
Eastspring Investments	**78**	64	22	59	32
US	**6**	39	(85)	37	(84)
Other income and expenditure[13]	**(567)**	(516)	(10)	(516)	(10)
Post-tax operating profit based on longer-term investment returns	**4,096**	4,204	(3)	3,933	4
Short-term fluctuations in investment returns:					
Insurance operations	**856**	(560)	253	(525)	263
Other operations	**(93)**	(4)	-	(4)	-
	763	(564)	235	(529)	244
Effect of changes in economic assumptions	**(369)**	629	(159)	623	(159)
Other non-operating items[13]	**(147)**	89	(265)	94	(256)
Profit attributable to shareholders	**4,343**	4,358	-	4,121	5

Earnings per share

	Actual Exchange Rate			Constant Exchange Rate	
	2014 pence	**2013 pence**	**Change %**	**2013 pence**	**Change %**
Basic earnings per share based on post-tax operating profit	**160.7**	165.0	(3)	154.4	4
Basic earnings per share based on post-tax total profit	**170.4**	171.0	-	161.7	5

EEV Operating Profit[1]

On an EEV basis, Group post-tax operating profit based on longer-term investment returns was 4 per cent higher (negative 3 per cent on an actual exchange rate basis) at £4,096 million in 2014. The increase is primarily due to higher new business profit from the Group's life businesses, which increased by 10 per cent to £2,126 million. Contributions from both new business and from our in-force portfolio were negatively impacted by the fall in long-term interest rates over 2014. If long-term interest rates at the end of 2014 had remained at the same levels as those at the start of the year, new business profit and EEV operating profit would have increased year-on-year by 14 per cent and 11 per cent respectively (on a constant exchange rate basis).

In **Asia**, EEV life operating profit was up 12 per cent to £1,900 million[2], with in-force profit up 10 per cent to £738 million[2], benefitting from increased scale across all of our operations. Asia new business profit was 13 per cent higher at £1,162 million, reflecting volume growth from the continued build out of our distribution platform, as well as management actions to improve product mix, geographic mix and pricing. The increase in new business profit continues to be driven by our seven 'sweet spot' markets[14] of South-east Asia including Hong Kong, which increased their combined contribution by 16 per cent, despite a broadly unchanged result from Indonesia.

Jackson's EEV life operating profit increased by 5 per cent to £1,528 million, driven by growth in the scale of our in-force book and higher new business profit. In-force profit increased by 7 per cent compared to the prior year, reflecting higher unwind from the larger book of existing business and an increased contribution from spread, persistency and mortality experience profits, the result of our disciplined approach to the way we manage and reserve for the risks of this business. US new business profit was up 4 per cent to £694 million, consistent with the 4 per cent increase in sales volume. Jackson's ongoing product and pricing actions have mitigated the adverse impact on new business profit of the 88 basis points reduction in 10-year Treasury yields since the end of 2013.

In the **UK**, EEV life operating profit fell by 10 per cent to £746 million. The decline is mainly due to the non-recurrence of a £98 million positive assumption change in 2013, representing the beneficial effect arising from the reduction in UK corporation tax rates. New business profit increased 14 per cent to £270 million (2013: £237 million), reflecting a contribution of £105 million from seven bulk annuity transactions in 2014 (2013: three, £24 million). In UK retail, new business profit was 23 per cent lower at £165 million (2013: £213 million), due to decline in sales of individual annuities which typically attract higher margins.

EEV non-operating result[1]

EEV operating profit is based on longer-term investment returns and excludes the effect of short-term volatility arising from market movements and the effect of changes from economic assumptions. These items are captured in non-operating profit which increased the 2014 results by a net £247 million (2013: net increase of £154 million on an actual exchange rate basis).

EEV short-term fluctuations[1]

Short-term fluctuations in investment returns reflect the element of non-operating profit which relates to the difference between the actual investment returns achieved and those assumed in arriving at the reported operating profit.

Short-term fluctuations in investment returns for life operations of positive £856 million include positive £439 million for Asia, negative £166 million for our US operations and positive £583 million in the UK.

In Asia and the UK, positive short-term fluctuations principally reflect unrealised movements on bond holdings in the year. In the

US, the variance represents the favourable impact of market movements on the expected level of future fee income from variable annuity separate accounts balances, offset by the net value movements on derivatives held to manage the Group's equity and interest rates exposure.

***Effect of changes in economic assumptions*[1]**

The reduction in long-term yields since the end of 2013 has an adverse impact on the overall level of future earnings that we expect to generate from our existing book of business. Once this and other changes in investment market conditions are factored into the EEV calculations they give rise to a negative movement of £369 million in 2014 (2013: positive £629 million on an actual exchange rate basis) partly offsetting the overall positive short-term fluctuations reported in the year.

Capital position, financing and liquidity

Capital position

We continue to operate with a strong solvency position, while maintaining high levels of liquidity and capital generation. At 31 December 2014 our Insurance Groups Directive surplus is estimated at £4.7 billion before deducting the 2014 final dividend, equivalent to a solvency cover of 2.4 times.

All of our subsidiaries continue to hold strong capital positions on a local regulatory basis. Jackson's Risk-Based Capital ratio at the end of 2014 was 456 per cent, having remitted £415 million to Group earlier in the year, which underlines our disciplined approach to managing the balance between volume, value, risk and cash in this business. We experienced no default losses and reported modest levels of impairments across our fixed income securities portfolios. Notwithstanding, we have retained our cautious stance on credit risk and have maintained our £2.2 billion credit default reserves in our UK annuity operations. Further information on our capital and solvency position is provided in the Group Chief Risk Officer's report.

Solvency II is scheduled to come into effect on 1 January 2016. Along with the full year 2013 results, we published for the first time the Group's end-2013 economic capital position. At 31 December 2014, our economic capital[15] surplus was £9.7 billion (2013: £11.3 billion), which is equivalent to an economic capital ratio of 218 per cent (2013: ratio of 257 per cent).

The methodology underpinning this measure is highly sensitive to market movements. Economic capital generated from new and in-force business of £1.8 billion, was offset by the negative market effects of £0.9 billion, reflecting the sharp decline in UK interest rates and by the payment of £0.9 billion of dividends to shareholders. Corporate actions during 2014 comprising new distribution agreements, debt repayment, domestication of the Hong Kong branch, impact of disposals and foreign exchange utilised a combined £1.3 billion of economic capital. Model refinements accounted for the remaining year-on-year movement.

These results are based on outputs from our Solvency II internal model, which has not yet been approved by the Prudential Regulation Authority. The results assume US equivalence, place no restrictions on the economic value of overseas surplus, and incorporate a number of other working assumptions. Certain aspects of the methodology and assumptions underpinning these results will differ from those which are applied in obtaining final Solvency II internal model approval. The eventual Solvency II Pillar I ratio therefore, remains uncertain and is expected to be lower than our economic capital ratio.

Financing and liquidity

Shareholders' net core structural borrowings and ratings	**2014 £m**			**2013 £m**		
	IFRS basis	**Mark to market value**	**EEV basis**	**IFRS basis**	**Mark to market value**	**EEV basis**
Shareholders' borrowings in holding company	**3,869**	**579**	**4,448**	4,211	392	4,603
Prudential Capital	**275**	**-**	**275**	275	-	275
Jackson surplus notes	**160**	**42**	**202**	150	38	188
Total	**4,304**	**621**	**4,925**	4,636	430	5,066
Less: Holding company cash and short-term investments	**(1,480)**	**-**	**(1,480)**	(2,230)	-	(2,230)
Net core structural borrowings of shareholder-financed operations	**2,824**	**621**	**3,445**	2,406	430	2,836

Our financing and liquidity position remained strong throughout the period. Our central cash resources amounted to £1.5 billion at 31 December 2014, compared with £2.2 billion at the end of 2013, and we currently retain a further £2.6 billion of untapped committed liquidity facilities.

On an IFRS basis the Group's core structural borrowings at 31 December 2014 were £4,304 million (31 December 2013: £4,636 million on an actual exchange rate basis) and comprised £3,869 million (31 December 2013: £4,211 million on an actual exchange rate basis) of debt held by the holding company, and £435 million (31 December 2013: £425 million on an actual exchange rate basis) of debt held by the Group's subsidiaries, Prudential Capital and Jackson. The Group redeemed US$750 million of 11.75 per cent perpetual subordinated capital securities during the year.

In addition to its net core structural borrowings of shareholder-financed operations set out above, the Group also has access to funding via the money markets and has in place an unlimited global commercial paper programme. As at 31 December 2014, we had issued commercial paper under this programme totalling £236 million, US$2,305 million, €75 million and AU$10 million to finance non-core borrowings.

Prudential's holding company currently has access to £2.6 billion of syndicated and bilateral committed revolving credit facilities, provided by 19 major international banks, expiring in 2018 and 2019. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 31 December 2014. The medium-term note programme, the SEC registered US shelf programme, the commercial paper programme and the committed revolving credit facilities are all available for general corporate purposes and to support the liquidity needs of Prudential's holding company and are intended to maintain a strong and flexible funding capacity.

Prudential manages the Group's core debt within a target level consistent with its current debt ratings. At 31 December 2014, the gearing ratio (debt, net of cash and short-term investments, as a proportion of IFRS shareholders' funds plus net debt) was 19 per cent, compared to 20 per cent at 31 December 2013. Prudential plc has strong debt ratings from Standard & Poor's, Moody's and Fitch. Prudential plc's long-term senior debt is rated A+, A2 and A from Standard & Poor's, Moody's and Fitch, while short-term ratings are A-1, P-1 and F1 respectively. All ratings on Prudential and its subsidiaries are on stable outlook except PAC, which was placed on negative outlook by Moody's in April 2014 following the UK market reforms announced in the March 2014 UK Budget.

The financial strength of PAC is rated AA by Standard & Poor's, Aa2 by Moody's and AA by Fitch.

Jackson National Life Insurance Company's financial strength is rated AA by Standard & Poor's, A1 by Moody's and AA by Fitch.

Prudential Assurance Co. Singapore (Pte) Ltd.'s (Prudential Singapore) financial strength is rated AA by Standard & Poor's.

Shareholders' Funds

	IFRS		EEV	
	2014 £m	**2013 £m**	**2014 £m**	**2013 £m**
Profit after tax for the year	**2,216**	1,346	**4,343**	4,358
Exchange movements, net of related tax	**220**	(255)	**737**	(1,077)
Unrealised gains and losses on Jackson fixed income securities classified as available for sale[16]	**565**	(1,034)	**-**	-
Dividends	**(895)**	(781)	**(895)**	(781)
Other	**55**	15	**131**	(87)
Net increase (decrease) in shareholders' funds	**2,161**	(709)	**4,316**	2,413
Shareholders' funds at beginning of the year	**9,650**	10,359	**24,856**	22,443
Effect of domestication of Hong Kong branch	**-**	-	**(11)**	-
Shareholders' funds at end of the year	**11,811**	9,650	**29,161**	24,856
Shareholders' value per share	**460p**	377p	**1,136p**	971p
Return on Shareholders' funds[17]	**26%**	23%	**16%**	19%

In the second half of 2014 the US dollar appreciated strongly relative to sterling reflecting market expectations of a sustained recovery in the US. With approximately 36 per cent of the Group's IFRS net assets (52 per cent of EEV net assets) denominated in US dollars (or currencies that are either pegged or managed by reference to US dollars), this generated a positive foreign exchange movement on net assets in the year. In addition, the reduction in US 10-year treasury rates, produced unrealised gains on fixed income securities held by Jackson that are accounted on an amortised cost basis under IFRS.

Taking these non-operating movements into account, the Group's IFRS shareholders' funds at 31 December 2014 increased by 22 per cent to £11.8 billion (31 December 2013: £9.6 billion on an actual exchange rate basis).

The Group's EEV shareholders' funds also increased by 17 per cent to £29.2 billion (31 December 2013: £24.9 billion on an actual exchange rate basis). On a per share basis the Group's embedded value at 31 December 2014 stood at 1,136 pence, up from 971 pence at 31 December 2013.

Corporate transactions

Bancassurance partnership with Standard Chartered PLC

On 12 March 2014 the Group announced that it had entered into an agreement expanding the term and geographic scope of its strategic pan-Asian bancassurance partnership with Standard Chartered PLC. Under the new 15-year agreement, which commenced on 1 July 2014, a wide range of Prudential life insurance products are exclusively distributed through Standard Chartered branches in nine markets—Hong Kong, Singapore, Indonesia, Thailand, Malaysia, the Philippines, Vietnam, India and Taiwan—subject to applicable regulations in each country. In China and South Korea, Standard Chartered Bank distributes Prudential's life insurance products on a preferred basis. Prudential and Standard Chartered Bank have also agreed to explore additional opportunities to collaborate in due course elsewhere in Asia and in Africa, subject to existing exclusivity arrangements and regulatory restrictions.

As part of this transaction Prudential agreed to pay Standard Chartered Bank an initial fee of US$1.25 billion which is not dependent on future sales volumes. Of this total, US$850 million was settled in the first half of 2014. The remainder will be paid in two equal instalments of US$200 million each in April 2015 and April 2016.

Sale of PruHealth and PruProtect

On 10 November 2014, Prudential Assurance Company Limited completed the sale of its 25 per cent equity stake in the PruHealth and PruProtect businesses to Discovery Group Europe Limited for £155 million in cash. This resulted in an IFRS profit of £86 million and EEV gain of £44 million, both of which have been included in non-operating profit.

Domestication of Hong Kong Branch

On 1 January 2014, the Group completed the process of domestication of the Hong Kong branch of The Prudential Assurance Company Limited. The branch was transferred on 1 January 2014 to two new Hong Kong – incorporated Prudential companies, one providing life insurance and the other providing general insurance – Prudential Hong Kong Limited and Prudential General Insurance Hong Kong Limited. On the Prudential Regulation Authority's pillar 1 peak 2 basis, £12.1 billion of assets, £12.0 billion of liabilities, net of reinsurers' share (including policyholder asset share liabilities and £1.2 billion of inherited estate) and £0.1 billion of shareholders' funds (for the excess assets of the transferred non-participating business) were transferred.

Disposal of Japan life business
In February 2015 the Group completed the disposal of its closed book life insurance business in Japan, PCA Life Insurance Company Limited (PCA Life Japan) to SBI Holdings for US$85 million cash consideration, of which US$17 million is deferred and is dependent upon the future performance of PCA Life Japan.

Entrance into Ghana and Kenya Life insurance markets
In April 2014 we completed the acquisition of Express Life of Ghana, and in September 2014 we entered the Kenyan life insurance market via our acquisition of Shield Assurance Company Limited.

Dividend

The Board has decided to rebase the full year dividend upwards by 10 per cent, reflecting the 2014 financial performance of the Group. In line with this, the directors recommend a final dividend of 25.74 pence per share (2013: 23.84 pence), which brings the total dividend for the year to 36.93 pence (2013: 33.57 pence). This rebase has been made possible by the continued exceptionally strong performance of the Group.

Although the Board has been able to recommend such a rebase in 2014, the Group's dividend policy remains unchanged. The Board will maintain its focus on delivering a growing dividend from this new higher base, which will continue to be determined after taking into account the Group's financial flexibility and our assessment of opportunities to generate attractive returns by investing in specific areas of the business. The Board believes that in the medium term a dividend cover of around two times is appropriate.

Notes:
[1] The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly 2013 results are shown on a comparable basis.
[2] After Asia development costs.
[3] Refer to note B1.1 in IFRS financial statements for the break-down of other income and expenditure, and other non-operating items.
[4] Includes Group's proportionate share of the liabilities and associated flows of the insurance joint ventures in Asia.
[5] Defined as movements in shareholder-backed policyholder liabilities arising from premiums (net of charges), surrenders/withdrawals, maturities and deaths.
[6] For basis of preparation see note I (a) of Additional Unaudited IFRS financial information.
[7] Includes Group's proportionate share in PPM South Africa and the Asia asset management joint ventures.
[8] Net inflows exclude Asia Money Market Fund (MMF) inflows of £9 million (2013: net inflows £522 million). External funds under management exclude Asia MMF balances of £4,800 million (2013: £4,296 million).
[9] Free surplus generation represents 'underlying free surplus' based on operating movements, including the general insurance commission earned during the period and excludes market movements, foreign exchange, capital movements, shareholders' other income and expenditure and centrally arising restructuring and Solvency II implementation costs. In addition, following its reclassification as held for sale during 2013, operating results exclude the result of the Japan Life Insurance business.
[10] Investment in new business as a percentage of Underlying free surplus generated from in-force life business and asset management.
[11] Payback period, measured on an undiscounted basis, is the time in which the initial 'cash' outflow of investment is expected to be recovered from the 'cash' inflows generated by the investment. The 'cash' outflow is measured by our investment of free surplus in new business sales. The payback period equals the time taken for new business sales to generate free surplus to cover this investment.
[12] The full Holding Company Cashflow is disclosed in note II (a) of Additional unaudited IFRS financial information.
[13] Refer to the EEV basis supplementary information – Post-tax operating profit based on longer-term investment returns and Post-tax summarised consolidated income statement, for the break-down of other income and expenditure, and other non-operating items.
[14] Sweet spot' markets are Indonesia, Singapore, Hong Kong, Malaysia, Philippines, Vietnam and Thailand.
[15] The methodology and assumptions used in calculating the economic capital results are set out in note II (c) of Additional unaudited financial information. The economic capital ratio is based on outputs from the Group's Solvency II internal model which will be subject to Prudential Regulation Authority review and approval before its formal adoption in 2016. We remain on track to submit our Solvency II internal model to the Prudential Regulation Authority for approval in 2015 but given the degree of uncertainty remaining these economic capital disclosures should not be interpreted as outputs from an approved internal model.
[16] Net of related charges to deferred acquisition costs and tax.
[17] Operating profit after tax and non-controlling interests as percentage of opening shareholders' funds.

Group Chief Risk Officer's Report of the risks facing our business and our capital strength

We generate shareholder value by selectively taking exposure to risks that are adequately rewarded and that can be appropriately quantified and managed. We retain material risks only where consistent with our risk appetite and risk-taking philosophy, that is: (i) they contribute to value creation; (ii) adverse outcomes can be withstood; and (iii) we have the capabilities, expertise, processes and controls to manage them. The Group aims to help customers achieve their long term financial goals by providing and promoting a range of products and services that meet customer needs, are easy to understand and that deliver real value.

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

Risk governance

Our Group Risk Framework requires that all our businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Group. The framework is based on the concept of 'three lines of defence' comprising risk taking and management, risk control and oversight and independent assurance.

Primary responsibility for strategy, performance management and risk control lies with the Board, which has established the Group Risk Committee to assist in providing leadership, direction and oversight in respect of the Group's significant risks, and with the Group Chief Executive and the Chief Executives of each of the Group's business units. Some of the key responsibilities of the Group Risk Committee include the responsibility for recommending the Own Risk and Solvency Assessment and other regulatory submissions to the Board, keeping the three lines of defence' framework under review and monitoring the effectiveness of the Group Chief Risk Officer.

Risk taking and the management thereof forms the first line of defence and is facilitated through both the Group Executive Committee and the Balance Sheet and Capital Management Committee.

Risk control and oversight constitutes the second line of defence, and is achieved through the operation of the Group Executive Risk Committee and its sub-committees which monitor and keep risk exposures under regular review. These committees are supported by the Group Chief Risk Officer, with functional oversight provided by Group Risk, Group Compliance and Group Security.

Group Risk has responsibility for establishing and embedding a capital management and risk oversight framework and culture consistent with our risk appetite that protects and enhances the Group's embedded and franchise value. Group Compliance provides verification of compliance with regulatory standards and informs the Board, as well as the Group's management, on key regulatory issues affecting the Group. Group Security is responsible for developing and delivering appropriate security measures with a view to protecting the Group's staff, physical assets and intellectual property.

Principles and objective

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

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

Material risks will only be retained where this is consistent with Prudential's risk appetite framework and its philosophy towards risk-taking. The Group's current approach is to retain such risks where doing so contributes to value creation and the Group is able to withstand the impact of an adverse outcome, and has the necessary capabilities, expertise, processes and controls to appropriately manage the risk.

Risk objectives

In keeping with this philosophy, the Group has five objectives for risk and capital management which are as follows:

• Framework	• Monitoring	• Control	• Communication	• Culture
Design, implement and maintain a capital management and risk oversight framework, which is consistent with the Group's risk appetite and philosophy towards risk taking	Establish a 'no surprises' risk management culture by identifying the risk landscape, assessing and monitoring risk exposures and understanding change drivers	Implement suitable risk mitigation strategies and remedial actions where exposures are deemed inappropriate, and to manage the response to potentially extreme events	Effectively communicate the Group's risk, capital and profitability position to both internal and external stakeholders	Foster a risk management culture, providing quality assurance and facilitating the sharing of best practice

RISK MANAGEMENT – THE FIRST LINE OF DEFENCE

Risk-taking and the management thereof forms the first line of defence and is facilitated through both the Group Executive Committee and the Balance Sheet and Capital Management Committee.

Group Executive Committee (GEC)	*Balance Sheet and Capital Management Committee (BSCMC)*
Purpose: Supports the Group Chief Executive in the executive management of the Group and is comprised of the Chief Executives of each of the Group's major business units, as well as a number of functional specialists. Meets: Usually fortnightly	Purpose: Supports the Chief Financial Officer in the management of the Group's balance sheet, as well as providing oversight to the activities of Prudential Capital, which undertakes the treasury function for the Group. The BSCMC is comprised of a number of functional specialists. Meets: Monthly

RISK OVERSIGHT – THE SECOND LINE OF DEFENCE

Risk control and oversight constitutes the second line of defence, and is achieved through the operation of a number of Group-level risk committees, chaired by either the Chief Financial Officer or the Group Chief Risk Officer, which monitor and keep risk exposures under regular review.

Group Executive Risk Committee
(GERC)

Purpose: Oversees the Group's risk exposures, including market, credit, liquidity, insurance and operational risks, and also monitors the Group's capital position.
Reports to: Group Chief Executive
Meets: Monthly

Technical Actuarial Committee (TAC)	*Group Credit Risk Committee (GCRC)*	*Group Operational Risk Committee (GORC)*	*Solvency II Technical Oversight Committee (STOC)*
Purpose: Sets the methodology for valuing Prudential's assets, liabilities and capital requirements under Solvency II and the Group's internal economic capital basis. Reports to: GERC Meets: Usually monthly and more often as required	Purpose: Reviews the Group's investment and counterparty credit risk positions Reports to: GERC Meets: Monthly	Purpose: Overseas the Group's operational risk exposures. Reports to: GERC Meets: Quarterly	Purpose: Provides ongoing technical oversight and advice to the Board and executive in respect of their duties with regard to the Group's Internal Model. Reports to: GERC Meets: Usually 10 times annually

The Group-level risk committees are supported by the Group Chief Risk Officer, with functional oversight provided by Group Security, Group Compliance and Group Risk. Group Security is responsible for developing and delivering appropriate security measures with a view to protecting the Group's staff, physical assets and intellectual property. Group Compliance provides verification of compliance with regulatory standards and informs the Board, as well as management, on key regulatory issues affecting the Group. Group Risk has responsibility for establishing and embedding a capital management and risk oversight framework and culture consistent with Prudential's risk appetite that protects and enhances the Group's embedded and franchise value.

INDEPENDENT ASSURANCE – THE THIRD LINE OF DEFENCE

Group-wide Internal Audit (GwIA)
The third line of defence comprises the Group-wide Internal Audit function, which provides independent and objective assurance to the Board, its Audit and Risk Committees and the Group Executive Committee, to help protect the assets, sustainability and reputation of the Group.

<u>Risk appetite and limits</u>

The extent to which we are willing to take risk in the pursuit of our objective to create shareholder value is defined by a number of risk appetite statements, operationalised through measures such as limits, triggers and indicators. These appetite statements and measures are approved by the Board on recommendation of the Group Risk Committee and are subject to annual review.

We define and monitor aggregate risk limits based on financial and non-financial stresses for our earnings volatility, liquidity and capital requirements as follows:

Earnings volatility: the objectives of the limits are to ensure that:

a. the volatility of earnings is consistent with the expectations of stakeholders;
b. the Group has adequate earnings (and cashflows) to service debt, expected dividends and to withstand unexpected shocks; and
c. earnings (and cashflows) are managed properly across geographies and are consistent with funding strategies.

The two measures used to monitor the volatility of earnings are EEV operating profit and IFRS operating profit, although EEV and IFRS total profits are also considered.

Liquidity: the objective is to ensure that the Group is able to generate sufficient cash resources to meet financial obligations as they fall due in business as usual and stressed scenarios.

Capital requirements: the limits aim to ensure that:

a. the Group meets its internal economic capital requirements;
b. the Group achieves its desired target rating to meet its business objectives; and
c. supervisory intervention is avoided.

The two measures used are the EU Insurance Groups Directive (IGD) capital requirements and internal economic capital requirements. In addition, capital requirements are monitored on both local statutory and future Solvency II regulatory bases.

We also define risk appetite statements and measures (i.e. limits, triggers, indicators) for the major constituents of each risk type as categorised and defined in the Group Risk Framework, where appropriate. These appetite statements and measures cover the most significant exposures to the Group, particularly those that could impact our aggregate risk limits. The Group Risk Framework risk categorisation is shown in the table below.

Category	Risk type	Definition
Financial risks	Market risk	The risk of loss for the Group's business, or of adverse change in the financial situation, resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.
	Credit risk	The risk of loss for the Group's business or of adverse change in the financial position, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event (e.g. downgrade or spread widening).
	Insurance risk	The risk of loss for the Group's business or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of a number of insurance risk drivers. This includes adverse mortality, longevity, morbidity, persistency and expense experience.
	Liquidity risk	The risk of the Group being unable to generate sufficient cash resources or to meet financial obligations as they fall due in business as usual and stress scenarios.
Non-financial risks	Operational risk	The risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events other than those covered by business environment risk.
	Business environment risk	Exposure to forces in the external environment that could significantly change the fundamentals that drive the business's overall strategy.
	Strategic risk	Ineffective, inefficient or inadequate senior management processes for the development and implementation of business strategy in relation to the business environment and the Group's capabilities.

Our risk appetite framework forms an integral part of our annual business planning cycle. The Group Risk Committee is responsible for reviewing the risks inherent in the Group's business plan and for providing the Board with input on the risk/reward trade-offs implicit therein. This review is supported by the Group Risk function, which uses submissions by business units to calculate the Group's aggregated position (allowing for diversification effects between business units) relative to the aggregate risk limits.

Risk policies

Risk policies set out specific requirements for the management of, and articulate the risk appetite for, key risk types. There are policies for credit, market, insurance, liquidity, operational and tax risk, as well as dealing controls. They form part of the Group Governance Manual, which was developed to make a key contribution to the sound system of internal control that we are expected to maintain under the UK Corporate Governance Code and the Hong Kong Code on Corporate Governance Practices. Group Head Office and business units confirm that they have implemented the necessary controls to evidence compliance with the Group Governance Manual.

Risk culture

We work to promote a responsible risk culture in three main ways:

a. by the leadership and behaviours demonstrated by management;
b. by building skills and capabilities to support management; and
c. by including risk management (through the balance of risk with profitability and growth) in the performance evaluation of individuals.

The remuneration strategy at Prudential is designed to be consistent with its risk appetite, and the Group Chief Risk Officer advises the Group Remuneration Committee on adherence to our risk framework and appetite.

Risk reporting

An annual 'top-down' identification of our top risks assesses the risks that have the greatest potential to impact the Group's operating results and financial condition. The management information received by the Group Risk Committees and the Board is tailored around these risks, and it also covers on-going developments in other key and emerging risks. A discussion of the key risks, including how they affect our operations and how they are managed, follows below.

Key risks

Market risk

(i) Investment risk

In Prudential UK investment risk arising on the assets in the with-profits fund impacts the shareholders' interest in future transfers and is driven predominantly by equities in the fund as well as by other investments such as property and bonds. The value of the future transfers is partially protected against equity falls by hedging conducted outside of the fund. The fund's large inherited estate – estimated at £7.2 billion as at 31 December 2014 (1 January 2014: £6.8 billion, after the domestication of Hong Kong business) – can absorb market fluctuations and protect the fund's solvency. The inherited estate is partially protected against falls in equity markets through an active hedging policy within the fund.

In Asia, our shareholder exposure to equities relates to revenue from unit-linked products and to the effect of falling equity markets on its with-profits businesses.

In Jackson, investment risk arises in relation to the assets backing the policies. In the case of the 'spread business', including fixed annuities, these assets are generally bonds. For the variable annuity business, these assets include equities as well as other assets such as bonds. In this case the impact on the shareholder comes from value of future mortality and expense fees, and additionally from guarantees embedded in variable annuity products. Shareholders' exposure to these guarantees is mitigated through a hedging programme, as well as reinsurance. Further measures have been undertaken including re-pricing initiatives and the introduction of variable annuities without guarantees. Furthermore, it is our philosophy not to compete on price; rather, we seek to sell at a price sufficient to fund the cost incurred to hedge or reinsure the risks and to achieve an acceptable return.

The Jackson IFRS shareholders' equity and US statutory capital are sensitive to the effects of policyholder behaviour on the valuation of GMWB guarantees. Jackson hedges the guarantees on its variable annuity book on an economic basis and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate economic result. In particular, under Prudential's Group IFRS reporting, the measurement of the Jackson variable annuity guarantees is typically less sensitive to market movements than the corresponding hedging derivatives, which are held at market value. However, depending on the level of hedging conducted regarding a particular risk type, certain market movements can drive volatility in the economic result which may be either more or less significant under IFRS reporting.

(ii) Interest rate risk

Long-term rates have declined over recent periods in many markets, falling to historic lows. Products that we write are sensitive to movements in interest rates, and while we have already taken a number of actions to de-risk the in-force business as well as re-price and restructure new business offerings in response to historically low interest rates, persistently low rates may impact policyholders' savings patterns and behaviour.

Interest rate risk arises in our UK business from the need to match cashflows for annuity payments with those from investments; movements in interest rates may have an impact on profits where durations are not perfectly matched. As a result, we aim to match the duration of assets and liabilities as closely as possible and the position is monitored regularly. The with-profits business is exposed to interest rate risk as a result of underlying guarantees. Such risk is largely borne by the with-profits fund but shareholder support may be required in extremis.

In Asia, exposure to interest rate risk arises from the guarantees of some non-unit-linked investment products. This exposure arises because it may not be possible to hold assets which will provide cashflows to match exactly those relating to policyholder liabilities. While this residual asset/liability mismatch risk can be managed, it cannot be eliminated.

Jackson is exposed to interest rate risk in its fixed, fixed index and variable annuity books. Movements in interest rates can influence the cost of guarantees in such products, in particular the cost of guarantees may increase when interest rates fall. Interest rate risk across the entire business is managed through the use of interest rate swaps and interest rate options.

(iii) Foreign exchange risk

We principally operate in Asia, the US and the UK. The geographical diversity of our businesses means that we are inevitably subject to the risk of exchange rate fluctuations. Our international operations in the US and Asia, which represent a significant proportion of our operating profit and shareholders' funds, generally write policies and invest in assets denominated in local currency. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in our consolidated financial statements when results are expressed in UK sterling.

We retain revenues locally to support the growth of our business and capital is held in the local currency of the business to meet local regulatory and market requirements, accepting the balance sheet translation risks this can produce. However, in cases where a surplus arising in an overseas operation supports Group capital or where a significant cash remittance is due from an overseas subsidiary to the Group, this exposure is hedged where we believe it is economically optimal to do so. We do not have appetite for significant shareholder exposures to foreign exchange risks in currencies outside the local territory. Currency borrowings, swaps and other derivatives are used to manage exposures.

Credit risk

We invest in fixed income assets in order to match policyholder liabilities and enter into reinsurance and derivative contracts to mitigate various types of risk. As a result, we are exposed to credit and counterparty credit risk across our business. We employ a number of risk management tools to manage credit risk, including limits defined on an issuer/counterparty basis as well as on average credit quality, and collateral arrangements in derivative transactions. The Group Credit Risk Committee oversees credit and counterparty credit risk across the Group.

(i) Debt and loan portfolio
Our UK business is primarily exposed to credit risk in the shareholder-backed portfolio, where fixed income assets represent 37 per cent or £31.7 billion of our exposure. Credit risk arising from £46.6 billion of fixed income assets is largely borne by the with-profits fund, although shareholder support may be required should the with-profits fund become unable to meet its liabilities.

The debt portfolio of our Asia business totalled £23.6 billion at 31 December 2014. Of this, approximately 67 per cent was in unit-linked and with-profits funds with minimal shareholder risk. The remaining 33 per cent is shareholder exposure.

Credit risk arises in the general account of our US business, where £33.0 billion of fixed income assets back shareholder liabilities including those arising from fixed annuities, fixed index annuities and life insurance. Included in the portfolio are £2.3 billion of commercial mortgage-backed securities and £1.6 billion of residential mortgage-backed securities, of which £0.8 billion (52 per cent) are issued by US government sponsored agencies.

The shareholder-owned debt and loan portfolio of the Group's asset management operations of £2.3 billion as at 31 December 2014 is principally related to Prudential Capital operations. Prudential Capital generates revenue by providing bridging finance, managing investments and operating a securities lending and cash management business for the Prudential Group and our clients.

The Group's credit exposure to the Oil and Gas sector represents circa 5 per cent or £3.4 billion of the shareholder portfolio. Some counterparties may experience stress from ongoing low oil prices but this is not currently expected to have a material adverse impact on the Group's exposure. The Oil and Gas sector is subject to ongoing monitoring and regular management information reporting to the Group's risk committees.

Further details of the composition and quality of our debt portfolio, and exposure to loans, can be found in the IFRS financial statements.

(ii) Group sovereign debt and bank debt exposure
Sovereign debt[1] represented 15 per cent or £11.0 billion of the debt portfolio backing shareholder business at 31 December 2014 (31 December 2013: 15 per cent or £10.2 billion). 43 per cent of this was rated AAA and 95 per cent investment grade (31 December 2013: 44 per cent AAA, 92 per cent investment grade). At 31 December 2014, the Group's shareholder-backed business's holding in Eurozone sovereign debt[1] was £476 million. 82 per cent of this was AAA rated (31 December 2013: 84 per cent AAA rated). Shareholder exposure to the Eurozone sovereigns of Italy and Spain is £63 million (31 December 2013: £54 million). We do not have any sovereign debt exposure to Greece, Cyprus, Portugal or Ireland.

Our bank exposure is a function of our core investment business, as well as of the hedging and other activities undertaken to manage our various financial risks. Given the importance of our relationship with our banks, exposure to the banking sector is a key focus of management information provided to the Group's risk committees and the Board.

The exposures held by the shareholder-backed business and with-profits funds in sovereign debt and bank debt securities at 31 December 2014 are given in Note C3.3(f) of the Group's IFRS financial statements.

(iii) Counterparty credit risk
We enter into a variety of exchange traded and over-the-counter derivative financial instruments, including futures, options, forward currency contracts and swaps such as interest rate swaps, inflation swaps, cross-currency swaps, swaptions and credit default swaps.

All over-the-counter derivative transactions, with the exception of some Asia transactions, are conducted under standardised International Swaps and Derivatives Association Inc master agreements and we have collateral agreements between the individual Group entities and relevant counterparties in place under each of these master agreements.

Our exposure to derivative counterparty and reinsurance counterparty credit risk is managed using an array of risk management tools, including a comprehensive system of limits. Where appropriate, we reduce our exposure, purchase credit protection or make use of additional collateral arrangements to control our levels of counterparty credit risk.

Insurance risk

The processes of determining the price of our products and reporting the results of our long-term business operations require us to make a number of assumptions. In common with other industry players, the profitability of our businesses depends on a mix of factors including mortality and morbidity levels and trends, persistency, investment performance, unit cost of administration and new business acquisition expenses.

We continue to conduct research into longevity risk using both industry data and experience from our substantial annuity portfolio. The assumptions that we make about future rates of mortality improvement within our UK annuity portfolio are key to our pricing and reserving. Recent changes to UK legislation, removing an individual's requirement to convert a pension fund into an annuity, are also demanding particular scrutiny. We continue to seek opportunities to transfer longevity risk to reinsurers or to the capital markets and have transacted when terms are sufficiently attractive and aligned with our risk management framework.

Morbidity risk is mitigated by appropriate underwriting and use of reinsurance. Our morbidity assumptions reflect our recent experience and expectation of future trends for each relevant line of business. In Asia, a key assumption is the rate of medical inflation, typically in excess of general price inflation.

Our persistency assumptions reflect recent experience for each relevant line of business, and any expectations of future persistency. Persistency risk is mitigated by appropriate training and sales processes and managed locally post-sale through regular experience monitoring and the identification of common characteristics of poor persistency business. Where appropriate, allowance is also made for the relationship – either assumed or historically observed – between persistency and investment returns, and for the resulting additional risk.

Liquidity risk

Our parent company has significant internal sources of liquidity which are sufficient to meet all of its expected requirements for the foreseeable future without having to make use of external funding. In aggregate the Group currently has £2.6 billion of undrawn committed facilities, expiring in 2018 and 2019. In addition, the Group has access to liquidity via the debt capital markets. We also have in place an unlimited commercial paper programme and have maintained a consistent presence as an issuer in this market for the last decade. Liquidity uses and sources have been assessed at the Group and at a business unit level under base case and stressed assumptions. The liquidity resources available and the subsequent Liquidity Coverage Ratio are regularly monitored and we have assessed these to be sufficient.

Operational risk

We are exposed to operational risk through the course of running our business. We are dependent on the successful processing of a large number of transactions, utilising various legacy and other IT systems and platforms, across numerous and diverse products. We also operate under the ever evolving requirements set out by different regulatory and legal regimes (including tax), as well as utilising a significant number of third parties to distribute products and to support business operations.

Our IT, compliance and other operational systems and processes incorporate controls that are designed to manage and mitigate the operational risks associated with our activities. Although we have not identified a material failure or breach in relation to our legacy and other IT systems and processes to date, we have been, and likely will continue to be, subject to computer viruses, attempts at unauthorised access and cyber security attacks.

We have an operational risk management framework in place that facilitates both the qualitative and quantitative analysis of operational risk exposures. The output of this framework, in particular management information on key operational risk and control assessments, scenario analysis, internal incidents and external incidents, is reported by the business units and presented to the Group Operational Risk Committee. This information also supports business decision-making and lessons-learned activities, the on-going improvement of the control environment, and determination of the adequacy of our corporate insurance programme.

Global regulatory risk

Global regulatory risk is considered a key risk.

The European Union (EU) has developed a new prudential regulatory framework for insurance companies, referred to as Solvency II. The Solvency II Directive, which sets out the new framework, was formally approved by the Economic and Financial Affairs Council in November 2009 although its implementation was delayed pending agreement on a directive known as Omnibus II which, having been adopted by the Council of the European Union in April 2014, amended certain aspects of the Solvency II Directive. The new approach is based on the concept of three pillars – minimum capital requirements, supervisory review of firms' assessments of risk, and enhanced disclosure requirements.

Specifically, Pillar 1 covers the quantitative requirements around own funds, valuation rules for assets and liabilities and capital requirements. Pillar 2 provides the qualitative requirements for risk management, governance and controls, including the requirement for insurers to submit an Own Risk and Solvency Assessment which will be used by the regulator as part of the supervisory review process. Pillar 3 deals with the enhanced requirements for supervisory reporting and public disclosure.

A key aspect of Solvency II is that the assessment of risks and capital requirements are intended to be aligned more closely with economic capital methodologies and may allow us to make use of our internal capital models if approved by the Prudential Regulation Authority.

Following adoption of the Omnibus II Directive, Solvency II will be implemented on 1 January 2016, although the European Commission and the European Insurance and Occupational Pensions Authority (EIOPA) are continuing to develop the detailed rules and guidelines that will supplement the high-level rules and principles of the Solvency II and Omnibus II Directives, which are not currently expected to be finalised until mid-late 2015.

There is significant uncertainty regarding the final outcome from this process. In particular, certain detailed aspects of the Solvency II rules relating to the determination of the liability discount rate for UK annuity business remain to be clarified and our capital position is sensitive to these outcomes. Further, the effective application of a number of key measures incorporated in the Omnibus II Directive, including the provisions for third-country equivalence and whether restrictions are placed on the economic value of overseas surplus, are subject to supervisory judgement and approval. There is a risk that the effect of the measures finally adopted could be adverse for us, including potentially a significant increase in the capital required to support our business and that we may be placed at a competitive disadvantage to other European and non-European financial services groups. We are actively participating in shaping the outcome through our involvement in industry bodies and trade associations, including the Pan-European Insurance Forum, Chief Risk Officer Forum and Chief Financial Officer Forum, together with the Association of British Insurers and Insurance Europe.

Having assessed the requirements of Solvency II, an implementation programme was initiated with dedicated teams to manage the required work across the Group. The activity of the local Solvency II teams is coordinated centrally to achieve consistency in the understanding and application of the requirements. We are continuing our preparations to adopt the regime when it comes into force on 1 January 2016 and are undertaking in parallel an evaluation of the possible actions to mitigate its effects. We regularly review our range of options to maximise the strategic flexibility of the Group. This includes consideration of optimising our domicile as a possible response to an adverse outcome on Solvency II.

Over the coming months we will remain in regular contact with the Prudential Regulation Authority as we continue to engage in the approval process for the internal model. In addition, we are engaged in the Prudential Regulation Authority's 'Individual Capital Adequacy Standards Plus (ICAS+)' regime, which is enabling our UK insurance entities to leverage the developments made in relation to the Solvency II internal model for the purpose of meeting the existing ICAS+ regime.

Currently there are also a number of other global regulatory developments which could impact the way in which we are supervised in our many jurisdictions. These include the Dodd-Frank Act in the US, the work of the Financial Stability Board on Global Systemically Important Insurers and the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) being developed by the International Association of Insurance Supervisors.

The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States that, among other reforms to financial services entities, products and markets, may subject financial institutions designated as systemically important to heightened prudential and other requirements intended to prevent or mitigate the impact of future disruptions in the US financial system. The full impact of the Dodd-Frank Act on our businesses is not currently clear, as many of its provisions have a delayed effectiveness and/or require rulemaking or other actions by various US regulators over the coming years.

In July 2013 the Financial Stability Board announced the initial list of nine insurance groups that have been designated as Global Systemically Important Insurers. Following another assessment in 2014, the Financial Stability Board confirmed the same nine insurance groups as Global Systemically Important Insurers on 6 November 2014. This list included Prudential as well as a number of its competitors. Designation as a Global Systemically Important Insurer has led to additional policy measures being applied to the designated group. Based on the policy framework released by the IAIS and subsequent guidance papers these additional policy measures include enhanced group-wide supervision, effective resolution measures of the group in the event of failure, loss absorption, and higher loss absorption capacity. This enhanced supervision commenced immediately and included the annual submission of a Systemic Risk Management Plan (SRMP), a group Recovery Plan (RCP) and Liquidity Risk Management Plan (LRMP). Prudential is monitoring the development and potential impact of the framework of policy measures and is continuing to engage with the Prudential Regulation Authority on the implications of the policy measures and Prudential's designation as a G-SII. The G-SII regime also introduces two types of capital requirements; the first, a Basic Capital Requirement (BCR), designed to act as a minimum group capital requirement and the second, a Higher Loss Absorption (HLA) requirement that should reflect the drivers of the assessment of G-SII designation. A consultation paper on BCR was released in July 2014 and the Group participated in field testing ahead of the BCR being agreed with the FSB and G20 in 2014. The IAIS has published a list of principles on HLA and a more detailed consultation paper is expected in June 2015 ahead of the IAIS finalizing HLA by the end of 2015. Implementation of the regime is likely to be phased in over a number of years with the BCR being introduced in 2015 on a confidential reporting basis to group-wide supervisors. The HLA requirement is expected to apply from January 2019 to the insurance groups identified as G-SIIs in November 2017.

ComFrame is also being developed by the IAIS to provide common global requirements for the supervision of insurance groups. The framework is designed to outline a set of common global principles and standards for group supervision and may increase the focus of regulators in some jurisdictions. One of the framework's key components is an Insurance Capital Standard (ICS) which would be expected to form the group solvency capital standard under ComFrame. In December 2014, the IAIS issued a comprehensive consultation paper on ICS and a quantitative field test is planned during 2015, which will be followed by another consultation in December 2015. Further field testing exercises are planned until 2018 to assess the impact of the quantitative and qualitative requirements proposed under ComFrame. ComFrame is expected to be implemented in 2019.

Risk factors

Our disclosures covering risk factors can be found at the end of this document.

Risk mitigation and hedging

We manage our actual risk profile against our tolerance of risk. To do this, we maintain risk registers that include details of the risks we have identified and of the controls and mitigating actions we employ in managing them. Any mitigation strategies involving large transactions, such as a material derivative transaction involving shareholder business, are subject to review at Group level before implementation.

We use a range of risk management and mitigation strategies. The most important of these include: adjusting asset portfolios to reduce investment risks (such as duration mismatches or overweight counterparty exposures); using derivatives to hedge market risks; implementing reinsurance programmes to manage insurance risk; implementing corporate insurance programmes to limit the impact of operational risks; and revising business plans where appropriate.

Capital management

We continue to operate with a strong solvency position, while maintaining high levels of liquidity and capital generation. This is testament to our capital discipline, the effectiveness of our hedging activities, our low direct Eurozone exposure, the minimal level of credit impairments and the natural offsets in our portfolio of businesses which dampen the effects of movements in interest rates.

Regulatory capital (IGD)

Prudential is subject to the capital adequacy requirements of the European Union Insurance Groups Directive (IGD) as implemented by the Prudential Regulation Authority in the UK. The IGD capital surplus represents the aggregated surplus capital (on a Prudential Regulation Authority consistent basis) of the Group's regulated subsidiaries less the Group's borrowings. No diversification benefit is recognised. We estimate that our IGD capital surplus is £4.7 billion at 31 December 2014 (before taking into account 2014 final dividend), with available capital covering our capital requirements 2.4 times. This compares to a capital surplus of £5.1 billion at the end of 2013 (before taking into account the 2013 final dividend).

The movements in 2014 mainly comprise:

- Net capital generation (inclusive of market and foreign exchange movements) mainly through operating earnings (in-force releases less investment in new business, net of tax) of £2.5 billion.

Offset by:

- The cost of new intangibles acquired in the year including renewal of the bancassurance partnership agreement with Standard Chartered Bank of £0.8 billion;
- £0.4 billion of subordinated debt repayment;
- £0.2 billion due to reduction in the shareholders' interest in future transfers from the UK's with-profits fund asset allowance (as discussed below) and other smaller one-off items;
- Final 2013 dividend of £0.6 billion and interim 2014 dividend of £0.3 billion; and
- External financing costs and other central costs, net of tax, of £0.6 billion

IGD surplus represents the accumulation of surpluses across all of our operations based on local regulatory minimum capital requirements with some adjustments, pursuant to the requirements of Solvency I. The calculation does not fully adjust capital requirements for risk nor does it capture the true economic value of assets.

There is broad agreement that ultimately it would be beneficial to replace the IGD regime with a regime that is appropriately risk-based.

We continue to have further options available to manage available and required capital. These could take the form of increasing available capital (for example, through financial reinsurance) or reducing required capital (for example, through the mix and level of new business) and the use of other risk mitigation measures such as hedging and reinsurance. A number of such options were utilised through the last financial crisis in 2008 and 2009 to enhance the Group's IGD surplus. One such arrangement allowed the Group to recognise a proportion of the shareholders' interest in future transfers (SHIFT) from the UK's with-profits business and this remained in place, contributing £0.2 billion to the IGD at 31 December 2013. As per guidance received from the PRA in January 2013, credit taken for the SHIFT asset was reduced to zero in January 2014.

Stress testing

As at 31 December 2014, stress testing of our IGD capital position to various events has the following results:

- An instantaneous 20 per cent fall in equity markets from 31 December 2014 levels would have no impact on the IGD surplus;
- A 40 per cent fall in equity markets (comprising an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period) would reduce the IGD surplus by £950 million;
- A 100 basis points reduction (subject to a floor of zero) in interest rates would reduce the IGD surplus by £450 million; and
- Credit defaults of 10 times the expected level would reduce IGD surplus by £700 million.

The impact of the 100 basis points reduction in interest rates is exacerbated by the current regulatory permitted practice used by Jackson, which values all interest rate swaps at book value rather than fair value for regulatory purposes. At 31 December 2014, removing the permitted practice would have increased reported IGD surplus to £5.1 billion. As at 31 December 2014, it is estimated that a 100 basis point reduction in interest rates (subject to a floor of zero) would have resulted in an IGD surplus of £4.9 billion, excluding the permitted practice.

Prudential believes that the results of these stress tests, together with the Group's strong underlying earnings capacity, our established hedging programmes and our additional areas of financial flexibility, demonstrate that we are in a position to withstand significant deterioration in market conditions.

Other Capital Metrics

We use an internal economic capital assessment calibrated on a multi-term basis to monitor our capital requirements across the Group. This approach considers, by risk drivers, the timeframe over which each risk can threaten the ability of the Group to meet claims as they fall due, allowing for realistic diversification benefits. This assessment provides valuable insights into our risk profile and for continuing to maintain a strong capital position.

All of our subsidiaries continue to hold strong capital positions on a local regulatory basis. Jackson's Risk-Based Capital ratio level as of 31 December 2014 was 456 per cent after remitting £415 million to the Group in 2014 while supporting its balance sheet growth and maintaining adequate capital. The value of the estate of our UK With-Profits fund as at 31 December 2014 is estimated at £7.2 billion after the effect of completing the domestication of the Hong Kong branch business of the PAC With-Profits fund which was effective on 1 January 2014 (1 January 2014: £6.8 billion, after the effect of the transfer). The value of the shareholders' interest in future transfers from the with-profits funds in the UK is estimated at £2.2 billion (1 January 2014: £2.3 billion, after the effect of the transfer).

Furthermore, on a statutory (Pillar 1) basis the total credit default reserve for the UK shareholder annuity funds also contributes to protecting our capital position in excess of the IGD surplus. Notwithstanding the absence of defaults in the year, at 31 December 2014 we maintained sizeable credit default reserves at £2.2 billion (31 December 2013: £1.9 billion), representing 41 per cent of the portfolio spread over swaps, compared with 47 per cent at 31 December 2013.

Economic capital position (based on our Solvency II internal model)

Following ratification of the Solvency II Omnibus II Directive on 16 April 2014, Solvency II is scheduled to come into force on 1 January 2016. Our economic capital results are based on outputs from our Solvency II internal model. Although the Solvency II and Omnibus II Directives, together with the Level 2 'Delegated Act' published on 17 January 2015, provide a framework for the calculation of Solvency II results, there remain material areas of policy uncertainty and in many areas the Group's methodology and assumptions are subject to review and approval by the Prudential Regulation Authority, the Group's lead regulator. We remain on track to submit our Solvency II internal model to the Prudential Regulation Authority for approval in 2015 but given the degree of uncertainty remaining the economic capital position disclosed below should not be interpreted as output from an approved internal model.

At 31 December 2014 the Group had economic capital surplus[2] of £9.7 billion (2013: £11.3 billion) and an economic capital ratio of 218 per cent (2013: 257 per cent) before taking into account the 2014 final dividend.

During 2014, the Group economic capital surplus reduced from £11.3 billion to £9.7 billion. The total movement in the Group economic capital surplus over the year was driven by:

- *Operating experience positive £1.8 billion:* generated by in-force business, new business written in 2014, the impact of non-market assumption changes and non-market experience variances over the year;
- *Non-operating experience negative £0.9 billion:* mainly arising from negative market experience during 2014, principally driven by the reduction in long-term interest rates in the UK;
- *Other capital movements negative £2.2 billion:* representing a reduction in surplus from the repayment of subordinated debt (negative £0.4 billion), renewal of the bancassurance partnership agreement with Standard Chartered Bank (negative £0.8 billion), the negative capital effect of the domestication of the Hong Kong branch (negative £0.3 billion), the sale of the PruHealth and PruProtect businesses (positive £0.1 billion), foreign currency translation effects (positive £0.1 billion) and dividend payments in 2014 (negative £0.9 billion); and
- *Model changes negative £0.3 billion:* a negative impact to Group surplus, for the estimated impact of evolving the liability discount rate for UK shareholder-backed annuity business from one based on a liquidity premium to one based on the matching adjustment, and other internal model refinements.

The economic capital results are based on outputs from our Solvency II internal model with a number of key working assumptions. Further explanation of the underlying methodology and assumptions are set out in note II of Additional unaudited financial information. Certain aspects of the methodology and assumptions underpinning these results will differ from those which are applied in obtaining final internal model approval. The eventual Solvency II Pillar I ratio, therefore, remains uncertain and is expected to be lower than our economic capital ratio.

Stress testing

At 31 December 2014, stress testing the economic capital position gives the following results and demonstrates the Group's ability to withstand significant deteriorations in market conditions:

- An instantaneous 20 per cent fall in equity markets would reduce surplus by £0.6 billion and reduce the economic solvency ratio to 214 per cent;
- An instantaneous 40 per cent fall in equity markets would reduce surplus by £2.2 billion and reduce the economic solvency ratio to 195 per cent;
- A 50 basis points reduction in interest rates (subject to a floor of zero) would reduce surplus by £1.4 billion and reduce the economic solvency ratio to 195 per cent;
- A 100 basis points increase in interest rates would increase surplus by £1.8 billion and increase the economic solvency ratio to 254 per cent; and
- A 100 basis points increase in credit spreads (with 15 per cent downgrades in the UK annuity portfolio and credit defaults of 10 times the expected level in Jackson) would reduce surplus by £2.1 billion and reduce the economic solvency ratio to 190 per cent.

Capital allocation

Our approach to capital allocation is to attain a balance between risk and return, investing in those businesses that create shareholder value. In order to efficiently allocate capital, we measure the use of, and the return on, capital.

We use a variety of metrics for measuring capital performance and profitability, including traditional accounting metrics and economic returns. Capital allocation decisions are supported by this quantitative analysis, as well as strategic considerations.

The economic framework measures risk-adjusted returns on economic capital, a methodology that ensures meaningful comparison across the Group. Capital utilisation, return on capital and new business value creation are measured at the product level as part of the business planning process.

Notes:

[1] Excludes Group's proportionate share in Joint Ventures and unit-linked assets and holdings of consolidated unit trusts and similar funds.

[2] The methodology and assumptions used in calculating the economic capital results are set out in note II (c) of Additional unaudited financial information. The economic capital ratio is based on outputs from the Group's Solvency II internal model which will be subject to Prudential Regulation Authority review and approval before its formal adoption in 2016. We remain on track to submit our Solvency II internal model to the Prudential Regulation Authority for approval in 2015 but given the degree of uncertainty remaining these economic capital disclosures should not be interpreted as outputs from an approved internal model.

Corporate governance

The Board confirms that it has complied with all relevant provisions set out in the Hong Kong Code on Corporate Governance Practices (the Code) throughout the accounting period. With respect to Code Provision B.1.2(d) of the HK Code, the responsibilities of the Remuneration Committee do not include making recommendations to the Board on the remuneration of non-executive directors. In line with the principles of the UK Code, fees for Non-executive Directors are determined by the Board.

The directors also confirm that the financial results contained in this document have been reviewed by the Group Audit Committee.

The company confirms that it has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than required by the Hong Kong listing rules and that the directors of the Company have complied with this code of conduct throughout the year.

IFRS Disclosure and Additional Unaudited Financial Information
Prudential plc 2014 results

International Financial Reporting Standards (IFRS) basis results

Notes

Additional Unaudited IFRS Financial Information

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED INCOME STATEMENT

Year ended 31 December	Note	2014 £m	2013 £m
Gross premiums earned		**32,832**	30,502
Outward reinsurance premiums		**(799)**	(658)
Earned premiums, net of reinsurance		**32,033**	29,844
Investment return		**25,787**	20,347
Other income		**2,306**	2,184
Total revenue, net of reinsurance		**60,126**	52,375
Benefits and claims		**(50,736)**	(42,227)
Outward reinsurers' share of benefit and claims		**631**	622
Movement in unallocated surplus of with-profits funds		**(64)**	(1,549)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		**(50,169)**	(43,154)
Acquisition costs and other expenditure	B3	**(6,752)**	(6,861)
Finance costs: interest on core structural borrowings of shareholder-financed operations		**(341)**	(305)
Remeasurement of carrying value of Japan life business classified as held for sale	D1	**(13)**	(120)
Total charges, net of reinsurance		**(57,275)**	(50,440)
Share of profits from joint ventures and associates, net of related tax		**303**	147
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)**		**3,154**	2,082
Less tax charge attributable to policyholders' returns		**(540)**	(447)
Profit before tax attributable to shareholders	B1.1	**2,614**	1,635
Total tax charge attributable to policyholders and shareholders	B5	**(938)**	(736)
Adjustment to remove tax charge attributable to policyholders' returns		**540**	447
Tax charge attributable to shareholders' returns	B5	**(398)**	(289)
Profit for the year attributable to equity holders of the Company		**2,216**	1,346

Earnings per share (in pence)		2014	2013
Based on profit attributable to the equity holders of the Company:	B6		
Basic		**86.9p**	52.8p
Diluted		**86.8p**	52.7p

Dividends per share (in pence)		2014	2013
Dividends relating to reporting year:	B7		
Interim dividend		**11.19p**	9.73p
Final dividend		**25.74p**	23.84p
Total		**36.93p**	33.57p
Dividends declared and paid in reporting year:	B7		
Current year interim dividend		**11.19p**	9.73p
Final dividend for prior year		**23.84p**	20.79p
Total		**35.03p**	30.52p

* This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders. This is principally because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IAS 12. Consequently, the profit before all taxes measure (which is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of the PAC with-profits fund after adjusting for taxes borne by policyholders) is not representative of pre-tax profits attributable to shareholders.

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	Note	2014 £m	2013 £m
Profit for the year		**2,216**	1,346
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the year		**215**	(255)
Related tax		**5**	-
		220	(255)
Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:			
Net unrealised holding gains (losses) arising during the year		**1,039**	(2,025)
Net losses included in the income statement on disposal and impairment		**(83)**	(64)
Total	C3.3	**956**	(2,089)
Related change in amortisation of deferred acquisition costs	C5.1(b)	**(87)**	498
Related tax		**(304)**	557
		565	(1,034)
Total		**785**	(1,289)
Items that will not be reclassified to profit or loss			
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes:			
Gross		**(12)**	(62)
Related tax		**2**	14
		(10)	(48)
Other comprehensive income (loss) for the year, net of related tax		**775**	(1,337)
Total comprehensive income for the year		**2,991**	9

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Year ended 31 December 2014 £m							
	Note	Share capital note C10	Share premium note C10	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity
Reserves									
Profit for the year		-	-	2,216	-	-	2,216	-	2,216
Other comprehensive income:									
Exchange movements on foreign operations and net investment hedges, net of related tax		-	-	-	220	-	220	-	220
Net unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax		-	-	-	-	565	565	-	565
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, net of tax		-	-	(10)	-	-	(10)	-	(10)
Total other comprehensive income		-	-	(10)	220	565	775	-	775
Total comprehensive income for the year		-	-	2,206	220	565	2,991	-	2,991
Dividends	B7	-	-	(895)	-	-	(895)	-	(895)
Reserve movements in respect of share-based payments		-	-	106	-	-	106	-	106
Change in non-controlling interests		-	-	-	-	-	-	-	-
Share capital and share premium									
New share capital subscribed	C10	-	13	-	-	-	13	-	13
Treasury shares									
Movement in own shares in respect of share-based payment plans		-	-	(48)	-	-	(48)	-	(48)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		-	-	(6)	-	-	(6)	-	(6)
Net increase (decrease) in equity		-	13	1,363	220	565	2,161	-	2,161
At beginning of year		128	1,895	7,425	(189)	391	9,650	1	9,651
At end of year		128	1,908	8,788	31	956	11,811	1	11,812

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Year ended 31 December 2013 £m							
	Note	**Share capital** note C10	**Share premium** note C10	**Retained earnings**	**Translation reserve**	**Available -for-sale securities reserves**	**Shareholders' equity**	**Non-controlling interests**	**Total equity**
Reserves									
Profit for the year		-	-	1,346	-	-	1,346	-	1,346
Other comprehensive loss:									
Exchange movements on foreign operations and net investment hedges, net of related tax		-	-	-	(255)	-	(255)	-	(255)
Net unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax		-	-	-	-	(1,034)	(1,034)	-	(1,034)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, net of tax		-	-	(48)	-	-	(48)	-	(48)
Total other comprehensive loss		-	-	(48)	(255)	(1,034)	(1,337)	-	(1,337)
Total comprehensive income (loss) for the year		-	-	1,298	(255)	(1,034)	9	-	9
Dividends	B7	-	-	(781)	-	-	(781)	-	(781)
Reserve movements in respect of share-based payments		-	-	98	-	-	98	-	98
Change in non-controlling interests		-	-	-	-	-	-	(4)	(4)
Share capital and share premium									
New share capital subscribed	C10	-	6	-	-	-	6	-	6
Treasury shares									
Movement in own shares in respect of share-based payment plans		-	-	(10)	-	-	(10)	-	(10)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		-	-	(31)	-	-	(31)	-	(31)
Net increase (decrease) in equity		-	6	574	(255)	(1,034)	(709)	(4)	(713)
At beginning of year		128	1,889	6,851	66	1,425	10,359	5	10,364
At end of year		128	1,895	7,425	(189)	391	9,650	1	9,651

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December	Note	**2014 £m**	**2013 £m**
Assets			
Intangible assets attributable to shareholders:			
Goodwill	C5.1(a)	**1,463**	1,461
Deferred acquisition costs and other intangible assets	C5.1(b)	**7,261**	5,295
Total		**8,724**	6,756
Intangible assets attributable to with-profits funds:			
Goodwill in respect of acquired subsidiaries for venture fund and other investment purposes		**186**	177
Deferred acquisition costs and other intangible assets		**61**	72
Total		**247**	249
Total intangible assets		**8,971**	7,005
Other non-investment and non-cash assets:			
Property, plant and equipment		**978**	920
Reinsurers' share of insurance contract liabilities		**7,167**	6,838
Deferred tax assets	C8	**2,765**	2,412
Current tax recoverable		**117**	244
Accrued investment income		**2,667**	2,609
Other debtors		**1,852**	1,746
Total		**15,546**	14,769
Investments of long-term business and other operations:			
Investment properties		**12,764**	11,477
Investment in joint ventures and associates accounted for using the equity method		**1,017**	809
Financial investments:*			
Loans	C3.4	**12,841**	12,566
Equity securities and portfolio holdings in unit trusts		**144,862**	120,222
Debt securities	C3.3	**145,251**	132,905
Other investments		**7,623**	6,265
Deposits		**13,096**	12,213
Total		**337,454**	296,457
Assets held for sale	D1(b)	**824**	916
Cash and cash equivalents		**6,409**	6,785
Total assets	C1,C3.1	**369,204**	325,932

* Included within financial investments are £4,578 million (2013: £3,791 million) of lent securities.

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December	Note	2014 £m	2013 £m
Equity and liabilities			
Equity			
Shareholders' equity		**11,811**	9,650
Non-controlling interests		**1**	1
Total equity		**11,812**	9,651
Liabilities			
Policyholder liabilities and unallocated surplus of with-profits funds:			
Insurance contract liabilities		**250,038**	218,185
Investment contract liabilities with discretionary participation features		**39,277**	35,592
Investment contract liabilities without discretionary participation features		**20,224**	20,176
Unallocated surplus of with-profits funds		**12,450**	12,061
Total	C4	**321,989**	286,014
Core structural borrowings of shareholder-financed operations:			
Subordinated debt		**3,320**	3,662
Other		**984**	974
Total	C6.1	**4,304**	4,636
Other borrowings:			
Operational borrowings attributable to shareholder-financed operations	C6.2	**2,263**	2,152
Borrowings attributable to with-profits operations	C6.2	**1,093**	895
Other non-insurance liabilities:			
Obligations under funding, securities lending and sale and repurchase agreements		**2,347**	2,074
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		**7,357**	5,278
Deferred tax liabilities	C8	**4,291**	3,778
Current tax liabilities	C8	**617**	395
Accruals and deferred income		**947**	824
Other creditors		**4,262**	3,307
Provisions		**724**	635
Derivative liabilities		**2,323**	1,689
Other liabilities		**4,105**	3,736
Total		**26,973**	21,716
Liabilities held for sale		**770**	868
Total liabilities	C1,C3.1	**357,392**	316,281
Total equity and liabilities		**369,204**	325,932

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December	Note	2014 £m	2013 £m
Cash flows from operating activities			
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*note (i)		**3,154**	2,082
Non-cash movements in operating assets and liabilities reflected in profit before tax:			
Investments		**(30,746)**	(23,487)
Other non-investment and non-cash assets		**(1,521)**	(1,146)
Policyholder liabilities (including unallocated surplus)		**27,292**	21,951
Other liabilities (including operational borrowings)		**3,797**	1,907
Interest income and expense and dividend income included in result before tax		**(8,315)**	(8,345)
Other non-cash itemsnote (ii)		**174**	81
Operating cash items:			
Interest receipts		**7,155**	6,961
Dividend receipts		**1,559**	1,738
Tax paid		**(721)**	(418)
Net cash flows from operating activities		**1,828**	1,324
Cash flows from investing activities			
Purchases of property, plant and equipment		**(172)**	(221)
Proceeds from disposal of property, plant and equipment		**10**	42
Acquisition of subsidiaries and distribution rights, net of cash balance	D1	**(535)**	(405)
Sale of PruHealth and PruProtect businessnote (iii)	D1	**152**	-
Net cash flows from investing activities		**(545)**	(584)
Cash flows from financing activities			
Structural borrowings of the Group:			
Shareholder-financed operations:note (iv)	C6.1		
Issue of subordinated debt, net of costs		**-**	1,124
Redemption of subordinated debt		**(445)**	-
Interest paid		**(330)**	(291)
With-profits operations:note (v)	C6.2		
Interest paid		**(9)**	(9)
Equity capital:			
Issues of ordinary share capital		**13**	6
Dividends paid		**(895)**	(781)
Net cash flows from financing activities		**(1,666)**	49
Net (decrease) increase in cash and cash equivalents		**(383)**	789
Cash and cash equivalents at beginning of year		**6,785**	6,126
Effect of exchange rate changes on cash and cash equivalents		**7**	(130)
Cash and cash equivalents at end of year		**6,409**	6,785

Notes

(i) This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders.

(ii) Other non-cash items consist of the adjustment of non-cash items to profit before tax together with other net items, net purchases of treasury shares and other net movements in equity.

(iii) In November 2014 PAC sold its 25 per cent equity stake in the PruHealth and PruProtect business to Discovery Group Europe Limited resulting in a net cash inflow of £152 million.

(iv) Structural borrowings of shareholder-financed operations exclude borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.

(v) Interest paid on structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds, which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.

International Financial Reporting Standards (IFRS) Basis Results
NOTES

A BACKGROUND

A1 Basis of preparation and exchange rates

These statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU) as required by EU law (IAS Regulation EC1606/2032). EU-endorsed IFRS may differ from IFRS issued by the IASB if, at any point in time, new or amended IFRS have not been endorsed by the EU. At 31 December 2014, there were no unendorsed standards effective for the two years ended 31 December 2014 affecting the consolidated financial information of the Group and there were no differences between IFRS endorsed by the EU and IFRS issued by the IASB in terms of their application to the Group.

Except for the adoption of the new and amended accounting standards for Group IFRS reporting as described in note A2 below, the accounting policies applied by the Group in determining the IFRS basis results in this report are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2013.

The exchange rates applied for balances and transactions in currency other than the presentational currency of the Group, pounds sterling (GBP) were:

	Closing rate at 31 Dec 2014	**Average rate for 2014**	**Closing rate at 31 Dec 2013**	**Average rate for 2013**
Local currency: £				
Hong Kong	**12.09**	**12.78**	12.84	12.14
Indonesia	**19,311.31**	**19,538.56**	20,156.57	16,376.89
Malaysia	**5.45**	**5.39**	5.43	4.93
Singapore	**2.07**	**2.09**	2.09	1.96
India	**98.42**	**100.53**	102.45	91.75
Vietnam	**33,348.46**	**34,924.62**	34,938.60	32,904.71
Thailand	**51.30**	**53.51**	54.42	48.11
US	**1.56**	**1.65**	1.66	1.56

Certain notes to the financial statements present 2013 comparative information at Constant Exchange Rates, in addition to the reporting at Actual Exchange Rates used throughout the consolidated financial statements. Actual Exchange Rates (AER) are actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates for the balance sheet at the balance sheet date. Constant Exchange Rates (CER) results are calculated by translating prior period results using the current period foreign exchange rate ie current period average rates for the income statement and current period closing rates for the balance sheet.

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2014 or 2013 but is derived from those accounts. The auditors have reported on the 2014 statutory accounts. Statutory accounts for 2013 have been delivered to the registrar of companies, and those for 2014 will be delivered following the Company's Annual General Meeting. Their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

A2 Adoption of new accounting pronouncements in 2014

The Group has adopted the following accounting pronouncements in 2014 but their adoption has had no material impact on the results and financial position of the Group:

- Amendments to IAS 32: Offsetting financial assets and financial liabilities; and
- IFRIC 21, 'Levies.

This is not intended to be a complete list as only those accounting pronouncements that could have an impact upon the Group's financial statements are described.

B EARNINGS PERFORMANCE

B1 Analysis of performance by segment

B1.1 Segment results – profit before tax

	Note	2014 £m	2013 £m AER note (v)	2013 £m CER note (v)	% 2013 AER vs 2014 note (v)	% 2013 CER vs 2014 note (v)
Asia operations						
Insurance operations	B4(a)	**1,052**	1,003	907	5%	16%
Development expenses		**(2)**	(2)	(2)	0%	0%
Total Asia insurance operations after development expenses		**1,050**	1,001	905	5%	16%
Eastspring Investments		**90**	74	68	22%	32%
Total Asia operations		**1,140**	1,075	973	6%	17%
US operations						
Jackson (US insurance operations)	B4(b)	**1,431**	1,243	1,181	15%	21%
Broker-dealer and asset management		**12**	59	56	(80)%	(79)%
Total US operations		**1,443**	1,302	1,237	11%	17%
UK operations						
UK insurance operations:	B4(c)					
Long-term business		**752**	706	706	7%	7%
General insurance commission note (i)		**24**	29	29	(17)%	(17)%
Total UK insurance operations		**776**	735	735	6%	6%
M&G (including Prudential Capital)	B2	**488**	441	441	11%	11%
Total UK operations		**1,264**	1,176	1,176	7%	7%
Total segment profit		**3,847**	3,553	3,386	8%	14%
Other income and expenditure						
Investment return and other income		**15**	10	10	50%	50%
Interest payable on core structural borrowings		**(341)**	(305)	(305)	(12)%	(12)%
Corporate expenditure note (ii)		**(293)**	(263)	(263)	(11)%	(11)%
Total		**(619)**	(558)	(558)	(11)%	(11)%
Solvency II implementation costs		**(28)**	(29)	(29)	3%	3%
Restructuring costs note (iii)		**(14)**	(12)	(12)	(17)%	(17)%
Operating profit based on longer-term investment returns		**3,186**	2,954	2,787	8%	14%
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	**(574)**	(1,110)	(1,063)	48%	46%
Gain on sale of PruHealth and PruProtect note (iv)	D1	**86**	-	-	n/a%	n/a%
Amortisation of acquisition accounting adjustments note (vi)		**(79)**	(72)	(68)	(10)%	(16)%
Loss attaching to held for sale Japan Life business	D1	**-**	(102)	(89)	100%	100%
Costs of domestication of Hong Kong branch	D2	**(5)**	(35)	(35)	86%	86%
Profit before tax attributable to shareholders		**2,614**	1,635	1,532	60%	71%

Basic earnings per share (in pence)	B6	2014	2013 AER note (v)	2013 CER note (v)	% 2013 AER vs 2014 note (v)	% 2013 CER vs 2014 note (v)
Based on operating profit based on longer-term investment returns		**96.6p**	90.9p	85.9p	6%	12%
Based on profit for the year		**86.9p**	52.8p	49.8p	65%	74%

Notes

(i) The Group's UK insurance operations transferred its general insurance business to Churchill in 2002. General insurance commission represents the commission receivable net of expenses for Prudential-branded general insurance products as part of this arrangement, which terminates at the end of 2016.

(ii) Corporate expenditure as shown above is for Group Head Office and Asia Regional Head Office.

(iii) Restructuring costs are incurred in the UK and represent one-off business development expenses.

(iv) In November 2014, PAC completed the sale of its 25 per cent equity stake in the PruHealth and PruProtect business to Discovery Group Europe Limited.

(v) For definitions of AER and CER refer to note A1.

(vi) Amortisation of acquisition accounting adjustments principally relate to the acquired REALIC business of Jackson.

B1.2 Short-term fluctuations in investment returns on shareholder-backed business

	2014 £m	2013 £m
Insurance operations:		
Asia note (i)	**178**	(204)
US note (ii)	**(1,103)**	(625)
UK note (iii)	**464**	(254)
Other operations: note (iv)	**(113)**	(27)
Total	**(574)**	(1,110)

Notes

(i) *Asia insurance operations*

In Asia, the positive short-term fluctuations of £178 million (2013: negative £(204) million) primarily reflect net unrealised movements on bond holdings following falls in bond yields across the region during the year.

(ii) *US insurance operations*

The short-term fluctuations in investment returns for US insurance operations comprise amounts, net of related change in amortisation of deferred acquisition costs, in respect of the following items:

	2014 £m	2013 £m
Net equity hedge result note (a)	**(1,574)**	(255)
Other than equity-related derivatives note (b)	**391**	(531)
Debt securities note (c)	**47**	42
Equity-type investments: actual less longer-term return	**16**	89
Other items	**17**	30
Total	**(1,103)**	(625)

The short-term fluctuations in investment returns shown in the table above are stated net of a credit for the related change in amortisation of deferred acquisition costs of £653 million (2013: credit of £228 million). See note C5.1(b).

Notes

(a) Net equity hedge result

This result comprises the net effect of:

- The accounting value movements on the variable and fixed index annuity guarantee liabilities;
- Fair value movements on free standing equity derivatives;
- Fee assessments and claim payments in respect of guarantee liabilities; and
- Related changes to DAC amortisation.

Movements in the accounting values of the variable and fixed index annuity guarantee liabilities comprise those for:

- The GMDB and GMWB "for life" guarantees which are valued under the US GAAP insurance measurement basis applied for IFRS in a way that substantially does not recognise the effect of equity market and interest rate changes. These represent the majority of the guarantees offered by Jackson; and
- GMWB "not for life" embedded derivative liabilities which are required to be fair valued. Fair value movements on these liabilities include the effects of changes to levels of equity markets, implied volatility and interest rates.

The free standing equity derivatives are held to manage equity exposures of the variable annuity and fixed index annuity guarantees.

The net equity hedge result therefore includes significant accounting mismatches and other factors that detract from the presentation of an economic result caused by:

- The variable annuity and fixed annuity business guarantees being only partially fair valued under grandfathered GAAP;
- The interest rate exposure being managed through the other than equity related derivative programme explained in note (b) below; and
- Jackson's management of its economic exposures for a number of other factors that are treated differently in the accounting frameworks such as future fees and assumed volatility levels.

(b) Other than equity-related derivatives

The fluctuations for this item comprise the net effect of:

- Fair value movements on free standing, other than equity related derivatives;
- Accounting effects of the GMIB and its reinsurance; and
- Related changes to DAC amortisation.

The free standing, other than equity-related derivatives, are held to manage interest rate exposures and durations within the general account and the variable annuity and fixed index annuity guarantees described in note (a) above.

The GMIB liability is valued using the US GAAP measurement basis applied for IFRS reporting in a way that substantially does not recognise the effects of market movements. Reinsurance arrangements are in place so as to essentially fully insulate Jackson from the GMIB exposure. Notwithstanding that the liability is essentially fully reinsured, as the reinsurance asset is net settled it is deemed a derivative under IAS 39 which requires fair valuation.

The fluctuations for this item therefore include significant accounting mismatches caused by:

- The fair value movements booked in the income statement on the derivative programme being in respect of the management of interest rate exposures of the variable and fixed index annuity business as well as the fixed annuity business guarantees and durations within the general account;

- Fair value movements on Jackson's debt securities of the general account being booked in other comprehensive income rather than the income statement; and
- The mixed measurement model that applies for the GMIB and its reinsurance.

(c) Short-term fluctuations related to debt securities

	2014 £m	2013 £m
Short-term fluctuations relating to debt securities		
Credits (charges) in the year:		
Losses on sales of impaired and deteriorating bonds	**(5)**	(5)
Bond write downs	**(4)**	(8)
Recoveries / reversals	**19**	10
Total credits (charges) in the year	**10**	(3)
Less: Risk margin allowance deducted from operating profit based on longer-term investment returns[note]	**78**	85
	88	82
Interest-related realised gains:		
Arising in the year	**63**	64
Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns	**(87)**	(89)
	(24)	(25)
Related amortisation of deferred acquisition costs	**(17)**	(15)
Total short-term fluctuations related to debt securities	**47**	42

Note
The debt securities of Jackson are held in the general account of the business. Realised gains and losses are recorded in the income statement with normalised returns included in operating profit with variations from year to year included in the short-term fluctuations category. The risk margin reserve charge for longer-term credit-related losses included in operating profit based on longer-term investment returns of Jackson for 2014 is based on an average annual risk margin reserve of 24 basis points (2013: 25 basis points) on average book values of US$54.5 billion (2013: US$54.4 billion) as shown below:

	2014				2013			
Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	**Average book value**	**RMR**	**Annual expected loss**		**Average book value**	**RMR**	**Annual expected loss**	
	US$m	**%**	**US$m**	**£m**	**US$m**	**%**	**US$m**	**£m**
A3 or higher	**27,912**	**0.12**	**(34)**	**(21)**	27,557	0.11	(32)	(20)
Baa1, 2 or 3	**24,714**	**0.25**	**(62)**	**(38)**	24,430	0.25	(62)	(40)
Ba1, 2 or 3	**1,390**	**1.23**	**(17)**	**(10)**	1,521	1.18	(18)	(11)
B1, 2 or 3	**385**	**3.04**	**(12)**	**(7)**	530	2.80	(15)	(9)
Below B3	**92**	**3.70**	**(4)**	**(2)**	317	2.32	(7)	(5)
Total	**54,493**	**0.24**	**(129)**	**(78)**	54,355	0.25	(134)	(85)
Related amortisation of deferred acquisition costs (see below)			**25**	**15**			25	16
Risk margin reserve charge to operating profit for longer-term credit related losses			**(104)**	**(63)**			(109)	(69)

Consistent with the basis of measurement of insurance assets and liabilities for Jackson's IFRS results, the charges and credits to operating profits based on longer-term investment returns are partially offset by related amortisation of deferred acquisition costs.

In addition to the accounting for realised gains and losses described above for Jackson general account debt securities, included within the statement of other comprehensive income is a pre-tax credit for unrealised gains on debt securities classified as available-for-sale net of related change in amortisation of deferred acquisition costs of £869 million (2013: net unrealised losses of £(1,591) million). Temporary market value movements do not reflect defaults or impairments. Additional details of the movement in the value of the Jackson portfolio are included in note C3.3(b).

(iii) *UK insurance operations*
The positive short-term fluctuations in investment returns for UK insurance operations of £464 million (2013: negative £(254) million) include net unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business, reflecting the fall in bond yields since the end of 2013.

(iv) *Other*
Short-term fluctuations in investment returns of other operations, were negative £(113) million (2013: negative £(27) million) representing unrealised value movements on investments and foreign exchange items.

(v) Default losses

The Group did not experience any default losses on its shareholder-backed debt securities portfolio in 2014 or 2013.

B1.3 Determining operating segments and performance measure of operating segments

Operating segments

The Group's operating segments, determined in accordance with IFRS 8, 'Operating Segments', are as follows:

Insurance operations:	Asset management operations:
– Asia	– Eastspring Investments
– US (Jackson)	– US broker-dealer and asset management (including Curian)
– UK	– M&G (including Prudential Capital)

The Group's operating segments are also its reportable segments for the purposes of internal management reporting with the exception of Prudential Capital (PruCap) which has been incorporated into the M&G operating segment for the purposes of segment reporting.

Performance measure

The performance measure of operating segments utilised by the Company is IFRS operating profit attributable to shareholders based on longer-term investment returns, as described below. This measurement basis distinguishes operating profit based on long-term investment returns from other constituents of the total profit as follows:

- Short-term fluctuations in investment returns;
- Gain on the sale the Group's interest of PruHealth and PruProtect in 2014 as explained in note D1;
- Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012;
- Loss attaching to the held for sale Japan Life business. See note D1 for further details; and
- The costs associated with the domestication of the Hong Kong branch which became effective on 1 January 2014.

Segment results that are reported to the Group Executive Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are mainly in relation to the Group Head Office and the Asia Regional Head Office.

Determination of operating profit based on longer-term investment return for investment and liability movements:

(a) ***General principles***

(i) UK style with-profits business

The operating profit based on longer-term returns reflects the statutory transfer gross of attributable tax. Value movements in the underlying assets of the with-profits funds do not affect directly the determination of operating profit.

(ii) Unit linked business

The policyholder unit liabilities are directly reflective of the asset value movements. Accordingly, the operating results based on longer-term investment returns reflect the current period value movements in both the unit liabilities and the backing assets.

(iii) US Variable Annuity and Fixed Index Annuity business

This business has guarantee liabilities which are measured on a combination of fair value and other, US GAAP derived, principles. These liabilities are subject to an extensive derivative programme to manage equity and, with those of the general account, interest rate exposures. The principles for determination of the operating profit and short-term fluctuations are necessarily bespoke, as discussed in section (c) below.

(iv) Business where policyholder liabilities are sensitive to market conditions

Under IFRS, the degree to which the carrying values of liabilities to policyholders are sensitive to current market conditions varies between territories depending upon the nature of the 'grandfathered' measurement basis. In general, in those instances where the liabilities are particularly sensitive to routine changes in market conditions, the accounting basis is such that the impact of market movements on the assets and liabilities is broadly equivalent in the income statement, and operating profit based on longer-term investments returns is not distorted. In these circumstances, there is no need for the movement in the liability to be bifurcated between the elements that relate to longer-term market conditions and short-term effects.

However, some types of business movements in liabilities do require bifurcation to ensure that at the net level (i.e. after allocated investment return and change for policyholder benefits) the operating result reflects longer-term market returns.

Examples of where such bifurcation is necessary are in Hong Kong and for UK shareholder-backed annuity business, as explained in notes (b)(i) and (d)(i), respectively:

(v) Other shareholder-financed business

The measurement of operating profit based on longer-term investment returns reflects the particular features of long-term insurance business where assets and liabilities are held for the long-term and for which the accounting basis for insurance liabilities under current IFRS is not generally conducive to demonstrating trends in underlying performance of life businesses exclusive of the effects of short-term fluctuations in market conditions. In determining the profit on this basis, the following key elements are applied to the results of the Group's shareholder-financed operations.

Except in the case of assets backing liabilities which are directly matched (such as linked business) or closely correlated with value movements (as discussed below) operating profit based on longer-term investment returns for shareholder-financed business is determined on the basis of expected longer-term investment returns.

Debt, equity-type securities and loans

Longer-term investment returns comprise actual income receivable for the period (interest/dividend income) and for both debt and equity-type securities longer-term capital returns.

In principle, for debt securities and loans, the longer-term capital returns comprise two elements:

– Risk margin reserve based charge for the expected level of defaults for the period, which is determined by reference to the credit quality of the portfolio. The difference between impairment losses in the reporting period and the risk margin reserve charge to the operating result is reflected in short-term fluctuations in investment returns; and
– The amortisation of interest-related realised gains and losses to operating results based on longer-term investment returns to the date when sold bonds would have otherwise matured.

At 31 December 2014, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £467 million (2013: £461 million).

Equity type securities

For equity-type securities, the longer-term rates of return are estimates of the long-term trend investment returns for income and capital having regard to past performance, current trends and future expectations. Equity-type securities held for shareholder-financed operations other than the UK annuity business, unit-linked and US variable annuity are of significance for the US and Asia insurance operations. Different rates apply to different categories of equity-type securities.

Derivative value movements

Generally, derivative value movements are excluded from operating results based on longer-term investment returns (unless those derivative value movements broadly offset changes in the accounting value of other assets and liabilities included in operating profit). The principal example of non-equity based derivatives (for example interest rate swaps and swaptions) whose value movements are excluded from operating profit arises in Jackson, as discussed below in note (c).

(b) *Asia insurance operations*

(i) Business where policyholder liabilities are sensitive to market conditions

For certain Asia non-participating business, for example in Hong Kong, the economic features are more akin to asset management products with policyholder liabilities reflecting asset shares over the contract term. For these products, the charge for policyholder benefits in the operating results should reflect the asset share feature rather than volatile movements that would otherwise be reflected if the local regulatory basis (also applied for IFRS basis) was used.

For certain other types non-participating business, longer-term interest rates are used to determine the movement in policyholder liabilities for determining operating results.

(ii) Other Asia shareholder-financed business

Debt securities

For this business the realised gains and losses are principally interest related. Accordingly, all realised gains and losses to date for these operations are being amortised over the period to the date those securities would otherwise have matured, with no explicit risk margin reserve charge.

Equity-type securities

For Asia insurance operations, excluding assets of the Japan Life held for sale business, investments in equity securities held for non-linked shareholder-financed operations amounted to £932 million as at 31 December 2014 (2013: £571 million). The rates of return applied in the years 2014 and 2013 ranged from 2.73 per cent to 13.75 per cent with the rates applied varying by territory. These rates are determined after consideration by the Group's in-house economists of long-term expected real government bond returns, equity risk premium and long-term inflation. These rates are broadly stable from period to period but may be different between countries reflecting, for example, differing expectations of inflation in each territory. The assumptions are for returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations.

The longer-term investment returns for the Asia insurance joint ventures accounted for on the equity method are determined on a similar basis as the other Asia insurance operations described above.

(c) *US Insurance operations*

(i) Separate account business

For such business the policyholder unit liabilities are directly reflective of the asset value movements. Accordingly, the operating results based on longer-term investment returns reflect the current period value movements in unit liabilities and the backing assets.

(ii) US variable and fixed index annuity business

The following value movements for Jackson's variable and fixed index annuity business are excluded from operating profit based on longer-term investment returns. See note B1.2 note (ii):

- Fair value movements for equity-based derivatives;
- Fair value movements for embedded derivatives for Guaranteed Minimum Withdrawal Benefit 'not for life' and fixed index annuity business, and Guaranteed Minimum Income Benefit reinsurance (see below);
- Movements in accounts carrying value of Guaranteed Minimum Death Benefit and Guaranteed Minimum Withdrawal Benefit 'for life' and Guaranteed Minimum Income Benefit liabilities, for which, under the 'grandfathered' US GAAP applied under IFRS for Jackson's insurance assets and liabilities, the measurement basis gives rise to a muted impact of current period market movements;
- Fee assessments and claim payments, in respect of guarantee liabilities; and
- Related amortisation of deferred acquisition costs for each of the above items.

Embedded derivatives for variable annuity guarantee features

The Guaranteed Minimum Income Benefit liability, which is essentially fully reinsured, subject to a deductible and annual claim limits, is accounted for in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 944-80 Financial Services – Insurance – Separate Accounts (formerly SOP 03-1) under IFRS using 'grandfathered' US GAAP. As the corresponding reinsurance asset is net settled, it is considered to be a derivative under IAS 39, 'Financial Instruments: Recognition and Measurement', and the asset is therefore recognised at fair value. As the Guaranteed Minimum Income Benefit is economically reinsured the mark to market element of the reinsurance asset is included as a component of short-term fluctuations in investment returns.

(iii) Other derivative value movements

The principal example of non-equity based derivatives (for example interest rate swaps and swaptions) whose value movements are excluded from operating profit arises in Jackson. Non-equity based derivatives are primarily held by Jackson as part of a broadly-based hedging programme for features of Jackson's bond portfolio (for which value movements are booked in the statement of comprehensive income rather than the income statement), product liabilities (for which US GAAP accounting as 'grandfathered' under IFRS 4 does not fully reflect the economic features being hedged), and the interest rate exposure attaching to equity-based embedded derivatives.

(iv) Other US shareholder-financed business

Debt securities

Jackson is the shareholder-backed operation for which the distinction between impairment losses and interest-related realised gains and losses is in practice relevant to a significant extent. Jackson has used the ratings by Nationally Recognised Statistical Ratings Organisations (NRSRO) or ratings resulting from the regulatory ratings detail issued by the National Association of Insurance Commissioners (NAIC) developed by external third parties such as PIMCO or BlackRock Solutions to determine the average annual risk margin reserve to apply to debt securities held to back general account business. Debt securities held to back separate account and reinsurance funds withheld are not subject to risk margin reserve charge. Further details of the risk margin reserve charge, as well as the amortisation of interest-related realised gains and losses, for Jackson are shown in note B1.2.

Equity-type securities

As at 31 December 2014, the equity-type securities for US insurance non-separate account operations amounted to £1,094 million (2013: £1,118 million). For these operations, the longer-term rates of return for income and capital applied in 2014 and 2013, which reflect the combination of the average risk free rates over the period and appropriate risk premiums are as follows:

	2014	**2013**
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	6.2% to 6.7%	5.7% to 6.8%
Other equity-type securities such as investments in limited partnerships and private equity funds	8.2% to 8.7%	7.7% to 9.0%

(d) UK Insurance operations

(i) Shareholder-backed annuity business
For this business, policyholder liabilities are determined by reference to current interest rates. The value movements of the assets covering liabilities are closely correlated with the related change in liabilities. Accordingly, asset value movements are recorded within the 'operating results based on longer-term investment returns'. Policyholder liabilities include a margin for

credit risk. Variations between actual and best estimate expected impairments are recorded as a component of short-term fluctuations in investment returns.

The operating result based on longer-term investment returns reflects the impact of value movements on policyholder liabilities for annuity business in PRIL and the PAC non-profit sub-fund after adjustments to allocate the following elements of the movement to the category of 'short-term fluctuations in investment returns':

- The impact on credit risk provisioning of actual upgrades and downgrades during the period;
- Credit experience compared to assumptions; and
- Short-term value movements on assets backing the capital of the business.

Credit experience reflects the impact of defaults and other similar experience, such as asset exchanges arising from debt restructuring by issuers that include effectively an element of permanent impairment of the security held. Positive or negative experience compared to assumptions is included within short-term fluctuations in investment returns without further adjustment. The effects of other changes to credit risk provisioning are included in the operating result, as is the net effect of changes to the valuation rate of interest due to portfolio rebalancing to align more closely with management benchmark.

(ii) Non-linked shareholder-financed business

For debt securities backing non-linked shareholder-financed business of the UK insurance operations (other than the annuity business) the realised gains and losses are principally interest related. Accordingly, all realised gains and losses to date for these operations are being amortised over the period to the date those securities would otherwise have matured, with no explicit risk margin reserve charge.

(e) Fund management and other non-insurance businesses

For these businesses, the particular features applicable for life assurance noted above do not apply. For these businesses it is inappropriate to include returns in the operating result on the basis described above. Instead, it is appropriate to generally include realised gains and losses in the operating result with temporary unrealised gains and losses being included in short-term fluctuations. In some instances it may also be appropriate to amortise realised gains and losses on derivatives and other financial instruments to operating results over a time period that reflects the underlying economic substance of the arrangements.

B2 Profit before tax – asset management operations

The profit included in the income statement in respect of asset management operations for the year is as follows:

	2014 £m				2013 £m
	M&G	**US** note (iv)	**Eastspring Investments**	**Total**	**Total**
Revenue (excluding NPH broker-dealer fees)	**1,395**	**303**	**310**	**2,008**	1,914
NPH broker-dealer fees note (i)	**-**	**503**	**-**	**503**	504
Gross revenue	**1,395**	**806**	**310**	**2,511**	2,418
Charges (excluding NPH broker-dealer fees)	**(937)**	**(291)**	**(249)**	**(1,477)**	(1,353)
NPH broker-dealer fees note (i)	**-**	**(503)**	**-**	**(503)**	(504)
Gross charges	**(937)**	**(794)**	**(249)**	**(1,980)**	(1,857)
Share of profit from joint ventures and associates, net of related tax	**13**	**-**	**29**	**42**	35
Profit before tax	**471**	**12**	**90**	**573**	596
Comprising:					
Operating profit based on longer-term investment returns note (ii)	**488**	**12**	**90**	**590**	574
Short-term fluctuations in investment returns note (iii)	**(17)**	**-**	**-**	**(17)**	22
Profit before tax	**471**	**12**	**90**	**573**	596

Notes

(i) The segment revenue of the Group's asset management operations includes:
NPH broker-dealer fees represent commissions received that are then paid on to the writing brokers on sales of investment products. To reflect their commercial nature the amounts are also wholly reflected as charges within the income statement. After allowing for these charges, there is no effect on profit from this item. The presentation in the table above shows separately the amounts attributable to this item so that the underlying revenue and charges can be seen.

(ii) M&G operating profit based on longer-term investment returns:

	2014 £m	2013 £m
Asset management fee income	**953**	859
Other income	**1**	4
Staff costs	**(351)**	(339)
Other costs	**(203)**	(166)
Underlying profit before performance-related fees	**400**	358
Share of associate results	**13**	12
Performance-related fees	**33**	25
Operating profit from asset management operations	**446**	395
Operating profit from Prudential Capital	**42**	46
Total M&G operating profit based on longer-term investment returns	**488**	441

The revenue shown above for M&G of £987 million (2013: £888 million), comprising asset management fee, other income and performance-related fees, is different to the amount of £1,395 million shown in the main table of this note primarily due to the inclusion of the revenue of Prudential Capital of £104 million (2013: £144 million) in the latter. In addition, the £987 million (2013: £888 million) is after deducting commissions which would have been included as charges in the main table. The difference in the presentation of commission is aligned with how management reviews the business.

(iii) Short-term fluctuations in investment returns for M&G are primarily in respect of unrealised fair value movements on Prudential Capital's bond portfolio.

(iv) The US asset management results include a charge of £38 million related primarily to the refund of certain fees by Curian.

B3 Acquisition costs and other expenditure

	2014 £m	2013 £m
Acquisition costs incurred for insurance policies	**(2,668)**	(2,553)
Acquisition costs deferred less amortisation of acquisition costs	**916**	566
Administration costs and other expenditure	**(4,486)**	(4,303)
Movements in amounts attributable to external unit holders of consolidated investment funds	**(514)**	(571)
Total acquisition costs and other expenditure	**(6,752)**	(6,861)

B4 Effect of changes and other accounting features on insurance assets and liabilities

The following features are of particular relevance to the determination of the 2014 results:

(a) Asia insurance operations

In 2014, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a profit of £49 million (2013: £44 million) representing a number of non-recurring items, none of which are individually significant.

(b) US insurance operations

Amortisation of deferred acquisition costs

Jackson applies a mean reversion technique for amortisation of deferred acquisition costs on variable annuity business which dampens the effects of short-term market movements on expected gross profits against which deferred acquisition costs are amortised. To the extent that the mean reversion methodology does not fully dampen the effects of market returns, there is a charge or credit for accelerated or decelerated amortisation. For 2014 there was a charge for accelerated amortisation of £13 million (2013: a credit for decelerated amortisation of £82 million) to the operating profit based on longer-term investment returns. See note C5.1(b) for further details.

Other

In 2013, Jackson revised its projected long-term separate account return from 8.4 per cent to 7.4 per cent net of external fund management fees. The effect of this change together with other assumption changes and recalibration of modelling of accounting values of guarantees gave rise to a net benefit of £6 million to profit before tax in 2013.

(c) UK insurance operations

Annuity business: allowance for credit risk

For IFRS reporting, the results for UK shareholder-backed annuity business are particularly sensitive to the allowances made for credit risk. The allowance is reflected in the deduction from the valuation rate of interest for discounting projected future annuity payments to policyholders that would have otherwise applied. Credit risk allowance comprises (i) an amount for long-term best estimate defaults, and (ii) additional provisions for credit risk premium, downgrade resilience and short-term defaults.

The weighted components of the bond spread over swap rates for shareholder-backed fixed and linked annuity business for PRIL, based on the asset mix at the these dates are shown below.

	31 Dec 2014 (bps)			**31 Dec 2013 (bps)**		
	Pillar 1 regulatory basis	**Adjustment**	**IFRS**	**Pillar 1 regulatory basis**	**Adjustment**	**IFRS**
Bond spread over swap rates note (i)	**143**	**-**	**143**	133	-	133
Credit risk allowance						
Long-term expected defaults note (ii)	**14**	**-**	**14**	15	-	15
Additional provisions note (iii)	**44**	**(12)**	**32**	47	(19)	28
Total credit risk allowance	**58**	**(12)**	**46**	62	(19)	43
Liquidity premium	**85**	**12**	**97**	71	19	90

Notes

(i) Bond spread over swap rates reflect market observed data.

(ii) Long-term expected defaults are derived by applying Moody's data from 1970 to 2009 and the definition of the credit rating used is the second highest credit rating published by Moody's, Standard & Poor's and Fitch.

(iii) Additional provisions comprise credit risk premium, which is derived from Moody's data from 1970 to 2009, an allowance for a one-notch downgrade of the portfolio subject to credit risk and an additional allowance for short-term defaults.

The prudent Pillar 1 regulatory basis reflects the overriding objective of maintaining sufficient provisions and capital to ensure payments to policyholders can be made. The approach for IFRS aims to establish liabilities that are closer to 'best estimate'.

Movement in the credit risk allowance for PRIL

The movement during 2014 of the average basis points allowance for PRIL on Pillar 1 regulatory and IFRS bases are as follows:

	Pillar 1 Regulatory basis Total (bps)	**IFRS Total (bps)**
Total allowance for credit risk at 31 December 2013	**62**	**43**
Credit rating changes	**1**	**1**
Asset trading	**(1)**	**(1)**
Other effects (including for new business)	**(4)**	**3**
Total allowance for credit risk at 31 December 2014	**58**	**46**

Overall the movement has led to the credit allowance for Pillar 1 purposes to be 41 per cent (2013: 47 per cent) of the bond spread over swap rates. For IFRS purposes it represents 32 per cent (2013: 32 per cent) of the bond spread over swap rates.

The reserves for credit risk allowance at 31 December 2014 for the UK shareholder annuity fund were as follows:

	Pillar 1 Regulatory basis Total £bn	IFRS Total £bn
PRIL	**2.0**	**1.6**
PAC non-profit sub-fund	**0.2**	**0.1**
Total 31 December 2014	**2.2**	**1.7**
Total 31 December 2013	1.9	1.3

Other assumption changes

For the shareholder-backed business, the net effect of other assumption changes and modelling adjustments was a credit of £28 million (2013: a credit of £20 million).

B5 Tax charge

(a) Total tax charge by nature of expense

The total tax charge in the income statement is as follows:

	2014 £m			2013 £m
Tax charge	**Current tax**	**Deferred tax**	**Total**	**Total**
UK tax	**(579)**	**1**	**(578)**	(300)
Overseas tax	**(529)**	**169**	**(360)**	(436)
Total tax (charge) credit	**(1,108)**	**170**	**(938)**	(736)

The current tax charge of £1,108 million includes £37 million (2013: £18 million) in respect of the tax charge for the Hong Kong operation. The Hong Kong current tax charge is calculated as 16.5 per cent for all periods on either (i) 5 per cent of the net insurance premium or (ii) the estimated assessable profits, depending on the nature of the business written.

The total tax charge comprises tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders as shown below.

	2014 £m			2013* £m
Tax charge	**Current tax**	**Deferred tax**	**Total**	**Total**
Tax charge to policyholders' returns	**(449)**	**(91)**	**(540)**	(447)
Tax charge attributable to shareholders	**(659)**	**261**	**(398)**	(289)
Total tax (charge) credit	**(1,108)**	**170**	**(938)**	(736)

The principal reason for the increase in the tax charge attributable to policyholders' returns is an increase in current tax in the with profits life fund in the UK insurance operations.

(b) Reconciliation of effective tax rate

Reconciliation of tax charge on profit attributable to shareholders

	2014 £m (Except for tax rates)				
	Asia insurance operations	US insurance operations	UK insurance operations	Other operations	Total
Operating profit (loss) based on longer-term investment returns	**1,050**	**1,431**	**776**	**(71)**	**3,186**
Non-operating profit (loss)	**170**	**(1,174)**	**545**	**(113)**	**(572)**
Profit (loss) before tax attributable to shareholders	**1,220**	**257**	**1,321**	**(184)**	**2,614**
Expected tax rate:†	**22%**	**35%**	**21%**	**22%**	**23%**
Tax charge (credit) at the expected tax rate	**268**	**90**	**277**	**(41)**	**594**
Effects of:					
Adjustment to tax charge in relation to prior years	**(2)**	**(1)**	**3**	**(7)**	**(7)**
Movements in provisions for open tax matters	**7**	**-**	**-**	**(26)**	**(19)**
Income not taxable or taxable at concessionary rates	**(17)**	**(82)**	**-**	**(2)**	**(101)**
Deductions not allowable for tax purposes	**13**	**-**	**7**	**9**	**29**
Effect of different basis of tax in local jurisdiction	**(44)**	**-**	**-**	**-**	**(44)**
Impact of changes in local statutory tax rates	**(1)**	**-**	**2**	**-**	**1**
Deferred tax adjustments	**(8)**	**-**	**(7)**	**(11)**	**(26)**
Effect of results of joint ventures and associates	**(40)**	**-**	**(8)**	**(10)**	**(58)**
Irrecoverable withholding taxes	**-**	**-**	**-**	**27**	**27**
Other	**(4)**	**1**	**(3)**	**8**	**2**
Total actual tax charge (credit)	**172**	**8**	**271**	**(53)**	**398**
Analysed into:					
Tax charge (credit) on operating profit (loss) based on longer-term investment returns	**171**	**419**	**168**	**(34)**	**724**
Tax charge (credit) on non-operating profit (loss)	**1**	**(411)**	**103**	**(19)**	**(326)**
Actual tax rate:					
Operating profit based on longer-term investment returns	**16%**	**29%**	**22%**	**48%**	**23%**
Total profit	**14%**	**3%**	**21%**	**29%**	**15%**

† The expected tax rates shown in the table above (rounded to the nearest whole percentage) reflect the corporation tax rates generally applied to taxable profits of the relevant country jurisdictions. For Asia operations the expected tax rates reflect the corporation tax rates weighted by reference to the source of profits of operations contributing to the aggregate business result. The expected tax rate for other operations reflects the mix of business between UK and overseas non-insurance operations, which are taxed at a variety of rates. The rates will fluctuate from year to year dependent on the mix of profits.

	2013 £m (Except for tax rates)				
	Asia insurance operations*	US insurance operations	UK insurance operations	Other operations	Total*
Operating profit (loss) based on longer-term investment returns	1,001	1,243	735	(25)	2,954
Non-operating loss	(313)	(690)	(289)	(27)	(1,319)
Profit (loss) before tax attributable to shareholders	688	553	446	(52)	1,635
Expected tax rate:†	21%	35%	23%	23%	26%
Tax charge (credit) at the expected tax rate	144	194	103	(12)	429
Effects of:					
Adjustment to tax charge in relation to prior years	(3)	-	4	(7)	(6)
Movements in provisions for open tax matters	5	-	-	(12)	(7)
Income not taxable or taxable at concessionary rates	(45)	(88)	-	(10)	(143)
Deductions not allowable for tax purposes	61	-	-	5	66
Impact of changes in local statutory tax rates	(9)	-	(51)	5	(55)
Deferred tax adjustments	(4)	-	-	(8)	(12)
Effect of results of joint ventures and associates	(10)	-	-	(8)	(18)
Irrecoverable withholding taxes	-	-	-	20	20
Other	9	(5)	16	(5)	15
Total actual tax charge (credit)	148	101	72	(32)	289
Analysed into:					
Tax charge (credit) on operating profit (loss) based on longer-term investment returns	173	343	132	(10)	638
Tax credit on non-operating loss	(25)	(242)	(60)	(22)	(349)
Actual tax rate:					
Operating profit based on longer-term investment returns	17%	28%	18%	40%	22%
Total profit	22%	18%	16%	62%	18%

† The expected tax rates shown in the table above reflect the corporation tax rates generally applied to taxable profits of the relevant country jurisdictions. For Asia operations the expected tax rates reflect the corporation tax rates weighted by reference to the source of profits of operations contributing to the aggregate business result. The expected tax rate for Other operations reflects the mix of business between UK and overseas non-insurance operations, which are taxed at a variety of rates. The rates will fluctuate from year to year dependent on the mix of profits.

* The expected and actual tax rates as shown includes the impact of the held for sale Japan Life business. For 2014, the tax rates for Asia insurance and Group excluding the impact of the held for sale Japan Life business are the same. For 2013 the tax rates for Asia insurance and Group, excluding the impact of the held for sale Japan Life business are as follows:

	Asia insurance	Total Group
Expected tax rate on total profit	23%	27%
Actual tax rate:		
Operating profit based on longer-term investment returns	17%	22%
Total profit	19%	17%

B6 Earnings per share

	Note	2014 Before tax B1.1 £m	Tax B5 £m	Net of tax £m	Basic earnings per share Pence	Diluted earnings per share Pence
Based on operating profit based on longer-term investment returns		**3,186**	**(724)**	**2,462**	**96.6p**	**96.5p**
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	**(574)**	**299**	**(275)**	**(10.8)p**	**(10.8)p**
Gain on sale of PruHealth and PruProtect	D1	**86**	**-**	**86**	**3.4p**	**3.4p**
Amortisation of acquisition accounting adjustments		**(79)**	**26**	**(53)**	**(2.1)p**	**(2.1)p**
Costs of domestication of Hong Kong branch	D2	**(5)**	**1**	**(4)**	**(0.2)p**	**(0.2)p**
Based on profit for the year		**2,614**	**(398)**	**2,216**	**86.9p**	**86.8p**

	Note	2013 Before tax B1.1 £m	Tax B5 £m	Net of tax £m	Basic earnings per share Pence	Diluted earnings per share Pence
Based on operating profit based on longer-term investment returns		2,954	(638)	2,316	90.9p	90.7p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(1,110)	318	(792)	(31.1)p	(31.0)p
Amortisation of acquisition accounting adjustments		(72)	24	(48)	(1.9)p	(1.9)p
Loss attaching to held for sale Japan Life business	D1	(102)	-	(102)	(4.0)p	(4.0)p
Costs of domestication of Hong Kong branch	D2	(35)	7	(28)	(1.1)p	(1.1)p
Based on profit for the year		1,635	(289)	1,346	52.8p	52.7p

In order to facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the held for sale Japan Life business are included separately within the supplementary analysis of profit as shown above.

Earnings per share are calculated based on earnings attributable to ordinary shareholders, after related tax and non-controlling interests.

The weighted average number of shares for calculating earnings per share:

	2014 (millions)	2013 (millions)
Weighted average number of shares for calculation of:		
Basic earnings per share	**2,549**	2,548
Shares under option at end of year	**9**	10
Number of shares that would have been issued at fair value on assumed option price	**(6)**	(6)
Diluted earnings per share	**2,552**	2,552

B7 Dividends

	2014		2013	
	Pence per share	**£m**	**Pence per share**	**£m**
Dividends relating to reporting year:				
Interim dividend	**11.19p**	**287**	9.73p	249
Final dividend	**25.74p**	**658**	23.84p	610
Total	**36.93p**	**945**	33.57p	859
Dividends declared and paid in reporting year:				
Current year interim dividend	**11.19p**	**285**	9.73p	249
Final dividend for prior year	**23.84p**	**610**	20.79p	532
Total	**35.03p**	**895**	30.52p	781

Dividend per share

Interim dividends are recorded in the period in which they are paid. Final dividends are recorded in the period in which they are approved by shareholders. The final dividend for the year ended 31 December 2013 of 23.84 pence per ordinary share was paid to eligible shareholders on 22 May 2014 and the 2014 interim dividend of 11.19 pence per ordinary share was paid to eligible shareholders on 25 September 2014.

The 2014 final dividend of 25.74 pence per ordinary share will be paid on 21 May 2015 in sterling to shareholders on the principal register and the Irish branch register at 6.00pm BST on 27 March 2015 (Record Date), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30pm Hong Kong time on the Record Date (HK Shareholders). Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about 29 May 2015. The final dividend will be paid on or about 28 May 2015 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte.) Limited (CDP) at 5.00pm Singapore time on the Record Date (SG Shareholders). The dividend payable to the HK Shareholders will be translated using the exchange rate quoted by the WM Company at the close of business on 9 March 2015. The exchange rate at which the dividend payable to the SG Shareholders will be translated into SG$, will be determined by CDP.

Shareholders on the principal register and Irish branch register will be able to participate in a Dividend Reinvestment Plan.

C BALANCE SHEET

C1 Analysis of Group position by segment and business type

To explain the assets, liabilities and capital of the Group's businesses more comprehensively, it is appropriate to provide analyses of the Group's statement of financial position by operating segment and type of business.

C1.1 Group statement of financial position analysis by segment

		2014 £m								2013 £m
		Insurance operations								
By operating segment	Note	Asia C2.1	US C2.2	UK C2.3	Total insurance operations	Asset management operations C2.4	Unallocated to a segment (central operations)	Elimination of intra-group debtors and creditors	31 Dec Group Total	31 Dec Group Total
Assets										
Intangible assets attributable to shareholders:										
Goodwill	C5.1(a)	**233**	**-**	**-**	**233**	**1,230**	**-**	**-**	**1,463**	1,461
Deferred acquisition costs and other intangible assets	C5.1(b)	**1,911**	**5,197**	**86**	**7,194**	**21**	**46**	**-**	**7,261**	5,295
Total		**2,144**	**5,197**	**86**	**7,427**	**1,251**	**46**	**-**	**8,724**	6,756
Intangible assets attributable to with-profits funds:										
Goodwill in respect of acquired subsidiaries for venture fund and other investment purposes		**-**	**-**	**186**	**186**	**-**	**-**	**-**	**186**	177
Deferred acquisition costs and other intangible assets		**54**	**-**	**7**	**61**	**-**	**-**	**-**	**61**	72
Total		**54**	**-**	**193**	**247**	**-**	**-**	**-**	**247**	249
Total		**2,198**	**5,197**	**279**	**7,674**	**1,251**	**46**	**-**	**8,971**	7,005
Deferred tax assets	C8	**84**	**2,343**	**132**	**2,559**	**141**	**65**	**-**	**2,765**	2,412
Other non-investment and non-cash assets		**3,111**	**6,617**	**6,826**	**16,554**	**1,464**	**5,058**	**(10,295)**	**12,781**	12,357
Investments of long-term business and other operations:										
Investment properties		**-**	**28**	**12,736**	**12,764**	**-**	**-**	**-**	**12,764**	11,477
Investments in joint ventures and associates accounted for using the equity method		**374**	**-**	**536**	**910**	**107**	**-**	**-**	**1,017**	809
Financial investments:										
Loans	C3.4	**1,014**	**6,719**	**4,254**	**11,987**	**854**	**-**	**-**	**12,841**	12,566
Equity securities and portfolio holdings in unit trusts		**19,200**	**82,081**	**43,468**	**144,749**	**79**	**34**	**-**	**144,862**	120,222
Debt securities	C3.3	**23,629**	**32,980**	**86,349**	**142,958**	**2,293**	**-**	**-**	**145,251**	132,905
Other investments		**48**	**1,670**	**5,782**	**7,500**	**121**	**2**	**-**	**7,623**	6,265
Deposits		**769**	**-**	**12,253**	**13,022**	**74**	**-**	**-**	**13,096**	12,213
Total investments		**45,034**	**123,478**	**165,378**	**333,890**	**3,528**	**36**	**-**	**337,454**	296,457
Assets held for sale	D1(b)	**819**	**-**	**5**	**824**	**-**	**-**	**-**	**824**	916
Cash and cash equivalents		**1,684**	**904**	**2,457**	**5,045**	**1,044**	**320**	**-**	**6,409**	6,785
Total assets	C3.1	**52,930**	**138,539**	**175,077**	**366,546**	**7,428**	**5,525**	**(10,295)**	**369,204**	325,932

		2014 £m								2013 £m
		Insurance operations								
By operating segment	Note	**Asia**	**US**	**UK**	**Total insurance operations**	**Asset management operations**	**Unallocated to a segment (central operations)**	**Elimination of intra-group debtors and creditors**	**31 Dec Group Total**	**31 Dec Group Total**
Equity and liabilities										
Equity										
Shareholders' equity		3,548	4,067	3,804	11,419	2,077	(1,685)	-	11,811	9,650
Non-controlling interests		1	-	-	1	-	-	-	1	1
Total equity		3,549	4,067	3,804	11,420	2,077	(1,685)	-	11,812	9,651
Liabilities										
Policyholder liabilities and unallocated surplus of with-profits funds:										
Insurance contract liabilities		39,670	124,076	87,655	251,401	-	-	(1,363)	250,038	218,185
Investment contract liabilities with discretionary participation features		218	-	39,059	39,277	-	-	-	39,277	35,592
Investment contract liabilities without discretionary participation features		180	2,670	17,374	20,224	-	-	-	20,224	20,176
Unallocated surplus of with-profits funds		2,102	-	10,348	12,450	-	-	-	12,450	12,061
Total policyholder liabilities and unallocated surplus of with-profits funds	C4	42,170	126,746	154,436	323,352	-	-	(1,363)	321,989	286,014
Core structural borrowings of shareholder-financed operations:										
Subordinated debt		-	-	-	-	-	3,320	-	3,320	3,662
Other		-	160	-	160	275	549	-	984	974
Total	C6.1	-	160	-	160	275	3,869	-	4,304	4,636
Operational borrowings attributable to shareholder-financed operations	C6.2	-	179	74	253	6	2,004	-	2,263	2,152
Borrowings attributable to with-profits operations	C6.2	-	-	1,093	1,093	-	-	-	1,093	895
Other non-insurance liabilities:										
Obligations under funding, securities lending and sale and repurchase agreements		-	1,156	1,191	2,347	-	-	-	2,347	2,074
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		2,161	22	5,174	7,357	-	-	-	7,357	5,278
Deferred tax liabilities	C8.1	719	2,308	1,228	4,255	22	14	-	4,291	3,778
Current tax liabilities	C8.2	65	1	414	480	66	71	-	617	395
Accruals and deferred income		123	-	441	564	328	55	-	947	824
Other creditors		2,434	776	5,159	8,369	4,054	771	(8,932)	4,262	3,307
Provisions		110	5	202	317	335	72	-	724	635
Derivative liabilities		143	251	1,381	1,775	233	315	-	2,323	1,689
Other liabilities		686	2,868	480	4,034	32	39	-	4,105	3,736
Total		6,441	7,387	15,670	29,498	5,070	1,337	(8,932)	26,973	21,716
Liabilities held for sale	D1(b)	770	-	-	770	-	-	-	770	868
Total liabilities	C3.1	49,381	134,472	171,273	355,126	5,351	7,210	(10,295)	357,392	316,281
Total equity and liabilities		52,930	138,539	175,077	366,546	7,428	5,525	(10,295)	369,204	325,932

C1.2 Group statement of financial position – analysis by business type

		31 Dec 2014 £m							31 Dec 2013 £m
		Policyholder	Shareholder-backed business						
	Note	Participating funds	Unit-linked and variable annuity	Non-linked business	Asset management operations	Unallocated to a segment (central operations)	Eliminations of Intra-group debtors and creditors	Group Total	Group Total
Assets									
Intangible assets attributable to shareholders:									
Goodwill	C5.1(a)	**-**	**-**	**233**	**1,230**	**-**	**-**	**1,463**	1,461
Deferred acquisition costs and other intangible assets	C5.1(b)	**-**	**-**	**7,194**	**21**	**46**	**-**	**7,261**	5,295
Total		**-**	**-**	**7,427**	**1,251**	**46**	**-**	**8,724**	6,756
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes		**186**	**-**	**-**	**-**	**-**	**-**	**186**	177
Deferred acquisition costs and other intangible assets		**61**	**-**	**-**	**-**	**-**	**-**	**61**	72
Total		**247**	**-**	**-**	**-**	**-**	**-**	**247**	249
Total		**247**	**-**	**7,427**	**1,251**	**46**	**-**	**8,971**	7,005
Deferred tax assets	C8	**71**	**-**	**2,488**	**141**	**65**	**-**	**2,765**	2,412
Other non-investment and non-cash assets		**2,943**	**635**	**10,135**	**1,464**	**5,058**	**(7,454)**	**12,781**	12,357
Investments of long-term business and other operations:									
Investment properties		**10,371**	**694**	**1,699**	**-**	**-**	**-**	**12,764**	11,477
Investments in joint ventures and associates accounted for using the equity method		**536**	**-**	**374**	**107**	**-**	**-**	**1,017**	809
Financial investments:									
Loans	C3.4	**3,209**	**-**	**8,778**	**854**	**-**	**-**	**12,841**	12,566
Equity securities and portfolio holdings in unit trusts		**34,662**	**108,749**	**1,338**	**79**	**34**	**-**	**144,862**	120,222
Debt securities	C3.3	**59,573**	**10,895**	**72,490**	**2,293**	**-**	**-**	**145,251**	132,905
Other investments		**5,345**	**33**	**2,122**	**121**	**2**	**-**	**7,623**	6,265
Deposits		**10,444**	**938**	**1,640**	**74**	**-**	**-**	**13,096**	12,213
Total investments		**124,140**	**121,309**	**88,441**	**3,528**	**36**	**-**	**337,454**	296,457
Assets held for sale	D1(b)	**-**	**286**	**538**	**-**	**-**	**-**	**824**	916
Cash and cash equivalents		**1,967**	**863**	**2,215**	**1,044**	**320**	**-**	**6,409**	6,785
Total assets		**129,368**	**123,093**	**111,244**	**7,428**	**5,525**	**(7,454)**	**369,204**	325,932
Equity and liabilities									
Equity									
Shareholders' equity		**-**	**-**	**11,419**	**2,077**	**(1,685)**	**-**	**11,811**	9,650
Non-controlling interests		**-**	**-**	**1**	**-**	**-**	**-**	**1**	1
Total equity		**-**	**-**	**11,420**	**2,077**	**(1,685)**	**-**	**11,812**	9,651
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		**105,589**	**118,915**	**85,035**	**-**	**-**	**-**	**309,539**	273,953
Unallocated surplus of with-profits funds		**12,450**	**-**	**-**	**-**	**-**	**-**	**12,450**	12,061
Total policyholder liabilities and unallocated surplus of with-profits funds	C4.1(a)	**118,039**	**118,915**	**85,035**	**-**	**-**	**-**	**321,989**	286,014
Core structural borrowings of shareholder-financed operations:									
Subordinated debt		**-**	**-**	**-**	**-**	**3,320**	**-**	**3,320**	3,662
Other		**-**	**-**	**160**	**275**	**549**	**-**	**984**	974
Total	C6.1	**-**	**-**	**160**	**275**	**3,869**	**-**	**4,304**	4,636
Operational borrowings attributable to shareholder-financed operations	C6.2	**-**	**4**	**249**	**6**	**2,004**	**-**	**2,263**	2,152
Borrowings attributable to with-profits operations	C6.2	**1,093**	**-**	**-**	**-**	**-**	**-**	**1,093**	895
Deferred tax liabilities	C8	**1,307**	**38**	**2,910**	**22**	**14**	**-**	**4,291**	3,778
Other non-insurance liabilities		**8,929**	**3,855**	**10,981**	**5,048**	**1,323**	**(7,454)**	**22,682**	17,938
Liabilities held for sale	D1(b)	**-**	**281**	**489**	**-**	**-**	**-**	**770**	868
Total liabilities		**129,368**	**123,093**	**99,824**	**5,351**	**7,210**	**(7,454)**	**357,392**	316,281
Total equity and liabilities		**129,368**	**123,093**	**111,244**	**7,428**	**5,525**	**(7,454)**	**369,204**	325,932

C2 Analysis of segment position by business type

To show the statement of financial position by reference to the differing degrees of policyholder and shareholder economic interest of the different types of business, the analysis below is structured to show separately assets and liabilities of each segment by business type.

C2.1 Asia insurance operations

	31 Dec 2014 £m				31 Dec 2013 £m
	With-profits business note (i)	**Unit-linked assets and liabilities**	**Other business**	**Total**	**Total**
Assets					
Intangible assets attributable to shareholders:					
Goodwill	**-**	**-**	**233**	**233**	231
Deferred acquisition costs and other intangible assets	**-**	**-**	**1,911**	**1,911**	1,026
Total	**-**	**-**	**2,144**	**2,144**	1,257
Intangible assets attributable to with-profits funds:					
Deferred acquisition costs and other intangible assets	**54**	**-**	**-**	**54**	66
Deferred tax assets	**-**	**-**	**84**	**84**	55
Other non-investment and non-cash assets	**1,943**	**168**	**1,000**	**3,111**	1,073
Investments of long-term business and other operations:					
Investment properties	**-**	**-**	**-**	**-**	1
Investments in joint ventures and associates accounted for using the equity method	**-**	**-**	**374**	**374**	268
Financial investments:					
Loans [C3.4]	**544**	**-**	**470**	**1,014**	922
Equity securities and portfolio holdings in unit trusts	**6,974**	**11,294**	**932**	**19,200**	14,383
Debt securities [C3.3]	**12,927**	**2,847**	**7,855**	**23,629**	18,554
Other investments	**18**	**20**	**10**	**48**	41
Deposits	**190**	**243**	**336**	**769**	896
Total investments	**20,653**	**14,404**	**9,977**	**45,034**	35,065
Assets held for sale	**-**	**281**	**538**	**819**	916
Cash and cash equivalents	**547**	**329**	**808**	**1,684**	1,522
Total assets	**23,197**	**15,182**	**14,551**	**52,930**	39,954
Equity and liabilities					
Equity					
Shareholders' equity	**-**	**-**	**3,548**	**3,548**	2,795
Non-controlling interests	**-**	**-**	**1**	**1**	1
Total equity	**-**	**-**	**3,549**	**3,549**	2,796
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds:					
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	**17,873**	**13,874**	**8,321**	**40,068**	31,910
Unallocated surplus of with-profits funds [note (ii)]	**2,102**	**-**	**-**	**2,102**	77
Total [C4.1(b)]	**19,975**	**13,874**	**8,321**	**42,170**	31,987
Deferred tax liabilities	**458**	**38**	**223**	**719**	594
Other non-insurance liabilities	**2,764**	**989**	**1,969**	**5,722**	3,709
Liabilities held for sale	**-**	**281**	**489**	**770**	868
Total liabilities	**23,197**	**15,182**	**11,002**	**49,381**	37,158
Total equity and liabilities	**23,197**	**15,182**	**14,551**	**52,930**	39,954

Notes

(i) The statement of financial position for with-profits business comprises the with-profits assets and liabilities of the Hong Kong, Malaysia and Singapore with-profits operations. Assets and liabilities of other participating business are included in the column for 'Other business'.

(ii) On 1 January 2014, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. From this date, the unallocated surplus of the Hong Kong with-profits business is reported within the Asia insurance segment. Up until 31 December 2013, for the purpose of the presentation of unallocated surplus of with-profits within the statement of financial position, the Hong Kong branch balance was reported within the unallocated surplus of the PAC with-profits sub-fund of the UK insurance operations.

C2.2 US insurance operations

	31 Dec 2014 £m			31 Dec 2013 £m
	Variable annuity separate account assets and liabilities note (i)	Fixed annuity, GIC and other business note (i)	Total	Total
Assets				
Intangible assets attributable to shareholders:				
Deferred acquisition costs and other intangibles	**-**	**5,197**	**5,197**	4,140
Total	**-**	**5,197**	**5,197**	4,140
Deferred tax assets	**-**	**2,343**	**2,343**	2,042
Other non-investment and non-cash assets[note (iv)]	**-**	**6,617**	**6,617**	6,710
Investment properties	**-**	**28**	**28**	28
Financial investments:				
Loans[C3.4]	**-**	**6,719**	**6,719**	6,375
Equity securities and portfolio holdings in unit trusts[note (iii)]	**81,741**	**340**	**82,081**	66,008
Debt securities[C3.3]	**-**	**32,980**	**32,980**	30,292
Other investments[note (ii)]	**-**	**1,670**	**1,670**	1,557
Total investments	**81,741**	**41,737**	**123,478**	104,260
Cash and cash equivalents	**-**	**904**	**904**	604
Total assets	**81,741**	**56,798**	**138,539**	117,756
Equity and liabilities				
Equity				
Shareholders' equity[note (vi)]	**-**	**4,067**	**4,067**	3,446
Total equity	**-**	**4,067**	**4,067**	3,446
Liabilities				
Policyholder liabilities:				
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) [note (v)]	**81,741**	**45,005**	**126,746**	107,411
Total[C4.1 (c)]	**81,741**	**45,005**	**126,746**	107,411
Core structural borrowings of shareholder-financed operations	**-**	**160**	**160**	150
Operational borrowings attributable to shareholder-financed operations	**-**	**179**	**179**	142
Deferred tax liabilities	**-**	**2,308**	**2,308**	1,948
Other non-insurance liabilities[note (v)]	**-**	**5,079**	**5,079**	4,659
Total liabilities	**81,741**	**52,731**	**134,472**	114,310
Total equity and liabilities	**81,741**	**56,798**	**138,539**	117,756

Notes

(i) These amounts are for separate account assets and liabilities for all variable annuity products comprising those with and without guarantees. Assets and liabilities attaching to variable annuity business that are not held in the separate account e.g. in respect of guarantees are shown within other business.

(ii) Other investments comprise:

	2014 £m	2013 £m
Derivative assets*	**916**	766
Partnerships in investment pools and other**	**754**	791
	1,670	1,557

* After taking account of the derivative liabilities of £251 million (2013: £515 million), which are also included in other non-insurance liabilities, the derivative position for US operations is a net asset of £665 million (2013: £251 million).

** Partnerships in investment pools and other comprise primarily investments in limited partnerships. These include interests in the PPM America Private Equity Fund and diversified investments in 164 (2013: 166) other partnerships by independent money managers that generally invest in various equities and fixed income loans and securities.

(iii) Equity securities and portfolio holdings in unit trusts include investments in mutual funds, the majority of which are equity-based.

(iv) Included within other non-investment and non-cash assets of £6,617 million (2013: £6,710 million) were balances of £5,979 million (2013: £6,065 million) for reinsurers' share of insurance contract liabilities. Of the £5,979 million as at 31 December 2014, £5,174 million related to the reinsurance ceded by the REALIC business (2013: £5,410 million). Jackson holds collateral for certain of these reinsurance arrangements with a corresponding funds withheld liability. As of 31 December 2014, the funds withheld liability of £2,201 million (2013: £2,051 million) was recorded within other non-insurance liabilities.

(v) In addition to the policyholder liabilities above, Jackson has entered into a programme of funding arrangements under contracts, which, in substance are almost identical to GICs. The liabilities under these funding agreements totalled, £844 million (2013: £485 million) and are included in other non-insurance liabilities in the statement of financial position above.

(vi) Changes in shareholders' equity:

	2014 £m	2013 £m
Operating profit based on longer-term investment returns B1.1	**1,431**	1,243
Short-term fluctuations in investment returns B1.2	**(1,103)**	(625)
Amortisation of acquisition accounting adjustments arising from the purchase of REALIC	**(71)**	(65)
Profit before shareholder tax	**257**	553
Tax B5	**(8)**	(101)
Profit for the year	**249**	452

	2014 £m	2013 £m
Profit for the year (as above)	**249**	452
Items recognised in other comprehensive income:		
Exchange movements	**235**	(32)
Unrealised valuation movements on securities classified as available-for sale:		
Unrealised holding gains (losses) arising during the year	**1,039**	(2,025)
Deduct net gains included in the income statement	**(83)**	(64)
Total unrealised valuation movements	**956**	(2,089)
Related amortisation of deferred acquisition costs C5.1(b)	**(87)**	498
Related tax	**(304)**	557
Total other comprehensive income (loss)	**800**	(1,066)
Total comprehensive income (loss) for the year	**1,049**	(614)
Dividends, interest payments to central companies and other movements	**(428)**	(283)
Net increase (decrease) in equity	**621**	(897)
Shareholders' equity at beginning of year	**3,446**	4,343
Shareholders' equity at end of year	**4,067**	3,446

C2.3 UK insurance operations

Of the total investments of £165 billion in UK insurance operations, £103 billion of investments are held by Scottish Amicable Insurance Fund and the PAC with-profits sub-fund. Shareholders are exposed only indirectly to value movements on these assets.

	31 Dec 2014 £m						31 Dec 2013 £m
			Other funds and subsidiaries				
By operating segment	**Scottish Amicable Insurance Fund** note (ii)	**PAC with -profits sub-fund** notes (i)	**Unit-linked assets and liabilities**	**Annuity and other long-term business**	**Total**	**Total**	**Total**
Assets							
Intangible assets attributable to shareholders:							
Deferred acquisition costs and other intangible assets	**-**	**-**	**-**	**86**	**86**	**86**	90
Total	**-**	**-**	**-**	**86**	**86**	**86**	90
Intangible assets attributable to with-profits funds:							
In respect of acquired subsidiaries for venture fund and other investment purposes	**-**	**186**	**-**	**-**	**-**	**186**	177
Deferred acquisition costs	**-**	**7**	**-**	**-**	**-**	**7**	6
Total	**-**	**193**	**-**	**-**	**-**	**193**	183
Total	**-**	**193**	**-**	**86**	**86**	**279**	273
Deferred tax assets	**-**	**71**	**-**	**61**	**61**	**132**	142
Other non-investment and non-cash assets	**208**	**3,633**	**467**	**2,518**	**2,985**	**6,826**	5,808
Investments of long-term business and other operations:							
Investment properties	**390**	**9,981**	**694**	**1,671**	**2,365**	**12,736**	11,448
Investments in joint ventures and associates accounted for using the equity method	**-**	**536**	**-**	**-**	**-**	**536**	449
Financial investments:							
Loans C3.4	**66**	**2,599**	**-**	**1,589**	**1,589**	**4,254**	4,173
Equity securities and portfolio holdings in unit trusts	**2,508**	**25,180**	**15,714**	**66**	**15,780**	**43,468**	39,745
Debt securities C3.3	**2,709**	**43,937**	**8,048**	**31,655**	**39,703**	**86,349**	82,014
Other investments note (iii)	**283**	**5,044**	**13**	**442**	**455**	**5,782**	4,603
Deposits	**728**	**9,526**	**695**	**1,304**	**1,999**	**12,253**	11,252
Total investments	**6,684**	**96,803**	**25,164**	**36,727**	**61,891**	**165,378**	153,684
Properties held for sale	**-**	**-**	**5**	**-**	**5**	**5**	-
Cash and cash equivalents	**84**	**1,336**	**534**	**503**	**1,037**	**2,457**	2,586
Total assets	**6,976**	**102,036**	**26,170**	**39,895**	**66,065**	**175,077**	162,493

	31 Dec 2014 £m						31 Dec 2013 £m
			Other funds and subsidiaries				
	Scottish Amicable Insurance Fund note (ii)	**PAC with-profits sub-fund** notes (i)	**Unit-linked assets and liabilities**	**Annuity and other long-term business**	**Total**	**Total**	**Total**
Equity and liabilities							
Equity							
Shareholders' equity	**-**	**-**	**-**	**3,804**	**3,804**	**3,804**	2,998
Total equity	**-**	**-**	**-**	**3,804**	**3,804**	**3,804**	2,998
Liabilities							
Policyholder liabilities and unallocated surplus of with-profits funds:							
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	**6,690**	**82,389**	**23,300**	**31,709**	**55,009**	**144,088**	134,632
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds) C4.1(d)	**-**	**10,348**	**-**	**-**	**-**	**10,348**	11,984
Total	**6,690**	**92,737**	**23,300**	**31,709**	**55,009**	**154,436**	146,616
Operational borrowings attributable to shareholder-financed operations	**-**	**-**	**4**	**70**	**74**	**74**	74
Borrowings attributable to with-profits funds	**11**	**1,082**	**-**	**-**	**-**	**1,093**	895
Deferred tax liabilities	**45**	**804**	**-**	**379**	**379**	**1,228**	1,213
Other non-insurance liabilities	**230**	**7,413**	**2,866**	**3,933**	**6,799**	**14,442**	10,697
Total liabilities	**6,976**	**102,036**	**26,170**	**36,091**	**62,261**	**171,273**	159,495
Total equity and liabilities	**6,976**	**102,036**	**26,170**	**39,895**	**66,065**	**175,077**	162,493

Notes

(i) The PAC with-profits sub-fund (WPSF) mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). Included in the PAC with-profits fund is £11.7 billion (2013: £12.2 billion) of non-profits annuities liabilities. The WPSF's profits are apportioned 90 per cent to its policyholders and 10 per cent to shareholders as surplus for distribution is determined via the annual actuarial valuation. For the purposes of this table and subsequent explanation, references to the WPSF also include, for convenience, the amounts attaching to the Defined Charges Participating Sub-fund which comprises 3.8 per cent of the total assets of the WPSF and includes the with-profits annuity business transferred to Prudential from the Equitable Life Assurance Society on 1 December 2007 (with assets of approximately £1.7 billion). Profits to shareholders on this with-profits annuity business emerge on a 'charges less expenses' basis and policyholders are entitled to 100 per cent of the investment earnings.

(ii) The fund is solely for the benefit of policyholders of SAIF. Shareholders have no interest in the profits of this fund although they are entitled to asset management fees on this business. SAIF is a separate sub-fund within the PAC long-term business fund.

(iii) Other investments comprise:

	2014 £m	2013 £m
Derivative assets*	**2,344**	1,472
Partnerships in investment pools and other**	**3,438**	3,131
	5,782	4,603

* After including derivative liabilities of £1,381 million (2013: £804 million), which are also included in the statement of financial position, the overall derivative position was a net asset of £963 million (2013: £668 million).

** Partnerships in investment pools and other comprise mainly investments held by the PAC with-profits fund. These investments are primarily investments in limited partnerships and additionally, investments in property funds.

C2.4 Asset management operations

	31 Dec 2014 £m				31 Dec 2013 £m
	M&G note (i)	**US**	**Eastspring Investments**	**Total**	**Total**
Assets					
Intangible assets:					
Goodwill	**1,153**	**16**	**61**	**1,230**	1,230
Deferred acquisition costs and other intangible assets	**18**	**2**	**1**	**21**	20
Total	**1,171**	**18**	**62**	**1,251**	1,250
Other non-investment and non-cash assets	**1,308**	**228**	**69**	**1,605**	1,475
Investments in joint ventures and associates accounted for using the equity method	**35**	**-**	**72**	**107**	92
Financial investments:					
Loans[C3.4]	**854**	**-**	**-**	**854**	1,096
Equity securities and portfolio holdings in unit trusts	**61**	**-**	**18**	**79**	65
Debt securities[C3.3]	**2,293**	**-**	**-**	**2,293**	2,045
Other investments	**109**	**12**	**-**	**121**	61
Deposits	**-**	**40**	**34**	**74**	65
Total investments	**3,352**	**52**	**124**	**3,528**	3,424
Cash and cash equivalents	**857**	**76**	**111**	**1,044**	1,562
Total assets	**6,688**	**374**	**366**	**7,428**	7,711
Equity and liabilities					
Equity					
Shareholders' equity	**1,646**	**157**	**274**	**2,077**	1,991
Total equity	**1,646**	**157**	**274**	**2,077**	1,991
Liabilities					
Core structural borrowing of shareholder-financed operations	**275**	**-**	**-**	**275**	275
Operational borrowings attributable to shareholder-financed operations	**6**	**-**	**-**	**6**	-
Intra-group debt represented by operational borrowings at Group level [note (ii)]	**2,004**	**-**	**-**	**2,004**	1,933
Other non-insurance liabilities[note (iii)]	**2,757**	**217**	**92**	**3,066**	3,512
Total liabilities	**5,042**	**217**	**92**	**5,351**	5,720
Total equity and liabilities	**6,688**	**374**	**366**	**7,428**	7,711

Notes

(i) The M&G statement of financial position includes the assets and liabilities in respect of Prudential Capital.

(ii) Intra-group debt represented by operational borrowings at Group level, which are in respect of Prudential Capital's short-term fixed income security programme and comprise:

	2014 £m	2013 £m
Commercial paper	**1,704**	1,634
Medium Term Notes	**300**	299
Total intra-group debt represented by operational borrowings at Group level	**2,004**	1,933

(iii) Other non-insurance liabilities consist primarily of intra-group balances, derivative liabilities and other creditors.

C3 Assets and Liabilities - Classification and Measurement

C3.1 Group assets and liabilities - Classification

The classification of the Group's assets and liabilities, and its corresponding accounting carrying values reflect the requirements of IFRS. For financial investments the basis of valuation reflects the Group's application of IAS 39 'Financial Instruments: Recognition and Measurement' as described further below. Where assets and liabilities have been valued at fair value or measured on a different basis but fair value is disclosed, the Group has followed the principles under IFRS 13 'Fair Value Measurement'. The basis applied is summarised below:

	31 December 2014 £m					31 December 2013 £m				
	At fair value		Cost/ Amortised cost/ IFRS 4 basis value note (i)	Total carrying value	Fair value, where applicable	At fair value		Cost/ Amortised cost/ IFRS 4 basis value note (i)	Total carrying value	Fair value, where applicable
	Through profit or loss	Available-for-sale				Through profit and loss	Available-for-sale			
Intangible assets attributable to shareholders:										
Goodwill	-	-	1,463	1,463		-	-	1,461	1,461	
Deferred acquisition costs and other intangible assets	-	-	7,261	7,261		-	-	5,295	5,295	
Total	-	-	8,724	8,724		-	-	6,756	6,756	
Intangible assets attributable to with-profits funds:										
In respect of acquired subsidiaries for venture fund and other investment purposes	-	-	186	186		-	-	177	177	
Deferred acquisition costs and other intangible assets	-	-	61	61		-	-	72	72	
Total	-	-	247	247		-	-	249	249	
Total intangible assets	-	-	8,971	8,971		-	-	7,005	7,005	
Other non-investment and non-cash assets:										
Property, plant and equipment	-	-	978	978		-	-	920	920	
Reinsurers' share of insurance contract liabilities	-	-	7,167	7,167		-	-	6,838	6,838	
Deferred tax assets	-	-	2,765	2,765		-	-	2,412	2,412	
Current tax recoverable	-	-	117	117		-	-	244	244	
Accrued investment income	-	-	2,667	2,667	2,667	-	-	2,609	2,609	2,609
Other debtors	-	-	1,852	1,852	1,852	-	-	1,746	1,746	1,746
Total	-	-	15,546	15,546		-	-	14,769	14,769	
Investments of long-term business and other operations: note (ii)										
Investment properties	12,764	-	-	12,764	12,764	11,477	-	-	11,477	11,477
Investments accounted for using the equity method	-	-	1,017	1,017		-	-	809	809	
Loans	2,291	-	10,550	12,841	13,548	2,137	-	10,429	12,566	12,995
Equity securities and portfolio holdings in unit trusts	144,862	-	-	144,862	144,862	120,222	-	-	120,222	120,222
Debt securities	112,354	32,897	-	145,251	145,251	102,700	30,205	-	132,905	132,905
Other investments	7,623	-	-	7,623	7,623	6,265	-	-	6,265	6,265
Deposits	-	-	13,096	13,096	13,096	-	-	12,213	12,213	12,213
Total investments	279,894	32,897	24,663	337,454		242,801	30,205	23,451	296,457	
Assets held for sale	824	-	-	824	824	916	-	-	916	916
Cash and cash equivalents	-	-	6,409	6,409	6,409	-	-	6,785	6,785	6,785
Total assets	280,718	32,897	55,589	369,204		243,717	30,205	52,010	325,932	

	2014 £m					2013 £m				
	At fair value		Cost/ Amortised cost/ IFRS 4 basis value note (i)	Total carrying value	Fair value, where applicable	At fair value		Cost/ Amortised cost/ IFRS 4 basis value note (i)	Total carrying value	Fair value, where applicable
	Through profit and loss	Available-for-sale				Through profit and loss	Available-for-sale			
Liabilities										
Policyholder liabilities and unallocated surplus of with-profits funds:										
Insurance contract liabilities	**-**	**-**	**250,038**	**250,038**		-	-	218,185	218,185	
Investment contract liabilities with discretionary participation features note (iii)	**-**	**-**	**39,277**	**39,277**		-	-	35,592	35,592	
Investment contract liabilities without discretionary participation features	**17,554**	**-**	**2,670**	**20,224**	**20,211**	17,736	-	2,440	20,176	20,177
Unallocated surplus of with-profits funds	**-**	**-**	**12,450**	**12,450**		-	-	12,061	12,061	
Total	**17,554**	**-**	**304,435**	**321,989**		17,736	-	268,278	286,014	
Core structural borrowings of shareholder-financed operations	**-**	**-**	**4,304**	**4,304**	**4,925**	-	-	4,636	4,636	5,066
Other borrowings:										
Operational borrowings attributable to shareholder-financed operations	**-**	**-**	**2,263**	**2,263**	**2,263**	-	-	2,152	2,152	2,152
Borrowings attributable to with-profits operations	**-**	**-**	**1,093**	**1,093**	**1,108**	18	-	877	895	909
Other non-insurance liabilities:										
Obligations under funding, securities lending and sale and repurchase agreements	**-**	**-**	**2,347**	**2,347**	**2,361**	-	-	2,074	2,074	2,085
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**7,357**	**-**	**-**	**7,357**	**7,357**	5,278	-	-	5,278	5,278
Deferred tax liabilities	**-**	**-**	**4,291**	**4,291**		-	-	3,778	3,778	
Current tax liabilities	**-**	**-**	**617**	**617**		-	-	395	395	
Accruals and deferred income	**-**	**-**	**947**	**947**		-	-	824	824	
Other creditors	**327**	**-**	**3,935**	**4,262**	**4,262**	263	-	3,044	3,307	3,307
Provisions	**-**	**-**	**724**	**724**		-	-	635	635	
Derivative liabilities	**2,323**	**-**	**-**	**2,323**	**2,323**	1,689	-	-	1,689	1,689
Other liabilities note (vii)	**2,201**	**-**	**1,904**	**4,105**	**4,105**	2,051	-	1,685	3,736	3,736
Total	**12,208**	**-**	**14,765**	**26,973**		9,281	-	12,435	21,716	
Liabilities held for sale	**770**	**-**	**-**	**770**	**770**	868	-	-	868	868
Total liabilities	**30,532**	**-**	**326,860**	**357,392**		27,903	-	288,378	316,281	

Notes

(i) Assets carried at cost or amortised cost are subject to impairment testing where appropriate under IFRS requirements. This category also includes assets which are valued by reference to specific IFRS standards such as reinsurers' share of insurance contract liabilities, deferred tax assets and investments accounted for under the equity method.

(ii) Realised gains and losses on the Group's investments for 2014 recognised in the income statement amounted to a net gain of £2.9 billion (2013: £2.5 billion).

(iii) The carrying value of investment contracts with discretionary participation features is on IFRS 4 basis. It is impractical to determine the fair value of these contracts due to the lack of a reliable basis to measure participation features.

C3.2 Group assets and liabilities - Measurement

The section provides detail of the designation and valuation of the Group's financial assets and liabilities shown under following categories:

(a) Determination of fair value

The fair values of the assets and liabilities of the Group as shown in this note have been determined on the following bases. The fair values of the financial instruments for which fair valuation is required under IFRS are determined by the use of current market bid prices for exchange-quoted investments, or by using quotations from independent third-parties, such as brokers and pricing services or by using appropriate valuation techniques.

The estimated fair value of derivative financial instruments reflects the estimated amount the Group would receive or pay in an arm's length transaction. This amount is determined using quoted prices if exchange listed, quotations from independent third-parties or valued internally using standard market practices.

The loans and receivables have been shown net of provisions for impairment. The fair value of loans has been estimated from discounted cash flows expected to be received. The rate of discount used was the market rate of interest where applicable.

The fair value of investment properties is based on market values as assessed by professionally qualified external valuers or by the Group's qualified surveyors.

The fair value of the subordinated and senior debt issued by the parent company is determined using quoted prices from independent third parties.

The fair value of financial liabilities (other than derivative financial instruments) is determined using discounted cash flows of the amounts expected to be paid.

(b) Fair value measurement hierarchy of Group assets and liabilities

Assets and liabilities carried at fair value on the statement of financial position

The table below shows the assets and liabilities carried at fair value analysed by level of the IFRS 13 'Fair Value Measurement' defined fair value hierarchy. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement.

Financial instruments at fair value

	31 Dec 2014 £m			
	Level 1	Level 2	Level 3	Total
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Equity securities and portfolio holdings in unit trusts	**31,136**	**2,832**	**694**	**34,662**
Debt securities	**16,415**	**42,576**	**582**	**59,573**
Other investments (including derivative assets)	**96**	**1,997**	**3,252**	**5,345**
Derivative liabilities	**(72)**	**(1,024)**	**-**	**(1,096)**
Total financial investments, net of derivative liabilities	**47,575**	**46,381**	**4,528**	**98,484**
Percentage of total	**48%**	**47%**	**5%**	**100%**
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	**108,392**	**336**	**21**	**108,749**
Debt securities	**4,509**	**6,375**	**11**	**10,895**
Other investments (including derivative assets)	**4**	**29**	**-**	**33**
Derivative liabilities	**(10)**	**(12)**	**-**	**(22)**
Total financial investments, net of derivative liabilities	**112,895**	**6,728**	**32**	**119,655**
Percentage of total	**94%**	**6%**	**0%**	**100%**
Non-linked shareholder-backed				
Loans	**-**	**266**	**2,025**	**2,291**
Equity securities and portfolio holdings in unit trusts	**1,303**	**116**	**32**	**1,451**
Debt securities	**15,806**	**58,780**	**197**	**74,783**
Other investments (including derivative assets)	**-**	**1,469**	**776**	**2,245**
Derivative liabilities	**-**	**(867)**	**(338)**	**(1,205)**
Total financial investments, net of derivative liabilities	**17,109**	**59,764**	**2,692**	**79,565**
Percentage of total	**22%**	**75%**	**3%**	**100%**
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans*	**-**	**266**	**2,025**	**2,291**
Equity securities and portfolio holdings in unit trusts	**140,831**	**3,284**	**747**	**144,862**
Debt securities	**36,730**	**107,731**	**790**	**145,251**
Other investments (including derivative assets)	**100**	**3,495**	**4,028**	**7,623**
Derivative liabilities	**(82)**	**(1,903)**	**(338)**	**(2,323)**
Total financial investments, net of derivative liabilities	**177,579**	**112,873**	**7,252**	**297,704**
Investment contracts liabilities without discretionary participation features held at fair value	**-**	**(17,554)**	**-**	**(17,554)**
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**(5,395)**	**(671)**	**(1,291)**	**(7,357)**
Other financial liabilities held at fair value	**-**	**(327)**	**(2,201)**	**(2,528)**
Total financial instruments at fair value	**172,184**	**94,321**	**3,760**	**270,265**
Percentage of total	**64%**	**35%**	**1%**	**100%**

*Loans in the above table are those classified as fair value through profit and loss in note C3.1.

In addition to the financial instruments shown above, the assets and liabilities held for sale on the consolidated statement of financial position at 31 December 2014 in respect of Japan Life business included a net financial instruments balance of £844 million, primarily for equity securities and debt securities. Of this amount, £814 million has been classified as level 1 and £30 million as level 2.

	31 Dec 2013 £m			
	Level 1	**Level 2**	**Level 3**	**Total**
	Quoted prices (unadjusted) in active markets	**Valuation based on significant observable market inputs**	**Valuation based on significant unobservable market inputs**	
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Equity securities and portfolio holdings in unit trusts	25,087	2,709	569	28,365
Debt securities	14,547	42,759	485	57,791
Other investments (including derivative assets)	169	1,191	2,949	4,309
Derivative liabilities	(32)	(517)	-	(549)
Total financial investments, net of derivative liabilities	39,771	46,142	4,003	89,916
Percentage of total	44%	52%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	90,645	191	36	90,872
Debt securities	3,573	6,048	1	9,622
Other investments (including derivative assets)	6	30	-	36
Derivative liabilities	(1)	(3)	-	(4)
Total financial investments, net of derivative liabilities	94,223	6,266	37	100,526
Percentage of total	94%	6%	0%	100%
Non-linked shareholder-backed				
Loans	-	250	1,887	2,137
Equity securities and portfolio holdings in unit trusts	841	100	44	985
Debt securities	13,428	51,880	184	65,492
Other investments (including derivative assets)	-	1,111	809	1,920
Derivative liabilities	-	(935)	(201)	(1,136)
Total financial investments, net of derivative liabilities	14,269	52,406	2,723	69,398
Percentage of total	21%	75%	4%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans*	-	250	1,887	2,137
Equity securities and portfolio holdings in unit trusts	116,573	3,000	649	120,222
Debt securities	31,548	100,687	670	132,905
Other investments (including derivative assets)	175	2,332	3,758	6,265
Derivative liabilities	(33)	(1,455)	(201)	(1,689)
Total financial investments, net of derivative liabilities	148,263	104,814	6,763	259,840
Investment contracts liabilities without discretionary participation features held at fair value	-	(17,736)	-	(17,736)
Borrowings attributable to the with-profits funds held at fair value	-	(18)	-	(18)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(3,703)	(248)	(1,327)	(5,278)
Other financial liabilities held at fair value	-	(263)	(2,051)	(2,314)
Total financial instruments at fair value	144,560	86,549	3,385	234,494
Percentage of total	61%	37%	2%	100%

*Loans in the above table are those classified as fair value through profit or loss in note C3.1.

Investment properties at fair value

	£m			
	Level 1	**Level 2**	**Level 3**	**Total**
	Quoted prices (unadjusted) in active markets	**Valuation based on significant observable market inputs**	**Valuation based on significant unobservable inputs**	
2014	**-**	**-**	**12,764**	**12,764**
2013	-	-	11,477	11,477

(c) Valuation approach for Level 2 fair valued assets and liabilities

A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using independent pricing services or third-party broker quotes. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

Pricing services, where available, are used to obtain the third-party broker quotes. Where pricing services providers are used, a single valuation is obtained and applied.

When prices are not available from pricing services, quotes are sourced directly from brokers. Prudential seeks to obtain a number of quotes from different brokers so as to obtain the most comprehensive information available on their executability. Where quotes are sourced directly from brokers, the price used in the valuation is normally selected from one of the quotes based on a number of factors, including the timeliness and regularity of the quotes and the accuracy of the quotes considering the spreads provided. The selected quote is the one which best represents an executable quote for the security at the measurement date.

Generally, no adjustment is made to the prices obtained from independent third parties. Adjustment is made in only limited circumstances, where it is determined that the third-party valuations obtained do not reflect fair value (eg either because the value is stale and/or the values are extremely diverse in range). These are usually securities which are distressed or that could be subject to a debt restructure or where reliable market prices are no longer available due to an inactive market or market dislocation. In these instances, prices are derived using internal valuation techniques including those as described below in this note with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The techniques used require a number of assumptions relating to variables such as credit risk and interest rates. Examples of such variables include an average credit spread based on the corporate bond universe and the relevant duration of the asset being valued. Prudential determines the input assumptions based on the best available information at the measurement dates. Securities valued in such manner are classified as level 3 where these significant inputs are not based on observable market data.

Of the total level 2 debt securities of £107,731 million at 31 December 2014 (2013: £100,687 million), £10,093 million are valued internally (2013: £8,556 million). The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

(d) Fair value measurements for level 3 fair valued assets and liabilities

Valuation approach for level 3 fair valued assets and liabilities
Financial instruments at fair value
Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions eg market illiquidity. The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation. These techniques may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments. When determining the inputs into the valuation techniques used priority is given to publicly available prices from independent sources when available, but overall the source of pricing is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date.

The fair value estimates are made at a specific point in time, based upon available market information and judgments about the financial instruments, including estimates of the timing and amount of expected future cash flows and the credit standing of counterparties. Such estimates do not reflect any premium or discount that could result from offering for sale at one time the Group's entire holdings of a particular financial instrument, nor do they consider the tax impact of the realisation of unrealised gains or losses from selling the financial instrument being fair valued. In some cases the disclosed value cannot be realised in immediate settlement of the financial instrument.

In accordance with the Group's risk management framework, the estimated fair value of derivative financial instruments valued internally using standard market practices are subject to assessment against external counterparties' valuations.

At 31 December 2014, the Group held £3,760 million (2013: £3,385 million) of net financial instruments at fair value within level 3. This represents 1 per cent (2013: 2 per cent) of the total fair valued financial assets net of fair valued financial liabilities.

Included within these amounts were loans of £2,025 million at 31 December 2014 (2013: £1,887 million), measured as the loan outstanding balance, attached to REALIC and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of £2,201 million at 31 December 2014 (2013: £2,051 million) was also classified within level 3, accounted for on a fair value basis being equivalent to the carrying value of the underlying assets.

Excluding the loans and funds withheld liability under REALIC's reinsurance arrangements as described above, which amounted to a net liability of £(176) million (2013: £(164) million), the level 3 fair valued financial assets net of financial liabilities were £3,936 million (2013: £3,549 million). Of this amount, a net asset of £11 million (2013: net liability of £(304) million) were internally valued, representing less than 0.1 per cent of the total fair valued financial assets net of financial liabilities (2013: 0.1 per cent). Internal valuations are inherently more subjective than external valuations. Included within these internally valued net asset / liability were:

(a) Debt securities of £298 million (2013: £118 million), which were either valued on a discounted cash flow method with an internally developed discount rate or on external prices adjusted to reflect the specific known conditions relating to these securities (eg distressed securities or securities which were being restructured).
(b) Private equity and venture investments of £1,002 million (2013: £878 million) which were valued internally based on management information available for these investments. These investments were principally held by consolidated investment funds which are managed on behalf of third-parties.
(c) Liabilities of £(1,269) million (2013: £(1,301) million) for the net asset value attributable to external unit holders in respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities are valued by reference to the underlying assets.
(d) Derivative liabilities of £(23) million (2013: nil) which are valued internally using standard market practices but are subject to independent assessment against external counterparties valuations.
(e) Other sundry individual financial investments of £3 million (2013: £1 million).

Of the internally valued net asset referred to above of £11 million (2013: net liability of £(304) million):

(a) A net liability of £(133) million (2013: net liability of £(380) million) was held by the Group's participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments.
(b) A net asset of £144 million (2013: £76 million) was held to support non-linked shareholder-backed business. If the value of all the level 3 instruments held to support non-linked shareholder-backed business valued internally was varied downwards by 10 per cent, the change in valuation would be £14 million (2013: £8 million), which would reduce shareholders' equity by this amount before tax. Of this amount, a decrease of £13 million (2013: a decrease of £6 million) would pass through the income statement substantially as part of short-term fluctuations in investment returns outside of operating profit and a £1 million decrease (2013: a decrease of £2 million) would be included as part of other comprehensive income, being unrealised movements on assets classified as available-for-sale.

Other assets at fair value – Investment properties

The investment properties of the Group are principally held by the UK insurance operations which are externally valued by professionally qualified external valuers using the Royal Institution of Chartered Surveyors (RICS) valuation standards. An 'income capitalisation' technique is predominantly applied for these properties. This technique calculates the value through the yield and rental value depending on factors such as the lease length, building quality, covenant and location. The variables used are compared to recent transactions with similar features to those of the Group's investment properties. As the comparisons are not with properties which are virtually identical to Group's investment properties, adjustments are made by the valuers where appropriate to the variables used. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of the properties.

(e) Transfers into and transfers out of levels

The Group's policy is to recognise transfers into and transfers out of levels as of the end of each half year reporting period except for material transfers which are recognised as of the date of the event or change in circumstances that caused the transfer.

During 2014, the transfers between levels within the Group's portfolio were primarily transfers from level 1 to 2 of £618 million and transfers from level 2 to level 1 of £223 million. These transfers which relate to equity securities and debt securities arose to reflect the change in the observability of the inputs used in valuing these securities.

In addition, in 2014, the transfers into level 3 were £13 million and the transfers out of level 3 were £34 million. These transfers were between levels 3 and 2 and primarily for equity securities and debt securities.

(f) Valuation processes applied by the Group

The Group's valuation policies, procedures and analyses for instruments categorised as level 3 are overseen by Business Unit committees as part of the Group's wider financial reporting governance processes. The procedures undertaken include approval of valuation methodologies, verification processes, and resolution of significant or complex valuation issues. In undertaking these activities the Group makes use of the extensive expertise of its asset management functions.

C3.3 Debt securities

This note provides analysis of the Group's debt securities, including asset-backed securities and sovereign debt securities, by segment.

Debt securities are carried at fair value. The amounts included in the statement of financial position are analysed as follows, with further information relating to the credit quality of the Group's debt securities at 31 December 2014 provided in the notes below.

	2014 £m	2013 £m
Insurance operations:		
Asia note (a)	**23,629**	18,554
US note (b)	**32,980**	30,292
UK note (c)	**86,349**	82,014
Asset management operations note (d)	**2,293**	2,045
Total	**145,251**	132,905

In the tables below, with the exception of some mortgage-backed securities, Standard & Poor's (S&P) ratings have been used where available. For securities where S&P ratings are not immediately available, those produced by Moody's and then Fitch have been used as an alternative.

(a) Asia insurance operations

	2014 £m				2013 £m
	With-profits business	Unit-linked assets	Other business	Total	Total
S&P – AAA	**728**	**48**	**186**	**962**	724
S&P – AA+ to AA-	**5,076**	**323**	**933**	**6,332**	4,733
S&P – A+ to A-	**1,980**	**367**	**1,575**	**3,922**	2,896
S&P – BBB+ to BBB-	**1,667**	**755**	**1,123**	**3,545**	2,717
S&P – Other	**499**	**251**	**1,089**	**1,839**	1,433
	9,950	**1,744**	**4,906**	**16,600**	12,503
Moody's – Aaa	**757**	**194**	**331**	**1,282**	1,728
Moody's – Aa1 to Aa3	**42**	**14**	**1,085**	**1,141**	176
Moody's – A1 to A3	**193**	**90**	**83**	**366**	177
Moody's – Baa1 to Baa3	**167**	**276**	**142**	**585**	572
Moody's – Other	**49**	**13**	**6**	**68**	76
	1,208	**587**	**1,647**	**3,442**	2,729
Fitch	**559**	**110**	**340**	**1,009**	728
Other	**1,210**	**406**	**962**	**2,578**	2,594
Total debt securities	**12,927**	**2,847**	**7,855**	**23,629**	18,554

In addition to the debt securities shown above, the assets held for sale on the consolidated statement of financial position at 31 December 2014 in respect of Japan Life business included a debt securities balance of £351 million (2013: £387 million). Of this amount, £321 million were rated as AA+ to AA- (2013: £356 million) and £30 million (2013: £29 million) were rated A+ to A-.

The following table analyses debt securities of 'Other business' which are not externally rated by S&P, Moody's or Fitch.

	2014 £m	2013 £m
Government bonds	**174**	387
Corporate bonds*	**654**	491
Other	**134**	81
	962	959

* Rated as investment grade by local external ratings agencies.

(b) US insurance operations
(i) Overview

	2014 £m	2013 £m
Corporate and government security and commercial loans:		
Government	**3,972**	3,330
Publicly traded and SEC Rule 144A securities*	**20,745**	18,875
Non-SEC Rule 144A securities	**3,745**	3,395
Total	**28,462**	25,600
Residential mortgage-backed securities (RMBS)	**1,567**	1,760
Commercial mortgage-backed securities (CMBS)	**2,343**	2,339
Other debt securities	**608**	593
Total US debt securities†	**32,980**	30,292

* A 1990 SEC rule that facilitates the resale of privately placed securities under Rule 144A that are without SEC registration to qualified institutional investors. The rule was designed to develop a more liquid and efficient institutional resale market for unregistered securities.

† Debt securities for US operations included in the statement of financial position comprise:

	2014 £m	2013 £m
Available-for-sale	**32,897**	30,205
Fair value through profit or loss:		
Securities held to back liabilities for funds withheld under reinsurance arrangement	**83**	87
	32,980	30,292

(ii) Valuation basis, presentation of gains and losses and securities in an unrealised loss position

Under IAS 39, unless categorised as 'held to maturity' or 'loans and receivables' debt securities are required to be fair valued. Where available, quoted market prices are used. However, where securities do not have an externally quoted price based on regular trades or where markets for the securities are no longer active as a result of market conditions, IAS 39 requires that valuation techniques be applied. IFRS 13 requires classification of the fair values applied by the Group into a three level hierarchy. At 31 December 2014, 0.1 per cent of Jackson's debt securities were classified as level 3 (31 December 2013: 0.1 per cent) comprising of fair values where there are significant inputs which are not based on observable market data.

Except for certain assets covering liabilities that are measured at fair value, the debt securities of the US insurance operations are classified as available-for-sale. Unless impaired, fair value movements are recognised in other comprehensive income. Realised gains and losses, including impairments, recorded in the income statement are as shown in note B1.2 of this report.

Movements in unrealised gains and losses on available-for-sale securities

There was a movement in the statement of financial position value for debt securities classified as available-for-sale from a net unrealised gain of £781 million to a net unrealised gain of £1,840 million as analysed in the table below. This increase reflects the effects of decreasing long-term interest rates.

	2014	Changes in unrealised appreciation**	Foreign exchange translation	2013
		Reflected as part of movement in other comprehensive income		
	£m	£m	£m	£m
Assets fair valued at below book value				
Book value*	**5,899**			10,825
Unrealised (loss) gain	**(180)**	**683**	**(14)**	(849)
Fair value (as included in statement of financial position)	**5,719**			9,976
Assets fair valued at or above book value				
Book value*	**25,158**			18,599
Unrealised gain	**2,020**	**273**	**117**	1,630
Fair value (as included in statement of financial position)	**27,178**			20,229
Total				
Book value*	**31,057**			29,424
Net unrealised gain	**1,840**	**956**	**103**	781
Fair value (as included in the footnote above in the overview table and the statement of financial position)	**32,897**			30,205

* Book value represents cost/amortised cost of the debt securities.

** Translated at the average rate of US$1.6476: £1.00

Debt securities classified as available-for-sale in an unrealised loss position

(a) Fair value of securities as a percentage of book value

The following table shows the fair value of the debt securities in a gross unrealised loss position for various percentages of book value:

	2014 £m		2013 £m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Between 90% and 100%	**5,429**	**(124)**	7,624	(310)
Between 80% and 90%	**245**	**(37)**	1,780	(331)
Below 80% :				
Residential mortgage-backed securities				
Sub-prime	**4**	**(1)**	4	(1)
Commercial mortgage-backed securities	**10**	**(3)**	16	(6)
Other asset-backed securities	**9**	**(6)**	9	(6)
Government bonds	**-**	**-**	521	(188)
Corporates	**22**	**(9)**	22	(7)
	45	**(19)**	572	(208)
Total	**5,719**	**(180)**	9,976	(849)

(b) Unrealised losses by maturity of security

	2014 £m	2013 £m
1 year to 5 years	**(5)**	(5)
5 years to 10 years	**(90)**	(224)
More than 10 years	**(54)**	(558)
Mortgage-backed and other debt securities	**(31)**	(62)
Total	**(180)**	(849)

(c) Age analysis of unrealised losses for the periods indicated

The following table shows the age analysis of all the unrealised losses in the portfolio by reference to the length of time the securities have been in an unrealised loss position:

	2014 £m			2013 £m		
	Non-investment grade	**Investment grade**	**Total**	**Non-investment grade**	**Investment grade**	**Total**
Less than 6 months	**(18)**	**(46)**	**(64)**	(2)	(52)	(54)
6 months to 1 year	**(1)**	**(1)**	**(2)**	(12)	(329)	(341)
1 year to 2 years	**(6)**	**(51)**	**(57)**	(2)	(423)	(425)
2 years to 3 years	**(1)**	**(36)**	**(37)**	(1)	-	(1)
More than 3 years	**(7)**	**(13)**	**(20)**	(13)	(15)	(28)
Total	**(33)**	**(147)**	**(180)**	(30)	(819)	(849)

Further, the following table shows the age analysis as at 31 December 2014, of the securities whose fair values were below 80 per cent of the book value:

	2014 £m		2013 £m	
Age analysis	**Fair value**	**Unrealised loss**	**Fair value**	**Unrealised loss**
Less than 3 months	**17**	**(7)**	93	(24)
3 months to 6 months	**3**	**(1)**	418	(159)
More than 6 months	**25**	**(11)**	61	(25)
	45	**(19)**	572	(208)

(iii) Ratings

The following table summarises the securities detailed above by rating using S&P, Moody's, Fitch and implicit ratings of mortgage-backed securities based on National Association of Insurance Commissioners (NAIC) valuations:

	2014 £m	2013 £m
S&P – AAA	**164**	132
S&P – AA+ to AA-	**6,067**	5,252
S&P – A+ to A-	**8,640**	7,728
S&P – BBB+ to BBB-	**10,308**	9,762
S&P – Other	**1,016**	941
	26,195	23,815
Moody's – Aaa	**84**	65
Moody's – Aa1 to Aa3	**29**	13
Moody's – A1 to A3	**27**	65
Moody's – Baa1 to Baa3	**72**	70
Moody's – Other	**8**	10
	220	223
Implicit ratings of MBS based on NAIC* valuations (see below)		
NAIC 1	**2,786**	2,774
NAIC 2	**85**	179
NAIC 3-6	**58**	87
	2,929	3,040
Fitch	**300**	159
Other **	**3,336**	3,055
Total debt securities (see overview table in note (i) above)	**32,980**	30,292

* The Securities Valuation Office of the NAIC classifies debt securities into six quality categories range from Class 1 (the highest) to Class 6 (the lowest). Performing securities are designated as Classes 1 to 5 and securities in or near default are designated Class 6.

** The amounts within 'Other' which are not rated by S&P, Moody's nor Fitch, nor are MBS securities using the revised regulatory ratings, have the following NAIC classifications:

	2014 £m	2013 £m
NAIC 1	**1,322**	1,165
NAIC 2	**1,890**	1,836
NAIC 3-6	**124**	54
	3,336	3,055

For some mortgage-backed securities within Jackson, the table above includes these securities using the regulatory ratings detail issued by the NAIC. These regulatory ratings levels were established by external third parties (PIMCO for residential mortgage-backed securities and BlackRock Solutions for commercial mortgage-backed securities).

(c) UK insurance operations

	2014 £m						
			Other funds and subsidiaries			UK insurance operations	
	Scottish Amicable Insurance Fund	PAC with-profits fund	Unit-linked assets	PRIL	Other annuity and long-term business	2014 Total £m	2013 Total £m
S&P – AAA	**231**	**3,984**	**1,257**	**3,516**	**388**	**9,376**	8,837
S&P – AA+ to AA-	**506**	**5,443**	**1,118**	**3,724**	**458**	**11,249**	10,690
S&P – A+ to A-	**752**	**10,815**	**1,764**	**7,324**	**836**	**21,491**	20,891
S&P – BBB+ to BBB-	**585**	**9,212**	**1,898**	**4,332**	**714**	**16,741**	17,125
S&P – Other	**158**	**2,177**	**215**	**272**	**45**	**2,867**	3,255
	2,232	**31,631**	**6,252**	**19,168**	**2,441**	**61,724**	60,798
Moody's – Aaa	**59**	**1,375**	**200**	**377**	**52**	**2,063**	2,333
Moody's – Aa1 to Aa3	**52**	**2,370**	**1,110**	**3,048**	**549**	**7,129**	6,420
Moody's – A1 to A3	**48**	**970**	**88**	**1,412**	**168**	**2,686**	2,077
Moody's – Baa1 to Baa3	**31**	**807**	**126**	**363**	**49**	**1,376**	1,214
Moody's – Other	**6**	**390**	**14**	**26**	**-**	**436**	140
	196	**5,912**	**1,538**	**5,226**	**818**	**13,690**	12,184
Fitch	**15**	**484**	**97**	**232**	**20**	**848**	611
Other	**266**	**5,910**	**161**	**3,464**	**286**	**10,087**	8,421
Total debt securities	**2,709**	**43,937**	**8,048**	**28,090**	**3,565**	**86,349**	82,014

Where no external ratings are available, internal ratings produced by the Group's asset management operation, which are prepared on the Company's assessment of a comparable basis to external ratings, are used where possible. The £10,087 million total debt securities held at 31 December 2014 (2013: £8,421 million) which are not externally rated are either internally rated or unrated. These are analysed as follows:

	2014 £m	2013 £m
Internal ratings or unrated:		
AAA to A-	**4,917**	3,691
BBB to B-	**3,755**	3,456
Below B- or unrated	**1,415**	1,274
Total	**10,087**	8,421

The majority of unrated debt security investments were held in SAIF and the PAC with-profits fund and relate to convertible debt and other investments which are not covered by ratings analysts nor have an internal rating attributed to them. The non-linked shareholder-backed business of PRIL and other annuity and long-term business includes £3,750 million which are not externally rated. The internal ratings for these securities consists of £1,082 million AA+ to AA-, £1,336 million A+ to A-, £1,183 million BBB+ to BBB-, £60 million BB+ to BB- and £89 million that were rated B+ and below or unrated.

(d) Asset management operations

The debt securities are all held by M&G (including Prudential Capital).

	2014 £m	2013 £m
M&G		
AAA to A- by S&P or equivalent ratings	**2,056**	1,690
Other	**237**	355
Total M&G (including Prudential Capital)	**2,293**	2,045

(e) Asset-backed securities

The Group's holdings in Asset-Backed Securities (ABS), which comprise Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS), Collateralised Debt Obligations (CDO) funds and other asset-backed securities, at 31 December 2014 is as follows:

	2014 £m	2013 £m
Shareholder-backed operations:		
Asia insurance operations [note (i)]	**104**	139
US insurance operations [note (ii)]	**4,518**	4,692
UK insurance operations (2014: 25% AAA, 42% AA)[note (iii)]	**1,864**	1,727
Other operations [note (iv)]	**875**	667
	7,361	7,225
With-profits operations:		
Asia insurance operations [note (i)]	**228**	200
UK insurance operations (2014: 57% AAA, 17% AA)[note (iii)]	**5,126**	5,765
	5,354	5,965
Total	**12,715**	13,190

Notes

(i) Asia insurance operations

The Asia insurance operations' exposure to asset-backed securities is primarily held by the with-profits operations. Of the £228 million, 99 per cent (31 December 2013: 94 per cent) are investment graded.

(ii) US insurance operations

US insurance operations' exposure to asset-backed securities at 31 December 2014 comprises:

	2014 £m	2013 £m
RMBS		
Sub-prime (2014: 7% AAA, 11% AA, 8% A)	**235**	255
Alt-A (2014: 1% AA, 4% A)	**244**	270
Prime including agency (2014: 76% AA, 2% A)	**1,088**	1,235
CMBS (2014: 50% AAA, 23% AA, 22% A)	**2,343**	2,339
CDO funds (2014: 21% AAA, 1% AA, 23% A), including £nil exposure to sub-prime	**53**	46
Other ABS (2014: 27% AAA, 17% AA, 45% A), including £72 million exposure to sub-prime	**555**	547
Total	**4,518**	4,692

(iii) UK insurance operations

The majority of holdings of the shareholder-backed business relates to the UK market and primarily relates to investments held by PRIL. Of the holdings of the with-profits operations, £1,333 million (31 December 2013: £1,490 million) relates to exposure to the US markets with the remaining exposure being primarily to the UK market.

(iv) Other operations

Asset management operations' exposure to asset-backed securities is held by Prudential Capital with no sub-prime exposure. Of the £875 million, 89 per cent (31 December 2013: 85 per cent) are graded AAA.

(f) Group sovereign debt and bank debt exposure

The Group exposures held by the shareholder-backed business and with-profits funds in sovereign debts and bank debt securities at 31 December 2014:

Exposure to sovereign debts

	2014 £m		2013 £m	
	Shareholder-backed business	With-profits funds	Shareholder-backed business	With-profits funds
Italy	**62**	**61**	53	53
Spain	**1**	**18**	1	14
France	**20**	**-**	19	-
Germany*	**388**	**336**	413	389
Other Eurozone (principally Belgium)	**5**	**29**	5	28
Total Eurozone	**476**	**444**	491	484
United Kingdom	**4,104**	**2,065**	3,516	2,432
United States**	**3,607**	**5,771**	3,045	4,026
Other, predominantly Asia	**2,787**	**1,714**	3,124	1,525
Total	**10,974**	**9,994**	10,176	8,467

* Including bonds guaranteed by the federal government.

** The exposure to the United States sovereign debt comprises holdings of Jackson, the UK and Asia insurance operations.

The table above excludes assets held to cover linked liabilities and those of the consolidated unit trusts and similar funds. In addition, the table above excludes the proportionate share of sovereign debt holdings of the Group's joint venture operations.

Exposure to bank debt securities

	2014 £m							
	Senior debt			Subordinated debt				
Shareholder-backed business	Covered	Senior	Total senior debt	Tier 1	Tier 2	Total subordinated debt	2014 Total £m	2013 Total £m
Italy	**-**	**31**	**31**	**-**	**-**	**-**	**31**	30
Spain	**109**	**11**	**120**	**-**	**13**	**13**	**133**	135
France	**20**	**136**	**156**	**17**	**76**	**93**	**249**	175
Germany	**17**	**25**	**42**	**-**	**69**	**69**	**111**	66
Netherlands	**-**	**13**	**13**	**75**	**36**	**111**	**124**	152
Other Eurozone	**-**	**42**	**42**	**-**	**11**	**11**	**53**	74
Total Eurozone	**146**	**258**	**404**	**92**	**205**	**297**	**701**	632
United Kingdom	**393**	**235**	**628**	**35**	**633**	**668**	**1,296**	1,369
United States	**-**	**1,905**	**1,905**	**56**	**523**	**579**	**2,484**	2,163
Other, predominantly Asia	**19**	**294**	**313**	**56**	**366**	**422**	**735**	698
Total	**558**	**2,692**	**3,250**	**239**	**1,727**	**1,966**	**5,216**	4,862
With-profits funds								
Italy	**7**	**60**	**67**	**-**	**-**	**-**	**67**	82
Spain	**134**	**52**	**186**	**-**	**-**	**-**	**186**	149
France	**7**	**138**	**145**	**-**	**61**	**61**	**206**	237
Germany	**104**	**24**	**128**	**-**	**-**	**-**	**128**	24
Netherlands	**-**	**195**	**195**	**-**	**-**	**-**	**195**	215
Other Eurozone	**5**	**19**	**24**	**-**	**-**	**-**	**24**	16
Total Eurozone	**257**	**488**	**745**	**-**	**61**	**61**	**806**	723
United Kingdom	**549**	**460**	**1,009**	**6**	**546**	**552**	**1,561**	1,695
United States	**-**	**1,821**	**1,821**	**116**	**127**	**243**	**2,064**	2,214
Other, predominantly Asia	**140**	**842**	**982**	**142**	**272**	**414**	**1,396**	1,102
Total	**946**	**3,611**	**4,557**	**264**	**1,006**	**1,270**	**5,827**	5,734

The table above excludes assets held to cover linked liabilities and those of the consolidated unit trusts and similar funds. In addition, the table above excludes the proportionate share of sovereign debt holdings of the Group's joint venture operations.

(g) Group oil and gas industries debt exposure

The Group exposures held by the shareholder-backed business in debt securities issued by the oil and gas industries at 31 December 2014 are analysed as follows:

	2014 £m					
	Exploration and production	Integrated oils	Refining and Marketing	Oil and gas services	Pipeline / mid-stream	Total
AAA	**-**	**8**	**-**	**-**	**-**	**8**
AA	**43**	**244**	**-**	**90**	**2**	**379**
A	**324**	**334**	**-**	**81**	**21**	**760**
BBB	**499**	**281**	**192**	**299**	**659**	**1,930**
BB or below	**73**	**4**	**15**	**16**	**212**	**320**
Total	**939**	**871**	**207**	**486**	**894**	**3,397**

The exposure is well diversified by issuer, sub-sector and geography with 138 issuers across the five sub-sectors. The average holding is £25 million.

The exposure by business unit is as follows:

	2014 £m			
	US general account	UK (annuities fund)	Other	Total
AAA	**8**	**-**	**-**	**8**
AA	**199**	**140**	**40**	**379**
A	**567**	**153**	**40**	**760**
BBB	***1,610**	**161**	**159**	**1,930**
BB or below	***280**	**31**	**9**	**320**
Total	**2,664**	**485**	**248**	**3,397**

* Total exposure to the more directly impacted sub-segments of Exploration and Production and Oil and Gas services is £779 million.

The tables above exclude assets held to cover linked liabilities and those of the consolidated unit trusts and similar funds. In addition, the table above excludes the proportionate share of oil and gas debt holdings of the Group's joint venture operations.

C3.4 Loans portfolio

Loans are accounted for at amortised cost net of impairment except for:

– Certain mortgage loans which have been designated at fair value through profit or loss of the UK insurance operations as this loan portfolio is managed and evaluated on a fair value basis; and

– Certain policy loans of the US insurance operations which are held to back liabilities for funds withheld under reinsurance arrangement and are also accounted on a fair value basis. See note (b).

The amounts included in the statement of financial position are analysed as follows:

	2014 £m	2013 £m
Insurance operations:		
Asia[note (a)]	**1,014**	922
US[note (b)]	**6,719**	6,375
UK[note (c)]	**4,254**	4,173
Asset management operations:		
M&G[note (d)]	**854**	1,096
Total	**12,841**	12,566

(a) Asia insurance operations

The loans of the Group's Asia insurance operations comprise:

	2014 £m	2013 £m
Mortgage loans‡	**88**	57
Policy loans‡	**672**	611
Other loans‡‡	**254**	254
Total Asia insurance operations loans	**1,014**	922

‡ The mortgage and policy loans are secured by properties and life insurance policies respectively.
‡‡ The majority of the other loans are commercial loans held by the Malaysia operation and which are all investment graded by two local rating agencies.

(b) US insurance operations

The loans of the Group's US insurance operations comprise:

	2014 £m			2013 £m		
	Loans backing liabilities for funds withheld	Other loans	Total	Loans backing liabilities for funds withheld	Other loans	Total
Mortgage loans†	**-**	**3,847**	**3,847**	-	3,671	3,671
Policy loans††	**2,025**	**847**	**2,872**	1,887	817	2,704
Total US insurance operations loans	**2,025**	**4,694**	**6,719**	1,887	4,488	6,375

† All of the mortgage loans are commercial mortgage loans which are collateralised by properties. The property types are industrial, multi-family residential, suburban office, retail and hotel.
††The policy loans are fully secured by individual life insurance policies or annuity policies. Policy loans backing liabilities for funds withheld under reinsurance arrangements are accounted for at fair value through profit or loss. All other policy loans are accounted for at amortised cost, less any impairment.

The US insurance operations' commercial mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the risk of defaults associated with residential sub-prime mortgage loans. The average loan size is £7.2 million (2013: £6.5 million). The portfolio has a current estimated average loan to value of 59 per cent (2013: 61 per cent).

At 31 December 2014, Jackson had mortgage loans with a carrying value of £13 million (2013: £47 million) where the contractual terms of the agreements had been restructured.

(c) UK insurance operations

The loans of the Group's UK insurance operations comprise:

	2014 £m	2013 £m
SAIF and PAC WPSF		
Mortgage loans†	**1,145**	1,183
Policy loans	**10**	12
Other loans‡	**1,510**	1,629
Total SAIF and PAC WPSF loans	**2,665**	2,824
Shareholder-backed operations		
Mortgage loans†	**1,585**	1,345
Other loans	**4**	4
Total loans of shareholder-backed operations	**1,589**	1,349
Total UK insurance operations loans	**4,254**	4,173

† The mortgage loans are collateralised by properties. By carrying value, 74 per cent of the £1,585 million held for shareholder-backed business relates to lifetime (equity release) mortgage business which has an average loan to property value of 29 per cent.
‡ Other loans held by the PAC with-profits fund are all commercial loans and comprise mainly syndicated loans.

(d) Asset management operations

The M&G loans relate to loans and receivables managed by Prudential Capital. These assets are generally secured but most have no external credit ratings. Internal ratings prepared by the Group's asset management operations, as part of the risk management process, are:

	2014 £m	2013 £m
Loans and receivables internal ratings:		
AAA	**101**	108
AA+ to AA-	**-**	28
A+ to A-	**161**	-
BBB+ to BBB-	**244**	516
BB+ to BB-	**49**	174
B and other	**299**	270
Total M&G (including Prudential Capital) loans	**854**	1,096

C4 Policyholder liabilities and unallocated surplus

The note provides information of policyholder liabilities and unallocated surplus of with-profits funds held on the Group's statement of financial position:

C4.1 Movement and duration of liabilities

C4.1(a) Group overview

(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

	Insurance operations £m			
	Asia note C4.1(b)	**US** note C4.1(c)	**UK** note C4.1(d)	**Total**
At 1 January 2013	34,664	92,261	144,438	271,363
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	31,501	92,261	133,912	257,674
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	63	-	10,526	10,589
- Group's share of policyholder liabilities of joint ventures§	3,100	-	-	3,100
Reclassification of Japan life business as held for sale†	(1,026)	-	-	(1,026)
Net flows:				
Premiums	6,555	15,951	7,378	29,884
Surrenders	(2,730)	(5,087)	(4,582)	(12,399)
Maturities/Deaths	(997)	(1,229)	(8,121)	(10,347)
Net flows	2,828	9,635	(5,325)	7,138
Shareholders' transfers post tax	(38)	-	(192)	(230)
Investment-related items and other movements	462	8,219	7,812	16,493
Foreign exchange translation differences	(2,231)	(2,704)	(117)	(5,052)
Acquisition of Thanachart Life note D1	487	-	-	487
As at 31 December 2013 / 1 January 2014	**35,146**	**107,411**	**146,616**	**289,173**
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	**31,910**	**107,411**	**134,632**	**273,953**
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	**77**	**-**	**11,984**	**12,061**
- Group's share of policyholder liabilities of joint ventures§	**3,159**	**-**	**-**	**3,159**
Reallocation of unallocated surplus for the domestication of the Hong Kong branch*	**1,690**	**-**	**(1,690)**	**-**
Net flows:				
Premiums	**7,058**	**15,492**	**7,902**	**30,452**
Surrenders	**(2,425)**	**(5,922)**	**(5,656)**	**(14,003)**
Maturities/Deaths	**(1,259)**	**(1,307)**	**(6,756)**	**(9,322)**
Net flows	**3,374**	**8,263**	**(4,510)**	**7,127**
Shareholders' transfers post tax	**(40)**	**-**	**(200)**	**(240)**
Investment-related items and other movements	**3,480**	**3,712**	**14,310**	**21,502**
Foreign exchange translation differences	**1,372**	**7,360**	**(90)**	**8,642**
At 31 December 2014	**45,022**	**126,746**	**154,436**	**326,204**
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position¶	**38,705**	**126,746**	**144,088**	**309,539**
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	**2,102**	**-**	**10,348**	**12,450**
- Group's share of policyholder liabilities of joint ventures§	**4,215**	**-**	**-**	**4,215**
Average policyholder liability balances‡				
2014	**38,993**	**117,079**	**139,362**	**295,434**
2013	34,423	99,836	134,272	268,531

* Up until 31 December 2013 for the purposes of the presentation of unallocated surplus of with-profits within the statement of financial position, the Hong Kong branch balance was reported within the unallocated surplus of the PAC WPSF of the UK insurance operations.
On 1 January 2014, following consultation with the policyholders of PAC and regulators and court approval, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. From this date, the unallocated surplus of the Hong Kong with-profits business is reported within the Asia insurance operations segment.

† Liabilities of £1,026 million in respect of the Japan life operation at 1 January 2013 were removed from policyholder liabilities following its reclassification as held for sale at 31 December 2013. No further amounts are shown within the 2014 or 2013 analysis above in respect of Japan life business.

‡ Averages have been based on opening and closing balances and adjusted for acquisitions, disposals and corporate transactions in the year and exclude unallocated surplus of with-profits funds.

§ The Group's investment in joint ventures are accounted for on an equity method basis in the Group's balance sheet. The Group's share of the policyholder liabilities as shown above relate to the joint venture life businesses in China, India and of the Takaful business in Malaysia.

¶ The policyholder liabilities of the Asia insurance operations of £38,705 million, shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK insurance operations of £1,363 million to the Hong Kong with-profits business. Including this amount total Asia policyholder liabilities are £40,068 million.

The items above represent the amount attributable to changes in policyholder liabilities and unallocated surplus of with-profits funds as a result of each of the components listed. The policyholder liabilities shown include investment contracts without discretionary participation features (as defined in IFRS 4) and their full movement in the year. The items above are shown gross of external reinsurance.

The analysis includes the impact of premiums, claims and investment movements on policyholders' liabilities. The impact does not represent premiums, claims and investment movements as reported in the income statement. For example, the premiums shown above will exclude any deductions for fees/charges and claims represent the policyholder liabilities provision released rather than the claim amount paid to the policyholder.

(ii) Analysis of movements in policyholder liabilities for shareholder-backed business

		2013 £m			
Shareholder-backed business		**Asia**	**US**	**UK**	**Total**
At 1 January		21,213	92,261	49,505	162,979
Reclassification of Japan life business as held for sale	note (a)	(1,026)	-	-	(1,026)
Net flows:					
Premiums		4,728	15,951	3,628	24,307
Surrenders		(2,016)	(5,087)	(2,320)	(9,423)
Maturities/Deaths		(363)	(1,229)	(2,346)	(3,938)
Net flows	note (b)	2,349	9,635	(1,038)	10,946
Investment-related items and other movements		622	8,219	2,312	11,153
Acquisition of subsidiaries		487	-	-	487
Foreign exchange translation differences		(1,714)	(2,704)	-	(4,418)
At 31 December		21,931	107,411	50,779	180,121
Comprising:					
- Policyholder liabilities on the consolidated statement of financial position		18,772	107,411	50,779	176,962
- Group's share of policyholder liabilities relating to joint ventures		3,159	-	-	3,159

		2014 £m			
Shareholder-backed business		**Asia**	**US**	**UK**	**Total**
At 1 January		**21,931**	**107,411**	**50,779**	**180,121**
Net flows:					
Premiums		**4,799**	**15,492**	**4,951**	**25,242**
Surrenders		**(2,218)**	**(5,922)**	**(3,149)**	**(11,289)**
Maturities/Deaths		**(644)**	**(1,307)**	**(2,412)**	**(4,363)**
Net flows	note (b)	**1,937**	**8,263**	**(610)**	**9,590**
Investment-related items and other movements		**1,859**	**3,712**	**4,840**	**10,411**
Foreign exchange translation differences		**683**	**7,360**	**-**	**8,043**
At 31 December	note (c)	**26,410**	**126,746**	**55,009**	**208,165**
Comprising:					
- Policyholder liabilities on the consolidated statement of financial position		**22,195**	**126,746**	**55,009**	**203,950**
- Group's share of policyholder liabilities relating to joint ventures		**4,215**	**-**	**-**	**4,215**

Notes

(a) The £1,026 million liabilities of the Japan life operation at 1 January 2013 were removed from policyholder liabilities following its reclassification as held for sale at 31 December 2013. No further amounts are shown within 2014 or 2013 analysis above in respect of Japan life business.

(b) Including net flows of the Group's insurance joint ventures.

(c) Policyholder liabilities relating to shareholder-backed business grew by £28.1 billion from £180.1 billion at 31 December 2013 to £208.2 billion at 31 December 2014 demonstrating the on-going growth of our business. The increase reflects positive net flows (premiums net of upfront charges less surrenders, withdrawals, maturities and deaths) of £9.6 billion in 2014 (2013: £10.9 billion), driven by strong inflows of £8.3 billion in the US and £1.9 billion in Asia.

C4.1(b) Asia insurance operations

(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of Asia insurance operations from the beginning of the year to the end of the year is as follows:

	With-profits business £m	Unit-linked liabilities £m	Other business £m	Total £m
At 1 January 2013	13,451	14,028	7,185	34,664
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	13,388	11,969	6,144	31,501
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	63	-	-	63
- Group's share of policyholder liabilities relating to joint ventures‡	-	2,059	1,041	3,100
Reclassification of Japan life business as held for sale*	-	(366)	(660)	(1,026)
Premiums				
New business	242	1,519	902	2,663
In-force	1,585	1,301	1,006	3,892
	1,827	2,820	1,908	6,555
Surrenders note (e)	(714)	(1,799)	(217)	(2,730)
Maturities/Deaths	(634)	(46)	(317)	(997)
Net flows note (d)	479	975	1,374	2,828
Shareholders' transfers post tax	(38)	-	-	(38)
Investment-related items and other movements note (f)	(160)	369	253	462
Acquisition of Thanachart life note (g)	-	-	487	487
Foreign exchange translation differences note (a)	(517)	(1,241)	(473)	(2,231)
At 31 December 2013 / 1 January 2014 note (c)	**13,215**	**13,765**	**8,166**	**35,146**
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	**13,138**	**11,918**	**6,854**	**31,910**
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	**77**	**-**	**-**	**77**
- Group's share of policyholder liabilities relating to joint ventures‡	**-**	**1,847**	**1,312**	**3,159**
Reallocation of unallocated surplus for the domestication of the Hong Kong branch note (b)	**1,690**	**-**	**-**	**1,690**
Premiums				
New business	**425**	**1,337**	**997**	**2,759**
In-force	**1,834**	**1,375**	**1,090**	**4,299**
	2,259	**2,712**	**2,087**	**7,058**
Surrenders note (e)	**(207)**	**(1,939)**	**(279)**	**(2,425)**
Maturities/Deaths	**(615)**	**(40)**	**(604)**	**(1,259)**
Net flows note (d)	**1,437**	**733**	**1,204**	**3,374**
Shareholders' transfers post tax	**(40)**	**-**	**-**	**(40)**
Investment-related items and other movements note (f)	**1,621**	**1,336**	**523**	**3,480**
Foreign exchange translation differences note (a)	**689**	**375**	**308**	**1,372**
At 31 December 2014 note (c)	**18,612**	**16,209**	**10,201**	**45,022**
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position§	**16,510**	**13,874**	**8,321**	**38,705**
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	**2,102**	**-**	**-**	**2,102**
- Group's share of policyholder liabilities relating to joint ventures‡	**-**	**2,335**	**1,880**	**4,215**
Average policyholder liability balances†				
2014	**14,823**	**14,987**	**9,183**	**38,993**
2013	13,263	13,714	7,446	34,423

* The £1,026 million liabilities of the Japan life operation at 1 January 2013 were removed from policyholder liabilities following its reclassification as held for sale at 31 December 2013. No further amounts are shown within the 2014 or 2013 analysis above in respect of Japan life business.

† Averages have been based on opening and closing balances and adjusted for acquisitions and disposals in the year and exclude unallocated surplus of with-profits funds.

‡ The Group's investment in joint ventures are accounted for on an equity method basis and the Group's share of the policyholder liabilities as shown above relate to the joint venture life businesses in China, India and of the Takaful business in Malaysia.

§ The policyholder liabilities of the with-profits business of £16,510 million, shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK insurance operations of £1,363 million to the Hong Kong with-profits business. Including this amount the Asia with-profits policyholder liabilities are £17,873 million.

Notes

(a) Movements in the year have been translated at the average exchange rates for the year ended 31 December 2014. The closing balance has been translated at the closing spot rates as at 31 December 2014. Differences upon retranslation are included in foreign exchange translation differences.

(b) Up until 31 December 2013 for the purposes of the presentation of unallocated surplus of with-profits within the statement of financial position, the Hong Kong branch balance was reported within the unallocated surplus of the PAC WPSF of the UK insurance operations. On 1 January 2014, following consultation with the policyholders of PAC and regulators and court approval, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. From this date the unallocated surplus of the Hong Kong with-profits business is reported within the Asia insurance operations segment.

(c) The policyholder liabilities of the Asia insurance operations of £38,705 million as shown in the table above is after deducting the intra-group reinsurance liabilities ceded by the UK insurance operations of £1,363 million to the Hong Kong with-profits business. Including this amount total Asia policyholder liabilities is £40,068 million.

(d) Net flows have increased by £546 million to £3,374 million in 2014 compared with £2,828 million in 2013 reflecting increased flows from new business and growth in the in-force books.

(e) The rate of surrenders for shareholder-backed business (expressed as a percentage of opening liabilities) was 10 per cent in 2014, in line with the 10 per cent recorded in 2013 (based on opening liabilities after the removal of Japan life). Maturities/deaths have increased from £997 million in 2013 to £1,259 million in 2014, primarily as a result of an increased number of endowment products within Malaysia and Singapore reaching their maturity point.

(f) Investment-related items and other movements for 2014 principally represents unrealised gains on bonds, following the fall in bond yields and positive investment gains from the Asia equity market.

(g) The acquisition of Thanachart Life reflects the liabilities acquired at the date of acquisition.

(ii) Duration of liabilities

The table below shows the carrying value of policyholder liabilities and the maturity profile of the cash flows on a discounted basis for 2014 and 2013, taking account of expected future premiums and investment returns:

	2014 £m	**2013 £m**
Policyholder liabilities	**38,705**	31,910
Expected maturity:	**%**	%
0 to 5 years	**23**	23
5 to 10 years	**20**	20
10 to 15 years	**17**	16
15 to 20 years	**12**	12
20 to 25 years	**9**	9
Over 25 years	**19**	20

C4.1(c) US insurance operations

(i) Analysis of movements in policyholder liabilities

A reconciliation of the total policyholder liabilities of US insurance operations from the beginning of the year to the end of the year is as follows:

US insurance operations

	Variable annuity separate account liabilities £m	Fixed annuity, GIC and other business £m	Total £m
At 1 January 2013	49,298	42,963	92,261
Premiums	11,377	4,574	15,951
Surrenders	(2,906)	(2,181)	(5,087)
Maturities/Deaths	(485)	(744)	(1,229)
Net flows note (b)	7,986	1,649	9,635
Transfers from general to separate account	1,603	(1,603)	-
Investment-related items and other movements note (c)	8,725	(506)	8,219
Foreign exchange translation differences note (a)	(1,931)	(773)	(2,704)
At 31 December 2013 / 1 January 2014	**65,681**	**41,730**	**107,411**
Premiums	**12,220**	**3,272**	**15,492**
Surrenders	**(3,699)**	**(2,223)**	**(5,922)**
Maturities/Deaths	**(547)**	**(760)**	**(1,307)**
Net flows note (b)	**7,974**	**289**	**8,263**
Transfers from general to separate account	**1,395**	**(1,395)**	**-**
Investment-related items and other movements note (c)	**1,963**	**1,749**	**3,712**
Foreign exchange translation differences note (a)	**4,728**	**2,632**	**7,360**
At 31 December 2014	**81,741**	**45,005**	**126,746**
Average policyholder liability balances*			
2014	**73,711**	**43,368**	**117,079**
2013	57,489	42,347	99,836

* Averages have been based on opening and closing balances.

Notes

(a) Movements in the year have been translated at an average rate of US$1.65/£1.00 (2013: US$1.56/£1.00). The closing balances have been translated at closing rate of US$1.56/£1.00 (2013: US$1.66/£1.00). Differences upon retranslation are included in foreign exchange translation differences.

(b) Net flows for the year were £8,263 million compared with £9,635 million in 2013 on an actual exchange rate basis and £9,149 million on a constant exchange rate basis, reflecting in part lower premiums into the fixed index annuity business following product changes implemented in late 2013 to ensure appropriate returns on shareholder capital.

(c) Positive investment-related items and other movements in variable annuity separate account liabilities of £1,963 million for 2014 primarily reflects the increase in the US equity market during the year. Fixed annuity, GIC and other business investment and other movements of £1,749 million primarily reflect the increase in interest credited to the policyholder accounts in the year and an increase in other guarantee reserves.

(ii) Duration of liabilities

The table below shows the carrying value of policyholder liabilities and maturity profile of the cash flows on a discounted basis for 2014 and 2013:

	2014			2013		
	Fixed annuity and other business (including GICs and similar contracts) £m	Variable annuity £m	Total £m	Fixed annuity and other business (including GICs and similar contracts) £m	Variable annuity £m	Total £m
Policyholder liabilities	**45,005**	**81,741**	**126,746**	41,730	65,681	107,411
	%	%	%	%	%	%
Expected maturity:						
0 to 5 years	**46**	**48**	**47**	49	48	48
5 to 10 years	**27**	**29**	**29**	27	31	30
10 to 15 years	**12**	**13**	**13**	11	13	12
15 to 20 years	**7**	**6**	**6**	6	5	5
20 to 25 years	**4**	**3**	**3**	4	2	3
Over 25 years	**4**	**1**	**2**	3	1	2

C4.1(d) UK insurance operations

(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of UK insurance operations from the beginning of the year to the end of the year is as follows:

		Shareholder-backed funds and subsidiaries		
	SAIF and PAC with-profits sub-fund £m	**Unit-linked liabilities £m**	**Annuity and other long-term business £m**	**Total £m**
At 1 January 2013	94,933	22,197	27,308	144,438
Comprising:				
- Policyholder liabilities	84,407	22,197	27,308	133,912
- Unallocated surplus of with-profits funds	10,526	-	-	10,526
Premiums	3,750	2,150	1,478	7,378
Surrenders	(2,262)	(2,263)	(57)	(4,582)
Maturities/Deaths	(5,775)	(644)	(1,702)	(8,121)
Net flows note (b)	(4,287)	(757)	(281)	(5,325)
Shareholders' transfers post tax	(192)	-	-	(192)
Switches	(195)	195	-	-
Investment-related items and other movements	5,695	2,017	100	7,812
Foreign exchange translation differences	(117)	-	-	(117)
At 31 December 2013 / 1 January 2014	**95,837**	**23,652**	**27,127**	**146,616**
Comprising:				
- Policyholder liabilities	**83,853**	**23,652**	**27,127**	**134,632**
- Unallocated surplus of with-profits funds	**11,984**	**-**	**-**	**11,984**
Reallocation of unallocated surplus for the domestication of the Hong Kong branch note (a)	**(1,690)**	**-**	**-**	**(1,690)**
Premiums	**2,951**	**1,405**	**3,546**	**7,902**
Surrenders	**(2,507)**	**(2,934)**	**(215)**	**(5,656)**
Maturities/Deaths	**(4,344)**	**(587)**	**(1,825)**	**(6,756)**
Net flows note (b)	**(3,900)**	**(2,116)**	**1,506**	**(4,510)**
Shareholders' transfers post tax	**(200)**	**-**	**-**	**(200)**
Switches	**(167)**	**167**	**-**	**-**
Investment-related items and other movements note (c)	**9,637**	**1,597**	**3,076**	**14,310**
Foreign exchange translation differences	**(90)**	**-**	**-**	**(90)**
At 31 December 2014	**99,427**	**23,300**	**31,709**	**154,436**
Comprising:				
- Policyholder liabilities	**89,079**	**23,300**	**31,709**	**144,088**
- Unallocated surplus of with-profits funds	**10,348**	**-**	**-**	**10,348**
Average policyholder liability balances*				
2014	**86,467**	**23,476**	**29,419**	**139,362**
2013	84,130	22,924	27,218	134,272

*Averages have been based on opening and closing balances and exclude unallocated surplus of with-profits funds.

Notes

(a) Up until 31 December 2013, for the purposes of the presentation of unallocated surplus of with-profits within the statement of financial position, the Hong Kong branch balance was reported within the unallocated surplus of the PAC WPSF of the UK insurance operations.
On 1 January 2014, following consultation with the policyholders of PAC and regulators and court approval, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. From this date the unallocated surplus of the Hong Kong with-profits business is reported within the Asia insurance operations segment.

(b) Net outflows improved from £5,325 million in 2013 to £4,510 million in 2014, due primarily to higher premium flows (up £2,068 million to £3,546 million) into our annuity and other long-term business following an increase in the number of bulk annuity transaction in the year. The levels of inflows/outflows for unit-linked business is driven by corporate pension schemes with transfers in or out from only a small number of schemes influencing the level of flows in the year.

(c) Investment-related items and other movements of £14,310 million reflect both growth in equity markets and fall in long-term bond yields in 2014.

(ii) Duration of liabilities

The tables above show the carrying value of the policyholder liabilities and the maturity profile of the cash flows for insurance contracts, as defined by IFRS:

	With-profits business			**Annuity business (Insurance contracts)**			**Other**			**Total**
	Insurance contracts	**Investment contracts**	**Total**	**Non-profit annuities within WPSF (including PAL)**	**PRIL**	**Total**	**Insurance contracts**	**Investments contracts**	**Total**	
					2014 £m					
Policyholder liabilities	**38,287**	**39,084**	**77,371**	**11,708**	**22,186**	**33,894**	**15,474**	**17,349**	**32,823**	**144,088**
					2014 %					
Expected maturity:										
0 to 5 years	**40**	**39**	**39**	**31**	**25**	**27**	**37**	**36**	**36**	**36**
5 to 10 years	**24**	**26**	**25**	**25**	**22**	**23**	**25**	**22**	**24**	**24**
10 to 15 years	**14**	**17**	**16**	**18**	**18**	**18**	**16**	**16**	**16**	**17**
15 to 20 years	**9**	**11**	**10**	**11**	**14**	**13**	**10**	**11**	**11**	**11**
20 to 25 years	**6**	**5**	**5**	**7**	**9**	**9**	**5**	**8**	**6**	**6**
over 25 years	**7**	**2**	**5**	**8**	**12**	**10**	**7**	**7**	**7**	**6**
					2013 £m					
Policyholder liabilities	36,248	35,375	71,623	12,230	19,973	32,203	13,223	17,583	30,806	134,632
					2013 %					
Expected maturity:										
0 to 5 years	42	40	41	33	28	30	39	40	39	38
5 to 10 years	24	25	25	25	23	24	25	22	23	24
10 to 15 years	14	17	16	18	18	18	16	16	16	16
15 to 20 years	9	11	10	11	13	12	9	10	10	11
20 to 25 years	5	5	5	6	8	8	5	6	6	6
over 25 years	6	2	3	7	10	8	6	6	6	5

(i) The cash flow projections of expected benefit payments used in the maturity profile table above are from value of in-force business and exclude the value of future new business, including future vesting of internal pension contracts.
(ii) Benefit payments do not reflect the pattern of bonuses and shareholder transfers in respect of the with-profits business.
(iii) Investment contracts under 'Other' comprise certain unit-linked and similar contracts accounted for under IAS 39 and IAS 18.
(iv) For business with no maturity term included within the contracts, for example with-profits investment bonds such as Prudence Bonds, an assumption is made as to likely duration based on prior experience.
(v) The maturity tables shown above have been prepared on a discounted basis.

C5 Intangible assets

C5.1 Intangible assets attributable to shareholders

(a) Goodwill attributable to shareholders

	2014 £m	2013 £m
Cost		
At beginning of year	**1,581**	1,589
Exchange differences	**2**	(8)
At end of year	**1,583**	1,581
Aggregate impairment	**(120)**	(120)
Net book amount at end of year	**1,463**	1,461

Goodwill attributable to shareholders comprises:

	2014 £m	2013 £m
M&G	**1,153**	1,153
Other	**310**	308
	1,463	1,461

Other goodwill represents amounts allocated to entities in Asia and the US operations. These goodwill amounts by acquired operations are not individually material.

The aggregate goodwill impairment of £120 million at 31 December 2014 and 2013 relates to the goodwill held in relation to the held for sale Japan Life business (see note D1), which was impaired in 2005.

(b) Deferred acquisition costs and other intangible assets attributable to shareholders

The deferred acquisition costs and other intangible assets attributable to shareholders comprise:

	2014 £m	2013 £m
Deferred acquisition costs related to insurance contracts as classified under IFRS 4	**5,840**	4,684
Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	**87**	96
	5,927	4,780
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF)	**59**	67
Distribution rights and other intangibles	**1,275**	448
	1,334	515
Total of deferred acquisition costs and other intangible assets	**7,261**	5,295

	2014 £m						2013 £m
	Deferred acquisition costs						
	Asia	US	UK	Asset management	PVIF and other intangibles†	Total	Total
Balance at 1 January	**553**	**4,121**	**89**	**17**	**515**	**5,295**	4,177
Reclassification of Japan Life as held for sale[note D1]	**-**	**-**	**-**	**-**	**-**	**-**	(28)
Additions and acquisitions of subsidiaries	**209**	**678**	**8**	**8**	**865**	**1,768**	1,251
Amortisation to the income statement:							
Operating profit	**(128)**	**(487)**	**(14)**	**(8)**	**(59)**	**(696)**	(643)
Non-operating profit	**-**	**653**	**-**	**-**	**-**	**653**	228
	(128)	**166**	**(14)**	**(8)**	**(59)**	**(43)**	(415)
Disposals	**-**	**-**	**-**	**-**	**(6)**	**(6)**	(1)
Exchange differences and other movements	**16**	**299**	**-**	**-**	**19**	**334**	(187)
Amortisation of DAC related to net unrealised valuation movements on Jackson's available-for-sale securities recognised within other comprehensive income	**-**	**(87)**	**-**	**-**	**-**	**(87)**	498
Balance at 31 December	**650**	**5,177**	**83**	**17**	**1,334**	**7,261**	5,295

† PVIF and other intangibles includes software rights of £66 million (2013: £56 million) with additions of £34 million, amortisation of £25 million and exchange losses of £1 million.

Note

PVIF and other intangibles comprise PVIF, distribution rights and other intangibles such as software rights. Distribution rights relate to amounts that have been paid or have become unconditionally due for payment as a result of past events in respect of bancassurance partnership arrangements in Asia. These agreements allow for bank distribution of Prudential's insurance products for a fixed period of time. Additions of £865 million in 2014 principally relate to fees paid and due to extend the term and expand the geographic scope of the agreement with Standard Chartered Bank and other fees on current distribution deals.

It also includes £18 million for PVIF and other intangibles in 2014 for the acquisition of Express Life of Ghana and Shield Assurance Company Limited in Kenya.

US insurance operations

Summary balances

The DAC amount in respect of US insurance operations comprises amounts in respect of:

	2014 £m	2013 £m
Variable annuity business	**5,002**	3,716
Other business	**759**	868
Cumulative shadow DAC (for unrealised gains booked in other comprehensive income)*	**(584)**	(463)
Total DAC for US operations	**5,177**	4,121

* Consequent upon the positive unrealised valuation movement in 2014 of £956 million (2013: negative unrealised valuation movement of £2,089 million), there is a charge of £87 million (2013: a credit of £498 million) for altered 'shadow' DAC amortisation booked within other comprehensive income. These adjustments reflect movement from period to period, in the changes to the pattern of reported gross profits that would have happened if the assets reflected in the statement of financial position had been sold, crystallising the unrealised gains and losses, and the proceeds reinvested at the yields currently available in the market. At 31 December 2014, the cumulative shadow DAC balance as shown in the table above was negative £584 million (2013: negative £463 million).

Overview of the deferral and amortisation of acquisition costs for Jackson

Under IFRS 4, the Group applies 'grandfathered' US GAAP for measuring the insurance assets and liabilities of Jackson. In the case of Jackson term business, acquisition costs are deferred and amortised in line with expected premiums. For annuity and interest-sensitive life business, acquisition costs are deferred and amortised in line with a combination of historical and future expected gross profits on the relevant contracts. For fixed interest rate and fixed index annuity and interest-sensitive life business, the key assumption is the long-term spread between the earned rate on investments and the rate credited to policyholders, which is based on an annual spread analysis. Expected gross profits also depend on mortality assumptions, assumed unit costs and terminations other than deaths (including the related charges), all of which are based on a combination of actual experience of Jackson, industry experience and future expectations. A detailed analysis of actual mortality, lapse and expense experience is performed using internally developed experience studies.

Acquisition costs for Jackson's variable annuity products are also amortised in line with the emergence of profits. The measurement of the amortisation in part reflects current period fees (including those for guaranteed minimum death, income, or withdrawal benefits) earned on assets covering liabilities to policyholders, and the historical and expected level of future gross profits which depends on the assumed level of future fees, as well as components related to mortality, lapse, expense and the long-term cost of hedging.

<u>Mean reversion technique</u>

For variable annuity products, under US GAAP (as 'grandfathered' under IFRS 4) the projected gross profits, against which acquisition costs are amortised, reflect an assumed long-term level of returns on separate account investments which, as referenced in note A3, for Jackson, is 7.4 per cent (2013: 7.4 per cent) after deduction of net external fund management fees. This is applied to the period end level of separate account assets after application of a mean reversion technique that removes a portion of the effect of levels of short-term variability in current market returns.

Under the mean reversion technique applied by Jackson, the projected level of return for each of the next five years is adjusted from period to period so that in combination with the actual rates of return for the preceding two years and the current period, the 7.4 per cent (2013: 7.4 per cent) annual return is realised on average over the entire eight-year period. Projected returns after the mean reversion period revert back to the 7.4 per cent (2013: 7.4 per cent) assumption.

However, to ensure that the methodology does not over anticipate a reversion to the long-term level of returns following adverse markets, the mean reversion technique has a cap and floor feature whereby the projected returns in each of the next five years can be no more than 15 per cent per annum and no less than 0 per cent per annum (after deduction of net fund management fees) in each year.

<u>Sensitivity of amortisation charge</u>

The amortisation charge to the income statement is reflected in both operating profit and short-term fluctuations in investment returns. The amortisation charge to the operating profit in a reporting period comprises:

i) A core amount that reflects a relatively stable proportion of underlying premiums or profit; and

ii) An element of acceleration or deceleration arising from market movements differing from expectations.

In periods where the cap and floor feature of the mean reversion technique are not relevant, the technique operates to dampen the second element above. Nevertheless, extreme market movements can cause material acceleration or deceleration of amortisation in spite of this dampening effect.

Furthermore, in those periods where the cap or floor is relevant, the mean reversion technique provides no further dampening and additional volatility may result.

In 2014, the DAC amortisation charge for operating profit was determined after including a charge for accelerated amortisation of £13 million (2013:credit for decelerated amortisation of £82 million). The 2014 amount primarily reflects the separate account performance of 6 per cent, which is lower than the assumed level for the year.

As noted above, the application of the mean reversion formula has the effect of dampening the impact of equity market movements on DAC amortisation while the mean reversion assumption lies within the corridor. It would take a significant movement in equity markets in 2015 (outside the range of negative 34 per cent to positive 36 per cent) for the mean reversion assumption to move outside the corridor.

C6 Borrowings

C6.1 Core structural borrowings of shareholder-financed operations

	2014 £m	2013 £m
Holding company operations:		
Perpetual Subordinated Capital Securities (Innovative Tier 1)[note (i),(iv),(vi)]	**1,789**	2,133
Subordinated Notes (Lower Tier 2)[note (i),(v)]	**1,531**	1,529
Subordinated debt total	**3,320**	3,662
Senior debt:[note (ii)]		
£300m 6.875% Bonds 2023	**300**	300
£250m 5.875% Bonds 2029	**249**	249
Holding company total	**3,869**	4,211
Prudential Capital bank loan[note (iii)]	**275**	275
Jackson US$250m 8.15% Surplus Notes 2027 (Lower Tier 2)	**160**	150
Total (per consolidated statement of financial position)	**4,304**	4,636

Notes

(i) These debt classifications are consistent with the treatment of capital for regulatory purposes, as defined in the Prudential Regulation Authority handbook.
Tier 1 subordinated debt is entirely US$ denominated. The Group has designated all US$2.80 billion (2013: US$3.55 billion) of its Tier 1 subordinated debt as a net investment hedge under IAS 39 to hedge the currency risks related to the net investment in Jackson.

(ii) The senior debt ranks above subordinated debt in the event of liquidation.

(iii) The Prudential Capital bank loan of £275 million has been made in two tranches: a £160 million loan maturing on 20 December 2017 and a £115 million loan also maturing on 20 December 2017. These two tranches are currently drawn at a cost of 12 month £LIBOR plus 0.40 per cent.

(iv) In January 2013, the Company issued core structural borrowings of US$700 million 5.25 per cent Tier 1 Perpetual Subordinated Capital Securities primarily to retail investors in Asia. The proceeds, net of costs, were US$689 million.

(v) In December 2013, the Company issued core structural borrowings of £700 million Lower Tier 2 Subordinated Notes primarily to UK institutional investors. The proceeds, net of costs, were £695 million.

(vi) On 23 December 2014, the Company exercised its right to redeem early the US$750 million 11.75 per cent Tier 1 perpetual subordinated capital securities at their aggregate nominal amount together with accrued interest.

C6.2 Other borrowings

(a) Operational borrowings attributable to shareholder-financed operations

	2014 £m	2013 £m
Borrowings in respect of short-term fixed income securities programmes	**2,004**	1,933
Non-recourse borrowings of US operations	**19**	18
Other borrowings [note (ii)]	**240**	201
Total[note (i)]	**2,263**	2,152

Notes

(i) In addition to the debt listed above, £200 million Floating Rate Notes were issued by Prudential plc in October 2014 which will mature in October 2015. These Notes have been wholly subscribed to a Group subsidiary and accordingly have been eliminated on consolidation in the Group financial statements. These Notes were originally issued in October 2008 and have been reissued upon their maturity.

(ii) Other borrowings mainly include amounts whose repayment to the lender is contingent upon future surplus emerging from certain contracts specified under the arrangement. If insufficient surplus emerges on those contracts, there is no recourse to other assets of the Group and the liability is not payable to the degree of shortfall. In addition, other borrowings include senior debt issued through the Federal Home Loan Bank of Indianapolis (FHLB), secured by collateral posted with the FHLB by Jackson.

(iii) In January 2015, the Company issued £300 million Medium Term Notes which will mature in January 2018. The proceeds, net of costs, were £299 million.

(b) Borrowings attributable to with-profits operations

	2014 £m	2013 £m
Non-recourse borrowings of consolidated investment funds	**924**	691
£100m 8.5% undated subordinated guaranteed bonds of Scottish Amicable Finance plc*	**100**	100
Other borrowings (predominantly obligations under finance leases)	**69**	104
Total	**1,093**	895

* The interests of the holders of the bonds issued by Scottish Amicable Finance plc, a subsidiary of the Scottish Amicable Insurance Fund, are subordinated to the entitlements of the policyholders of that fund.

C7 Risk and sensitivity analysis

C7.1 Group overview

The Group's risk framework and the management of the risk including those attached to the Group's financial statements including financial assets, financial liabilities and insurance liabilities, together with the inter-relationship with the management of capital have been included in the audited sections of 'Group Chief Risk Officer's report on the risks facing our business and our capital strength'.

The financial and insurance assets and liabilities on the Group's balance sheet are, to varying degrees, subject to market and insurance risk and other changes of experience assumptions that may have a material effect on IFRS basis profit or loss and shareholders' equity. The market and insurance risks, including how they affect Group's operations and how they are managed are discussed in the 'Group Chief Risk Officer's report on the risks facing our business and our capital strength'.

The most significant items for which the IFRS shareholders' profit or loss and shareholders' equity for the Group's life assurance business is sensitive to, are shown in the following tables. The distinction between direct and indirect exposure is not intended to indicate the relative size of the sensitivity.

Type of business	Market and credit risk			Insurance and lapse risk
	Investments/derivatives	**Liabilities / unallocated surplus**	**Other exposure**	
Asia insurance operations (see also section C7.2)				
All business	Currency risk			Mortality and morbidity risk Persistency risk
With-profits business	Net neutral direct exposure (Indirect exposure only)		Investment performance subject to smoothing through declared bonuses	
Unit-linked business	Net neutral direct exposure (Indirect exposure only)		Investment performance through asset management fees	
Non-participating business	Asset/liability mismatch risk			
	Credit risk	Interest rates for those operations where the basis of insurance liabilities is sensitive to current market movements		
	Interest rate and price risk			
US insurance operations (see also section C7.3)				
All business	Currency risk			Persistency risk
Variable annuity business	Net effect of market risk arising from incidence of guarantee features and variability of asset management fees offset by derivative hedging programme			
Fixed index annuity business	Derivative hedge programme to the extent not fully hedged against liability	Incidence of equity participation features		
Fixed index annuities, Fixed annuities and GIC business	Credit risk Interest rate risk Profit and loss and shareholders' equity are volatile for these risks as they affect the values of derivatives and embedded derivatives and impairment losses. In addition, shareholders' equity is volatile for the incidence of these risks on unrealised appreciation of fixed income securities classified as available-for-sale under IAS 39		Spread difference between earned rate and rate credited to policyholders	Lapse risk, but the effects of extreme events are mitigated by the application of market value adjustments
UK insurance operations (see also section C7.4)				
With-profits business	Net neutral direct exposure (Indirect exposure only)		Investment performance subject to smoothing through declared bonuses	Persistency risk to future shareholder transfers
SAIF sub-fund	Net neutral direct exposure (Indirect exposure only)		Asset management fees earned by M&G	
Unit-linked business	Net neutral direct exposure (Indirect exposure only)		Investment performance through asset management fees	Persistency risk
	Asset/liability mismatch risk			
Shareholder-backed annuity business	Credit risk for assets covering liabilities and shareholder capital Interest rate risk for assets in excess of liabilities ie assets representing shareholder capital			Mortality experience and assumptions for longevity

Detailed analyses of sensitivity of IFRS basis profit or loss and shareholders' equity to key market and other risks by business unit are provided in notes C7.2, C7.3, C7.4 and C7.5. The sensitivity analyses provided show the effect on profit or loss and shareholders' equity to changes in the relevant risk variables, all of which are reasonably possible at the relevant balance sheet date. In the equity risk sensitivity analysis shown below, the Group has considered the impact of an instantaneous 20 per cent fall in equity markets. If equity markets were to fall by more than 20 per cent, the Group believes that this would not be an instantaneous fall but rather this would be expected to occur over a period of time during which the Group would be able to put mitigating management actions in place. In addition, the equity risk sensitivity analysis provided assumed that all equity indices fall by the same percentage.

Impact of diversification on risk exposure
The Group enjoys significant diversification benefits achieved through the geographical spread of the Group's operations and, within those operations through a broad mix of products types. This arises because not all risk scenarios are likely to happen at the same time and across all geographic regions. Relevant correlation factors include:

Correlation across geographic regions:
- Financial risk factors; and
- Non-financial risk factors.

Correlation across risk factors:
- Longevity risk;
- Expenses;
- Persistency; and
- Other risks.

The effect of Group diversification across the Group's life businesses is to significantly reduce the aggregate standalone volatility risk to IFRS operating profit based on longer-term investment returns. The effect is almost wholly explained by the correlations across risk types, in particular mortality and longevity risk.

C7.2 Asia insurance operations

Exposure and sensitivity of IFRS basis profit and shareholders' equity to market and other risks
The Asia operations sell with-profits and unit-linked policies and, although the with-profits business generally has a lower terminal bonus element than in the UK, the investment portfolio still contains a proportion of equities. Non-participating business is largely backed by debt securities or deposits. The Group's exposure to market risk arising from its Asia operations is therefore at modest levels. This reflects the fact that the Asia operations have a balanced portfolio of with-profits, unit-linked and other types of business.

In Asia, adverse persistency experience can impact the IFRS profitability of certain types of business written in the region. This risk is managed at a business unit level through regular monitoring of experience and the implementation of management actions as necessary. These actions could include product enhancements, increased management focus on premium collection as well as other customer retention efforts. The potential financial impact of lapses is often mitigated through the specific features of the products, eg surrender charges, or through the availability of premium holiday or partial withdrawal policy features.

In summary, for Asia operations, the operating profit based on longer-term investment returns is mainly affected by the impact of market levels on unit-linked persistency, and other insurance risks. At the total IFRS profit level the Asia result is affected by short-term value movements on the asset portfolio for non-linked shareholder-backed business.

(i) Sensitivity to risks other than foreign exchange risk
With-profits business
Similar principles to those explained for UK with-profits business in C7.4 apply to profit emergence for the Asia with-profits business. Correspondingly, the profit emergence reflects bonus declaration and is relatively insensitive to period by period fluctuations in insurance risk or interest rate movements.

Unit-linked business
As for the UK insurance operations, for unit-linked business, the main factor affecting the profit and shareholders' equity of the Asia operations is investment performance through asset management fees. The sensitivity of profits and shareholders' equity to changes in insurance risk, interest rate risk and credit risk are not material.

Other business
Interest rate risk
Excluding its with-profit and unit-linked business, the results of the Asia business are sensitive to the vagaries of routine movements in interest rates.

For the purposes of analysing sensitivity to variations in interest rates, reference has been made to the movements in the 10-year government bond rates of the territories. At 31 December 2014, 10-year government bond rates vary from territory to territory and range from 1.6 per cent to 8.0 per cent (2013: 1.7 per cent to 9.0 per cent).

For the sensitivity analysis as shown in the table below, the reasonably possible interest rate movement used is one per cent for all territories but subject to a floor of zero where the bond rates are currently below 1 per cent.

The estimated sensitivity to the decrease and increase in interest rates at 31 December 2014 and 2013 is as follows:

	2014 £m		2013 £m	
	Decrease of 1%	**Increase of 1%**	**Decrease of 1%**	**Increase of 1%**
Profit before tax attributable to shareholders	**(54)**	**(137)**	311	(215)
Related deferred tax (where applicable)	**(5)**	**24**	(34)	40
Net effect on profit and shareholders' equity	**(59)**	**(113)**	277	(175)

The pre-tax impacts, if they arose, would mostly be recorded within the category short-term fluctuations in investments returns in the Group's segmental analysis of profit before tax.

The degree of sensitivity of the results of the non-linked shareholder-backed business of the Asia operations to movements in interest rates depends upon the degree to which the liabilities under the 'grandfathered' IFRS 4 measurement basis reflects market interest rates from period to period. For example for those countries, such as those applying US GAAP, the results can be more sensitive as the effect of interest rate movements on the backing investments may not be offset by liability movements.

In addition, the degree of sensitivity of the results shown in the table above is dependent on the interest rate level at that point of time. In 2014, the lower interest rates in certain countries have had an adverse impact on the degree of sensitivity to a decrease in interest rates.

Equity price risk

The non-linked shareholder business has limited exposure to equity and property investment (31 December 2014: £932 million). Generally changes in equity and property investment values are not directly offset by movements in policyholder liabilities.

The estimated sensitivity to a 10 per cent and 20 per cent change in equity and property prices for shareholder-backed Asia other business, which would be reflected in the short-term fluctuation component of the Group's segmental analysis of profit before tax, at 31 December 2014 and 2013 would be as follows:

	2014 £m		2013 £m	
	Decrease		**Decrease**	
	of 20%	**of 10%**	**of 20%**	**of 10%**
Profit before tax attributable to shareholders	**(187)**	**(93)**	(114)	(57)
Related deferred tax (where applicable)	**23**	**11**	24	12
Net effect on profit and shareholders' equity	**(164)**	**(82)**	(90)	(45)

A 10 or 20 per cent increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above. The market risk sensitivities shown above reflect the impact of temporary market movements and, therefore, the primary effect of such movements would, in the Group's segmental analysis of profits, be included within the short-term fluctuations in investment returns.

Insurance risk

Many of the territories in Asia are exposed to mortality/morbidity risk and provision is made within policyholder liabilities on a prudent regulatory basis to cover the potential exposure. If these prudent assumptions were strengthened by 5 per cent then it is estimated that post tax profit and shareholders' equity would be decreased by approximately £47 million (2013: £38 million). Mortality and morbidity has a symmetrical effect on the portfolio and any weakening of these assumptions would have a similar equal and opposite impact.

(ii) Sensitivity to foreign exchange risk

Consistent with the Group's accounting policies, the profits of the Asia insurance operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. For 2014, the rates for the most significant operations are given in note A1.

A 10 per cent increase (strengthening of the pound sterling) or decrease (weakening of the pound sterling) in these rates would have reduced or increased profit before tax attributable to shareholders, profit for the year and shareholders' equity, excluding goodwill, attributable to Asia operations respectively as follows:

	A 10% increase in local currency to £ exchange rates		A 10% decrease in local currency to £ exchange rates	
	2014 £m	**2013 £m**	**2014 £m**	**2013 £m**
Profit before tax attributable to shareholders	**(111)**	(63)	**135**	77
Profit for the year	**(95)**	(49)	**117**	60
Shareholders' equity, excluding goodwill, attributable to Asia operations	**(315)**	(246)	**384**	300

C7.3 US insurance operations

Exposure and sensitivity of IFRS basis profit and shareholders' equity to market and other risks
At the level of operating profit based on longer-term investment returns, Jackson's results are sensitive to market conditions to the extent of income earned on spread-based products and indirectly in respect of variable annuity asset management fees.

Jackson's main exposures are to market risk through its exposure to interest rate risk and equity risk. Approximately 94 per cent (2013: 94 per cent) of its general account investments support fixed interest rate and fixed index annuities, life business and surplus and 6 per cent (2013: 6 per cent) support institutional businesses. All of these types of business contain considerable interest rate guarantee features and, consequently, require that the assets that support them are primarily fixed income or fixed maturity.

Jackson is exposed primarily to the following risks:

Risks	Risk of loss
Equity risk	• related to the incidence of benefits related to guarantees issued in connection with its variable annuity contracts; and • related to meeting contractual accumulation requirements in fixed index annuity contracts.
Interest rate risk	• related to meeting guaranteed rates of accumulation on fixed annuity products following a sharp and sustained fall in interest rates; • related to the guarantee features attached to the company's products and to policyholder withdrawals following a sharp and sustained increase in interest rates; and • the risk of mismatch between the expected duration of certain annuity liabilities and prepayment risk and extension risk inherent in mortgage-backed securities.

Jackson's derivative programme is used to manage interest rate risk associated with a broad range of products and equity market risk attaching to its equity-based products. Movements in equity markets, interest rates and credit spreads materially affect the carrying value of derivatives which are used to manage the liabilities to policyholders and backing investment assets. Combined with the use of US GAAP measurement (as 'grandfathered' under IFRS 4) for the insurance contracts assets and liabilities which is largely insensitive to current period market movements, the Jackson total profit (ie including short-term fluctuations in investment returns) is very sensitive to market movements. In addition to these effects the Jackson shareholders' equity is sensitive to the impact of interest rate and credit spread movements on the value of fixed income securities. Movements in unrealised appreciation on these securities are included as movement in shareholders' equity (ie outside the income statement).

Jackson enters into financial derivative transactions, including those noted below to reduce and manage business risks. These transactions manage the risk of a change in the value, yield, price, cash flows or quantity of, or a degree of exposure with respect to assets, liabilities or future cash flows, which Jackson has acquired or incurred.

Jackson uses free-standing derivative instruments for hedging purposes. Additionally, certain liabilities, primarily trust instruments supported by funding agreements, fixed index annuities, certain Guaranteed Minimum Withdrawal Benefit variable annuity features and reinsured Guaranteed Minimum Income Benefit variable annuity features contain embedded derivatives as defined by IAS 39, 'Financial Instruments: Recognition and Measurement'. Jackson does not account for such derivatives as either fair value or cash flow hedges as might be permitted if the specific hedge documentation requirements of IAS 39 were followed. Financial derivatives, including derivatives embedded in certain host liabilities that have been separated for accounting and financial reporting purposes are carried at fair value.

Value movements on the derivatives are reported within the income statement. In preparing Jackson's segment profit as shown in note B1.1 value movements on Jackson's derivative contracts, are included within short-term fluctuations in investment returns and excluded from operating results based on longer-term investment returns.

The principal types of derivatives used by Jackson and their purpose are as follows:

Derivative	Purpose
Interest rate swaps	These generally involve the exchange of fixed and floating payments over the period for which Jackson holds the instrument without an exchange of the underlying principal amount. These agreements are used for hedging purposes.
Put-swaption contracts	These contracts provide the purchaser with the right, but not the obligation, to require the writer to pay the present value of a long-duration interest rate swap at future exercise dates. Jackson purchases and writes put-swaptions with maturities up to 5 years. Put-swaptions hedge against significant movements in interest rates.
Equity index futures contracts and equity index options	These derivatives (including various call and put options and interest rate contingent options) are used to hedge Jackson's obligations associated with its issuance of fixed index deferred annuities and certain VA guarantees. Some of these annuities and guarantees contain embedded options which are fair valued for financial reporting purposes.
Total return swaps	Total return swaps in which Jackson receives equity returns or returns based on reference pools of assets in exchange for short-term floating rate payments based on notional amounts, are held for both hedging and investment purposes.
Cross-currency swaps	Cross-currency swaps, which embody spot and forward currency swaps and additionally, in some cases, interest rate swaps and equity index swaps, are entered into for the purpose of hedging Jackson's foreign currency denominated funding agreements supporting trust instrument obligations.
Credit default swaps	These swaps, represent agreements under which Jackson has purchased default protection on certain underlying corporate bonds held in its portfolio. These contracts allow Jackson to sell the protected bonds at par value to the counterparty if a default event occurs in exchange for periodic payments made by Jackson for the life of the agreement. Jackson does not write default protection using credit derivatives.

The estimated sensitivity of Jackson's profit and shareholders' equity to equity and interest rate risks provided below is net of the related changes in amortisation of DAC. The effect on the related changes in amortisation of DAC provided is based on the current 'grandfathered' US GAAP DAC basis but does not include any effect from an acceleration or deceleration of amortisation of DAC.

(i) Sensitivity to equity risk

At 31 December 2014 and 2013, Jackson had variable annuity contracts with guarantees, for which the net amount at risk ('NAR') is defined as the amount of guaranteed benefit in excess of current account value, as follows:

31 December 2014	Minimum return	Account value £m	Net amount at risk £m	Weighted average attained age	Period until expected annuitisation
Return of net deposits plus a minimum return					
GMDB	**0-6%**	**64,344**	**1,463**	**65.0 years**	
GMWB - Premium only	**0%**	**2,151**	**32**		
GMWB*	**0-5%****	**264**	**17**		
GMAB - Premium only	**0%**	**53**	**-**		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		**6,581**	**193**	**65.0 years**	
GMWB - Highest anniversary only		**2,131**	**85**		
GMWB*		**830**	**58**		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	**0-6%**	**3,978**	**302**	**67.5 years**	
GMIB†	**0-6%**	**1,595**	**360**		**1.4 years**
GMWB*	**0-8%****	**57,323**	**2,033**		

31 December 2013	Minimum return	Account value £m	Net amount at risk £m	Weighted average attained age	Period until expected annuitisation
Return of net deposits plus a minimum return					
GMDB	0-6%	52,985	1,248	64.7 years	
GMWB - Premium only	0%	2,260	36		
GMWB*	0-5%**	289	18		
GMAB - Premium only	0%	57	-		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		5,522	134	64.6 years	
GMWB - Highest anniversary only		2,039	93		
GMWB*		875	63		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	3,522	217	66.9 years	
GMIB†	0-6%	1,642	317		2.4 years
GMWB*	0-8%**	46,091	1,087		

* Amounts shown for Guaranteed Minimum Withdrawal Benefit comprise sums for the 'not for life' portion (where the guaranteed withdrawal base less the account value equals to the net amount at risk (NAR)), and a 'for life' portion (where the NAR has been estimated as the present value of future expected benefit payment remaining after the amount of the 'not for life' guaranteed benefits is zero).

** Ranges shown based on simple interest. The upper limits of 5 per cent, or 8 per cent simple interest are approximately equal to 4.1 per cent and 6 per cent respectively, on a compound interest basis over a typical ten year bonus period. For example 1 + 10 x 0.05 is similar to 1.041 growing at a compound rate of 4.01 per cent for a further nine years.

† The GMIB reinsurance guarantees are essentially fully reinsured.

Account balances of contracts with guarantees were invested in variable separate accounts as follows:

	2014 £m	2013 £m
Mutual fund type:		
Equity	**50,071**	40,529
Bond	**11,139**	10,043
Balanced	**12,901**	10,797
Money market	**675**	703
Total	**74,786**	62,072

As noted above, Jackson is exposed to equity risk through the options embedded in the fixed index annuity liabilities and Guaranteed Minimum Death Benefit and Guaranteed Minimum Withdrawal Benefit guarantees included in certain variable annuity benefits as illustrated above. This risk is managed using an equity hedging programme to minimise the risk of a significant economic impact as a result of increases or decreases in equity market levels while taking advantage of naturally offsetting exposures in Jackson's operations. Jackson purchases external futures and options that hedge the risks inherent in these products, while also considering the impact of rising and falling separate account fees.

As a result of this hedging programme, if the equity markets were to increase further in the future, the net effect of Jackson's free-standing derivatives would decrease in value. However, over time, this movement would be broadly offset by increased separate account fees and reserve decreases, net of the related changes to amortisation of deferred acquisition costs. Due to the nature of the free-standing and embedded derivatives, this hedge, while highly effective on an economic basis, may not completely mute in the financial reporting the immediate impact of equity market movements as the free-standing derivatives reset immediately while the hedged liabilities reset more slowly and fees are recognised prospectively. The opposite impact would be observed if the equity markets were to decrease.

In addition to the exposure explained above, Jackson is also exposed to equity risk from its holding of equity securities, partnerships in investment pools and other financial derivatives.

At 31 December 2014, the estimated sensitivity of Jackson's profit and shareholders' equity to immediate increases and decreases in equity markets is shown below. The sensitivities are shown net of related changes in DAC amortisation.

	2014 £m				2013 £m			
	Decrease		Increase		Decrease		Increase	
	of 20%	of 10%	of 20%	of 10%	of 20%	of 10%	of 20%	of 10%
Pre-tax profit, net of related changes in amortisation of DAC	**360**	**130**	**8**	**(25)**	485	165	213	77
Related deferred tax effects	**(126)**	**(46)**	**(3)**	**9**	(170)	(58)	(74)	(27)
Net sensitivity of profit after tax and shareholders' equity	**234**	**84**	**5**	**(16)**	315	107	139	50

Note
The table above has been prepared to exclude the impact of the instantaneous equity movements on the separate account fees. In addition, the sensitivity movements shown include those relating to the fixed index annuity and the reinsurance of GMIB guarantees.

The above table provides sensitivity movements as at a point in time while the actual impact on financial results would vary contingent upon the volume of new product sales and lapses, changes to the derivative portfolio, correlation of market returns and various other factors including volatility, interest rates and elapsed time.

The directional movements in the sensitivities reflect the hedging programme in place at 31 December 2014 and 2013.

(ii) Sensitivity to interest rate risk
Notwithstanding the market risk exposure previously described, except in the circumstances of interest rate scenarios where the guarantee rates included in contract terms are higher than crediting rates that can be supported from assets held to cover liabilities, the accounting measurement of fixed annuity liabilities of Jackson products is not generally sensitive to interest rate risk. This position derives from the nature of the products and the US GAAP basis of measurement. The Guaranteed Minimum Withdrawal Benefit features attached to variable annuity business (other than 'for-life') are accounted for as embedded derivatives which are fair valued and so will be sensitive to changes in interest rate.

Debt securities and related derivatives are marked to fair value. Value movements on derivatives, again net of related changes to amortisation of DAC and deferred tax, are recorded within the income statement. Fair value movements on debt securities, net of related changes to amortisation of DAC and deferred tax, are recorded within other comprehensive income. The estimated sensitivity of these items and policyholder liabilities to a 1 per cent and 2 per cent decrease (subject to a floor of zero) and increase in interest rates at 31 December 2014 and 2013 is as follows:

	2014 £m				2013 £m			
	Decrease		Increase		Decrease		Increase	
	of 2%	of 1%	of 1%	of 2%	of 2%	of 1%	of 1%	of 2%
Profit and loss:								
Pre-tax profit effect (net of related changes in amortisation of DAC)	**(1,398)**	**(690)**	**494**	**875**	(128)	(66)	(52)	(161)
Related effect on charge for deferred tax	**489**	**242**	**(173)**	**(306)**	45	23	18	56
Net profit effect	**(909)**	**(448)**	**321**	**569**	(83)	(43)	(34)	(105)
Other comprehensive income:								
Direct effect on carrying value of debt securities (net of related changes in amortisation of DAC)	**2,979**	**1,663**	**(1,663)**	**(2,979)**	2,624	1,477	(1,477)	(2,624)
Related effect on movement in deferred tax	**(1,043)**	**(582)**	**582**	**1,043**	(918)	(517)	517	918
Net effect	**1,936**	**1,081**	**(1,081)**	**(1,936)**	1,706	960	(960)	(1,706)
Total net effect on shareholders' equity	**1,027**	**633**	**(760)**	**(1,367)**	1,623	917	(994)	(1,811)

These sensitivities are shown only for interest rates in isolation and do not include other movements in credit risk that may affect credit spreads and valuations of debt securities. Similar to sensitivity to equity risk, the sensitivity movements provided in the table above are at a point in time and reflects the hedging programme in place on the balance sheet date, while the actual impact on financial results would vary contingent upon a number of factors.

(iii) Sensitivity to foreign exchange risk

Consistent with the Group's accounting policies, the profits of the Group's US operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. For 2014, the average and closing rates were US$1.65 (2013: $1.56) and US$1.56 (2013: US$1.66) to £1.00 sterling, respectively. A 10 per cent increase (weakening of the dollar) or decrease (strengthening of the dollar) in these rates would reduce or increase profit before tax attributable to shareholders, profit for the year and shareholders' equity attributable to US insurance operations respectively as follows:

	A 10% increase in US$:£ exchange rates		A 10% decrease in US$:£ exchange rates	
	2014 £m	**2013 £m**	**2014 £m**	**2013 £m**
Profit before tax attributable to shareholders [note]	**(23)**	(50)	**29**	61
Profit for the year	**(23)**	(41)	**28**	50
Shareholders' equity attributable to US insurance operations	**(370)**	(313)	**452**	383

Note: Sensitivity on profit (loss) before tax ie aggregate of the operating profit based on longer-term investment returns and short-term fluctuations in investment returns.

(iv) Other sensitivities

Total profit of Jackson is very sensitive to market risk on the assets covering liabilities other than variable annuity business segregated in the separate accounts.

As with other shareholder-backed business the profit or loss for Jackson is presented by distinguishing the result for the year between an operating result based on longer-term investment returns and short-term fluctuations in investment returns. In this way the most significant direct effect of market changes that have taken place to the Jackson result are separately identified. The principal determinants of variations in operating profit based on longer-term returns are:

- Growth in the size of assets under management covering the liabilities for the contracts in force;
- Variations in fees and other income, offset by variations in market value adjustment payments and, where necessary, strengthening of liabilities;
- Spread returns for the difference between investment returns and rates credited to policyholders; and
- Amortisation of deferred acquisition costs.

For term business, acquisition costs are deferred and amortised in line with expected premiums. For annuity and interest sensitive life business, acquisition costs are deferred and amortised in line with expected gross profits on the relevant contracts. For interest-sensitive business, the key assumption is the expected long-term spread between the earned rate and the rate credited to policyholders, which is based on an annual spread analysis. In addition, expected gross profits depend on mortality assumptions, assumed unit costs and terminations other than deaths (including the related charges) all of which are based on a combination of actual experience of Jackson, industry experience and future expectations. A detailed analysis of actual experience is measured by internally developed expense, mortality and persistency studies.

Except to the extent of mortality experience, which primarily affects profits through variations in claim payments and Guaranteed Minimum Death Benefit reserves, the profits of Jackson are relatively insensitive to changes in insurance risk.

Jackson is sensitive to lapse risk and other types of policyholder behaviour, such as the take-up of its Guaranteed Minimum Withdrawal Benefit product features. Jackson has extensive derivative programme to seek to manage the exposure for altered equity markets and interest rates. For example, Jackson uses derivatives to ameliorate the effect of a sharp rise in interest rates, which would be the most likely cause of a sudden change in policyholder behaviour.

For variable annuity business, the key assumption is the expected long-term level of separate account returns, which for 2014 was 7.4 per cent (2013: 7.4 per cent). The impact of using this return is reflected in two principal ways, namely:

- Through the projected expected gross profits which are used to determine the amortisation of deferred acquisition costs. This is applied through the use of a mean reversion technique which is described in more detail in note C5.1(b) above; and
- The required level of provision for guaranteed minimum death benefit claims.

C7.4 UK insurance operations

Exposure and sensitivity of IFRS basis profit and shareholders' equity to market and other risks

The IFRS basis results of the UK insurance operations are most sensitive to asset/liability matching, mortality and default rate experience and longevity assumptions and the difference between the return on corporate bond and risk-free rate for shareholder-backed annuity business of Prudential Retirement Income Limited and the Prudential Assurance Company non-profit sub-fund. Further details are described below.

The IFRS operating profit based on longer-term investment returns for UK insurance operations is sensitive to changes in longevity assumptions affecting the carrying value of liabilities to policyholders for UK shareholder-backed annuity business. At the total IFRS profit level, the result is particularly sensitive to temporary value movements on assets backing the capital of the shareholder-backed annuity business.

<u>With-profits business</u>

SAIF

Shareholders have no interest in the profits of the ring-fenced fund of SAIF but are entitled to the asset management fees paid on the assets of the fund.

With-profits sub-fund business
The shareholder results of the UK with-profits business (including non-participating annuity business of the with-profits sub-fund are only sensitive to market risk through the indirect effect of investment performance on declared policyholder bonuses.

The investment assets of PAC with-profits funds are subject to market risk. Changes in their carrying value, net of related changes to asset-share liabilities of with-profit contracts, affect the level of unallocated surplus of the fund. Therefore, the level of unallocated surplus is particularly sensitive to the level of investment returns on the portion of the assets that represents surplus. However, as unallocated surplus is accounted for as a liability under IFRS, movements in its value do not affect shareholders' profit and equity.

The shareholder results of the UK with-profits fund correspond to the shareholders' share of the cost of bonuses declared on the with-profits business which is currently one-ninth of the cost of bonuses declared. Investment performance is a key driver of bonuses, and hence the shareholders' share of the cost of bonuses. Due to the 'smoothed' basis of bonus declaration, the sensitivity to investment performance in a single year is low relative to movements in the period to period performance. However, over multiple periods, it is important.

Mortality and other insurance risk are relatively minor factors in the determination of the bonus rates. Adverse persistency experience can affect the level of profitability from with-profits but in any given one year, the shareholders' share of cost of bonus may only be marginally affected. However, altered persistency trends may affect future expected shareholder transfers.

Shareholder-backed annuity business
The principal items affecting the IFRS results of the UK shareholder-backed annuity business are mortality experience and assumptions, and credit risk. The assets covering the liabilities are principally debt securities and other investments that are held to match the expected duration and payment characteristics of the policyholder liabilities. These liabilities are valued for IFRS reporting purposes by applying discount rates that reflect the market rates of return attaching to the covering assets.

Except to the extent of any asset/liability duration mismatch which is reviewed regularly, and exposure to credit risk, the sensitivity of the Group's results to market risk for movements in the carrying value of the liabilities and covering assets is broadly neutral on a net basis.

The main market risk sensitivity for the UK shareholder-backed annuity business arises from interest rate risk on the debt securities which substantially represent shareholders' equity. This shareholders' equity comprises the net assets held within the long-term fund of the company that cover regulatory basis liabilities that are not recognised for IFRS reporting purposes, for example contingency reserves, and shareholder capital held outside the long-term fund.

In summary, profits from shareholder-backed annuity business are most sensitive to:

– The extent to which the duration of the assets held closely matches the expected duration of the liabilities under the contracts;
– Actual versus expected default rates on assets held;
– The difference between long-term rates of return on corporate bonds and risk-free rates;
– The variance between actual and expected mortality experience;
– The extent to which changes to the assumed rate of improvements in mortality give rise to changes in the measurement of liabilities; and
– Changes in renewal expense levels.

A decrease in assumed mortality rates of 1 per cent would decrease pre-tax profits by approximately £94 million (2013: £71 million). A decrease in credit default assumptions of five basis points would increase pre-tax profits by £190 million (2013: £151 million). A decrease in renewal expenses (excluding asset management expenses) of 5 per cent would increase pre-tax profits by £30 million (2013: £27 million). The effect on profits would be approximately symmetrical for changes in assumptions that are directionally opposite to those explained above. The net effect on profit after tax and shareholders' equity from all the changes in assumptions as described above would be an increase of approximately £101 million (2013: £86 million).

Unit-linked and other business
Unit-linked and other business represents a comparatively small proportion of the in-force business of the UK insurance operations.

Due to the matching of policyholder liabilities to attaching asset value movements the UK unit-linked business is not directly affected by market or credit risk. The liabilities of the other business are also broadly insensitive to market risk. Profits from unit-linked and similar contracts primarily arise from the excess of charges to policyholders for management of assets, over expenses incurred. The former is most sensitive to the net accretion of funds under management as a function of new business and lapse and timing of death. The accounting impact of the latter is dependent upon the amortisation of acquisition costs in line with the emergence of margins (for insurance contracts) and amortisation in line with service provision (for the investment management component of investment contracts). By virtue of the design features of most of the contracts which provide low levels of mortality cover, the profits are relatively insensitive to changes in mortality experience.

(i) Sensitivity to interest rate risk and other market risk
By virtue of the fund structure, product features and basis of accounting, the policyholder liabilities of the UK insurance operations are, except annuity business, not generally exposed to interest rate risk. At 31 December 2014 annuity liabilities accounted for 98 per cent (2013: 98 per cent) of UK shareholder-backed business liabilities. For annuity business, liabilities are exposed to interest rate risk. However, the net exposure to the Prudential Assurance Company with-profits sub-fund (for its non-profit annuity business) and shareholders (for annuity liabilities of Prudential Retirement Income Limited and the non-profit sub-

fund) is very substantially ameliorated by virtue of the close matching of assets with appropriate duration. The level of matching from period to period can vary depending on management actions and economic factors so it is possible for a degree of mis-matching profits or losses to arise.

The close matching by the Group of assets of appropriate duration to annuity liabilities is based on maintaining economic and regulatory capital. The measurement of liabilities under capital reporting requirements and IFRS is not the same with contingency reserves and some other margins for prudence within the assumptions required under the regulatory solvency basis not included for IFRS reporting purposes. As a result IFRS equity is higher than regulatory capital and therefore more sensitive to interest rate and credit risk.

The estimated sensitivity of the UK non-linked shareholder-backed business (principally annuities business) to a movement in interest rates is as follows:

	2014 £m				2013 £m			
	A decrease of 2%	A decrease of 1%	An increase of 1%	An increase of 2%	A decrease of 2%	A decrease of 1%	An increase of 1%	An increase of 2%
Carrying value of debt securities and derivatives	**11,559**	**5,063**	**(4,085)**	**(7,457)**	8,602	3,843	(3,170)	(5,827)
Policyholder liabilities	**(9,550)**	**(4,250)**	**3,454**	**6,297**	(7,525)	(3,366)	2,762	5,054
Related deferred tax effects	**(402)**	**(163)**	**126**	**232**	(215)	(95)	82	155
Net sensitivity of profit after tax and shareholders' equity	**1,607**	**650**	**(505)**	**(928)**	862	382	(326)	(618)

In addition the shareholder-backed portfolio of UK non-linked insurance operations covering liabilities and shareholders' equity includes equity securities and investment properties. Excluding any second order effects on the measurement of the liabilities for future cash flows to the policyholder, a fall in their value would have given rise to the following effects on pre-tax profit, profit after tax and shareholders' equity.

	2014 £m		2013 £m	
	A decrease of 20%	A decrease of 10%	A decrease of 20%	A decrease of 10%
Pre-tax profit	**(347)**	**(173)**	(309)	(154)
Related deferred tax effects	**75**	**37**	72	36
Net sensitivity of profit after tax and shareholders' equity	**(272)**	**(136)**	(237)	(118)

A 10 or 20 per cent increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above. The market risk sensitivities shown above reflect the impact of temporary market movements, and, therefore the primary effect of such movements would, in the Group's segmental analysis of profits, be included within the short-term fluctuations in investment returns.

C7.5 Asset management and other operations

(a) Asset management

(i) Sensitivities to foreign exchange risk

Consistent with the Group's accounting policies, the profits of Eastspring Investments and US asset management operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. The rates for the functional currencies of most significant operations are shown in note A1.

A 10 per cent increase in the relevant exchange rates would have reduced reported profit before tax attributable to shareholders and shareholders' equity, excluding goodwill attributable to Eastspring Investments and US asset management operations, by £9 million (2013: £12 million) and £33 million (2013: £29 million) respectively.

(ii) Sensitivities to other financial risks for asset management operations

The principal sensitivities to other financial risk of asset management operations are credit risk on the bridging loan portfolio of the Prudential Capital operation and the indirect effect of changes to market values of funds under management. Due to the nature of the asset management operations there is limited direct sensitivity to movements in interest rates. Total debt securities held at 31 December 2014 by asset management operations were £2,293 million (2013: £2,045 million), the majority of which are held by the Prudential Capital's operation. Debt securities held by Prudential Capital are in general variable rate bonds and so market value is limited in sensitivity to interest rate movements and consequently any change in interest rates would not have a material impact on profit or shareholders' equity. The Group's asset management operations do not hold significant investments in property or equities.

(b) Other operations

The Group holds certain derivatives that are used to manage foreign currency movements and macroeconomic exposures. The fair value of these derivatives is sensitive to the combined effect of movements in exchange rates, interest rates and inflation rates. The possible permutations cover a wide range of scenarios. For indicative purposes, a reasonably possible range of fair value movements could be plus or minus £150 million.

C8 Tax assets and liabilities

C8.1 Deferred tax

The statement of financial position contains the following deferred tax assets and liabilities in relation to:

	Deferred tax assets		Deferred tax liabilities	
	2014 £m	**2013 £m**	**2014 £m**	**2013 £m**
Unrealised losses or gains on investments	**83**	315	**(1,697)**	(1,450)
Balances relating to investment and insurance contracts	**4**	8	**(499)**	(451)
Short-term temporary differences	**2,607**	2,050	**(2,065)**	(1,861)
Capital allowances	**9**	10	**(30)**	(16)
Unused deferred tax losses	**62**	29	**-**	-
Total	**2,765**	2,412	**(4,291)**	(3,778)

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

The table that follows provides a breakdown of the recognised deferred tax assets set out in the table above for both the short-term temporary differences and unused tax losses split by business unit. The table also shows the period of estimated recoverability for each respective business unit. For these and each category of deferred tax asset recognised their recoverability against forecast taxable profits is not significantly impacted by any current proposed changes to future accounting standards.

	Short-term temporary differences		Unused tax losses	
	2014 £m	**Expected period of recoverability**	**2014 £m**	**Expected period of recoverability**
Asia insurance operations	**30**	**1 to 3 years**	**47**	**3 to 5 years**
US insurance operations	**2,268**	**With run-off of in-force book**	**-**	**-**
UK insurance operations	**129**	**1 to 10 years**	**-**	**1 to 3 years**
Other operations	**180**	**1 to 10 years**	**15**	**1 to 3 years**
Total	**2,607**		**62**	

The taxation regimes applicable across the Group often apply separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. Accordingly, for the 2014 full year results and financial position at 31 December 2014 the possible tax benefit of approximately £110 million (2013: £127 million), which may arise from capital losses valued at approximately £0.5 billion (2013: £0.6 billion), is sufficiently uncertain that it has not been recognised. In addition, a potential deferred tax asset of £47 million (2013: £61 million), which may arise from trading tax losses and other potential temporary differences totalling £0.2 billion (2013: £0.4 billion) is sufficiently uncertain that it has not been recognised. Of these, losses of £32 million will expire within the next seven years. Of the remaining losses £1 million will expire within 20 years and the rest have no expiry date.

Under IAS 12, 'Income Taxes', deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on the tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period.

C8.2 Current tax asset and liability

Of the £117 million (2013: £244 million) current tax recoverable, the majority is expected to be recovered in one year or less.

The current tax liability increased to £617 million (2013: £395 million) reflecting the increase in shareholder profits.

C9 Defined benefit pension schemes

(a) Background and summary economic and IAS 19 financial positions

The Group's businesses operate a number of pension schemes. The specific features of these plans vary in accordance with the regulations of the country in which the employees are located, although they are, in general, funded by the Group and based either on a cash balance formula or on years of service and salary earned in the last year or years of employment. The largest defined benefit scheme is the principal UK scheme, namely the Prudential Staff Pension Scheme (PSPS). PSPS accounts for 84 per cent (2013: 84 per cent) of the underlying scheme liabilities of the Group's defined benefit schemes.

The Group also operates two smaller UK defined benefit schemes in respect of Scottish Amicable (SASPS) and M&G (M&GGPS). In addition, there are two small defined benefit schemes in Taiwan which have negligible deficits.

Under the IAS 19 'Employee Benefits' valuation basis, the Group applies the principles of IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', whereby a surplus is only recognised to the extent that the Company is able to access the surplus either through an unconditional right of refund to the surplus or through reduced future contributions relating to ongoing service, which have been substantively enacted or contractually agreed. Further, the IFRS financial position recorded, reflects the higher of any underlying IAS 19 deficit and any obligation for committed deficit funding where applicable.

The Group asset/liability in respect of defined benefit pension schemes is as follows:

	2014 £m					2013 £m				
	PSPS note (i)	**SASPS** note (ii)	**M&GGPS**	**Other schemes**	**Total**	**PSPS** note (i)	**SASPS** note (ii)	**M&GGPS**	**Other schemes**	**Total**
Underlying economic surplus (deficit)	**840**	**(144)**	**60**	**(1)**	**755**	726	(115)	36	(1)	646
Less: unrecognised surplus note (i)	**(710)**	**-**	**-**	**-**	**(710)**	(602)	-	-	-	(602)
Economic surplus (deficit) (including investment in Prudential insurance policies)	**130**	**(144)**	**60**	**(1)**	**45**	124	(115)	36	(1)	44
Attributable to:										
PAC with-profits fund	**91**	**(72)**	**-**	**-**	**19**	87	(58)	-	-	29
Shareholder-backed operations	**39**	**(72)**	**60**	**(1)**	**26**	37	(57)	36	(1)	15
Consolidation adjustment against policyholder liabilities for investment in Prudential insurance policies note (iii)	**-**	**-**	**(132)**	**-**	**(132)**	-	-	(114)	-	(114)
IAS 19 pension asset (liability) on the Group statement of financial position note (iv)	**130**	**(144)**	**(72)**	**(1)**	**(87)**	124	(115)	(78)	(1)	(70)

Notes

(i) For PSPS, the Group does not have an unconditional right of refund to any surplus of the scheme. The PSPS pension asset represents the present value of the economic benefit (impact) of the Company from the difference between future ongoing contributions to the scheme and estimated accrued cost of service. No deficit or other funding is required for PSPS. Deficit funding, where applicable, is apportioned in the ratio of 70/30 between the PAC with-profits fund and shareholder-backed operations following detailed considerations in 2005 of the sourcing of previous contributions. Employer contributions for ongoing service of current employees are apportioned in the ratio relevant to current activity.

(ii) The deficit of SASPS has been allocated approximately 50 per cent to the PAC with-profits fund and 50 per cent to the shareholders' fund.

(iii) The underlying position on an economic basis reflects the assets (including investments in Prudential insurance policies that are offset against liabilities to policyholders on the Group consolidation) and the liabilities of the schemes.

(iv) At 31 December 2014, the PSPS pension asset of £130 million (2013: £124 million) and the other schemes' pension liabilities of £217 million (2013: £194 million) are included within 'Other debtors' and 'Provisions' respectively on the consolidated statement of financial position.

Triennial actuarial valuations

All of the schemes are required to carry out a full actuarial valuations every three years in order to assess the appropriate level of funding for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds.

The information on the latest completed actuarial valuation for the UK schemes is shown in the table below:

	PSPS	**SASPS**	**M&GGPS**
Last completed actuarial valuation date	5 April 2011	31 March 2011	31 December 2011
Valuation actuary, all Fellow of the Institute and Faculty of Actuaries	C.G. Singer Towers Watson Limited	Jonathan Seed Xafinity Consulting	Paul Belok AON Hewitt Limited
Funding level at the last valuation	111 per cent*	85 per cent	83 per cent
Deficit funding arrangement agreed with the Trustees based on the last valuation	No deficit or other funding required. Future ongoing contributions for active members were reduced to the minimum level required under the scheme rules from July 2012 (approximately £6 million per annum excluding expenses)	£13.1 million per annum until 31 December 2018. The deficit will be reviewed every three years at subsequent valuations	£18.6 million per annum for two years beginning 1 January 2013; and £9.3 million for the year beginning 1 January 2015

The next triennial valuations for the PSPS, SASPS and M&GGPS as at 5 April 2014, 31 March 2014 and 31 December 2014, respectively are currently in progress.

(b) Assumptions

The actuarial assumptions used in determining benefit obligations and the net periodic benefit costs for the years ended 31 December were as follows:

	2014 %	2013 %
Discount rate*	**3.5**	4.4
Rate of increase in salaries	**3.0**	3.3
Rate of inflation**		
Retail prices index (RPI)	**3.0**	3.3
Consumer prices index (CPI)	**2.0**	2.3
Rate of increase of pensions in payment for inflation:		
PSPS:		
Guaranteed (maximum 5%)	**2.5**	2.5
Guaranteed (maximum 2.5%)	**2.5**	2.5
Discretionary	**2.5**	2.5
Other schemes	**3.0**	3.3

* The discount rate has been determined by reference to an 'AA' corporate bond index, adjusted where applicable, to allow for the difference in duration between the index and the pension liabilities.

** The rate of inflation reflects the long-term assumption for the UK RPI or CPI depending on the tranche of the schemes.

The calculations are based on current actuarially calculated mortality estimates with a specific allowance made for future improvements in mortality. The specific allowance made is in line with a custom calibration and has been updated in 2014 to reflect the 2012 mortality model from the Continuous Mortality Investigation Bureau of the Institute and Faculty of Actuaries (CMI). The tables used for PSPS immediate annuities in payment at 31 December 2014 were:

Male: 114.0 per cent PNMA00 with improvements in line with a custom calibration of the CMI's 2012 mortality model, with a long-term mortality improvement rate of 1.75 per cent per annum; and

Female: 108.5 per cent PNFA00 with improvements in line with a custom calibration of the CMI's 2012 mortality model, with a long-term mortality improvement rate of 1.25 per cent per annum.

The tables used for PSPS immediate annuities in payment at 31 December 2013 were:

Male: 112.0 per cent PNMA00 with improvements in line with a custom calibration of the CMI's 2011 mortality model, with a long-term mortality improvement rate of 1.75 per cent per annum; and
Female: 108.5 per cent PNFA00 with improvements in line with a custom calibration of the CMI's 2011 mortality model, with a long-term mortality improvement rate of 1.25 per cent per annum.

Using external actuarial advice provided by the scheme actuaries being Towers Watson for the valuation of PSPS, Xafinity Consulting for SASPS and Aon Hewitt Limited for the M&GGPS, the most recent full valuations have been updated to 31 December 2014, applying the principles prescribed by IAS 19.

(c) Estimated pension scheme surpluses and deficits

The underlying pension position on an economic basis reflects the assets (including investments in Prudential policies that are offset against liabilities to policyholders on the Group consolidation) and the liabilities of the schemes. The IAS 19 basis excludes the investments in Prudential policies. At 31 December 2014, the investments in Prudential insurance policies comprise £131 million (2013: £143 million) for PSPS and £132 million (2013: £114 million) for the M&GGPS. In principle, on consolidation the investments are eliminated against policyholder liabilities of UK insurance operations, so that the formal IAS 19 position for the scheme in isolation excludes these items. This treatment applies to the M&GGPS investments. However, as a substantial portion of the Company's interest in the underlying surplus of PSPS is not recognised, the adjustment is not necessary for the PSPS investments.

Movements on the pension scheme deficit determined on the economic basis are as follows, with the effect of the application of IFRIC 14 being shown separately:

	2014 £m				
		(Charge) credit to income statement or other comprehensive income			
	Surplus (deficit) in schemes at 1 Jan 2014	Operating results (based on longer-term investment returns)	Actuarial and other gains and losses	Contributions paid	Surplus (deficit) in schemes at 31 Dec 2014
All schemes					
Underlying position (without the effect of IFRIC 14)					
Surplus	**646**	**(8)**	**62**	**55**	**755**
Less: amount attributable to PAC with-profits fund	**(457)**	**(4)**	**(49)**	**(15)**	**(525)**
Shareholders' share:					
Gross of tax surplus (deficit)	**189**	**(12)**	**13**	**40**	**230**
Related tax	**(38)**	**2**	**(2)**	**(8)**	**(46)**
Net of shareholders' tax	**151**	**(10)**	**11**	**32**	**184**
Application of IFRIC 14 for the derecognition of PSPS surplus					
Derecognition of surplus	**(602)**	**(26)**	**(82)**	**-**	**(710)**
Less: amount attributable to PAC with-profits fund	**428**	**18**	**60**	**-**	**506**
Shareholders' share:					
Gross of tax surplus (deficit)	**(174)**	**(8)**	**(22)**	**-**	**(204)**
Related tax	**35**	**2**	**4**	**-**	**41**
Net of shareholders' tax	**(139)**	**(6)**	**(18)**	**-**	**(163)**
With the effect of IFRIC 14					
Surplus (deficit)	**44**	**(34)**	**(20)**	**55**	**45**
Less: amount attributable to PAC with-profits fund	**(29)**	**14**	**11**	**(15)**	**(19)**
Shareholders' share:					
Gross of tax surplus (deficit)	**15**	**(20)**	**(9)**	**40**	**26**
Related tax	**(3)**	**4**	**2**	**(8)**	**(5)**
Net of shareholders' tax	**12**	**(16)**	**(7)**	**32**	**21**

Underlying investments of the schemes

On the 'economic basis', after including the underlying assets represented by the investments in Prudential insurance policies as scheme assets, the plans' assets at 31 December comprise the following investments:

	2014				2013			
	PSPS £m	Other schemes £m	Total £m	%	PSPS £m	Other schemes £m	Total £m	%
Equities								
UK	**126**	**86**	**212**	**2**	133	76	209	3
Overseas	**143**	**317**	**460**	**6**	12	317	329	5
Bonds*:								
Government	**5,078**	**440**	**5,518**	**68**	4,288	311	4,599	66
Corporate	**931**	**117**	**1,048**	**13**	715	107	822	12
Asset-backed securities	**197**	**26**	**223**	**3**	45	17	62	1
Derivatives	**159**	**(13)**	**146**	**2**	91	6	97	1
Properties	**93**	**57**	**150**	**2**	71	44	115	2
Other assets	**270**	**40**	**310**	**4**	687	24	711	10
Total value of assets	**6,997**	**1,070**	**8,067**	**100**	6,042	902	6,944	100

* 94 per cent of the bonds are investment graded (2013: 97 per cent).

(d) Sensitivity of the pension scheme liabilities to key variables

The total underlying Group pension scheme liabilities of £7,312 million (2013: £6,298 million) comprise £6,157 million (2013: £5,316 million) for PSPS and £1,155 million (2013: £982 million) for the other schemes. The table below shows the sensitivity of the underlying PSPS and the other scheme liabilities at 31 December 2014 and 2013 to changes in discount rate, inflation rates and mortality rates. The sensitivity information below is based on the core scheme liabilities and assumptions at the balance sheet date. The sensitivity is calculated based on a change in one assumption with all other assumptions being held constant. As such, interdependencies between the assumptions are excluded.

The sensitivity of the underlying pension scheme liabilities as shown above does not directly equate to the impact on the profit or loss attributable to shareholders or shareholders' equity due to the effect of the application of IFRIC 14 on PSPS and the allocation of a share of the interest in financial position of the PSPS and Scottish Amicable schemes to the PAC with-profits fund as described above.

	Assumption applied		Sensitivity change in assumption	Impact of sensitivity on scheme liabilities on IAS 19 basis		
	2014	2013			2014	2013
Discount rate	**3.5%**	4.4%	**Decrease by 0.2%**	**Increase in scheme liabilities by:**		
				PSPS	**3.4%**	3.3%
				Other schemes	**5.2%**	5.1%
Discount rate	**3.5%**	4.4%	**Increase by 0.2%**	**Decrease in scheme liabilities by:**		
				PSPS	**3.2%**	3.1%
				Other schemes	**4.9%**	4.7%
Rate of inflation	**3.0%**	RPI: 3.3%	**RPI: Decrease by 0.2%**	**Decrease in scheme liabilities by:**		
	2.0%	CPI: 2.3%	**CPI: Decrease by 0.2% with consequent reduction in salary increases**	**PSPS**	**0.6%**	0.7%
				Other schemes	**4.2%**	4.6%
Mortality rate			**Increase life expectancy by 1 year**	**Increase in scheme liabilities by:**		
				PSPS	**3.3%**	2.7%
				Other schemes	**3.0%**	2.7%

C10 Share capital, share premium and own shares

	2014			2013		
	Number of ordinary shares	Share capital £m	Share premium £m	Number of ordinary shares	Share capital £m	Share premium £m
Issued shares of 5p each fully paid:						
At 1 January	**2,560,381,736**	**128**	**1,895**	2,557,242,352	128	1,889
Shares issued under share-based schemes	**7,398,214**	**-**	**13**	3,139,384	-	6
At 31 December	**2,567,779,950**	**128**	**1,908**	2,560,381,736	128	1,895

Amounts recorded in share capital represent the nominal value of the shares issued. The difference between the proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued is credited to the share premium account.

At 31 December 2014, there were options outstanding under Save As You Earn schemes to subscribe for shares as follows:

	Number of shares to subscribe for	Share price range from	to	Exercisable by year
31 December 2014	**8,624,491**	**288p**	**1,155p**	**2020**
31 December 2013	10,233,986	288p	901p	2019

Transactions by Prudential plc and its subsidiaries in Prudential plc shares
The Group buys and sells Prudential plc ('own shares') either in relation to its employee share schemes or via transactions undertaken by authorised investment funds that the Group is deemed to control. The cost of own shares of £195 million as at 31 December 2014 (2013: £141 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans. At 31 December 2014, 10.3 million (2013: 7.1 million) Prudential plc shares with a market value of £153.1 million (2013: £94.5 million) were held in such trusts all of which are for employee incentive plans. The maximum number of shares held during 2014 was 10.3 million which was in December 2014.

The Company purchased the following number of shares in respect of employee incentive plans. The shares purchased each month are as follows:

		2014 Share Price				2013 Share Price		
	Number of shares	Low	High	Cost	Number of shares	Low	High	Cost
		£	£	£		£	£	£
January	**13,740**	**13.56**	**13.56**	**186,314**	11,864	9.15	9.15	108,496
February	**16,841**	**12.77**	**12.77**	**215,060**	10,900	9.25	9.25	100,868
March	**4,623,303**	**12.82**	**13.59**	**60,161,823**	11,342	10.15	10.15	115,121
April	**149,199**	**13.12**	**13.48**	**2,006,955**	894,567	10.30	10.86	9,692,613
May	**1,361,688**	**13.90**	**14.13**	**19,184,679**	54,781	11.56	11.72	643,608
June	**11,290**	**13.80**	**13.80**	**155,802**	15,950	10.89	11.11	176,139
July	**10,745**	**13.83**	**13.83**	**148,550**	11,385	11.20	11.20	135,132
August	**11,321**	**13.22**	**13.22**	**149,607**	924,499	11.48	11.94	10,955,609
September	**355,268**	**14.18**	**14.41**	**5,074,731**	10,960	11.38	11.38	124,725
October	**51,199**	**13.75**	**13.84**	**704,601**	103,999	11.54	11.69	1,201,870
November	**51,314**	**14.36**	**14.47**	**737,173**	12,108	12.52	12.65	151,773
December	**1,223,290**	**14.41**	**15.47**	**17,983,248**	2,362,435	12.63	12.93	30,377,986
Total	**7,879,198**			**106,708,543**	4,424,790			53,783,940

The Group has consolidated a number of authorised investment funds where it is deemed to control these funds under IFRS. Some of these funds hold shares in Prudential plc. The total number of shares held by these funds at 31 December 2014 was 7.5 million (2013: 7.1 million) and the cost of acquiring these shares of £67 million (2013: £60 million) is included in the cost of own shares. The market value of these shares as at 31 December 2014 was £112 million (2013: £95 million). During 2014, these funds made net additions of 405,940 Prudential shares (2013: net additions of 2,629,816) for a net increase of £7 million to book cost (2013: net increase of £33 million).

All share transactions were made on an exchange other than the Stock Exchange of Hong Kong.

Other than set out above the Group did not purchase, sell or redeem any Prudential plc listed securities during 2014 or 2013.

D OTHER NOTES

D1 Corporate transactions

(a) Sale of PruHealth and PruProtect business

On 10 November 2014, the Prudential Assurance Company Limited announced an agreement to sell its 25 per cent equity stake in the PruHealth and PruProtect business to Discovery Group Europe Limited ("Discovery") for £155 million in cash.

The sale was completed on 14 November 2014. This transaction gave rise to a gain on disposal of £86 million. This amount is shown separately in the Group's supplementary analysis of profit excluded from the Group's IFRS operating profit based on longer-term investment returns. The net cash inflow arising from this sale, as shown in the consolidated statement of cash flows, of £152 million, comprised the net cash proceeds received.

(b) Held for sale Japan Life business

On 5 February 2015, the Group announced that it had completed the sale of its closed book life insurance business in Japan, PCA Life Insurance Company Limited to SBI Holdings, Inc. following regulatory approvals. The transaction was announced on 16 July 2013. Of the agreed US$85 million cash consideration, the Group received US$68 million on completion of the transaction, and a further payment of up to US$17 million will be received contingent upon the future performance of the Japan Life business.

The Japan Life business has been classified as held for sale in these consolidated financial statements in accordance with IFRS 5, 'Non-current assets held for sale and discontinued operations'.

The assets and liabilities of the Japan Life business classified as held for sale on the statement of financial position as at 31 December 2014 are as follows:

	2014 £m	2013 £m
Assets		
Investments	**898**	956
Other assets	**45**	80
	943	1,036
Adjustment for remeasurement of the carrying value to fair value less costs to sell	**(124)**	(120)
Assets held for sale	**819**	916
Liabilities		
Policyholder liabilities	**717**	814
Other liabilities	**53**	54
Liabilities held for sale	**770**	868
Net assets	**49**	48

The remeasurement of the carrying value of the Japan Life business on classification as held for sale resulted in a charge of £(13) million (2013: £(120) million) as shown in the income statement. These amounts, together with the results of the business including short-term value movements on investments are included within "Loss attaching to held for sale Japan Life business" in the supplementary analysis of profit of the Group as shown in note B1.1

(c) Bancassurance partnership with Standard Chartered Bank

On 12 March 2014 the Group announced that it had entered into an agreement expanding the term and geographic scope of its strategic pan-Asian bancassurance partnership with Standard Chartered Bank. Under the new 15-year agreement, which commenced on 1 July 2014, a wide range of Prudential life insurance products are exclusively distributed through Standard Chartered Bank branches in nine markets – Hong Kong, Singapore, Indonesia, Thailand, Malaysia, the Philippines, Vietnam, India and Taiwan – subject to applicable regulations in each country. In China and South Korea, Standard Chartered Bank distributes Prudential's life insurance products on a preferred basis. Prudential and Standard Chartered Bank have also agreed to explore additional opportunities to collaborate in due course elsewhere in Asia and in Africa, subject to existing exclusivity arrangements and regulatory restrictions.

As part of this transaction Prudential agreed to pay Standard Chartered Bank an initial fee of US$1.25 billion for distribution rights which is not dependent on future sales volumes. Of this total, US$850 million was settled in the first half of 2014. The remainder will be paid in two equal instalments of US$200 million each in April 2015 and April 2016.

(d) Acquisition of Thanachart Life Assurance Company Limited and bancassurance partnership agreement with Thanachart Bank

On 3 May 2013, the agreement Prudential plc, through its subsidiary Prudential Life Assurance (Thailand) Public Company Limited (Prudential Thailand), entered into in November 2012 to establish an exclusive 15-year partnership with Thanachart Bank Public Company Limited (Thanachart Bank) to develop jointly their bancassurance business in Thailand was launched. At the same time, Prudential Thailand completed the acquisition of 100 per cent of the voting interest in Thanachart Life Assurance Company Limited (Thanachart Life), a wholly-owned life insurance subsidiary of Thanachart Bank.

The consideration for the transaction was THB 18.981 billion (£412 million), of which THB 17.500 billion (£380 million) was settled in cash on completion in May 2013 with a further payment of THB 0.946 billion (£20 million), for adjustments to reflect the net asset value as at completion date, paid in July 2013. In addition a deferred payment of THB 0.535 billion (£12 million) was paid 12 months after completion. Included in the total consideration of THB 18.981 billion (£412 million) was the cost of the distribution rights associated with the exclusive 15-year bancassurance partnership agreement with Thanachart Bank.

D2 Domestication of the Hong Kong branch business

On 1 January 2014, following consultation with policyholders of PAC and regulators and court approval, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. On an IFRS basis, approximately £12.6 billion of assets, £12.3 billion of liabilities (including policyholder liabilities of £10.2 billion and £1.7 billion of unallocated surplus) and £0.3 billion of shareholders' funds (for the excess assets of the transferred non-participating business) were transferred.

The costs of enabling the domestication in 2014 were £5 million (2013: £35 million). Within the Group's supplementary analysis of profit, these costs have been presented as a separate category of items excluded from operating profit based on longer-term investment returns as shown in note B1.1.

D3 Contingencies and related obligations

The Group is involved in a number of litigation and regulatory issues. These include civil proceedings involving Jackson, which appear to be substantially similar to other class action litigation brought against many life insurers in the US, alleging misconduct in the sale of insurance products. Whilst the outcome of such litigation and regulatory issues cannot be predicted with certainty, the Company believes that their ultimate outcome will not have a material adverse effect on the Group's financial condition, results of operations, or cash flows.

D4 Post balance sheet events

Completion of the sale of Japan Life business
On the 5 February 2015, the Group announced that it had completed the sale of its closed book life insurance business in Japan, as described further in note D1(b).

Final dividend
The 2014 final dividend approved by the Board of Directors after 31 December 2014 is as described in note B7.

Additional Unaudited IFRS Financial Information

I(a) Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver

This schedule classifies the Group's pre-tax operating earnings from long-term insurance operations into the underlying drivers of those profits, using the following categories:

– **Spread income** represents the difference between net investment income (or premium income in the case of the UK annuities new business) and amounts credited to certain policyholder accounts. It excludes the operating investment return on shareholder net assets, which has been separately disclosed as **expected return on shareholder assets.**

– **Fee income** represents profits driven by net investment performance, being asset management fees that vary with the size of the underlying policyholder funds net of investment management expenses.

– **With-profits** business represents the gross of tax shareholders' transfer from the with-profits fund for the year.

– **Insurance margin** primarily represents profits derived from the insurance risks of mortality and morbidity.

– **Margin on revenues** primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses.

– **Acquisition costs and administration expenses** represent expenses incurred in the year attributable to shareholders. It excludes items such as restructuring costs and Solvency II costs which are not included in the segment profit for insurance as well as items that are more appropriately included in other source of earnings lines (eg investment expenses are netted against investment income as part of spread income or fee income as appropriate).

– **DAC adjustments** comprises DAC amortisation for the year, excluding amounts related to short-term fluctuations in investment returns, net of costs deferred in respect of new business.

Analysis of pre-tax IFRS operating profit by source and Margin analysis of Group long-term insurance business
The following analysis expresses certain of the Group's sources of operating profit as a margin of policyholder liabilities or other suitable driver. Details on the calculation of the Group's average policyholder liability balances are given in note (iii).

	2014 £m					
	Asia note (v)	**US**	**UK**	**Total**	**Average Liability** note (iv)	**Total bps** note(ii)
Spread income	**125**	**734**	**272**	**1,131**	**67,252**	**168**
Fee income	**155**	**1,402**	**61**	**1,618**	**110,955**	**146**
With-profits	**43**	**-**	**255**	**298**	**101,290**	**29**
Insurance margin	**675**	**670**	**96**	**1,441**		
Margin on revenues	**1,545**	**-**	**176**	**1,721**		
Expenses:						
Acquisition costs[note (i)]	**(1,031)**	**(887)**	**(96)**	**(2,014)**	**4,650**	**(43)%**
Administration expenses	**(618)**	**(693)**	**(143)**	**(1,454)**	**186,049**	**(78)**
DAC adjustments[note (vi)]	**92**	**191**	**(6)**	**277**		
Expected return on shareholder assets	**64**	**14**	**137**	**215**		
Long-term business operating profit	**1,050**	**1,431**	**752**	**3,233**		

See notes at the end of this section.

	2013 AER £m					
	Asia note (v)	**US**	**UK**	**Total**	**Average Liability** note (iv)	**Total bps** note(ii)
Spread income	115	730	228	1,073	64,312	167
Fee income	154	1,172	65	1,391	96,337	144
With-profits	47	-	251	298	97,393	31
Insurance margin	679	588	89	1,356		
Margin on revenues	1,562		187	1,749		
Expenses:						
Acquisition costs[note (i)]	(1,015)	(914)	(110)	(2,039)	4,423	(46)%
Administration expenses	(634)	(670)	(124)	(1,428)	169,158	(84)
DAC adjustments[note (vi)]	35	313	(14)	334		
Expected return on shareholder assets	58	24	134	216		
Long-term business operating profit	1,001	1,243	706	2,950		

See notes at the end of this section.

	2013 CER £m note (iii)					
	Asia note (v)	**US**	**UK**	**Total**	**Average Liability** note (iv)	**Total bps** note (ii)
Spread income	107	694	228	1,029	62,909	164
Fee income	140	1,113	65	1,318	93,339	141
With-profits	44	-	251	295	97,374	30
Insurance margin	616	559	89	1,264		
Margin on revenues	1,413	-	187	1,600		
Expenses:						
Acquisition costs[note (i)]	(921)	(868)	(110)	(1,899)	4,165	(46)%
Administration expenses	(578)	(636)	(124)	(1,338)	164,362	(81)
DAC adjustments[note (vi)]	32	297	(14)	315		
Expected return on shareholder assets	52	22	134	208		
Long-term business operating profit	905	1,181	706	2,792		

See notes at the end of this section.

Margin analysis of long-term insurance business – Asia

	Asia notes (iii), (v)								
	2014			**2013 AER**			**2013 CER**		
	Profit	**Average Liability** note (iv)	**Margin** note (ii)	**Profit**	**Average Liability** note (iv)	**Margin**	**Profit**	**Average Liability** note (iv)	**Margin** note (ii)
Long-term business	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	**125**	**9,183**	**136**	115	7,446	154	107	7,419	144
Fee income	**155**	**14,987**	**103**	154	13,714	112	140	13,317	105
With-profits	**43**	**14,823**	**29**	47	13,263	35	44	13,244	33
Insurance margin	**675**			679			616		
Margin on revenues	**1,545**			1,562			1,413		
Expenses:									
Acquisition costs[note (i)]	**(1,031)**	**2,237**	**(46)%**	(1,015)	2,125	(48)%	(921)	1,946	(47)%
Administration expenses	**(618)**	**24,170**	**(256)**	(634)	21,160	(300)	(578)	20,736	(279)
DAC adjustments[note (vi)]	**92**			35			32		
Expected return on shareholder assets	**64**			58			52		
Operating profit	**1,050**			1,001			905		

See notes at the end of the section.

Analysis of Asia operating profit drivers

- Spread income has increased by 17 percent at constant exchange rate (AER 9 per cent) to £125 million in 2014, predominantly reflecting the growth of the Asia non-linked policyholder liabilities.
- Fee income has increased by 11 per cent at constant exchange rates (AER 1 per cent) from £140 million in full year 2013 to £155 million in 2014, broadly in line with the increase in movement in average unit-linked liabilities.
- Insurance margin has increased by £59 million at constant exchange rates to £675 million in 2014 predominantly reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products. 2014 insurance margin includes non-recurring items of £27 million (full year 2013: £52 million at AER; £48 million on CER).
- Excluding the adverse impact of currency fluctuations, margin on revenues has increased by £132 million from £1,413 million in 2013 to £1,545 million in 2014 primarily reflecting higher premium income recognised in the period.
- Acquisition costs have increased by 12 per cent at constant exchange rates (AER 2 per cent) to £1,031 million in 2014, compared to the 15 per cent increase in sales (AER 5 per cent increase), resulting in a modest decrease in the acquisition costs ratio. The analysis above uses shareholder acquisition costs as a proportion of total APE. If with-profits sales were excluded from the denominator the acquisition cost ratio would become 66 per cent (full year 2013: 65 per cent at CER), broadly consistent with the prior year.
- Administration expenses have increased by 7 per cent at constant exchange rates (AER 3 per cent decrease) to £618 million in 2014 as the business continues to expand. On constant exchange rates, the administration expense ratio has reduced from 279 basis points in 2013 to 256 basis points in 2014.
- Expected return on shareholder assets have increased from £52 million in 2013 to £64 million in 2014 primarily due to higher income from increased shareholder assets.

Margin analysis of long-term insurance business – US

	US note (iii)								
	2014			**2013 AER**			**2013 CER**		
	Profit	**Average Liability** note (iv)	**Margin** note (ii)	**Profit**	**Average Liability** note (iv)	**Margin** note (ii)	**Profit**	**Average Liability** note (iv)	**Margin** note (ii)
Long-term business	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	**734**	**28,650**	**256**	**730**	**29,649**	246	694	28,272	246
Fee income	**1,402**	**72,492**	**193**	**1,172**	**59,699**	196	1,113	57,098	195
Insurance margin	**670**			**588**			559		
Expenses									
Acquisition costs[note (i)]	**(887)**	**1,556**	**(57)%**	**(914)**	**1,573**	(58)%	(868)	1,494	(58)%
Administration expenses	**(693)**	**108,984**	**(64)**	**(670)**	**97,856**	(68)	(636)	93,484	(68)
DAC adjustments	**191**			**313**			297		
Expected return on shareholder assets	**14**			**24**			22		
Operating profit	**1,431**			**1,243**			1,181		

See notes at the end of this section

Analysis of US operating profit drivers:

- Spread income has increased by 6 per cent at constant exchange rates (AER increased by 1 per cent) to £734 million during 2014. The reported spread margin increased to 256 basis points from 246 basis points in 2013. Spread income benefited from swap transactions previously entered into to more closely match the asset and liability duration. Excluding this effect, the spread margin would have been 182 basis points (2013 CER: 183 basis points)
- Fee income has increased by 26 per cent at constant exchange rates (AER 20 per cent) to £1,402 million during 2014, primarily due to higher average separate account balances resulting from positive net cash flows from variable annuity business and overall market appreciation. Fee income margin has remained broadly consistent with the prior year at 193 basis points (2013 CER: 195 basis points and AER:196 basis points), with the decrease primarily attributable to a change in the mix of business.
- Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Positive net flows from variable annuity business with life contingent and other guarantee fees, coupled with a benefit from re-pricing actions and an increased contribution from REALIC, have increased the insurance margin by 20 per cent at constant exchange rates (AER 14 per cent) to £670 million during 2014.
- Acquisition costs, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, have decreased slightly in absolute terms and as a percentage of APE compared to 2013. As a percentage of APE, acquisition costs have remained relatively flat in comparison to 2013.
- Administration expenses increased to £693 million during 2014 compared to £636 million for 2013 at a constant exchange rate (AER £670 million), primarily as a result of higher asset based commissions paid on the larger 2014 separate account balance subject to these trail commissions. These are paid upon policy anniversary dates and are treated as an administration expense in this analysis. Excluding these trail commissions, the resulting administration expense ratio would be lower at 36 basis points (2013: CER 44 basis points and AER 44 basis points), reflecting the benefits of operational leverage.
- DAC adjustments decreased to £191 million during 2014 compared to £297 million at a constant exchange rate (AER £313 million) during 2013, with 2013 benefitting from a £78m (AER £82 million) deceleration in DAC amortisation due to strong equity market returns in that year. This was not repeated in 2014, which experienced an accelerated DAC amortisation charge of £13 million.

Analysis of pre-tax operating profit before and after acquisition costs and DAC adjustments

	2014 £m				**2013 AER £m**				**2013 CER £m** note (iii)			
		Acquisition costs				**Acquisition costs**				**Acquisition costs**		
	Other operating profits	**Incurred**	**Deferred**	**Total**	**Other operating profits**	**Incurred**	**Deferred**	**Total**	**Other operating profits**	**Incurred**	**Deferred**	**Total**
Total operating profit before acquisition costs and DAC adjustments	**2,127**			**2,127**	1,844			1,844	1,752			1,752
Less new business strain		**(887)**	**678**	**(209)**		(914)	716	(198)		(868)	680	(188)
Other DAC adjustments - amortisation of previously deferred acquisition costs:												
Normal			**(474)**	**(474)**			(485)	(485)			(461)	(461)
(Accelerated) / Decelerated			**(13)**	**(13)**			82	82			78	78
Total	**2,127**	**(887)**	**191**	**1,431**	1,844	(914)	313	1,243	1,752	(868)	297	1,181

Margin analysis of long-term insurance business – UK

	UK					
	2014			2013		
Long-term business	Profit £m	Average Liability note (iv) £m	Margin note (ii) bps	Profit £m	Average Liability note (iv) £m	Margin bps
Spread income	**272**	**29,419**	**92**	228	27,218	84
Fee income	**61**	**23,476**	**26**	65	22,924	28
With-profits	**255**	**86,467**	**29**	251	84,130	30
Insurance margin	**96**			89		
Margin on revenues	**176**			187		
Expenses:						
Acquisition costs[note (i)]	**(96)**	**857**	**(11)%**	(110)	725	(15)%
Administration expenses	**(143)**	**52,895**	**(27)**	(124)	50,142	(25)
DAC adjustments	**(6)**			(14)		
Expected return on shareholders' assets	**137**			134		
Operating profit	**752**			706		

Analysis of UK operating profit drivers:

- Spread income has increased from £228 million in 2013 to £272 million in 2014 following an increase in bulk annuity sales which contributed £105 million (2013: £25 million) in the year partially offset by lower individual annuity sales.
- Fee income has reduced from £65 million in 2013 to £61 million in 2014 due to a change in product mix towards those with lower asset management charges, partly offset by an increase in funds under management.
- Insurance margin has increased from £89 million for full year 2013 to £96 million for full year 2014 primarily due to improved profits from protection business.
- Margin on revenues represents premiums charges for expenses and other sundry net income received by the UK. 2014 income was £176 million, £11 million lower than in 2013.
- Acquisition costs as a percentage of new business sales for full year 2014 decreased to 11 per cent from full year 2013 at 15 per cent, principally driven by the effect on this percentage ratio of business mix. The ratio above expresses the percentage of shareholder acquisition costs as a percentage of total APE sales. It is therefore impacted by the level of with-profit sales in the year. Acquisition costs as a percentage of shareholder–backed new business sales, excluding the bulk annuity transactions, were 36 per cent in 2014 (2013: 35 per cent).
- Administration expenses have increased from £124 million in 2013 to £143 million in 2014 largely due to increased investment spend to realign our business following the pension reforms announced in the UK Budget.

Notes

(i) The ratio for acquisition costs is calculated as a percentage of APE sales including with-profits sales. Acquisition costs include only those relating to shareholder-backed business.

(ii) Margin represents the operating return earned in the year as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus.

(iii) The 2013 comparative information has been presented at Actual Exchange Rate (AER) and Constant Exchange Rates (CER) so as to eliminate the impact of exchange translation. CER results are calculated by translating prior year results using the current year foreign exchange rates. All CER profit figures have been translated at current year average rates. For Asia CER average liability calculations the policyholder liabilities have been translated using current year opening and closing exchange rates. For the US CER average liability calculations the policyholder liabilities have been translated at the current year month end closing exchange rates. See also Note A1.

(iv) For UK and Asia, opening and closing policyholder liabilities have been used to derive an average balance for the year, as a proxy for average balances throughout the year. The calculation of average liabilities for Jackson is derived from month end balances throughout the year as opposed to opening and closing balances only. Average liabilities for spread income are based on the general account liabilities to which spread income attaches. Average liabilities used to calculate the administrative expense margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson. Average liabilities are adjusted for business acquisitions and disposals in the period.

(v) The 2014 and 2013 analyses exclude the results of the held for sale life insurance business of Japan in both the individual profit and average liability amounts shown in the table above.

(vi) The DAC adjustment contains £11 million in respect of joint ventures in 2014 (2013: AER £1 million).

I(b) Asia operations – analysis of IFRS operating profit by territory

Operating profit based on longer-term investment returns for Asia operations are analysed as follows:

	2014 £m	AER 2013 £m	CER 2013 £m	2014 AER vs 2013	2014 CER vs 2013
Hong Kong	**109**	101	96	8%	14%
Indonesia	**309**	291	244	6%	27%
Malaysia	**118**	137	125	(14)%	(6)%
Philippines	**28**	18	16	56%	75%
Singapore	**214**	219	205	(2)%	4%
Thailand	**53**	53	48	0%	10%
Vietnam	**72**	54	51	33%	41%
SE Asia Operations inc. Hong Kong	**903**	873	785	3%	15%
China	**13**	10	10	30%	30%
India	**49**	51	47	(4)%	4%
Korea	**32**	17	17	88%	88%
Taiwan	**15**	12	11	25%	36%
Other	**(9)**	(4)	(4)	(125)%	(125)%
Non-recurrent items[note (ii)]	**49**	44	41	11%	20%
Total insurance operations[note (i)]	**1,052**	1,003	907	5%	16%
Development expenses	**(2)**	(2)	(2)	0%	0%
Total long-term business operating profit	**1,050**	1,001	905	5%	16%
Eastspring Investments	**90**	74	68	22%	32%
Total Asia operations	**1,140**	1,075	973	6%	17%

Notes

(i) *Analysis of operating profit between new and in-force business*
The result for insurance operations comprises amounts in respect of new business and business in-force as follows:

	2014 £m	2013 £m	
		AER	CER
New business strain*	**(18)**	(15)	(18)
Business in force	**1,021**	974	884
Non-recurrent items[note (ii)]	**49**	44	41
Total	**1,052**	1,003	907

* The IFRS new business strain corresponds to approximately 1 per cent of new business APE premiums for 2014 (2013: approximately 1 per cent of new business APE).

The strain reflects the aggregate of the pre-tax regulatory basis strain to net worth after IFRS adjustments for deferral of acquisition costs and deferred income where appropriate.

(ii) Other non-recurrent items of £49 million in 2014 (2013: £44 million) represent a number of items none of which are individually significant that are not anticipated to re-occur in future.

I(c) Analysis of asset management operating profit based on longer-term investment returns

	2014 £m				
	M&G note (ii)	Eastspring Investments note (ii)	PruCap	US	Total
Operating income before performance-related fees	**954**	**240**	**130**	**303**	**1,627**
Performance-related fees	**33**	**1**	**-**	**-**	**34**
Operating income(net of commission)[note (i)]	**987**	**241**	**130**	**303**	**1661**
Operating expense[note (i)]	**(554)**	**(140)**	**(88)**	**(291)**	**(1,073)**
Share of associate's results	**13**	**-**	**-**	**-**	**13**
Group's share of tax on joint ventures' operating profit	**-**	**(11)**	**-**	**-**	**(11)**
Operating profit based on longer-term investment returns	**446**	**90**	**42**	**12**	**590**
Average funds under management	**£250.0bn**	£68.8bn			
Margin based on operating income*	**38bps**	35bps			
Cost / income ratio**	**58%**	59%			

	2013 £m				
	M&G note (ii)	Eastspring Investments note (ii),(iii)	PruCap	US	Total
Operating income before performance-related fees	863	215	121	362	1,561
Performance-related fees	25	1	-	-	26
Operating income(net of commission)[note (i)]	888	216	121	362	1,587
Operating expense[note (i)]	(505)	(134)	(75)	(303)	(1,017)
Share of associate's results	12	-	-	-	12
Group's share of tax on joint ventures' operating profit	-	(8)	-	-	(8)
Operating profit based on longer-term investment returns	395	74	46	59	574
Average funds under management	£233.8 bn	£61.9 bn			
Margin based on operating income*	37 bps	35 bps			
Cost / income ratio**	59%	62%			

(i) Operating income and expense includes the Group's share of contribution from Joint Ventures (but excludes any contribution from associates). In the income statement as shown in note B2 of the IFRS financial statements, these amounts are netted and tax deducted and shown as a single amount.

(ii) M&G and Eastspring Investments can be further analysed as follows:

M&G	Operating income before performance related fees					
	Retail £m	Margin of FUM* bps	Institu-tional† £m	Margin of FUM* bps	Total £m	Margin of FUM* bps
2014	**593**	**84**	**361**	**20**	**954**	**38**
2013	550	89	313	18	863	37

Eastspring Investments	Operating income before performance related fees					
	Retail £m	Margin of FUM* bps	Institu-tional† £m	Margin of FUM* bps	Total £m	Margin of FUM* bps
2014	**139**	**60**	**101**	**22**	**240**	**35**
2013	127	60	88	22	215	35

* Margin represents operating income before performance related fees as a proportion of the related funds under management (FUM). Monthly closing internal and external funds managed by the respective entity have been used to derive the average. Any funds held by the Group's insurance operations which are managed by third parties outside of the Prudential Group are excluded from these amounts.

** Cost/income ratio represents cost as a percentage of operating income before performance related fees.

† Institutional includes internal funds.

II Other Information

II(a) Holding company cash flow

	2014 £m	2013 £m
Net cash remitted by business units:		
UK net remittances to the Group		
UK Life fund paid to the Group	**193**	206
Shareholder-backed business:		
Other UK paid to the Group	**132**	149
Total shareholder-backed business	**132**	149
Total UK net remittances to the Group	**325**	355
US remittances to the Group	**415**	294
Asia net remittances to the Group		
Asia paid to the Group:		
Long-term business	**453**	454
Other operations	**60**	56
	513	510
Group invested in Asia:		
Long-term business	**(3)**	(9)
Other operations (including funding of Regional Head Office costs)	**(110)**	(101)
	(113)	(110)
Total Asia net remittances to the Group	**400**	400
M&G remittances to the Group	**285**	235
PruCap remittances to the Group	**57**	57
Net remittances to the Group from Business Units	**1,482**	1,341
Net interest paid	**(335)**	(300)
Tax received	**198**	202
Corporate activities	**(193)**	(185)
Solvency II costs	**(23)**	(32)
Total central outflows	**(353)**	(315)
Operating holding company cash flow before dividend*	**1,129**	1,026
Dividend paid	**(895)**	(781)
Operating holding company cash flow after dividend*	**234**	245
Non-operating net cash flow**	**(978)**	613
Total holding company cash flow	**(744)**	858
Cash and short-term investments at beginning of year	**2,230**	1,380
Foreign exchange movements	**(6)**	(8)
Cash and short-term investments at end of year	**1,480**	2,230

***** Including central finance subsidiaries.
**Non-operating net cash flow is principally for corporate transactions for distribution rights and acquired subsidiaries and issue and repayment of subordinated debt.

II(b) Funds under management

(a) Summary

	2014 £bn	2013 £bn
Business area:		
Asia operations	**49.0**	38.0
US operations	**123.6**	104.3
UK operations	**169.0**	157.3
Prudential Group funds under management[note (i)]	**341.6**	299.6
External funds [note (ii)]	**154.3**	143.3
Total funds under management	**495.9**	442.9

Notes

(i) Prudential Group funds under management of £341.6 billion (2013: £299.6 billion) comprise:

	2014 £bn	2013 £bn
Total investments per the consolidated statement of financial position	**337.4**	296.4
Less: investments in joint ventures and associates accounted for using the equity method	**(1.0)**	(0.8)
Investment properties which are held for sale or occupied by the Group (included in other IFRS captions)	**0.3**	0.3
Internally managed funds held in joint ventures	**4.9**	3.7
Prudential Group funds under management	**341.6**	299.6

(ii) External funds shown above as at 31 December 2014 of £154.3 billion (2013: £143.3 billion) comprise £167.2 billion (2013: £148.2 billion) of funds managed by M&G and Eastspring Investments as shown in note (b) below less £12.9 billion (2013: £4.9 billion) that are classified within Prudential Group's funds. The £167.2 billion (2013: £148.2 billion) investment products comprise £162.4 billion (2013: £143.9 billion) plus Asia Money Market Funds of £4.8 billion (2013: £4.3 billion).

(b) Investment products – external funds under management

	2014 £m			2013 £m		
	Eastspring Investments note	M&G	Group total	Eastspring Investments note	M&G	Group total
1 January	**22,222**	**125,989**	**148,211**	21,634	111,868	133,502
Market gross inflows	**82,440**	**38,017**	**120,457**	74,206	40,832	115,038
Redemptions	**(77,001)**	**(30,930)**	**(107,931)**	(72,111)	(31,342)	(103,453)
Market exchange translation and other movements	**2,472**	**3,971**	**6,443**	(1,507)	4,631	3,124
31 December	**30,133**	**137,047**	**167,180**	22,222	125,989	148,211

(c) M&G and Eastspring investments - total funds under management

	Eastspring Investments		M&G	
	2014 £bn	2013 £bn	2014 £bn	2013 £bn
	note	note		
External funds under management	**30.1**	22.2	**137.0**	126.0
Internal funds under management	**47.2**	37.7	**127.0**	118.0
Total funds under management	**77.3**	59.9	**264.0**	244.0

Note

The external funds under management for Eastspring Investments include Asia Money Market Funds at 31 December 2014 of £4.8 billion (2013: £4.3 billion).

II(c) Development of economic capital

Overview

Over the last decade regulatory bodies across the European Union have been working on the development of a more risk sensitive solvency framework. Solvency II was developed with this objective in mind and following ratification of the Omnibus II Directive on 16 April 2014, it is expected to come into force on 1 January 2016. It will apply to all European based insurers including Prudential.

Solvency II adopts the concept of market consistency as a valuation framework for both assets and liabilities as well as a one year value at risk methodology (with certain modifications) for evaluating solvency. While the majority of assets held by insurers can be fair valued based on market observable prices (albeit such market based valuations can be distorted at times of market stress), the same is not true of insurance liabilities which are not traded in liquid markets. Solvency II seeks to create a proxy market value for insurance liabilities, by valuing best-estimate cash flows at market levels of risk-free interest rates and allowing for an additional risk margin to ensure these liabilities are sufficient to cover the amount another insurance company would be prepared to pay for these liabilities.

There are significant limitations with both (i) the notion that this market consistent approach to valuing assets and liabilities represents at all times the underlying economic reality, and (ii) the emphasis that Solvency II places on the fluctuation of these proxy market values over a one year timeframe. The business typically undertaken by life insurers is long-term in nature, with liability profiles that are matched by maturity with similarly termed assets. This is why appropriately risk managed insurers can tolerate and withstand significant investment market volatility. What is critical in the assessment of the viability of insurers is their ability to meet claims when they fall due, over many years, rather than whether they can meet a one-year test based on theoretical proxy market values.

Notwithstanding these limitations, Prudential has been working to implement the requirements of Solvency II in time for its adoption in 2016. The section that follows provides an update on our progress towards implementation of Solvency II, highlights ongoing areas of uncertainty and draws attention to aspects where our current approach may differ to the one that will be ultimately agreed with the Prudential Regulation Authority.

From our work to date and subject to these limitations, our estimated economic capital surplus, based on outputs from our Solvency II internal model, is £9.7 billion, equivalent to an economic capital ratio of 218 per cent. Further explanation of the underlying economic capital methodology and assumptions which underpin these results is set out in the sections below.

Economic capital position[1]	**31 December 2014 £bn**	**31 December 2013 £bn**
Available capital	17.9	18.5
Economic capital requirement	8.2	7.2
Surplus	9.7	11.3
Economic capital ratio	**218%**	**257%**

[1] Based on outputs from the Group's Solvency II internal model which has not been reviewed or approved by the Prudential Regulation Authority.

In a number of areas Prudential's Solvency II methodology and assumptions will need to evolve in response to policy development and regulatory interpretations. A number of working assumptions have been adopted at this stage, which remain subject to policy clarifications and continuing feedback from the Prudential Regulation Authority. The calibration of the matching adjustment for UK annuity liabilities is one such example, as are a range of other calibration issues which will remain unclear until our internal model is approved by the Prudential Regulation Authority. Other areas where supervisory judgement and approval will be required include the proportion of Jackson's excess capital that will be included in the total surplus (under the deduction and aggregation approach) and the extent to which the economic capital surplus of our Asia operations will be recognised under the Solvency II fungibility tests. Against this backdrop of uncertainty it is expected that the Solvency II outcome will result in a lower ratio than the economic capital ratio above.

As an indication of the range of uncertainty, we have produced the following sensitivities to reflect various possible Solvency II outcomes. For example, relative to the £9.7 billion of economic capital surplus at 31 December 2014:

- A 20 per cent haircut in the contribution recognised for Asia in the Group available capital, reflecting Solvency II fungibility tests, would reduce Group surplus by £1.9 billion (-23 percentage points of cover ratio);
- Transitional relief may be applied in relation to the UK business, which subject to regulatory approval is expected to bring overall UK surplus in line with current Solvency I (Pillar II) levels. Applying this transitional relief for UK annuities is estimated to increase Group surplus by £1.3 billion (+16 percentage points of cover ratio); and
- A 10 per cent increase in UK annuity credit and longevity capital requirements (reflecting adverse matching adjustment outcomes or calibration strengthening) is estimated to reduce Group surplus by £0.6 billion (-12 percentage points of cover ratio). However, in this case the impact of transitional relief would be expected to increase as an offset to these changes.

These sensitivities are intended to provide examples and should not be considered indicative of the adjustments that the Prudential Regulation Authority may ultimately require.

Alongside developing the above economic capital based on outputs from our Solvency II internal model, we have developed an alternative 'multi-term' economic capital model, which seeks to evaluate our ability to meet obligations to customers as these fall due and which in our view is the best way to assess our economic solvency. This 'multi-term' approach is designed to both overcome the artificial one year timeframe of the Solvency II methodology and remove areas of known excessive prudence that for us do not reflect economic reality, such as the imposition of an additional risk margin that a theoretical buyer may demand to take over the liabilities in one year's time. Removing this risk margin alone would increase the estimated surplus referred to above to £13.6 billion, equivalent to an economic capital ratio of 265 per cent. This confirms the strong capital position of the Group and its ability to withstand severe market shocks, when assessed through appropriately risk-sensitive measures.

Detail relating to the economic capital position – based on outputs from our Solvency II internal model
Our economic capital results are based on outputs from our Solvency II internal model. Although the Solvency II and Omnibus II Directives, together with the Level 2 'Delegated Act' published on 17 January 2015, provide a framework for the calculation of Solvency II results, there remain material areas of policy uncertainty and the methodology and assumptions are subject to review and approval by the Prudential Regulation Authority, the Group's lead supervisor.

We remain on track to submit our internal model to the Prudential Regulation Authority for approval in 2015. However, given the degree of uncertainty, these economic capital results should not be interpreted as representing the Pillar I output from an approved Solvency II internal model and are not intended to provide a forecast of the eventual position.

At 31 December 2014, the Group had an economic capital surplus of £9.7 billion (2013: £11.3 billion) and an economic capital ratio of 218 per cent before taking into account the 2014 final dividend. A summary of the capital position on this basis is shown in the table below:

Economic capital position[1]	**31 December 2014 £bn**	**31 December 2013 £bn**
Available capital	17.9	18.5
Economic capital requirement	8.2	7.2
Surplus	9.7	11.3
Economic capital ratio	**218%**	**257%**

[1] Based on outputs from the Group's Solvency II internal model which has not been reviewed or approved by the Prudential Regulation Authority.

The economic capital results are based on outputs from our current Solvency II internal model with a number of working assumptions. Further explanation of the underlying methodology and assumptions are set out in the sections below. Certain aspects of this methodology and assumptions will differ from those which are applied in obtaining final internal model approval. Consequently, the position is expected to evolve to reflect policy clarifications and feedback from the Prudential Regulation Authority on Prudential's approach to applying this new regime. Against this background of uncertainty, it is expected that the Solvency II ratio based on an approved model will be lower than the position shown above.

Methodology
In line with Solvency II, for the Group's European and Asia life business, and holding companies, the available capital is the value of assets in excess of liabilities. The key components of available capital are the market value of assets, insurance technical provisions (calculated as the sum of best estimate liabilities plus a risk margin) and other liabilities. Subordinated-debt forms part of available capital, rather than being treated as a liability, since this debt is subordinated to policyholder claims.

As a general principle, both assets and liabilities are recognised at the value at which they could theoretically be transferred to a third party in an arm's length transaction. On the asset side of the balance sheet, assets are mostly held at IFRS fair value. However, adjustments are required to IFRS values to eliminate intangible items such as goodwill and deferred acquisition costs and to take account of economic assets which are excluded from the current IFRS balance sheet such as the present value of future with-profits shareholder transfers.

The best estimate liability is calculated by taking the average of future risk-adjusted best estimate cashflows, taking into account the time value of money. An economic definition of contract boundaries has been applied in determining the cashflows to include in the best estimate liability. The best estimate liability also allows for the value of options and guarantees embedded in existing contracts as well as the value of future discretionary benefits payable to policyholders. Realistic management actions and policyholder behaviour are allowed for where relevant. In addition, since capital requirements are only derived to cover risks over a one year horizon, a risk margin is added to the best estimate liability to cover the cost of ceding liabilities to a third party after one year, assuming a 6 per cent per annum cost of capital and with no diversification between legal entities, in line with Solvency II requirements.

The Economic Capital Requirement measures the potential reduction in the value of available capital over a one year time horizon, in an adverse 1-in-200 probability event, consistently with Solvency II. This allows for diversification effects between different risk-types and between entities. No restrictions on the economic value of overseas surplus have been allowed for in assessing the capital position at Group level, reflecting our view that in an economic capital assessment, haircuts for transferability restrictions are artificial.

Prudential's US insurance entities are included in the economic capital position on a local RBC basis under the assumption of US equivalence and the assumed permitted use of the 'deduction and aggregation' method. This is in line with our view of the most likely outcome of Solvency II given the agreement reached in the Omnibus II Directive. The contribution of US insurance entities to the Group surplus is that in excess of 250 per cent of the US RBC Company Action Level, which is in line with the level at which we measure both the Group's IGD surplus and the Group's reported free surplus amount. In line with Solvency II requirements under the 'deduction and aggregation' method, no diversification benefit is allowed for between US insurance entities and other parts of the Group.

The Group calculation also includes all non-insurance entities, including asset management companies, Prudential Capital and holding companies, as follows:

– Asset managers are included in line with existing sectoral capital rules, and Prudential Capital is included on a Basel basis, which follows the expected Solvency II treatment;

– Defined benefit pension schemes are included using international accounting standards and, in addition, a capital requirement is derived from stressing the accounting position; and
– Holding companies are measured on a Solvency II basis, as if they were insurance companies, in line with Solvency II rules.

In addition to the assumption of US equivalence, no transferability restrictions have been applied to the economic value of overseas surplus. Other key elements of Prudential's methodology relating to areas that are presently unclear for Solvency II Pillar I calculations, relate to:

(i) *The liability discount rate for UK annuities,* which includes an initial estimate of the Solvency II 'matching adjustment' in addition to the risk-free rate, but where there remains a range of possible outcomes pending further policy clarity;
(ii) *The impact of transitional arrangements on technical provisions*, for which no allowance has been made in the economic capital position, but which may apply under Solvency II (although the use of this transitional is subject to regulatory approval and the extent to which it is permitted is likely to depend on the final Solvency II capital position); and
(iii) *Capital requirements for currency translation impacts,* arising from overseas capital (supporting non-UK subsidiaries) being measured in sterling at potentially stressed exchange rates. This impact is not currently allowed for, reflecting our view that an economic capital exposure only arises where funds need to be transferred between entities in order to cover a negative surplus position.

Further, Solvency II outcomes remain unclear in relation to the tiering of hybrid capital instruments, although tiering limits are not currently expected to result in any restrictions.

The 2013 results were prepared using a liquidity premium methodology, before the matching adjustment had been included in our internal model. Under this previous basis, credit reserves were set as a proportion of credit spreads. The 2013 results have not been restated for the effect of adopting the matching adjustment methodology, with the difference between the two approaches being recorded within the 2014 model changes.

Assumptions
The key assumptions required for the economic capital calibration are:

(i) Assumptions used to derive non-market related best estimate liability cash flows, which are based on EEV best estimate assumptions;
(ii) Assumptions used to derive market related best estimate liability cash flows, which are based on market data at the valuation date where this data is reliable and comes from a deep and liquid market, or on appropriate extrapolation methodologies where markets are not sufficiently liquid to be reliable;
(iii) Assumptions underlying the calculation of the best estimate liability in respect of dynamic management actions and policyholder behaviour;
(iv) Assumptions underlying the risk models used to calculate the 1-in-200 level capital requirements for the Economic Capital Requirement which are set using a combination of historic market, demographic and operating experience data and expert judgement; and
(v) Assumptions on the dependencies between risks, which are calibrated using a combination of historic data and expert judgement.

The risk-free curve at which best estimate liability cash flows are discounted is based on market swap rates (with the exception of Vietnam, India and Poland where no liquid swap market exists and government bond yields are therefore used), with a deduction of between 10 and 35 basis points (depending on country) to allow for a 'credit risk adjustment' to swap rates. This treatment reflects the likely outcome under Solvency II. In addition, an estimated matching adjustment is added to the liability discount rate for UK annuities, in both the base balance sheet and in the stressed conditions underlying the Economic Capital Requirement.

The matching adjustment is set equal to the yield on the backing-assets in each portfolio, less deductions for credit risk, cashflow mismatch allowances and haircuts for assets assumed to be ineligible for the matching adjustment (currently around 10 per cent of shareholder-backed annuity assets). Full allowance has been made for diversification benefits between the matching adjustment portfolio and other funds, reflecting an economic treatment. These assumed deductions from the portfolio yield are summarised in the table below. However, the final Solvency II matching adjustment outcome remains subject to considerable uncertainties and may vary significantly from these assumptions.

	Base bps	Post 1-in 200 stress undiversified bps
Credit allowances deducted from asset yields		
UK shareholder-backed annuities	**71**	**172**

Aside from UK annuities, no matching adjustment allowance or any other form of liquidity premium has been assumed for any other lines of business.

Other business developments
On 5 February 2015 Prudential announced the completion of the sale of its closed book business in Japan. The contribution of Japan to the Group surplus has been set equal to the 'held for sale' accounting value of £49 million. On 10 November 2014, Prudential announced an agreement to sell its 25 per cent equity stake in the PruHealth and PruProtect businesses for £155 million, which is allowed for in these results. On 1 July 2014 Prudential renewed its distribution agreement with Standard Chartered Bank to 2029. The amount of these distribution fees is allowed for in these economic capital results and has had a negative impact on the Group solvency ratio of -10 percentage points. The impact of the domestication of the Hong Kong branch, which became effective on 1 January 2014, is also allowed for and is estimated to have had a negative impact on the

Group solvency ratio of -4 percentage points, mainly due to a loss of diversification in the risk margin following separation of the Hong Kong business into a subsidiary.

Analysis of movement in the economic capital surplus

The table below shows the movement during the financial year in the Group's economic capital surplus.

Analysis of movement in economic capital surplus[1] from 1 January to 31 December

(£ billion)	2014	2013
Economic capital surplus as at 1 January	**11.3**	**8.8**
Operating experience	1.8	2.1
Non-operating experience (including market movements)	(0.9)	0.9
Other capital movements		
Disposals	0.1	(0.1)
Corporate restructuring	(0.3)	-
Distribution deals	(0.8)	(0.4)
Subordinated debt issuance / (redemption)	(0.4)	1.1
Foreign currency translation impacts	0.1	(0.4)
Dividends	(0.9)	(0.8)
Model changes	(0.3)	0.1
Economic capital surplus as at 31 December	**9.7**	**11.3**

[1] Based on outputs from the Group's Solvency II internal model which has not been reviewed or approved by the Prudential Regulation Authority.

During 2014 the movement in the Group economic surplus is driven by:

– *Operating experience:* generated by in-force business, new business written in 2014, the impact of non-market assumption changes and non-market experience variances over the year. The 2013 operating experience result additionally benefited from specific de-risking actions which were not repeated given the Group's overall economic capital strength;
– *Non-operating experience*: mainly arising from negative market experience during 2014, principally caused by the reduction in long-term interest rates in the UK;
– *Other capital movements:* a reduction in surplus from the repayment of subordinated debt, renewal of the bancassurance partnership agreement with Standard Chartered Bank, the negative capital effect of the domestication of the Hong Kong branch, an increase in surplus from the sale of the PruHealth and PruProtect businesses, positive foreign currency translation effects, and a reduction in surplus due to dividend payments in 2014; and
– *Model changes:* a negative impact to Group surplus for the estimated impact of evolving the liability discount rate for UK shareholder-backed annuity business from one based on a liquidity premium to one based on the matching adjustment, and other internal model refinements.

Analysis of Group Economic Capital Requirements

The table below shows the split of the Group Economic Capital Requirement by risk type[1].

–	31 December 2014		31 December 2013	
	% of undiversified Economic Capital Requirement[2]	**% of diversified Economic Capital Requirement[2]**	**% of undiversified Economic Capital Requirement[2]**	**% of diversified Economic Capital Requirement[2]**
Market	**57%**	**66%**	**53%**	**64%**
Equity	15%	21%	15%	24%
Credit	26%	39%	20%	37%
Yields (interest rates)	12%	4%	13%	0%
Other	4%	2%	5%	3%
Insurance	**33%**	**27%**	**36%**	**28%**
Mortality/morbidity	6%	3%	8%	4%
Lapse	16%	19%	19%	21%
Longevity	11%	5%	9%	3%
Operational/expense	**10%**	**7%**	**11%**	**8%**

[1] The Group Economic Capital Requirement by risk type includes capital requirements in respect of Jackson's risk exposures, based on 250 per cent of the US RBC Company Action Level.
[2] Based on outputs from the Group's Solvency II internal model which has not been reviewed or approved by the Prudential Regulation Authority.

The Group's most material risk exposures are to financial markets, in particular to equities and credit, which we hold to generate a higher return on capital and a higher return for our policyholders over the long-term. The Group also has material insurance risk exposures including longevity risk from UK annuities, lapse risk across a wide range of products, and mortality and morbidity risk mainly arising from protection products written in Asia. These risks diversify strongly with market risks, even after allowing for market-related policyholder behaviour, thereby increasing the return on capital which can be earned from the balanced mix of risks. A brief description of the most material risks is set out below:

– The Group's exposure to equities mainly arises from UK shareholder transfers linked to policyholder funds (partially offset by economic equity hedges) and from future fund management charges on unit linked funds in Asia. The equity exposure arising from Jackson's variable annuity business is mostly hedged;
– The Group also has significant exposure to credit risk, mainly from the UK annuity portfolio and from Jackson's fixed annuity credit portfolio. Credit exposures across the Group are carefully monitored and managed as part of the Group's risk management framework;
– The Group is exposed to movements in yields (interest rates); while falling interest rates increase the risks arising from policyholder guarantees in with-profits funds and variable annuities, falling interest rates also increase the value of future insurance profits;

– The most material insurance risk exposures arise from UK longevity risk, and lapse, mortality and morbidity risk in Asia; and
– The Group is also exposed to expense and operational risk, which is closely monitored and managed through internal control processes.

Reconciliation of IFRS equity to economic available capital

To aid understanding, the amount representing the Group's available capital under the economic capital basis is reconciled to the Group's IFRS shareholders' equity in the table below:

Reconciliation of IFRS equity to economic available capital

£ billion[1]	2014	2013
IFRS shareholders' equity at 31 December	**11.8**	**9.7**
Adjustment to restate US insurance entities onto a US Risk Based Capital basis	(1.1)	(0.6)
Remove DAC, goodwill & intangibles	(3.5)	(2.7)
Add subordinated-debt treated as economic available capital	3.7	3.8
Impact of risk margin	(4.7)	(3.5)
Add value of shareholder-transfers	4.0	4.1
Other liability valuation differences	9.0	9.3
Increase in value of net deferred tax liabilities (resulting from valuation differences above)	(0.9)	(1.3)
Other	(0.4)	(0.3)
Economic available capital at 31 December	**17.9**	**18.5**

[1] Based on outputs from the Group's Solvency II internal model which has not been reviewed or approved by the Prudential Regulation Authority.

The key items of reconciliation are:
– £1.1 billion (2013: £0.6 billion) represents the adjustment required to the Group's shareholders' funds in order to convert Jackson's contribution from an IFRS basis to the local statutory valuation basis which underpins the US Risk Based Capital regime;
– £3.5 billion (2013: £2.7 billion) due to the removal of DAC, goodwill and intangibles from the IFRS balance sheet;
– £3.7 billion (2013: £3.8 billion) due to the addition of subordinated debt which is treated as available capital on an economic basis but as a liability under IFRS;
– £4.7 billion (2013: £3.5 billion) due to the inclusion of a risk margin which is not required under IFRS;
– £4.0 billion (2013: £4.1 billion) due to the inclusion of the value of future shareholder transfers from with-profits business on the economic balance sheet in the UK and Asia, which is excluded from the determination of the Group's IFRS shareholders' funds;
– £9.0 billion (2013: £9.3 billion) due to differences in insurance valuation requirements between economic capital and IFRS, with available capital partially capturing the economic value of in-force business which is excluded from IFRS; and
– £0.9 billion (2013: £1.3 billion) due to the impact on the valuation of deferred tax assets and liabilities resulting from the other valuation differences noted above.

Sensitivity analysis
Stress testing this economic capital position gives the following results as at 31 December 2014:
– An instantaneous 20 per cent fall in equity markets would reduce surplus by £0.6 billion and reduce the economic solvency ratio to 214 per cent;
– An instantaneous 40 per cent fall in equity markets would reduce surplus by £2.2 billion and reduce the economic solvency ratio to 195 per cent;
– A 50 basis points reduction in interest rates (subject to a floor of zero) would reduce surplus by £1.4 billion and reduce the economic solvency ratio to 195 per cent;
– A 100 basis points increase in interest rates would increase surplus by £1.8 billion and increase the economic solvency ratio to 254 per cent; and
– A 100 basis points increase in credit spreads with 15 per cent downgrades in the UK annuity portfolio[1]would reduce surplus by £2.1 billion and reduce the economic solvency ratio to 190 per cent.

These sensitivity results are shown before the impact of potential management actions to de-risk the exposures of shareholder funds. Even before such management actions are allowed for, the results demonstrate the resilience of the economic capital position following large falls in equity markets, sizeable reductions in yields (relative to very low starting yields) and a severe credit event.

The adverse impact of falling equity markets mainly results from a reduction in the value of with-profits shareholder transfers and future fund management charges in the UK and Asia. Equity hedging reduces the impact of these exposures and a dynamic equity hedging programme is also in place to manage the equity risk arising in Jackson's variable annuities business.

The adverse impact of a fall in yields largely arises from a decrease in the value of future with-profits shareholder transfers and an increase in the size of risk margins. Falling yields also increases the value of the Group's external debt, reducing the Group surplus. However, these impacts are partially offset by an increase in the value of future insurance profits and changes in the value of hedging assets.

[1] For UK annuity business, the matching adjustment is intended to significantly reduce the sensitivity of surplus to credit spreads. The UK annuity credit sensitivity is therefore applied as 15 per cent of the portfolio downgrading, combined with a credit spread stress of 88 basis points (which in total is commensurate with a 100 basis point credit spread stress). For Jackson, a 10x increase in expected defaults is applied in line with IGD sensitivities since credit spreads do not directly affect the US RBC result.

An increase in defaults and downgrades adversely impacts on the UK annuity credit book although the business is much less sensitive to credit spreads under the matching adjustment framework. Jackson is not exposed to credit spread widening on a US RBC basis but an increase in defaults in the Jackson credit book would have a negative impact on the Group capital position and is reflected in the credit stress test above.

Statement of independent review
The methodology, assumptions and overall result have been subject to examination by KPMG LLP.

European Embedded Value (EEV) basis results

Notes on the EEV basis results

Additional Unaudited Financial Information

<u>Description of EEV basis reporting</u>

In broad terms, IFRS profits for long-term business reflect the aggregate of results on a traditional accounting basis. By contrast, embedded value is a way of reporting the value of the life insurance business.

The European Embedded Value principles were published by the CFO Forum of major European insurers in May 2004 and subsequently supplemented by Additional Guidance issued in October 2005. The principles provide consistent definitions, a framework for setting actuarial assumptions and an approach to the underlying methodology and disclosures.

Results prepared under the EEV principles capture the discounted value of future profits expected to arise from the current book of long-term business. The results are prepared by projecting cash flows, by product, using best estimate assumptions for all relevant factors. Furthermore, in determining these expected profits full allowance is made for the risks attached to their emergence and the associated cost of capital, and takes into account recent experience in assessing likely future persistency, mortality, morbidity and expenses. Further details are explained in notes 16 and 17.

<u>Post-tax basis of presentation</u>

As previously announced, from 1 January 2014 the basis of presentation has been altered to be on a post-tax basis and, accordingly, all comparatives are shown on a comparable basis.

European Embedded Value (EEV) basis results

Post-tax operating profit based on longer-term investment returns

Results analysis by business area

	Note	**2014 £m**	2013* £m note (iii)
Asia operations			
New business	3	**1,162**	1,139
Business in force	4	**739**	753
Long-term business		**1,901**	1,892
Eastspring Investments		**78**	64
Development expenses		**(1)**	(1)
Total		**1,978**	1,955
US operations			
New business	3	**694**	706
Business in force	4	**834**	820
Long-term business		**1,528**	1,526
Broker-dealer and asset management		**6**	39
Total		**1,534**	1,565
UK operations			
New business	3	**270**	237
Business in force	4	**476**	595
Long-term business		**746**	832
General insurance commission		**19**	22
Total UK insurance operations		**765**	854
M&G (including Prudential Capital)		**386**	346
Total		**1,151**	1,200
Other income and expenditure[note (i)]		**(531)**	(482)
Solvency II and restructuring costs[note (ii)]		**(36)**	(34)
Post-tax operating profit based on longer-term investment returns		**4,096**	4,204
Analysed as profits (losses) from:			
New business	3	**2,126**	2,082
Business in force	4	**2,049**	2,168
Long-term business		**4,175**	4,250
Asset management		**470**	449
Other results		**(549)**	(495)
Total		**4,096**	4,204

* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis. This approach has been adopted throughout this supplementary information.

Notes:

(i) EEV basis other income and expenditure represents the post-tax IFRS basis result, less the unwind of expected margins on the internal management of the assets of the covered business (as explained in note 16(a)(vii)).

(ii) Solvency II and restructuring costs comprise the net of tax charge recognised on an IFRS basis and the additional amount recognised on the EEV basis for the shareholders' share incurred by the PAC with-profits fund.

(iii) The comparative results have been prepared using previously reported average exchange rates for the year. For memorandum disclosure purposes note 2 presents the 2013 results on both actual exchange rates (AER) and constant exchange rates (CER) bases.

Post-tax summarised consolidated income statement

	Note	**2014 £m**	2013* £m
Post-tax operating profit based on longer-term investment returns			
Asia operations		**1,978**	1,955
US operations		**1,534**	1,565
UK operations		**1,151**	1,200
Other income and expenditure		**(531)**	(482)
Solvency II and restructuring costs		**(36)**	(34)
Post-tax operating profit based on longer-term investment returns		**4,096**	4,204
Short-term fluctuations in investment returns	5	**763**	(564)
Effect of changes in economic assumptions	6	**(369)**	629
Mark to market value movements on core borrowings		**(187)**	152
Gain on sale of PruHealth and PruProtect	7	**44**	-
Loss attaching to held for sale Japan Life business	8	**-**	(35)
Costs of domestication of Hong Kong branch	9	**(4)**	(28)
Total post-tax non-operating profit		**247**	154
Profit for the year attributable to equity holders of the Company		**4,343**	4,358

* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Movement in shareholders' equity

	Note	**2014 £m**	2013* £m
Profit for the year attributable to equity shareholders		**4,343**	4,358
Items taken directly to equity:			
Exchange movements on foreign operations and net investment hedges		**737**	(1,077)
Dividends		**(895)**	(781)
New share capital subscribed		**13**	6
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes		**(11)**	(53)
Reserve movements in respect of share-based payments		**106**	98
Treasury shares:			
Movement in own shares in respect of share-based payment plans		**(48)**	(10)
Movement in own shares purchased by unit trusts consolidated under IFRS		**(6)**	(31)
Mark to market value movements on Jackson assets backing surplus and required capital		**77**	(97)
Net increase in shareholders' equity	12	**4,316**	2,413
Shareholders' equity at beginning of year:			
As previously reported	12	**24,856**	22,443
Effect of the domestication of Hong Kong branch on 1 January 2014	9	**(11)**	-
		24,845	22,443
Shareholders' equity at end of year	12	**29,161**	24,856

* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Comprising:	**31 Dec 2014 £m**			31 Dec 2013 £m		
	Long-term business operations note 12	**Asset management and other operations**	**Total**	Long-term business operations note 12	Asset management and other operations	Total
Asia operations	**12,545**	**274**	**12,819**	10,536	255	10,791
US operations	**8,379**	**157**	**8,536**	6,966	134	7,100
UK insurance operations	**8,433**	**19**	**8,452**	7,342	22	7,364
M&G	**-**	**1,646**	**1,646**	-	1,602	1,602
Other operations	**-**	**(2,292)**	**(2,292)**	-	(2,001)	(2,001)
Shareholders' equity at end of year	**29,357**	**(196)**	**29,161**	24,844	12	24,856
Representing:						
Net assets excluding acquired goodwill and holding company net borrowings	**29,124**	**1,542**	**30,666**	24,613	1,155	25,768
Acquired goodwill	**233**	**1,230**	**1,463**	231	1,230	1,461
Holding company net borrowings at market value note10	-	**(2,968)**	**(2,968)**	-	(2,373)	(2,373)
	29,357	**(196)**	**29,161**	24,844	12	24,856

Summary statement of financial position

	Note	**31 Dec 2014 £m**	31 Dec 2013 £m
Total assets less liabilities, before deduction for insurance funds		**326,633**	288,826
Less insurance funds:*			
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds		**(314,822)**	(279,176)
Less shareholders' accrued interest in the long-term business		**17,350**	15,206
		(297,472)	(263,970)
Total net assets	12	**29,161**	24,856
Share capital		**128**	128
Share premium		**1,908**	1,895
IFRS basis shareholders' reserves		**9,775**	7,627
Total IFRS basis shareholders' equity	12	**11,811**	9,650
Additional EEV basis retained profit	12	**17,350**	15,206
Total EEV basis shareholders' equity (excluding non-controlling interests)	12	**29,161**	24,856

* Including liabilities in respect of insurance products classified as investment contracts under IFRS 4.

Net asset value per share

	31 Dec 2014	31 Dec 2013
Based on EEV basis shareholders' equity of £29,161 million (2013: £24,856 million) (in pence)	**1,136p**	971p
Number of issued shares at year end (millions)	**2,568**	2,560
Annualised return on embedded value*	**16%**	19%

* Annualised return on embedded value is based on EEV post-tax operating profit, as a percentage of opening EEV basis shareholders' equity.

Notes on the EEV basis results

1 Basis of preparation

The EEV basis results have been prepared in accordance with the EEV Principles issued by the European Insurance CFO Forum in May 2004 and subsequently supplemented by Additional Guidance on EEV Disclosure issued in October 2005. Where appropriate, the EEV basis results include the effects of adoption of International Financial Reporting Standards (IFRS). The EEV results are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis.

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles. The auditors have reported on the 2014 EEV basis results supplement to the Company's statutory accounts for 2014. Their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006. Except for the change in presentation of EEV results from pre-tax to post-tax, as described in the additional unaudited financial information for the 2013 annual report, the 2013 results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2013. The supplement included an unqualified audit report from the auditors.

A detailed description of the EEV methodology and accounting presentation is provided in note 16.

2 Results analysis by business area

The 2013 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The 2013 CER comparative results are translated at 2014 average exchange rates.

Annual premium and contribution equivalents (APE) (note16(a)(ii))

		2014 £m	2013 £m		**% change**	
	Note		AER	CER	**AER**	**CER**
Asia operations		**2,237**	2,125	1,946	5%	15%
US operations		**1,556**	1,573	1,494	(1%)	4%
UK operations		**857**	725	725	18%	18%
Total	3	**4,650**	4,423	4,165	5%	12%

Post-tax operating profit

		2014 £m	2013 £m		**% change**	
	Note		AER	CER	**AER**	**CER**
Asia operations						
New business	3	**1,162**	1,139	1,032	2%	13%
Business in force	4	**739**	753	673	(2)%	10%
Long-term business		**1,901**	1,892	1,705	0%	11%
Eastspring investments		**78**	64	59	22%	32%
Development costs		**(1)**	(1)	(1)	0%	0%
Total		**1,978**	1,955	1,763	1%	12%
US operations						
New business	3	**694**	706	670	(2)%	4%
Business in force	4	**834**	820	779	2%	7%
Long-term business		**1,528**	1,526	1,449	0%	5%
Broker-dealer and asset management		**6**	39	37	(85)%	(84)%
Total		**1,534**	1,565	1,486	(2)%	3%
UK operations						
New business	3	**270**	237	237	14%	14%
Business in force	4	**476**	595	595	(20)%	(20)%
Long-term business		**746**	832	832	(10)%	(10)%
General insurance commission		**19**	22	22	(14)%	(14)%
Total UK insurance operations		**765**	854	854	(10)%	(10)%
M&G (including Prudential Capital)		**386**	346	346	12%	12%
Total		**1,151**	1,200	1,200	(4)%	(4)%
Other income and expenditure		**(531)**	(482)	(482)	(10)%	(10)%
Solvency II and restructuring costs		**(36)**	(34)	(34)	(6)%	(6)%
Post-tax operating profit based on longer-term investment returns		**4,096**	4,204	3,933	(3)%	4%
Analysed as profits from:						
New business	3	**2,126**	2,082	1,939	2%	10%
Business in force	4	**2,049**	2,168	2,047	(5)%	0%
Total long-term business		**4,175**	4,250	3,986	(2)%	5%
Asset management		**470**	449	442	5%	6%
Other results		**(549)**	(495)	(495)	(11)%	(11)%
Post-tax operating profit based on longer-term investment returns		**4,096**	4,204	3,933	(3)%	4%

Post-tax profit

	Note	2014 £m	2013 £m		% change	
			AER	CER	AER	CER
Post-tax operating profit based on longer-term investment returns		**4,096**	4,204	3,933	(3)%	4%
Short-term fluctuations in investment returns	5	**763**	(564)	(529)	235%	244%
Effect of changes in economic assumptions	6	**(369)**	629	623	(159)%	(159)%
Other non-operating profit		**(147)**	89	94	(265)%	(256)%
Total post-tax non-operating profit		**247**	154	188	60%	31%
Profit for the year attributable to shareholders		**4,343**	4,358	4,121	0%	5%

Basic earnings per share (in pence)

	2014	2013		% change	
		AER	CER	AER	CER
Based on post-tax operating profit including longer-term investment returns	**160.7p**	165.0p	154.4p	(3%)	4%
Based on post-tax profit	**170.4p**	171.0p	161.7p	0%	5%
Average number of shares (millions)	**2,549**	2,548	2,548		

3 Analysis of new business contribution

(i) Group Summary

	2014				
	Annual premium and contribution equivalents (APE)	**Present value of new business premiums (PVNBP)**	**New business contribution**	**New business margin**	
				APE	**PVNBP**
	note 18	note 18	(note)		
	£m	**£m**	**£m**	**%**	**%**
Asia operations(note ii)	**2,237**	**12,331**	**1,162**	**52**	**9.4**
US operations	**1,556**	**15,555**	**694**	**45**	**4.5**
UK insurance operations	**857**	**7,471**	**270**	**32**	**3.6**
Total	**4,650**	**35,357**	**2,126**	**46**	**6.0**

	2013				
	Annual premium and contribution equivalents (APE)	Present value of new business premiums (PVNBP)	New business contribution*	New business margin*	
				APE	PVNBP
	note 18	note 18	(note)		
	£m	£m	£m	%	%
Asia operations(note ii)	2,125	11,375	1,139	54	10.0
US operations	1,573	15,723	706	45	4.5
UK insurance operations	725	5,978	237	33	4.0
Total	4,423	33,076	2,082	47	6.3

Note:
The increase in new business contribution of £44 million from £2,082 million for 2013 to £2,126 million in 2014 comprises an increase on a CER basis of £187 million, offset by foreign exchange effects of £(143) million. The increase of £187 million on the CER basis comprises a contribution of £277 million reflecting higher sales volumes and the impact of pricing and product actions, offset by a £(90) million adverse effect of reductions in long-term interest rates in the year (analysed as Asia negative £(17) million, US negative £(63) million and UK negative £(10) million).

(ii) Asia operations

	2014 £m	2013* £m	
		AER	CER
China	**27**	28	26
Hong Kong	**405**	283	269
India	**12**	15	14
Indonesia	**296**	359	301
Korea	**11**	25	25
Taiwan	**29**	31	29
Other	**382**	398	368
Total Asia operations	**1,162**	1,139	1,032

* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

4 Operating profit from business in force

(i) Group Summary

	2014 £m			
	Asia operations	**US operations**	**UK insurance operations**	**Total**
	note (ii)	note (iii)	note (iv)	(note)
Unwind of discount and other expected returns	**648**	**382**	**410**	**1,440**
Effect of changes in operating assumptions	**52**	**86**	**-**	**138**
Experience variances and other items	**39**	**366**	**66**	**471**
Total	**739**	**834**	**476**	**2,049**

	2013* £m			
	Asia operations	US operations	UK insurance operations	Total
	note (ii)	note (iii)	note (iv)	(note)
Unwind of discount and other expected returns	668	395	437	1,500
Effect of changes in operating assumptions	5	76	98	179
Experience variances and other items	80	349	60	489
Total	753	820	595	2,168

* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Note:
The movements in operating profit from business in force of £(119) million from £2,168 million in 2013 to £2,049 million for 2014 comprises:

	2014 £m
Reduction in unwind of discount and other expected returns:	
Foreign exchange effects	**(80)**
Effect of changes in interest rates	**(187)**
Effect of growth in opening value and other items	**207**
	(60)
Non-recurrent benefit in 2013 of reduction in UK corporate tax rates	**(98)**
Year on year change in effects of other operating assumptions, experience variances and other items	**39**
Net decrease in operating profit from business in force	**(119)**

(ii) Asia operations

	2014 £m	2013* £m
Unwind of discount and other expected returns[note (a)]	**648**	668
Effect of changes in operating assumptions:		
Mortality and morbidity[note (b)]	**27**	19
Persistency and withdrawals[note (c)]	**(17)**	(23)
Expense	**(5)**	(6)
Other[note (d)]	**47**	15
	52	5
Experience variances and other items:		
Mortality and morbidity[note (e)]	**23**	33
Persistency and withdrawals[note (f)]	**44**	36
Expense[note (g)]	**(27)**	(17)
Other	**(1)**	28
	39	80
Total Asia operations	**739**	753

* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Notes:

(a) The decrease in unwind of discount and other expected returns of £(20) million from £668 million for 2013 to £648 million for 2014 is impacted by the effect of lower interest rates of £(55) million, and a £(61) million adverse foreign currency translation effect, partially offset by £96 million mainly for the increase in the opening in-force value.

(b) In 2014 the credit of £27 million for mortality and morbidity assumption changes reflects a number of offsetting items, including the effect of reduced projected mortality rates for Hong Kong. In 2013 the credit of £19 million mainly reflected the beneficial effect arising from the renegotiation of a reinsurance agreement in Indonesia.

(c) In 2014 the charge of £(17) million for persistency assumptions mainly reflects increased partial withdrawal assumptions on unit-linked business in Korea. For 2013 the charge of £(23) million reflected a number of offsetting items including the effect of strengthening lapse and premium holiday assumptions in Korea.

(d) In 2014 the credit of £47 million for other assumption changes reflects a number of offsetting items, including the effects of modelling improvements and those arising from asset allocation changes in Hong Kong.

(e) The favourable effect of mortality and morbidity experience in 2014 of £23 million (2013: £33 million) reflects better than expected experience in Indonesia and Hong Kong, offset by higher claims in Malaysia on medical reimbursement products.

(f) The positive persistency and withdrawals experience variance in 2014 of £44 million (2013: £36 million) reflects favourable experience principally in Hong Kong across all product groups.

(g) The expense experience variance at 2014 is negative £(27) million (2013: negative £(17) million). The variance arises in operations which are currently sub-scale (China, Malaysia Takaful and Taiwan), and from short-term overruns in India and Korea.

(iii) US operations

	2014 £m	2013* £m
Unwind of discount and other expected returns[note (a)]	**382**	395
Effect of changes in operating assumptions:		
Persistency[note (b)]	**55**	47
Other[note (c)]	**31**	29
	86	76
Experience variances and other items:		
Spread experience variance[note (d)]	**192**	217
Amortisation of interest-related realised gains and losses[note (e)]	**56**	58
Other[note (f)]	**118**	74
	366	349
Total US operations	**834**	820

* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Notes:

(a) The decrease in unwind of discount and other expected returns of £(13) million from £395 million for 2013 to £382 million for 2014 reflects a £(73) million adverse effect of the 90 basis points reduction in the US 10-year Treasury rate and a £(19) million adverse foreign currency effect, partially offset by a £79 million effect mainly for the underlying growth in the in-force book.

(b) The credit in 2014 of £55 million (2013: £47 million) for persistency assumption changes principally relates to revised assumptions for variable annuity business to more closely reflect recent experience.

(c) The effect of other changes in operating assumptions of £31 million reflects a number of offsetting items and includes the capitalised effect of changes in projected policyholder variable annuity fees of £46 million (2013: £33 million) which vary depending on the size and mix of variable annuity funds.

(d) The spread assumption for Jackson is determined on a longer-term basis, net of provision for defaults (see note 17 (ii)). The spread experience variance in 2014 of £192 million (2013: £217 million) includes the positive effect of transactions undertaken to more closely match the overall asset and liability duration.

(e) The amortisation of interest-related gains and losses reflects the fact that when bonds that are neither impaired nor deteriorating are sold and reinvested there will be a consequent change in the investment yield. The realised gain or loss is amortised into the result over the year when the bonds would have otherwise matured to better reflect the long-term returns included in operating profits.

(f) The effect of £118 million in 2014 for other experience variances and other items includes the effect of favourable persistency, mortality and tax experience variances, the most significant item arising from the continued positive persistency experience for annuity business of £59 million (2013: £40 million).

(iv) UK insurance operations

	2014 £m	2013* £m
Unwind of discount and other expected returns[note (a)]	**410**	437
Effect of change in UK corporate tax rate[note (b)]	**-**	98
Other items[note (c)]	**66**	60
Total UK insurance operations	**476**	595

* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Notes:

(a) The decrease in unwind of discount and other expected returns of £(27) million from £437 million for 2013 to £410 million for 2014 reflects a £(59) million adverse impact of the 130 basis point reduction in gilt yields partially offset by £32 million mainly for the underlying growth in the in-force book.

(b) For 2013, the positive contribution from the change in UK corporate tax rates of £98 million reflected the combined effect of the reductions in corporate rates from 23 per cent to 21 per cent from April 2014 and 21 per cent to 20 per cent from April 2015.

(c) Other items of £66 million for 2014 (2013: £60 million) principally reflect the positive effects of rebalancing the investment portfolio backing annuity business (see note 16(b)(ii)).

5 Short-term fluctuations in investment returns

Short-term fluctuations in investment returns included in profit for the year arise as follows:

(i) Group Summary

	2014 £m	2013* £m
Insurance operations:		
Asia[note (ii)]	**439**	(308)
US[note (iii)]	**(166)**	(280)
UK[note (iv)]	**583**	28
	856	(560)
Other operations[note (v)]	**(93)**	(4)
Total	**763**	(564)

* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

(ii) Asia operations

The short-term fluctuations in investment returns for Asia operations comprise amounts in respect of:

	2014 £m	2013* £m
Hong Kong	**178**	(178)
Indonesia	**35**	(44)
Singapore	**92**	(80)
Other	**134**	(6)
Total Asia operations	**439**	(308)

* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

These fluctuations mainly arise from decreases (2014) and increases (2013) in long-term interest rates as they affect the value of bonds in the portfolios backing liabilities and related capital. The £134 million credit for other operations in 2014 principally arises in Taiwan of £23 million and in Thailand of £49 million for unrealised gains on bonds.

(iii) US operations

The short-term fluctuations in investment returns for US operations comprise:

	2014 £m	2013* £m
Investment return related experience on fixed income securities[note (a)]	**31**	13
Investment return related impact due to changed expectation of profits on in-force variable annuity business in future periods based on current period separate account return, net of related hedging activity[note (b)]	**(187)**	(377)
Other items including actual less long-term return on equity based investments[note (c)]	**(10)**	84
Total US operations	**(166)**	(280)

* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Notes:

(a) The credit relating to fixed income securities comprises the following elements:
- the excess of actual realised gains and losses over the amortisation of interest related realised gains and losses recorded in the profit and loss account;
- credit loss experience (versus the longer-term assumption); and
- the impact of changes in the asset portfolio.

(b) This item reflects the net impact of:
- variances in projected future fees and future benefit costs arising from the effect of market fluctuations on the growth in separate account asset values in the current reporting period; and
- related hedging activity arising from realised and unrealised gains and losses on equity related hedges and interest rate options.

(c) For 2013, other items of £84 million primarily reflected a beneficial impact of the excess of actual over assumed return from investments in limited partnerships.

(iv) UK insurance operations

The short-term fluctuations in investment returns for UK insurance operations comprise:

	2014 £m	2013* £m
Shareholder-backed annuity[note (a)]	**310**	(58)
With-profits, Unit-linked and other[note (b)]	**273**	86
	583	28

* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Notes:

(a) Short-term fluctuations in investment returns for shareholder-backed annuity business comprise:
- gains/(losses) on surplus assets compared to the expected long-term rate of return reflecting reductions/(increases) in corporate bond and gilt yields;
- the difference between actual and expected default experience; and
- the effect of mismatching for assets and liabilities of different durations and other short-term fluctuations in investment returns.

(b) The short-term fluctuations in investment returns for with-profits, unit-linked and other business primarily arise from the excess of actual over expected returns for with-profits business, reflecting a total pre-tax return on the fund (including unallocated surplus) in 2014 of 9.5 per cent compared to an assumed rate of return of 5.0 per cent (2013: 8.0 per cent total return compared to assumed rate of 6.0 per cent). In addition, the amount includes the effect of a partial hedge of future shareholder transfers expected to emerge from the UK's with-profits sub-fund taken out during 2013. This hedge reduces the risks arising from equity market declines.

(v) Other operations

Short-term fluctuations in investment returns of other operations were negative £(93) million (2013: negative £(4) million) representing unrealised value movements on investments and foreign exchange items.

6 Effect of changes in economic assumptions

The effects of changes in economic assumptions for in-force business included in profit for the year, arise as follows:

(i) Group Summary

	2014 £m	2013* £m
Asia operations[note (ii)]	**(269)**	255
US operations[note (iii)]	**(77)**	242
UK insurance operations[note (iv)]	**(23)**	132
Total	**(369)**	629

* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

(ii) Asia operations

The effect of changes in economic assumptions for Asia operations comprises:

	2014 £m	2013* £m
Hong Kong	**(121)**	289
Malaysia	**11**	(62)
Indonesia	**25**	(176)
Singapore	**(42)**	90
Taiwan	**(21)**	92
Other	**(121)**	22
Total Asia operations	**(269)**	255

* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

The negative effect of £(269) million in 2014 principally reflected the overall impact of the reduction in fund earned rates for participating business in Hong Kong, Singapore and Taiwan, driven by the decrease in long-term interest rates. A negative effect has been reported on non-participating business in Korea (adverse £(38) million) and Thailand (adverse £(34) million) for similar reasons. These amounts were partially offset by the positive effect of valuing future health and protection profits at lower discount rates in Indonesia and Malaysia.

The positive impact in 2013 of £255 million reflected the overall impact of an increase in fund earned rates for participating business, principally arising in Hong Kong, Singapore and Taiwan, mainly due to the increase in long-term interest rates. There were partial offsets arising in Indonesia and Malaysia, valuing the negative impact of future health and protection profits at a higher discount rate.

(iii) US operations

The effect of changes in economic assumptions for US operations comprises:

	2014 £m	2013* £m
Effect of changes in 10-year treasury rates:		
Fixed annuity and other general account business [note (a)]	**151**	(244)
Variable annuity business[note (b)]	**(228)**	382
Decrease in additional allowance for credit risk[note (c)]	**-**	104
Total[note (d)]	**(77)**	242

* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Notes:

(a) For fixed annuity and other general account business, the credit of £151 million in 2014 principally arises from the effect on the future projected spread income of applying a lower discount rate on the opening value of the in-force book, arising from the 90 basis points reduction in the 10-year treasury rates (2013: charge of £(244) million reflecting the 130 basis points increase).

(b) In 2014 there was a 90 basis points decline in 10-year treasury rates. For variable annuity business the charge of £(228) million principally reflects the net effect of the consequent decrease in the assumed future rate of return on the underlying separate account assets, resulting in lower projected fee income and an increase in projected benefit costs, partially offset by the decrease in the risk discount rate. The credit of £382 million in 2013 reflected an increase in the risk free rate of 130 basis points.

(c) For 2013 the £104 million effect of the decrease in the additional allowance for credit risk within the risk discount rate reflected the reduction in credit spreads (50 basis points for spread business and 10 basis points for variable annuity business).

(d) The overall credit in 2013 of £242 million included a charge of £(13) million for the effect of a change in required capital on the EEV basis from 235 per cent to 250 per cent of risk-based capital.

(iv) UK insurance operations

The effect of changes in economic assumptions for UK insurance operations comprises the following:

	2014 £m	2013* £m
Effect of changes in expected long-term rates of return, risk discount rates and other changes:		
Shareholder-backed annuity business[note (a)]	**352**	(56)
With-profits and other business[note (b)]	**(375)**	188
Total	**(23)**	132

* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Notes:

(a) For shareholder-backed annuity business the overall positive effect reflects the effect on the present value of projected spread income arising from the reduction in expected long-term rates of return and risk discount rates, following the swap rate decline in 2014.

(b) For with-profits and other business the total charge in 2014 of £(375) million (2013: credit of £188 million) includes the net effect of the reduction in fund earned rates and risk discount rates (as shown in note 17(iii)), arising from the 130 basis points decrease (2013: increase of 120 basis points) in the 15-year government bond rate and portfolio changes.

7 Sale of PruHealth and PruProtect business

On 10 November 2014, the Prudential Assurance Company Limited announced an agreement to sell its 25 per cent equity stake in the PruHealth and PruProtect businesses to Discovery Group Europe Limited. The sale was completed on 14 November 2014. This transaction gave rise to a gain on disposal of £44 million.

8 Held for sale Japan Life business

On 5 February 2015, the Group announced that it had completed the sale of its closed book life insurance business in Japan, PCA Life Insurance Company Limited to SBI Holdings, Inc. following regulatory approvals. The loss of Japan Life business in the 2013 results includes the reduction in EEV carrying value to reflect the completion of sale.

9 Domestication of the Hong Kong branch business

On 1 January 2014, following consultation with policyholders of PAC and regulators and court approval, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. The 2014 EEV basis results includes opening adjustments arising from the transfer of capital that was previously held within the UK business in respect of the Hong Kong branch operations and additional capital requirements that arise from the newly established subsidiaries as follows:

	2014 £m				
Adjustment to shareholders' equity at 1 January 2014	**Free surplus**	**Required capital**	**Total net worth**	**Value of in-force business**	**Total long-term business operations**
Asia operations	(104)	104	-	(40)	(40)
UK insurance operations	69	(69)	-	29	29
Opening adjustment	(35)	35	-	(11)	(11)

The net EEV basis effect of £(11) million represents the cost of holding higher required capital levels in the stand-alone Hong Kong shareholder-backed long-term insurance business. The post-tax costs incurred to enable the domestication in 2014 were £4 million (2013: £28 million).

10 Net core structural borrowings of shareholder-financed operations

	31 Dec 2014 £m			31 Dec 2013 £m		
	IFRS basis	**Mark to market value adjustment**	**EEV basis at market value**	IFRS basis	Mark to market value adjustment	EEV basis at market value
Holding company* cash and short-term investments	**(1,480)**	**-**	**(1,480)**	(2,230)	-	(2,230)
Core structural borrowings – central funds	**3,869**	**579**	**4,448**	4,211	392	4,603
Holding company net borrowings	**2,389**	**579**	**2,968**	1,981	392	2,373
Core structural borrowings – Prudential Capital	**275**	**-**	**275**	275	-	275
Core structural borrowings – Jackson	**160**	**42**	**202**	150	38	188
Net core structural borrowings of shareholder-financed operations	**2,824**	**621**	**3,445**	2,406	430	2,836

* Including central finance subsidiaries.

11 Analysis of movement in free surplus

Free surplus is the excess of the regulatory basis net assets for EEV reporting purposes (net worth) over the capital required to support the covered business. Where appropriate, adjustments are made to the net worth so that backing assets are included at fair value rather than cost so as to comply with the EEV Principles.

(i) Underlying free surplus generated

The 2013 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The 2013 CER comparative results are translated at 2014 average exchange rates.

	2014 £m	2013 £m		% change	
		AER	CER*	AER	CER
Asia operations					
Underlying free surplus generated from in-force life business	**860**	819	742	5%	16%
Investment in new business notes (ii)(a), (ii)(g)	**(346)**	(310)	(285)	(12)%	(21)%
Long-term business	**514**	509	457	1%	12%
Eastspring Investments note (ii)(b)	**78**	64	59	22%	32%
Total	**592**	573	516	3%	15%
US operations					
Underlying free surplus generated from in-force life business	**1,191**	1,129	1,072	5%	11%
Investment in new business note (ii)(a)	**(187)**	(298)	(283)	37%	34%
Long-term business	**1,004**	831	789	21%	27%
Broker-dealer and asset management note (ii)(b)	**6**	39	37	(85)%	(84)%
Total	**1,010**	870	826	16%	22%
UK insurance operations					
Underlying free surplus generated from in-force life business	**645**	680	680	(5)%	(5)%
Investment in new business note (ii)(a)	**(73)**	(29)	(29)	(152)%	(152)%
Long-term business	**572**	651	651	(12)%	(12)%
General insurance commission note (ii)(b)	**19**	22	22	(14)%	(14)%
Total	**591**	673	673	(12)%	(12)%
M&G (including Prudential Capital) note (ii)(b)	**386**	346	346	12%	12%
Underlying free surplus generated	**2,579**	2,462	2,361	5%	9%
Representing:					
Long-term business:					
Expected in-force cashflows (including expected return on net assets)	**2,382**	2,150	2,037	11%	17%
Effects of changes in operating assumptions, operating experience variances and other operating items	**314**	478	457	(34)%	(31)%
Underlying free surplus generated from in-force life business	**2,696**	2,628	2,494	3%	8%
Investment in new business notes (ii)(a), (ii)(g)	**(606)**	(637)	(597)	5%	(2)%
Total long-term business	**2,090**	1,991	1,897	5%	10%
Asset management note (ii)(b)	**489**	471	464	4%	5%
Underlying free surplus generated	**2,579**	2,462	2,361	5%	9%

(ii) Movement in Free surplus

Long-term business and asset management operations	**2014 £m**			2013 £m
	Long-term business	**Asset management and UK general insurance commission**	**Free surplus of long-term business, asset management and UK general insurance commission**	Free surplus of long-term business, asset management and UK general insurance commission
	note 13	note (b)		
Underlying movement:				
Investment in new business[notes (a), (g)]	**(606)**	**-**	**(606)**	(637)
Business in force:				
Expected in-force cash flows (including expected return on net assets)	**2,382**	**489**	**2,871**	2,621
Effects of changes in operating assumptions, operating experience variances and other operating items	**314**	**-**	**314**	478
	2,090	**489**	**2,579**	2,462
Increase in EEV assumed level of required capital	**-**	**-**	**-**	(58)
Loss attaching to held for sale Japan Life business[note 8]	**-**	**-**	**-**	(40)
Gain on sale of PruHealth and PruProtect [notes 7, 13]	**130**	**-**	**130**	-
Other non-operating items[note (c)]	**(252)**	**(14)**	**(266)**	(722)
	1,968	**475**	**2,443**	1,642
Net cash flows to parent company[note (d)]	**(1,170)**	**(312)**	**(1,482)**	(1,341)
Bancassurance agreement and purchase of Thanachart Life	**-**	**-**	**-**	365
Exchange movements, timing differences and other items[note (e)]	**210**	**(80)**	**130**	(352)
Net movement in free surplus	**1,008**	**83**	**1,091**	314
Balance at beginning of year:				
As previously reported	**3,220**	**783**	**4,003**	3,689
Effect of domestication of Hong Kong branch on 1 January 2014[note 9]	**(35)**	**-**	**(35)**	-
Balance at 1 January	**3,185**	**783**	**3,968**	3,689
Balance at 31 December 2014 / 31 December 2013[note (g)]	**4,193**	**866**	**5,059**	4,003
Representing:				
Asia operations	**1,347**	**213**	**1,560**	1,379
US operations	**1,416**	**141**	**1,557**	1,074
UK operations	**1,430**	**512**	**1,942**	1,550
	4,193	**866**	**5,059**	4,003
Balance at beginning of year:				
Asia operations	1,185	194	1,379	1,181
US operations	956	118	1,074	1,319
UK operations	1,079	471	1,550	1,189
	3,220	783	4,003	3,689

Notes:

(a) Free surplus invested in new business represents amounts set aside for required capital and acquisition costs.

(b) For the purposes of this analysis, free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis post-tax earnings and shareholders' equity.

(c) Non-operating items are principally short-term fluctuations in investment returns and the effect of changes in economic assumptions for long-term business operations.

(d) Net cash flows to parent company for long-term business operations reflect the flows as included in the holding company cash flow at transaction rates.

(e) Exchange movements, timing differences and other items represent:

	2014 £m		
	Long-term business	**Asset management and UK general insurance commission**	**Total**
Exchange movements[note 13]	**134**	**11**	**145**
Mark to market value movements on Jackson assets backing surplus and required capital[note 12]	**77**	**-**	**77**
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(17)**	**(1)**	**(18)**
Other[note (f)]	**16**	**(90)**	**(74)**
	210	**(80)**	**130**

(f) Other primarily reflects the effect of intra-group loans, contingent loan funding as shown in note 13(i), timing differences and other non-cash items.

(g) Investment in new business includes the annual amortisation charge of amounts incurred to secure exclusive distribution rights through our bancassurance partners at a rate that reflects the pattern in which the future economic benefits are expected to be consumed by reference to new business levels. Included within the overall free surplus balance of our Asian life entities is £304 million representing unamortised amounts incurred to secure exclusive distribution rights through bancassurance partners. These amounts exclude £883 million of Asia distribution rights intangibles that are financed by loan arrangements from central companies, the costs of which are allocated to the Asia life segment as the amortisation cost is incurred.

12 Reconciliation of movement in shareholders' equity

	2014 £m					
	Long-term business operations					
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Other operations	Group Total
	note (i)				note (i)	
Post-tax operating profit (based on longer-term investment returns)						
Long-term business:						
New business[note 3]	**1,162**	**694**	**270**	**2,126**	**-**	**2,126**
Business in force[note 4]	**739**	**834**	**476**	**2,049**	**-**	**2,049**
	1,901	**1,528**	**746**	**4,175**	**-**	**4,175**
Asset management	**-**	**-**	**-**	**-**	**470**	**470**
Other results	**(1)**	**-**	**(20)**	**(21)**	**(528)**	**(549)**
Post-tax operating profit based on longer-term investment returns	**1,900**	**1,528**	**726**	**4,154**	**(58)**	**4,096**
Total post-tax non-operating profit	**170**	**(245)**	**600**	**525**	**(278)**	**247**
Profit for the year	**2,070**	**1,283**	**1,326**	**4,679**	**(336)**	**4,343**
Other items taken directly to equity						
Exchange movements on foreign operations and net investment hedges	**375**	**483**	**-**	**858**	**(121)**	**737**
Intra-group dividends (including statutory transfers)[note (ii)]	**(410)**	**(413)**	**(200)**	**(1,023)**	**1,023**	**-**
Investment in operations[note (iii)]	**3**	**-**	**-**	**3**	**(3)**	**-**
External dividends	**-**	**-**	**-**	**-**	**(895)**	**(895)**
Other movements [note (iv)]	**9**	**(17)**	**(64)**	**(72)**	**126**	**54**
Mark to market value movements on Jackson assets backing surplus and required capital	**-**	**77**	**-**	**77**	**-**	**77**
Net increase in shareholders' equity	**2,047**	**1,413**	**1,062**	**4,522**	**(206)**	**4,316**
Shareholders' equity at beginning of year:						
As previously reported	**10,305**	**6,966**	**7,342**	**24,613**	**243**	**24,856**
Effect of domestication of Hong Kong branch on 1 January 2014[note 9]	**(40)**	**-**	**29**	**(11)**	**-**	**(11)**
Shareholders' equity at 31 December 2014[note (i)]	**12,312**	**8,379**	**8,433**	**29,124**	**37**	**29,161**
Representing:						
Statutory IFRS basis shareholders' equity:						
Net assets	**3,315**	**4,067**	**3,785**	**11,167**	**(819)**	**10,348**
Goodwill	**-**	**-**	**-**	**-**	**1,463**	**1,463**
Total IFRS basis shareholders' equity	**3,315**	**4,067**	**3,785**	**11,167**	**644**	**11,811**
Additional retained profit (loss) on an EEV basis[note (v)]	**8,997**	**4,312**	**4,648**	**17,957**	**(607)**	**17,350**
EEV basis shareholders' equity	**12,312**	**8,379**	**8,433**	**29,124**	**37**	**29,161**
Balance at 31 December 2013						
Representing:						
Statutory IFRS basis shareholders' equity:						
Net assets	2,564	3,446	2,976	8,986	(797)	8,189
Goodwill	-	-	-	-	1,461	1,461
Total IFRS basis shareholders' equity	2,564	3,446	2,976	8,986	664	9,650
Additional retained profit (loss) on an EEV basis[note (v)]	7,741	3,520	4,366	15,627	(421)	15,206
EEV basis shareholders' equity	10,305	6,966	7,342	24,613	243	24,856

Notes:

(i) For the purposes of the table above, goodwill of £233 million (2013: £231 million) related to Asia long-term operations is included in Other operations.

(ii) Intra-group dividends (including statutory transfers) represent dividends that have been declared in the year and amounts accrued in respect of statutory transfers. The amounts included in note 11 for these items are as per the holding company cashflow at transaction rates. The difference primarily relates to intra-group loans, timing differences arising on statutory transfers, and other non-cash items.

(iii) Investment in operations reflects increases in share capital.

(iv) Included in other movements there was a charge of £(11) million (2013: £(53) million) for the shareholders' share of actuarial and other gains and losses on the defined benefit schemes.

(v) The additional retained loss on an EEV basis for Other operations primarily represents the mark to market value adjustment for holding company net borrowings of a charge of £(579) million (2013: £(392) million), as shown in note 10.

13 Reconciliation of movement in net worth and value of in-force for long-term business

	2014 £m				
	Free Surplus note 11	**Required capital**	**Total net worth**	**Value of in-force business** note (iii)	**Total long-term business operations**
Group					
Shareholders' equity at beginning of year:					
As previously reported	**3,220**	**3,954**	**7,174**	**17,439**	**24,613**
Effect of domestication of Hong Kong branch on 1 January 2014[note 9]	**(35)**	**35**	**-**	**(11)**	**(11)**
	3,185	**3,989**	**7,174**	**17,428**	**24,602**
New business contribution[notes (ii) and 3]	**(606)**	**453**	**(153)**	**2,279**	**2,126**
Existing business – transfer to net worth	**2,276**	**(316)**	**1,960**	**(1,960)**	**-**
Expected return on existing business[note 4]	**106**	**81**	**187**	**1,253**	**1,440**
Changes in operating assumptions and experience variances [note 4]	**335**	**36**	**371**	**238**	**609**
Development expenses, solvency II and restructuring costs	**(21)**	**-**	**(21)**	**-**	**(21)**
Post-tax operating profit based on longer-term investment returns	**2,090**	**254**	**2,344**	**1,810**	**4,154**
Gain on sale of PruHealth and PruProtect[note 7]	**130**	**(32)**	**98**	**(54)**	**44**
Other non-operating items	**(252)**	**220**	**(32)**	**513**	**481**
Post-tax profit from long-term business	**1,968**	**442**	**2,410**	**2,269**	**4,679**
Exchange movements on foreign operations and net investment hedges	**134**	**125**	**259**	**599**	**858**
Intra-group dividends (including statutory transfers) and investment in operations[note (i)]	**(1,099)**	**-**	**(1,099)**	**79**	**(1,020)**
Other movements	**5**	**-**	**5**	**-**	**5**
Shareholders' equity at 31 December 2014	**4,193**	**4,556**	**8,749**	**20,375**	**29,124**
Representing:					
Asia operations					
Shareholders' equity at beginning of year:					
As previously reported	**1,185**	**977**	**2,162**	**8,143**	**10,305**
Effect of domestication of Hong Kong branch on 1 January 2014[note 9]	**(104)**	**104**	**-**	**(40)**	**(40)**
	1,081	**1,081**	**2,162**	**8,103**	**10,265**
New business contribution[notes (ii) and 3]	**(346)**	**130**	**(216)**	**1,378**	**1,162**
Existing business – transfer to net worth	**828**	**(23)**	**805**	**(805)**	**-**
Expected return on existing business[note 4]	**62**	**-**	**62**	**586**	**648**
Changes in operating assumptions and experience variances[note 4]	**(29)**	**44**	**15**	**76**	**91**
Development expenses	**(1)**	**-**	**(1)**	**-**	**(1)**
Post-tax operating profit based on longer-term investment returns	**514**	**151**	**665**	**1,235**	**1,900**
Other non-operating items	**118**	**70**	**188**	**(18)**	**170**
Post-tax profit from long-term business	**632**	**221**	**853**	**1,217**	**2,070**
Exchange movements on foreign operations and net investment hedges	**56**	**25**	**81**	**294**	**375**
Intra-group dividends and investment in operations	**(407)**	**-**	**(407)**	**-**	**(407)**
Other movements	**(15)**	**-**	**(15)**	**24**	**9**
Shareholders' equity at 31 December 2014	**1,347**	**1,327**	**2,674**	**9,638**	**12,312**
US operations					
Shareholders' equity at 1 January 2014	**956**	**1,607**	**2,563**	**4,403**	**6,966**
New business contribution[notes (ii) and 3]	**(187)**	**216**	**29**	**665**	**694**
Existing business – transfer to net worth	**883**	**(210)**	**673**	**(673)**	**-**
Expected return on existing business[note 4]	**30**	**48**	**78**	**304**	**382**
Changes in operating assumptions and experience variances[note 4]	**278**	**4**	**282**	**170**	**452**
Post-tax operating profit based on longer-term investment returns	**1,004**	**58**	**1,062**	**466**	**1,528**
Other non-operating items	**(269)**	**(55)**	**(324)**	**79**	**(245)**
Post-tax profit from long-term business	**735**	**3**	**738**	**545**	**1,283**
Exchange movements on foreign operations and net investment hedges	**78**	**100**	**178**	**305**	**483**
Intra-group dividends	**(413)**	**-**	**(413)**	**-**	**(413)**
Other movements	**60**	**-**	**60**	**-**	**60**
Shareholders' equity at 31 December 2014	**1,416**	**1,710**	**3,126**	**5,253**	**8,379**
UK insurance operations					
Shareholders' equity at beginning of year:					
As previously reported	**1,079**	**1,370**	**2,449**	**4,893**	**7,342**
Effect of domestication of Hong Kong branch on 1 January 2014[note 9]	**69**	**(69)**	**-**	**29**	**29**
	1,148	**1,301**	**2,449**	**4,922**	**7,371**
New business contribution[notes (ii) and 3]	**(73)**	**107**	**34**	**236**	**270**
Existing business – transfer to net worth	**565**	**(83)**	**482**	**(482)**	**-**
Expected return on existing business[note 4]	**14**	**33**	**47**	**363**	**410**
Changes in operating assumptions and experience variances[note 4]	**86**	**(12)**	**74**	**(8)**	**66**
Solvency II and restructuring costs	**(20)**	**-**	**(20)**	**-**	**(20)**
Post-tax operating profit based on longer-term investment returns	**572**	**45**	**617**	**109**	**726**
Gain on sale of PruHealth and PruProtect[note 7]	**130**	**(32)**	**98**	**(54)**	**44**
Other non-operating items	**(101)**	**205**	**104**	**452**	**556**
Post-tax profit from long-term business	**601**	**218**	**819**	**507**	**1,326**
Intra-group dividends (including statutory transfers)[note (i)]	**(279)**	**-**	**(279)**	**79**	**(200)**
Other movements	**(40)**	**-**	**(40)**	**(24)**	**(64)**
Shareholders' equity at 31 December 2014	**1,430**	**1,519**	**2,949**	**5,484**	**8,433**

Notes:

(i) The amounts shown in respect of free surplus and the value of in-force business for UK insurance operations for intra-group dividends (including statutory transfers) include the repayment of contingent loan funding. Contingent loan funding represents amounts whose repayment to the lender is contingent upon future surpluses emerging from certain contracts specified under the arrangement. If insufficient surplus emerges on those contracts, there is no recourse to other assets of the Group and the liability is not payable to the degree of shortfall.

(ii) New business contribution per £1 million of free surplus invested:

	2014 £m				2013 £m			
	Asia operations	**US operations**	**UK insurance operations**	**Total long-term business operations**	Asia operations	US operations	UK insurance operations	Total long-term business operations
Post-tax new business contribution[note 3]	**1,162**	**694**	**270**	**2,126**	1,139	706	237	2,082
Free surplus invested in new business	**(346)**	**(187)**	**(73)**	**(606)**	(310)	(298)	(29)	(637)
Post-tax new business contribution £1 million of free surplus invested	**3.4**	**3.7**	**3.7**	**3.5**	3.7	2.4	8.2	3.3

(iii) The value of in-force business comprises the value of future margins from current in-force business less the cost of holding required capital as shown below:

	31 Dec 2014 £m				31 Dec 2013 £m			
	Asia operations	**US operations**	**UK insurance operations**	**Total long-term business operations**	Asia operations	US operations	UK insurance operations	Total long-term business operations
Value of in-force business before deduction of cost of capital and time value of guarantees	**10,168**	**5,914**	**5,756**	**21,838**	8,540	4,769	5,135	18,444
Cost of capital	**(417)**	**(199)**	**(272)**	**(888)**	(347)	(220)	(242)	(809)
Cost of time value of guarantees[note (iv)]	**(113)**	**(462)**	**-**	**(575)**	(50)	(146)	-	(196)
Net value of in-force business	**9,638**	**5,253**	**5,484**	**20,375**	8,143	4,403	4,893	17,439

(iv) The increase in the cost of time value of guarantees for US operations from £(146) million at 2013 to £(462) million at 2014 primarily relates to variable annuity business. It mainly arises from the decrease in the expected long-term separate account rate of return following the 90 basis points decline in the US 10-year treasury bond rate and the impact from new business written in the year, partly offset by the level of equity performance.

14 Expected transfer of value of in-force business to free surplus

The discounted value of in-force business and required capital can be reconciled to the 2014 and 2013 totals in the tables below for the emergence of free surplus as follows:

	2014 £m	2013 £m
Required capital[note 13]	**4,556**	3,954
Value of in-force (VIF)[note 13]	**20,375**	17,439
Add back: deduction for cost of time value of guarantees[note 13]	**575**	196
Expected cashflow from sale of Japan Life business	**(23)**	(25)
Other items[note]	**(1,382)**	(1,157)
Total	**24,101**	20,407

Note:
'Other items' represent amounts incorporated into VIF where there is no definitive timeframe for when the payments will be made or receipts received. In particular, other items includes the deduction of the value of the shareholders' interest in the estate, the value of which is derived by increasing final bonus rates so as to exhaust the estate over the lifetime of the in-force with-profits business. This is an assumption to give an appropriate valuation. To be conservative this item is excluded from the expected free surplus generation profile below.

Cash flows are projected on a deterministic basis and are discounted at the appropriate risk discount rate. The modelled cash flows use the same methodology underpinning the Group's embedded value reporting and so are subject to the same assumptions and sensitivities.

The table below shows how the VIF generated by the in-force business and the associated required capital is modelled as emerging into free surplus over future years.

		2014 £m					
		Expected period of conversion of future post tax distributable earnings and required capital flows to free surplus					
	2014 Total as shown above	**1-5 years**	**6 -10 years**	**11-15 years**	**16 -20 years**	**21-40 years**	**40+ years**
Asia operations*	**10,859**	**3,660**	**2,289**	**1,553**	**1,026**	**1,874**	**457**
US operations	**7,471**	**3,867**	**2,298**	**873**	**334**	**99**	**-**
UK insurance operations	**5,771**	**2,111**	**1,464**	**973**	**606**	**604**	**13**
Total	**24,101**	**9,638**	**6,051**	**3,399**	**1,966**	**2,577**	**470**
	100%	**40%**	**25%**	**14%**	**8%**	**11%**	**2%**

		2013 £m					
		Expected period of conversion of future post tax distributable earnings and required capital flows to free surplus					
	2013Total as shown above	1-5 years	6 -10 years	11-15 years	16 -20 years	21-40 years	40+ years
Asia operations*	9,021	3,168	1,883	1,275	855	1,465	375
US operations	6,234	3,326	1,845	653	271	139	-
UK insurance operations	5,152	1,915	1,326	870	536	487	18
Total	20,407	8,409	5,054	2,798	1,662	2,091	393
	100%	41%	25%	14%	8%	10%	2%

*Following its reclassification as held for sale, the Asia cashflows exclude any cashflows in respect of Japan.

15 Sensitivity of results to alternative assumptions

(a) Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2014 (31 December 2013) and the post-tax new business contribution after the effect of required capital for 2014 and 2013 to:

- 1 per cent increase in the discount rates;
- 1 per cent increase and decrease in interest rates, including all consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- 1 per cent rise in equity and property yields;
- 10 per cent fall in market value of equity and property assets (embedded value only);
- The statutory minimum capital level (by contrast to EEV basis required capital), (for embedded value only);
- 5 basis point increase in UK long-term expected defaults; and
- 10 basis point increase in the liquidity premium for UK annuities.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised economic conditions.

New business contribution

	2014 £m				2013* £m			
	Asia operations	**US operations**	**UK insurance operations**	**Total long-term business operations**	Asia operations	US operations	UK insurance operations	Total long-term business operations
Post-tax new business contribution [note 3]	**1,162**	**694**	**270**	**2,126**	1,139	706	237	2,082
Discount rates – 1% increase	**(176)**	**(27)**	**(38)**	**(241)**	(148)	(34)	(29)	(211)
Interest rates – 1% increase	**13**	**61**	**(15)**	**59**	23	47	(1)	69
Interest rates – 1% decrease	**(52)**	**(101)**	**19**	**(134)**	(55)	(69)	-	(124)
Equity/property yields – 1% rise	**46**	**73**	**12**	**131**	45	63	10	118
Long-term expected defaults - 5 bps increase	**-**	**-**	**(10)**	**(10)**	-	-	(6)	(6)
Liquidity premium - 10 bps increase	**-**	**-**	**20**	**20**	-	-	12	12

* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Embedded value of long-term business operations

	2014 £m				2013 £m			
	Asia operations	**US operations**	**UK insurance operations**	**Total long-term business operations**	Asia operations	US operations	UK insurance operations	Total long-term business operations
Shareholders' equity [note 12]	**12,312**	**8,379**	**8,433**	**29,124**	10,305	6,966	7,342	24,613
Discount rates – 1% increase	**(1,214)**	**(268)**	**(602)**	**(2,084)**	(992)	(266)	(529)	(1,787)
Interest rates – 1% increase	**(462)**	**(232)**	**(362)**	**(1,056)**	(297)	(65)	(380)	(742)
Interest rates – 1% decrease	**211**	**16**	**452**	**679**	200	(12)	443	631
Equity/property yields – 1% rise	**435**	**365**	**282**	**1,082**	370	250	210	830
Equity/property market values – 10% fall	**(221)**	**(129)**	**(380)**	**(730)**	(183)	(90)	(238)	(511)
Statutory minimum capital	**129**	**139**	**4**	**272**	109	153	4	266
Long-term expected defaults – 5 bps increase	**-**	**-**	**(139)**	**(139)**	-	-	(114)	(114)
Liquidity premium – 10 bps increase	**-**	**-**	**278**	**278**	-	-	228	228

The sensitivities shown above are for the impact of instantaneous changes on the embedded value of long-term business operations and include the combined effect on the value of in-force business and net assets at the balance sheet dates indicated. If the change in assumption shown in the sensitivities were to occur, then the effect shown above would be recorded within two components of the profit analysis for the following year. These are for the effect of economic assumption changes and short-term fluctuations in investment returns. In addition to the sensitivity effects shown above, the other components of the profit for the following year would be calculated by reference to the altered assumptions, for example new business contribution and unwind of discount, together with the effect of other changes such as altered corporate bond spreads. In addition for Jackson, the fair value movements on assets backing surplus and required capital which are taken directly to shareholders' equity would also be affected by changes in interest rates.

(b) Sensitivity analysis – non-economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2014 (31 December 2013) and the post-tax new business contribution after the effect of required capital for 2014 and 2013 to:

- 10 per cent proportionate decrease in maintenance expenses (a 10 per cent sensitivity on a base assumption of £10 per annum would represent an expense assumption of £9 per annum);
- 10 per cent proportionate decrease in lapse rates (a 10 per cent sensitivity on a base assumption of 5 per cent would represent a lapse rate of 4.5 per cent per annum); and
- 5 per cent proportionate decrease in base mortality and morbidity rates (i.e. increased longevity).

New business contribution

	2014 £m				2013* £m			
	Asia operations	**US operations**	**UK insurance operations**	**Total long-term business operations**	Asia operations	US operations	UK insurance operations	Total long-term business operations
Post-tax new business contribution [note 3]	**1,162**	**694**	**270**	**2,126**	1,139	706	237	2,082
Maintenance expenses – 10% decrease	**23**	**8**	**3**	**34**	23	8	3	34
Lapse rates – 10% decrease	**88**	**27**	**6**	**121**	85	27	6	118
Mortality and morbidity – 5% decrease	**52**	**2**	**(20)**	**34**	58	4	(6)	56
Change representing effect on:								
Life business	**52**	**2**	**1**	**55**	58	4	2	64
UK annuities	**-**	**-**	**(21)**	**(21)**	-	-	(9)	(9)

* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Embedded value of long-term business operations

	2014 £m				2013 £m			
	Asia operations	**US operations**	**UK insurance operations**	**Total long-term business operations**	Asia operations	US operations	UK insurance operations	Total long-term business operations
Shareholders' equity [note 12]	**12,312**	**8,379**	**8,433**	**29,124**	10,305	6,966	7,342	24,613
Maintenance expenses – 10% decrease	**136**	**71**	**56**	**263**	126	59	58	243
Lapse rates – 10% decrease	**422**	**354**	**67**	**843**	352	294	79	725
Mortality and morbidity – 5% decrease	**433**	**163**	**(347)**	**249**	377	154	(254)	277
Change representing effect on:								
Life business	**433**	**163**	**9**	**605**	377	154	20	551
UK annuities	**-**	**-**	**(356)**	**(356)**	-	-	(274)	(274)

16 Methodology and accounting presentation

(a) Methodology

Overview

The embedded value is the present value of the shareholders' interest in the earnings distributable from assets allocated to covered business after sufficient allowance has been made for the aggregate risks in that business. The shareholders' interest in the Group's long-term business comprises:

- the present value of future shareholder cash flows from in-force covered business (value of in-force business), less deductions for:
  - the cost of locked-in required capital; and
  - the time value of cost of options and guarantees;
- locked-in required capital; and
- the shareholders' net worth in excess of required capital (free surplus).

The value of future new business is excluded from the embedded value.

Notwithstanding the basis of presentation of results (as explained in note 16(b)(iii)) no smoothing of market or account balance values, unrealised gains or investment return is applied in determining the embedded value or profit. Separately, the analysis of profit is delineated between operating profit based on longer-term investment returns and other constituent items (as explained in note 16(b)(i)).

(i) Covered business

The EEV results for the Group are prepared for 'covered business', as defined by the EEV Principles. Covered business represents the Group's long-term insurance business for which the value of new and in-force contracts is attributable to shareholders. The post-tax EEV basis results for the Group's covered business are then combined with the post-tax IFRS basis results of the Group's other operations. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management, as described in note 16(a)(vii).

The definition of long-term business operations is consistent with previous practice and comprises those contracts falling under the definition for regulatory purposes together with, for US operations, contracts that are in substance the same as guaranteed investment contracts (GICs) but do not fall within the technical definition.

Covered business comprises the Group's long-term business operations, with two exceptions:

- the closed Scottish Amicable Insurance Fund (SAIF) which is excluded from covered business. SAIF is a ring-fenced sub-fund of the Prudential Assurance Company (PAC) long-term fund, established by a Court approved Scheme of Arrangement in October 1997. SAIF is closed to new business and the assets and liabilities of the fund are wholly attributable to the policyholders of the fund.
- the presentational treatment of the Group's principal defined benefit pension scheme, the Prudential Staff Pension Scheme (PSPS). The partial recognition of the surplus for PSPS is recognised in 'Other' operations.

A small amount of UK group pensions business is also not modelled for EEV reporting purposes.

(ii) Valuation of in-force and new business

The embedded value results are prepared incorporating best estimate assumptions about all relevant factors including levels of future investment returns, expenses, persistency and mortality (as described in note 17). These assumptions are used to project future cash flows. The present value of the future cash flows is then calculated using a discount rate which reflects both the time value of money and the non-diversifiable risks associated with the cash flows that are not otherwise allowed for.

New business

In determining the EEV basis value of new business, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for statutory basis reporting.

New business premiums reflect those premiums attaching to covered business, including premiums for contracts classified as investment products for IFRS basis reporting. New business premiums for regular premium products are shown on an annualised basis. Internal vesting business is classified as new business where the contracts include an open market option.

The post-tax contribution from new business represents profits determined by applying operating assumptions as at the end of the year.

For UK immediate annuity business and single premium Universal Life products in Asia, primarily in Singapore, the new business contribution is determined by applying economic assumptions reflecting point-of-sale market conditions. This is consistent with how the business is priced as crediting rates are linked to yields on specific assets and the yield is locked-in when the assets are purchased at the point-of-sale of the policy. For other business within the Group, end of year economic assumptions are used.

New business profitability is a key metric for the Group's management of the development of the business. In addition, post-tax new business margins are shown by reference to annual premium equivalents (APE) and the present value of new business premiums (PVNBP). These margins are calculated as the percentage of the value of new business profit to APE and PVNBP. APE is calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts. PVNBP is calculated as equalling single premiums plus the present value of expected premiums of new regular premium business, allowing for lapses and other assumptions made in determining the EEV new business contribution.

Valuation movements on investments

With the exception of debt securities held by Jackson, investment gains and losses during the year (to the extent that changes in capital values do not directly match changes in liabilities) are included directly in the profit for the year and shareholders' equity as they arise.

The results for any covered business conceptually reflect the aggregate of the IFRS results and the movements on the additional shareholders' interest recognised on the EEV basis. Thus the start point for the calculation of the EEV results for Jackson, as for other businesses, reflects the market value movements recognised on the IFRS basis.

However, in determining the movements on the additional shareholders' interest, the basis for calculating the Jackson EEV result acknowledges that, for debt securities backing liabilities, the aggregate EEV results reflect the fact that the value of in-force business instead incorporates the discounted value of future spread earnings. This value is not affected generally by short-term market movements on securities that broadly speaking, are held for the longer-term.

Fixed income securities backing the free surplus and required capital for Jackson are accounted for at fair value. However, consistent with the treatment applied under IFRS for Jackson securities classified as available-for-sale, movements in unrealised appreciation on these securities are accounted for in equity rather than in the income statement, as shown in the movement in shareholders' equity.

(iii) Cost of capital

A charge is deducted from the embedded value for the cost of capital supporting the Group's long-term business. This capital is referred to as required capital. The cost is the difference between the nominal value of the capital and the discounted value of the projected releases of this capital allowing for investment earnings (post-tax) on the capital.

The annual result is affected by the movement in this cost from year-to-year which comprises a charge against new business profit and generally a release in respect of the reduction in capital requirements for business in force as this runs off.
Where required capital is held within a with-profits long-term fund, the value placed on surplus assets in the fund is already discounted to reflect its release over time and no further adjustment is necessary in respect of required capital.

(iv) Financial options and guarantees

Nature of financial options and guarantees in Prudential's long-term business

Asia operations

Subject to local market circumstances and regulatory requirements, the guarantee features described below in respect of UK business broadly apply to similar types of participating contracts principally written in the Hong Kong, Singapore and Malaysia. Participating products have both guaranteed and non-guaranteed elements.

There are also various non-participating long-term products with guarantees. The principal guarantees are those for whole of life contracts with floor levels of policyholder benefits that accrue at rates set at inception and do not vary subsequently with market conditions.

US operations (Jackson)

The principal financial options and guarantees in Jackson are associated with the fixed annuity and variable annuity (VA) lines of business.

Fixed annuities provide that, at Jackson's discretion, it may reset the interest rate credited to policyholders' accounts, subject to a guaranteed minimum. The guaranteed minimum return varies from 1.0 per cent to 5.5 per cent for 2014 and 2013, depending on the particular product, jurisdiction where issued, and date of issue. For 2014, 86 per cent (2013: 86 per cent) of the account values on fixed annuities are for policies with guarantees of 3 per cent or less. The average guarantee rate is 2.7 per cent (2013: 2.8 per cent).

Fixed annuities also present a risk that policyholders will exercise their option to surrender their contracts in periods of rapidly rising interest rates, possibly requiring Jackson to liquidate assets at an inopportune time.

Jackson issues VA contracts where it contractually guarantees to the contract holder either: a) return of no less than total deposits made to the contract adjusted for any partial withdrawals; b) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return; or c) the highest contract value on a specified anniversary date adjusted for any withdrawals following the specified contract anniversary. These guarantees include benefits that are payable at specified dates during the accumulation period (Guaranteed Minimum Withdrawal Benefit (GMWB)), as death benefits (Guaranteed Minimum Death Benefits (GMDB)) or as income benefits (Guaranteed Minimum Income Benefits (GMIB)). These guarantees generally protect the policyholder's value in the event of poor equity market performance. Jackson hedges the GMDB and GMWB guarantees through the use of equity options and futures contracts, and fully reinsures the GMIB guarantees.

Jackson also issues fixed index annuities that enable policyholders to obtain a portion of an equity-linked return while providing a guaranteed minimum return. The guaranteed minimum returns are of a similar nature to those described above for fixed annuities.

UK insurance operations

For covered business the only significant financial options and guarantees in the UK insurance operations arise in the with-profits fund.

With-profits products provide returns to policyholders through bonuses that are smoothed. There are two types of bonuses - annual and final. Annual bonuses are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular product. Unlike annual bonuses, final bonuses are guaranteed only until the next bonus declaration. The with-profits fund also held a provision on the Pillar I Peak 2 basis of £50 million at 31 December 2014 (31 December 2013: £36 million) to honour guarantees on a small number of guaranteed annuity option products.

The Group's main exposure to guaranteed annuity options in the UK is through the non-covered business of SAIF. A provision on the Pillar I Peak 2 basis of £549 million was held in SAIF at 31 December 2014 (31 December 2013: £328 million) to honour the guarantees. As described in note 16(a)(i) above, the assets and liabilities are wholly attributable to the policyholders of the fund. Therefore the movement in the provision has no direct impact on shareholders.

Time value

The value of financial options and guarantees comprises two parts. One is given by a deterministic valuation on best estimate assumptions (the intrinsic value). The other part arises from the variability of economic outcomes in the future (the time value). Where appropriate, a full stochastic valuation has been undertaken to determine the time value of the financial options and guarantees.

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations. Assumptions specific to the stochastic calculations reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of long-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes but with an allowance for correlation between the various asset classes. Details of the key characteristics of each model are given in notes 17(iv),(v) and (vi).

In deriving the time value of financial options and guarantees, management actions in response to emerging investment and fund solvency conditions have been modelled. Management actions encompass, but are not confined to investment allocation decisions, levels of reversionary and terminal bonuses and credited rates. Bonus rates are projected from current levels and varied in accordance with assumed management actions applying in the emerging investment and fund solvency conditions.

In all instances, the modelled actions are in accordance with approved local practice and therefore reflect the options actually available to management. For the PAC with-profits fund, the actions assumed are consistent with those set out in the Principles and Practices of Financial Management which explains how regular and final bonus rates within the discretionary framework are determined, subject to the general legislative requirements applicable.

(v) Level of required capital

In adopting the EEV Principles, Prudential has based required capital on its internal targets subject to it being at least the local statutory minimum requirements. For with-profits business written in a segregated life fund, as is the case in Asia and the UK, the capital available in the fund is sufficient to meet the required capital requirements. For shareholder-backed business the following capital requirements apply:

- Asia operations: the level of required capital has been set to an amount at least equal to the higher of local statutory requirements and the internal target;
- US operations: the level of required capital has been set at 250 per cent of the risk-based capital required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level (CAL); and
- UK insurance operations: the capital requirements are set to an amount at least equal to the higher of Pillar I and Pillar II requirements for shareholder-backed business of UK insurance operations as a whole.

(vi) With-profits business and the treatment of the estate

The proportion of surplus allocated to shareholders from the PAC with-profits fund has been based on the present level of 10 per cent. The value attributed to the shareholders' interest in the estate is derived by increasing final bonus rates (and related shareholder transfers) so as to exhaust the estate over the lifetime of the in-force with-profits business. In any scenarios where the total assets of the life fund are insufficient to meet policyholder claims in full, the excess cost is fully attributed to shareholders. Similar principles apply, where appropriate, for other with-profits funds of the Group's Asia operations.

(vii) Internal asset management

The new business and in-force results from long-term business include the projected value of profits or losses from asset management and service companies that support the Group's covered insurance businesses. The results of the Group's asset management operations include the current year profits from the management of both internal and external funds. EEV basis shareholders' other income and expenditure is adjusted to deduct the unwind of the expected internal asset management profit margin for the year. The deduction is on a basis consistent with that used for projecting the results for covered insurance business. Group operating profit accordingly includes the variance between actual and expected profit in respect of management of the covered business assets.

(viii) Allowance for risk and risk discount rates

Overview

Under the EEV Principles, discount rates used to determine the present value of future cash flows are set by reference to risk-free rates plus a risk margin. The risk margin should reflect any non-diversifiable risk associated with the emergence of distributable earnings that is not allowed for elsewhere in the valuation. Prudential has selected a granular approach to better reflect differences in market risk inherent in each product group. The risk discount rate so derived does not reflect an overall Group market beta but instead reflects the expected volatility associated with the cash flows for each product category in the embedded value model.

Since financial options and guarantees are explicitly valued under the EEV methodology, discount rates under EEV are set excluding the effect of these product features.

The risk margin represents the aggregate of the allowance for market risk, additional allowance for credit risk where appropriate, and allowance for non-diversifiable non-market risk. No allowance is required for non-market risks where these are assumed to be fully diversifiable.

Market risk allowance

The allowance for market risk represents the beta multiplied by an equity risk premium. Except for UK shareholder-backed annuity business (as explained below) such an approach has been used for all of the Group's businesses.

The beta of a portfolio or product measures its relative market risk. The risk discount rates reflect the market risk inherent in each product group and hence the volatility of product cash flows. These are determined by considering how the profits from each product are affected by changes in expected returns on various asset classes. By converting this into a relative rate of return it is possible to derive a product specific beta.

Product level betas reflect the most recent product mix to produce appropriate betas and risk discount rates for each major product grouping.

Additional credit risk allowance

The Group's methodology is to allow appropriately for credit risk. The allowance for total credit risk is to cover:

- expected long-term defaults;
- credit risk premium (to reflect the volatility in downgrade and default levels); and
- short-term downgrades and defaults.

These allowances are initially reflected in determining best estimate returns and through the market risk allowance described above. However, for those businesses which are largely backed by holdings of debt securities these allowances in the projected returns and market risk allowances may not be sufficient and an additional allowance may be appropriate.

The practical application of the allowance for credit risk varies depending upon the type of business as described below.

Asia operations
For Asia operations, the allowance for credit risk incorporated in the projected rates of return and the market risk allowance are sufficient. Accordingly no additional allowance for credit risk is required.

The projected rates of return for holdings of corporate bonds comprise the risk-free rate plus an assessment of long-term spread over the risk-free rate.

US operations (Jackson)
For Jackson business, the allowance for long-term defaults is reflected in the risk margin reserve (RMR) charge which is deducted in determining the projected spread margin between the earned rate on the investments and the policyholder crediting rate.

The risk discount rate incorporates an additional allowance for credit risk premium and short-term downgrades and defaults as shown in note 17(ii). In determining this allowance a number of factors have been considered. These factors, in particular, include:

(a) How much of the credit spread on debt securities represents an increased credit risk not reflected in the RMR long-term default assumptions, and how much is liquidity premium (which is the premium required by investors to compensate for the risk of longer-term investments which cannot be easily converted into cash, and converted at the fair market value). In assessing this effect, consideration has been given to a number of approaches to estimating the liquidity premium by considering recent statistical data; and
(b) Policyholder benefits for Jackson fixed annuity business are not fixed. It is possible in adverse economic scenarios to pass on a component of credit losses to policyholders (subject to guarantee features) through lower investment return rates credited to policyholders. Consequently, it is only necessary to allow for the balance of the credit risk in the risk discount rate.

The level of the additional allowance is assessed at each reporting period to take account of prevailing credit conditions and as the business in force alters over time. The additional allowance for variable annuity business has been set at one-fifth of the non-variable annuity business to reflect the proportion of the allocated holdings of general account debt securities.

The level of allowance differs from that for UK annuity business for investment portfolio differences and to take account of the management actions available in adverse economic scenarios to reduce crediting rates to policyholders, subject to guarantee features of the products.

UK operations
(1) Shareholder-backed annuity business
For Prudential's UK shareholder-backed annuity business, Prudential has used a market consistent embedded value (MCEV) approach to derive an implied risk discount rate which is then applied to the projected best estimate cash flows.
In the annuity MCEV calculations as the assets are generally held to maturity to match long duration liabilities, the future cash flows are discounted using the swap yield curve plus an allowance for liquidity premium based on Prudential's assessment of the expected return on the assets backing the annuity liabilities after allowing for:

(a) expected long-term defaults derived as a percentage of historical default experience based on Moody's data for the period 1970 to 2009 and the definition of the credit rating assigned to each asset held is the second highest credit rating published by Moody's, Standard & Poor's and Fitch;
(b) a credit risk premium, which is derived as the excess over the expected long-term defaults, of the 95th percentile of historical cumulative defaults based on Moody's data for the period 1970 to 2009, and subject to a minimum margin over expected long-term defaults of 50 per cent;
(c) an allowance for a 1 notch downgrade of the asset portfolio subject to credit risk and;
(d) an allowance for short-term downgrades and defaults.

For the purposes of presentation in the EEV results, the results on this basis are reconfigured. Under this approach the projected earned rate of return on the debt securities held is determined after allowing for expected long-term defaults and, where necessary, an additional allowance for an element of short-term downgrades and defaults to bring the allowance in the earned rate up to best estimate levels. The allowances for credit risk premium, 1 notch downgrade and the remaining element of short-term downgrade and default allowances are incorporated into the risk margin included in the discount rate, as shown in note 17(iii)(b).

(2) With-profits fund non-profit annuity business
For UK non-profit annuity business including that attributable to the PAC with-profits fund, the basis for determining the aggregate allowance for credit risk is consistent with that applied for UK shareholder-backed annuity business (as described above). The allowance for credit risk for this business is taken into account in determining the projected cash flows to the with-profits fund, which are in turn discounted at the risk discount rate applicable to all of the projected cash flows of the fund.

(3) With-profits fund holdings of debt securities
The UK with-profits fund holds debt securities as part of its investment portfolio backing policyholder liabilities and unallocated surplus. The assumed earned rate for with-profit holdings of corporate bonds is defined as the risk-free rate plus an assessment of the long-term spread over gilts, net of expected long-term defaults. This approach is similar to that applied for equities and properties for which the projected earned rate is defined as the risk-free rate plus a long-term risk premium.

Allowance for non-diversifiable non-market risks
The majority of non-market and non-credit risks are considered to be diversifiable. Finance theory cannot be used to determine the appropriate component of beta for non-diversifiable non-market risks since there is no observable risk premium associated with it that is akin to the equity risk premium. Recognising this, a pragmatic approach has been applied.

A base level allowance of 50 basis points is applied to cover the non-diversifiable non-market risks associated with the Group's businesses. For the Group's US business and UK business other than shareholder-backed annuity, no additional allowance is necessary. For UK shareholder-backed annuity business a further allowance of 50 basis points is used to reflect the longevity risk which is of particular relevance. For the Group's Asia operations in China, India, Indonesia, the Philippines, Taiwan, Thailand and Vietnam, additional allowances are applied for emerging market risk ranging from 100 to 250 basis points.

(ix) Foreign currency translation
Foreign currency profits and losses have been translated at average exchange rates for the year. Foreign currency assets and liabilities have been translated at year end rates of exchange. The principal exchange rates are shown in note A1 of the IFRS statements.

(x) Taxation
In determining the post-tax profit for the year for covered business, the overall tax rate includes the impact of tax effects determined on a local regulatory basis. Tax payments and receipts included in the projected cash flows to determine the value of in-force business are calculated using rates that have been announced and substantively enacted by the end of the reporting period.

(xi) Inter-company arrangements
The EEV results for covered business incorporate annuities established in the PAC non-profit sub-fund from vesting pension polices in SAIF (which is not covered business). The EEV results also incorporate the effect of the reinsurance arrangement of non-profit immediate pension annuity liabilities of SAIF to PRIL. In addition, the free surplus and value of in-force business are calculated after taking account of the impact of contingent loan arrangements between Group companies (movements in the contingent loan liability are reflected via the projected cash flows in the value of in-force and the related funding is reflected in free surplus).

(b) Accounting presentation

(i) Analysis of post-tax profit
To the extent applicable, the presentation of the EEV post-tax profit for the year is consistent in the classification between operating and non-operating results with the basis that the Group applies for the analysis of IFRS basis results. Operating results reflect underlying results including longer-term investment returns (which are determined as described in note 16(b)(ii) below) and incorporate the following:

- new business contribution, as defined in note 16(a)(ii);
- unwind of discount on the value of in-force business and other expected returns, as described in note 16(b)(iii) below;
- the impact of routine changes of estimates relating to non-economic assumptions, as described in note 16(b)(iv) below; and
- non-economic experience variances, as described in note 16(b)(v) below.

Non-operating results comprise the following:

- short-term fluctuations in investment returns;
- the mark to market value movements on core borrowings;
- the effect of changes in economic assumptions;
- the gain on sale of PruHealth and PruProtect in 2014;
- the costs associated with the domestication of the Hong Kong branch which became effective on 1 January 2014; and
- the loss attaching to the held for sale Japan Life business.

Total profit attributable to shareholders and basic earnings per share include these items, together with actual investment returns. The Company believes that operating profit, as adjusted for these items, better reflects underlying performance.

(ii) Investment returns included in operating profit
For the investment element of the assets covering the net worth of long-term insurance business, investment returns are recognised in operating results at the expected long-term rate of return. These expected returns are calculated by reference to the asset mix of the portfolio. For the purpose of calculating the longer-term investment return to be included in the operating result of the PAC with-profits fund of UK operations, where assets backing the liabilities and unallocated surplus are subject to market volatility, asset values at the beginning of the reporting period are adjusted to remove the effects of short-term market movements as explained in note 16(b)(iii) below.

For the purpose of determining the long-term returns for debt securities of US operations for fixed annuity and other general account business, a risk margin charge is included which reflects the expected long-term rate of default based on the credit quality of the portfolio. For Jackson, interest-related realised gains and losses are amortised to the operating results over the maturity period of the sold bonds and for equity-related investments, a long-term rate of return is assumed, which reflects the aggregation of end of period risk-free rates and equity risk premium. For US variable annuity separate account business, operating profit includes the unwind of discount on the opening value of in-force adjusted to reflect end of period projected rates of return with the excess or deficit of the actual return recognised within non-operating profit, together with the related hedging activity.

For UK annuity business, rebalancing of the asset portfolio backing the liabilities to policyholders may, from time to time, take place to align it more closely with the internal benchmark of credit quality that management applies. Such rebalancing will result in a change in the projected yield on the asset portfolio and the allowance for default risk. The net effect of these changes is included in the result for the year.

(iii) Unwind of discount and other expected returns
The unwind of discount and other expected returns is determined by reference to:

- the value of in-force business at the beginning of the period (adjusted for the effect of current period economic and operating assumption changes); and
- required capital and surplus assets.

In applying this general approach, the unwind of discount included in operating profit for the with-profits business of UK insurance operations is determined by reference to the opening value of in-force, as adjusted for the effects of short-term investment volatility due to market movements (i.e. smoothed). In the summary statement of financial position and for total profit reporting, asset values and investment returns are not smoothed. At 31 December 2014 the shareholders' interest in the smoothed surplus assets used for this purpose only, were £194 million lower (31 December 2013: £136 million lower) than the surplus assets carried in the statement of financial position.

(iv) Effect of changes in operating assumptions
Operating profit includes the effect of changes to operating assumptions on the value of in-force at the end of the period. For presentational purposes, the effect of change is delineated to show the effect on the opening value of in-force with the experience variance being determined by reference to the end of period assumptions.

(v) Operating experience variances
Operating profits include the effect of experience variances on non-economic assumptions, which are calculated with reference to the embedded value assumptions at the end of the reporting period, such as persistency, mortality and morbidity, expenses and other factors.

(vi) Effect of changes in economic assumptions
Movements in the value of in-force business at the beginning of the period caused by changes in economic assumptions, net of the related change in the time value of cost of options and guarantees, are recorded in non-operating results.

17 Assumptions

Principal economic assumptions
The EEV basis results for the Group's operations have been determined using economic assumptions where the long-term expected rates of return on investments and risk discount rates are set by reference to period end rates of return on government bonds. Expected returns on equity and property asset classes and corporate bonds are derived by adding a risk premium, based on the Group's long-term view, to the risk-free rate.

The total profit that emerges over the lifetime of an individual contract as calculated using the embedded value basis is the same as that calculated under the IFRS basis. Since the embedded value basis reflects discounted future cash flows, under this methodology the profit emergence is advanced, thus more closely aligning the timing of the recognition of profits with the efforts and risks of current management actions, particularly with regard to business sold during the year.

(i) Asia operations[note (b)]

	Risk discount rate %				10-year government bond yield %		Expected long-term Inflation %	
	New business		In force					
	31 Dec 2014	31 Dec 2013	**31 Dec 2014**	31 Dec 2013	**31 Dec 2014**	31 Dec 2013	**31 Dec 2014**	31 Dec 2013
China	**10.2**	11.2	**10.2**	11.2	**3.7**	4.7	**2.5**	2.5
Hong Kong[notes (b), (c)]	**3.7**	4.9	**3.7**	4.8	**2.2**	3.1	**2.3**	2.3
India	**13.0**	14.0	**13.0**	14.0	**8.0**	9.0	**4.0**	4.0
Indonesia	**12.0**	12.5	**12.0**	12.5	**7.9**	8.6	**5.0**	5.0
Korea	**6.7**	7.4	**6.5**	7.6	**2.6**	3.6	**3.0**	3.0
Malaysia[note (c)]	**6.6**	6.5	**6.6**	6.5	**4.1**	4.2	**2.5**	2.5
Philippines	**10.8**	10.5	**10.8**	10.5	**4.0**	3.8	**4.0**	4.0
Singapore[note (c)]	**4.3**	4.6	**5.0**	5.3	**2.3**	2.6	**2.0**	2.0
Taiwan	**4.2**	4.3	**4.1**	4.1	**1.6**	1.7	**1.0**	1.0
Thailand	**9.5**	10.7	**9.5**	10.7	**2.7**	3.9	**3.0**	3.0
Vietnam	**14.0**	15.7	**14.0**	15.7	**7.2**	9.0	**5.5**	5.5
Total weighted risk discount rate[note (a)]	**6.9**	8.1	**6.6**	7.2				

Equity risk premiums in Asia (excluding those for the held for sale Japan Life business) range from 3.5 per cent to 8.7 per cent for 2014 and 2013.

Notes:
(a) The weighted risk discount rates for Asia operations shown above have been determined by weighting each country's risk discount rates by reference to the post-tax EEV basis new business result and the closing value of in-force business. The changes in the risk discount rates for individual Asia territories reflect the movements in government bond yields, together with the effects of movements in the allowance for market risk and changes in product mix.

(b) For Hong Kong the assumptions shown are for US dollar denominated business. For other territories, the assumptions are for local currency denominated business.
(c) The mean equity return assumptions for the most significant equity holdings of the Asia operations were:

	31 Dec 2014 %	31 Dec 2013 %
Hong Kong	**6.2**	7.1
Malaysia	**10.1**	10.1
Singapore	**8.3**	8.6

(ii) US operations

	31 Dec 2014 %	31 Dec 2013 %
Assumed new business spread margins:*		
Fixed Annuity business:**		
January to June issues	**1.5**	1.2
July to December issues	**1.5**	1.75
Fixed Index Annuity business:		
January to June issues	**2.0**	1.45
July to December issues	**2.0**	2.0
Institutional business	**0.7**	0.75
Allowance for long-term defaults included in projected spread[note 16(a)(viii)]	**0.25**	0.25
Risk discount rate:		
Variable annuity:		
Risk discount rate	**6.9**	7.6
Additional allowance for credit risk included in risk discount rate[note 16 (a)(viii)]	**0.2**	0.2
Non-variable annuity:		
Risk discount rate	**3.9**	4.8
Additional allowance for credit risk included in risk discount rate[note 16 (a)(viii)]	**1.0**	1.0
Weighted average total:		
New business	**6.7**	7.4
In force	**6.2**	6.9
US 10-year treasury bond rate at end of year	**2.2**	3.1
Pre-tax expected long-term nominal rate of return for US equities	**6.2**	7.1
Expected long-term rate of inflation	**2.8**	2.6
Equity risk premium	**4.0**	4.0
S&P equity return volatility [note 17 (v)]	**18.0**	19.0

***** including the proportion of variable annuity business invested in the general account and fixed index annuity business, the assumed spread margin grades up linearly by 25 basis points to a long-term assumption over five years.

****** including the proportion of variable annuity business invested in the general account.

(iii) UK insurance operations

	31 Dec 2014 %	31 Dec 2013 %
Shareholder-backed annuity business:[note (b)]		
Risk discount rate:		
New business	**6.5**	6.8
In force[note (a)]	**6.9**	8.3
Pre-tax expected long-term nominal rate of return for shareholder-backed annuity business:		
New business	**4.1**	4.2
In force[note (a)]	**3.2**	4.3
Other business:		
Risk discount rate:		
New business	**5.3**	6.1
In force	**5.9**	6.8
Pre-tax expected long-term nominal rates of investment return:		
UK equities	**6.2**	7.5
Overseas equities	**6.2 to 9.0**	7.1 to 9.2
Property	**4.9**	6.2
15-year gilt rate	**2.2**	3.5
Corporate bonds	**3.8**	5.1
Expected long-term rate of inflation	**3.0**	3.4
Equity risk premium	**4.0**	4.0

Notes:
(a) For shareholder-backed annuity business, the movements in the pre-tax long-term nominal rates of return and the risk discount rates for in-force business mainly reflect the effect of changes in asset yields.
(b) Credit spread treatment: For Prudential Retirement Income Limited, which has approximately 90 per cent of UK shareholder-backed annuity business, the credit assumptions used in the underlying MCEV calculation (see note 16(a)(viii)) and the residual liquidity premium element of the bond spread over swap rates are as follows:

	Individual annuity new business		Total in-force business	
	31 Dec 2014 (bps)	31 Dec 2013 (bps)	**31 Dec 2014 (bps)**	31 Dec 2013 (bps)
Bond spread over swap rates	**108**	117	**143**	133
Total credit risk allowance	**29**	37	**58**	62
Liquidity premium	**79**	80	**85**	71

* The new business liquidity premium is based on the weighted average of the point of sale liquidity premia.

The overall allowance for credit risk is prudent by comparison with historic rates of default and would be sufficient to withstand a wide range of extreme credit events over the expected lifetime of the annuity business.

Stochastic assumptions
Details are given below of the key characteristics of the models used to determine the time value of the financial options and guarantees as referred to in note 16(a)(iv).

(iv) Asia operations
- The stochastic cost of guarantees is primarily of significance for the Hong Kong, Korea, Malaysia, Singapore and Taiwan operations.
- The principal asset classes are government and corporate bonds.
- The asset return models are similar to the models as described for UK insurance operations below.
- The volatility of equity returns ranges from 18 per cent to 35 per cent in both years, and the volatility of government bond yields ranges from 0.9 per cent to 2.3 per cent in both years.

(v) US operations (Jackson)
- Interest rates and equity returns are projected using a log-normal generator reflecting historical market data.
- Corporate bond returns are based on Treasury yields plus a spread that reflects current market conditions.
- The volatility of equity returns ranges from 18 per cent to 27 per cent (2013: 19 per cent to 32 per cent) and the standard deviation of interest rates ranges from 2.2 per cent to 2.5 per cent for both years.

(vi) UK insurance operations
- Interest rates are projected using a stochastic interest rate model calibrated to the current market yields.
- Equity returns are assumed to follow a log-normal distribution.
- The corporate bond return is calculated based on a risk-free bond return plus a mean-reverting spread.
- Property returns are also modelled on a risk-free bond return plus a risk premium with a stochastic process reflecting total property returns.
- The standard deviation of equities and property ranges from 15 per cent to 20 per cent for both years.

Operating assumptions
Best estimate assumptions
Best estimate assumptions are used for the cash flow projections, where best estimate is defined as the mean of the distribution of future possible outcomes. The assumptions are reviewed actively and changes are made when evidence exists that material changes in future experience are reasonably certain.

Assumptions required in the calculation of the value of options and guarantees, for example relating to volatilities and correlations, or dynamic algorithms linking liabilities to assets, have been set equal to the best estimates and, wherever material and practical, reflect any dynamic relationships between the assumptions and the stochastic variables.

Demographic assumptions
Persistency, mortality and morbidity assumptions are based on an analysis of recent experience but also reflect expected future experience. Where relevant, when calculating the time value of financial options and guarantees, policyholder withdrawal rates vary in line with the emerging investment conditions according to management's expectations.

Expense assumptions
Expense levels, including those of service companies that support the Group's long-term business operations, are based on internal expense analysis investigations and are appropriately allocated to acquisition of new business and renewal of in-force business. Exceptional expenses are identified and reported separately. For mature business, it is Prudential's policy not to take credit for future cost reduction programmes until the savings have been delivered. For businesses which are currently sub-scale (China, Malaysia Takaful and Taiwan) and India (where the business model is being adapted as the industry continues to adjust to regulatory changes), expense overruns are reported where these are expected to be short-lived.

For Asia operations, the expenses comprise costs borne directly and recharged costs from the Asia regional head office, that are attributable to covered business. The assumed future expenses for these operations also include projections of these future recharges. Development expenses are charged as incurred.

Corporate expenditure, which is included in other income and expenditure, comprises:
- Expenditure for Group head office, to the extent not allocated to the PAC with-profits funds, together with Solvency II implementation and restructuring costs, which are charged to the EEV basis results as incurred; and
- Expenditure of the Asia regional head office that is not allocated to the covered business or asset management operations which is charged as incurred. These costs are primarily for corporate related activities and are included within corporate expenditure.

Tax rates
The assumed long term effective tax rates for operations reflect the incidence of taxable profits and losses in the projected cash flows as explained in note 16(a)(x).
The local standard corporate tax rates applicable for the most significant operations for 2014 and 2013, are as follows:

Standard corporate tax rates	%
Asia operations:	
Hong Kong	16.5*
Indonesia	25.0
Malaysia	2015: 25.0; From 2016: 24.0
Singapore	17.0
US operations	35.0
UK operations	20.0

* 16.5 per cent on 5 per cent of premium income

18 New business premiums and contributions note (i)

	Single		Regular		Annual premium and contribution equivalents (APE) note 16(a)(ii)		Present value of new business premiums (PVNBP) note 16(a)(ii)	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Group insurance operations								
Asia	**2,272**	2,136	**2,010**	1,911	**2,237**	2,125	**12,331**	11,375
US	**15,555**	15,712	**-**	2	**1,556**	1,573	**15,555**	15,723
UK	**6,681**	5,128	**189**	212	**857**	725	**7,471**	5,978
Group total	**24,508**	22,976	**2,199**	2,125	**4,650**	4,423	**35,357**	33,076
Asia insurance operations								
Cambodia	**-**	-	**3**	1	**3**	1	**16**	3
Hong Kong	**419**	326	**603**	455	**645**	487	**3,861**	2,795
Indonesia	**280**	303	**357**	445	**385**	477	**1,619**	1,943
Malaysia	**117**	114	**189**	197	**201**	208	**1,284**	1,352
Philippines	**121**	193	**39**	34	**51**	53	**248**	299
Singapore	**677**	571	**289**	304	**357**	361	**2,683**	2,588
Thailand	**92**	66	**74**	61	**83**	68	**392**	289
Vietnam	**4**	2	**61**	54	**61**	54	**247**	204
SE Asia operations inc. Hong Kong	**1,710**	1,575	**1,615**	1,551	**1,786**	1,709	**10,350**	9,473
China note (ii)	**239**	114	**81**	71	**105**	83	**550**	409
Korea	**212**	311	**92**	82	**113**	113	**609**	641
Taiwan	**83**	102	**116**	107	**124**	117	**462**	491
India note (iii)	**28**	34	**106**	100	**109**	103	**360**	361
Total Asia insurance operations	**2,272**	2,136	**2,010**	1,911	**2,237**	2,125	**12,331**	11,375
US insurance operations								
Variable annuities	**10,899**	10,795	-	-	**1,090**	1,079	**10,899**	10,795
Elite access (variable annuity)	**3,108**	2,585	-	-	**311**	259	**3,108**	2,585
Fixed annuities	**527**	555	-	-	**53**	55	**527**	555
Fixed index annuities	**370**	907	-	-	**37**	91	**370**	907
Life	**-**	1	-	2	**-**	2	**-**	12
Wholesale	**651**	869	-	-	**65**	87	**651**	869
Total US insurance operations	**15,555**	15,712	**-**	2	**1,556**	1,573	**15,555**	15,723
UK and Europe insurance operations								
Direct and partnership annuities	**162**	284	**-**	**-**	**16**	28	**162**	284
Intermediated annuities	**139**	488	**-**	**-**	**14**	49	**139**	488
Internal vesting annuities	**764**	1,305	**-**	**-**	**76**	131	**764**	1,305
Total individual annuities	**1,065**	2,077	**-**	-	**106**	208	**1,065**	2,077
Corporate pensions	**92**	120	**138**	161	**147**	173	**592**	686
Onshore bonds	**2,318**	1,754	**-**	-	**232**	176	**2,321**	1,756
Other products	**1,496**	901	**51**	51	**201**	140	**1,783**	1,183
Wholesale	**1,710**	276	**-**	**-**	**171**	28	**1,710**	276
Total UK and Europe insurance operations	**6,681**	5,128	**189**	212	**857**	725	**7,471**	5,978
Group total	**24,508**	22,976	**2,199**	2,125	**4,650**	4,423	**35,357**	33,076

Notes:

(i) The tables shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not, and not intended to be, reflective of premium income recorded in the IFRS income statement.

(ii) New business in China is included at Prudential's 50 per cent interest in the China life operation.

(iii) New business in India is included at Prudential's 26 per cent interest in the India life operation.

Additional Unaudited Financial Information

A New Business

BASIS OF PREPARATION

The format of the schedules is consistent with the distinction between insurance and investment products as applied for previous financial reporting periods. With the exception of some US institutional business, products categorised as 'insurance' refer to those classified as contracts of long-term insurance business for regulatory reporting purposes, i.e falling within one of the classes of insurance specified in part II of Schedule 1 to the Regulated Activities Order under PRA regulations.

The details shown for insurance products include contributions for contracts that are classified under IFRS 4 'Insurance Contracts' as not containing significant insurance risk. These products are described as investment contracts or other financial instruments under IFRS. Contracts included in this category are primarily certain unit-linked and similar contracts written in UK Insurance Operations, and Guaranteed Investment Contracts and similar funding agreements written in US Operations.

New business premiums for regular premium products are shown on an annualised basis. Internal vesting business is classified as new business where the contracts include an open market option. New business premiums reflect those premiums attaching to covered business, including premiums for contracts designed as investment products for IFRS reporting.

Investment products referred to in the tables for funds under management are unit trusts, mutual funds and similar types of retail fund management arrangements. These are unrelated to insurance products that are classified as investment contracts under IFRS 4, as described in the preceding paragraph, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business.

New Business Profit (post-tax) has been determined using the European Embedded Value (EEV) methodology set out in our EEV preliminary report.

In determining the EEV basis value of new business written in the period policies incept, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for statutory basis reporting.

Annual premium equivalent (APE) sales are subject to rounding.

Notes to Schedules A(i) to A(x)

(1) Prudential plc reports its results using both actual exchange rates (AER) and constant exchange rates (CER) so as to eliminate the impact of exchange translation.

Local currency: £		**2014***	**2013***	**2014 vs 2013 (depreciation) appreciation of local currency against GBP**
Hong Kong	Average Rate	12.78	12.14	(5)%
	Closing Rate	12.09	12.84	6%
Indonesia	Average Rate	19,538.56	16,376.89	(16)%
	Closing Rate	19,311.31	20,156.57	4%
Malaysia	Average Rate	5.39	4.93	(9)%
	Closing Rate	5.45	5.43	0%
Singapore	Average Rate	2.09	1.96	(6)%
	Closing Rate	2.07	2.09	1%
India	Average Rate	100.53	91.75	(9)%
	Closing Rate	98.42	102.45	4%
Vietnam	Average Rate	34,924.62	32,904.71	(6)%
	Closing Rate	33,348.46	34,938.60	5%
Thailand	Average Rate	53.51	48.11	(10)%
	Closing Rate	51.30	54.42	6%
US	Average Rate	1.65	1.56	(5)%
	Closing Rate	1.56	1.66	6%

*Average rate is for the full year to 31 December

(1a) Insurance new business for overseas operations are converted using the year-to-date average exchange rate applicable at the time (AER). The sterling results for individual quarters represent the difference between the year-to-date reported sterling results at successive quarters and will include foreign exchange movements from earlier periods.
(1b) Insurance new business for overseas operations for 2013 has been calculated using constant exchange rates (CER).
(1c) Constant exchange rates have been used to calculate insurance new business for overseas operations for all periods in 2013 and 2014.
(2) Annual Equivalents, calculated as regular new business contributions plus 10 per cent of single new business contributions, are subject to roundings. Present value of new business premiums (PVNBPs) are calculated as equalling single premiums plus the present value of expected premiums of new regular premium business. In determining the present value, allowance is made for lapses and other assumptions applied in determining the EEV new business profit.

(3) Balance includes segregated and pooled pension funds, private finance assets and other institutional clients. Other movements reflect the net flows arising from the cash component of a tactical asset allocation fund managed by PPM South Africa.
(4) New business in India is included at Prudential's 26 per cent interest in the India life operation.
(5) Balance Sheet figures have been calculated at the closing exchange rate.
(6) New business in China is included at Prudential's 50 per cent interest in the China life operation.
(7) Mandatory Provident Fund (MPF) product sales in Hong Kong are included at Prudential's 36 per cent interest in Hong Kong MPF operation.
(8) Investment flows for the period exclude year-to-date Eastspring Money Market Funds (MMF) gross inflows of £67,749 million (2013: £62,536 million) and net inflows of £10 million (2013 net inflows: £522 million). For the discrete fourth quarter the MMF gross inflows were £17,353 million (2013: £17,072 million) and net outflows were £48 million (2013: net inflows of £604 million).
(9) Excludes Curian Variable Series Trust funds (internal funds under management).
(10) Total M&G and Eastspring excluding MMF. Funds under management for MMF amounted to £4,801 million at 31 December 2014 (31 December 2013: £4,297 million).
(11) With effect from 1 January 2015, APE and new business data for the UK and Europe Insurance Operations will be presented using revised product groupings shown in Schedule A(x). This aims to reflect the evolving revenue streams and present greater detail of for certain elements currently included within “Other”.

Schedule A(i) – New Business Insurance Operations (Actual Exchange Rates)

	Single			Regular			Annual Equivalents[2]			PVNBP		
	2014 YTD £m	2013 YTD £m	+/- (%)	2014 YTD £m	2013 YTD £m	+/- (%)	2014 YTD £m	2013 YTD £m	+/- (%)	2014 YTD £m	2013 YTD £m	+/- (%)
Group Insurance Operations												
Asia [1a]	**2,272**	2,136	6%	**2,010**	1,911	5%	**2,237**	2,125	5%	**12,331**	11,375	8%
US[1a]	**15,555**	15,712	(1)%	**-**	2	(100)%	**1,556**	1,573	(1)%	**15,555**	15,723	(1)%
UK	**6,681**	5,128	30%	**189**	212	(11)%	**857**	725	18%	**7,471**	5,978	25%
Group Total	**24,508**	22,976	7%	**2,199**	2,125	3%	**4,650**	4,423	5%	**35,357**	33,076	7%
Asia Insurance Operations[1a]												
Cambodia	**-**	-	N/A	**3**	1	200%	**3**	1	200%	**16**	3	433%
Hong Kong	**419**	326	29%	**603**	455	33%	**645**	487	32%	**3,861**	2,795	38%
Indonesia	**280**	303	(8)%	**357**	445	(20)%	**385**	477	(19)%	**1,619**	1,943	(17)%
Malaysia	**117**	114	3%	**189**	197	(4)%	**201**	208	(3)%	**1,284**	1,352	(5)%
Philippines	**121**	193	(37)%	**39**	34	15%	**51**	53	(4)%	**248**	299	(17)%
Singapore	**677**	571	19%	**289**	304	(5)%	**357**	361	(1)%	**2,683**	2,588	4%
Thailand	**92**	66	39%	**74**	61	21%	**83**	68	22%	**392**	289	36%
Vietnam	**4**	2	100%	**61**	54	13%	**61**	54	13%	**247**	204	21%
SE Asia Operations inc. Hong Kong	**1,710**	1,575	9%	**1,615**	1,551	4%	**1,786**	1,709	5%	**10,350**	9,473	9%
China[6]	**239**	114	110%	**81**	71	14%	**105**	83	27%	**550**	409	34%
Korea	**212**	311	(32)%	**92**	82	12%	**113**	113	0%	**609**	641	(5)%
Taiwan	**83**	102	(19)%	**116**	107	8%	**124**	117	6%	**462**	491	(6)%
India[4]	**28**	34	(18)%	**106**	100	6%	**109**	103	6%	**360**	361	(0)%
Total Asia Insurance Operations	**2,272**	2,136	6%	**2,010**	1,911	5%	**2,237**	2,125	5%	**12,331**	11,375	8%
US Insurance Operations[1a]												
Variable Annuities	**10,899**	10,795	1%	**-**	-	N/A	**1,090**	1,079	1%	**10,899**	10,795	1%
Elite Access (Variable Annuity)	**3,108**	2,585	20%	**-**	-	N/A	**311**	259	20%	**3,108**	2,585	20%
Fixed Annuities	**527**	555	(5)%	**-**	-	N/A	**53**	55	(4)%	**527**	555	(5)%
Fixed Index Annuities	**370**	907	(59)%	**-**	-	N/A	**37**	91	(59)%	**370**	907	(59)%
Life	**-**	1	(100)%	**-**	2	(100)%	**-**	2	(100)%	**-**	12	(100)%
Wholesale	**651**	869	(25)%	**-**	-	N/A	**65**	87	(25)%	**651**	869	(25)%
Total US Insurance Operations	**15,555**	15,712	(1)%	**-**	2	(100)%	**1,556**	1,573	(1)%	**15,555**	15,723	(1)%
UK & Europe Insurance Operations[11]												
Direct and Partnership Annuities	**162**	284	(43)%	**-**	-	N/A	**16**	28	(43)%	**162**	284	(43)%
Intermediated Annuities	**139**	488	(72)%	**-**	-	N/A	**14**	49	(71)%	**139**	488	(72)%
Internal Vesting Annuities	**764**	1,305	(41)%	**-**	-	N/A	**76**	131	(42)%	**764**	1,305	(41)%
Total Individual Annuities	**1,065**	2,077	(49)%	**-**	-	N/A	**106**	208	(49)%	**1,065**	2,077	(49)%
Corporate Pensions	**92**	120	(23)%	**138**	161	(14)%	**147**	173	(15)%	**592**	686	(14)%
On-shore Bonds	**2,318**	1,754	32%	**-**	-	N/A	**232**	176	32%	**2,321**	1,756	32%
Other Products	**1,496**	901	66%	**51**	51	0%	**201**	140	44%	**1,783**	1,183	51%
Wholesale	**1,710**	276	520%	**-**	-	N/A	**171**	28	511%	**1,710**	276	520%
Total UK & Europe Insurance Operations	**6,681**	5,128	30%	**189**	212	(11)%	**857**	725	18%	**7,471**	5,978	25%
Group Total	**24,508**	22,976	7%	**2,199**	2,125	3%	**4,650**	4,423	5%	**35,357**	33,076	7%

Schedule A(ii) – New Business Insurance Operations (Constant Exchange Rates)

Note: In schedule A(ii) constant exchange rates have been used to calculate insurance new business for overseas operations for 2013.

	Single			Regular			Annual Equivalents[2]			PVNBP		
	2014 YTD £m	**2013 YTD £m**	**+/- (%)**	**2014 YTD £m**	**2013 YTD £m**	**+/- (%)**	**2014 YTD £m**	**2013 YTD £m**	**+/- (%)**	**2014 YTD £m**	**2013 YTD £m**	**+/- (%)**
Group Insurance Operations												
Asia [1a] [1b]	**2,272**	1,982	15%	**2,010**	1,748	15%	**2,237**	1,946	15%	**12,331**	10,482	18%
US[1a] [1b]	**15,555**	14,920	4%	**-**	2	(100)%	**1,556**	1,494	4%	**15,555**	14,931	4%
UK	**6,681**	5,128	30%	**189**	212	(11)%	**857**	725	18%	**7,471**	5,978	25%
Group Total	**24,508**	22,030	11%	**2,199**	1,962	12%	**4,650**	4,165	12%	**35,357**	31,391	13%
Asia Insurance Operations[1a] [1b]												
Cambodia	**-**	-	N/A	**3**	1	200%	**3**	1	200%	**16**	3	433%
Hong Kong	**419**	310	35%	**603**	433	39%	**645**	464	39%	**3,861**	2,655	45%
Indonesia	**280**	254	10%	**357**	374	(5)%	**385**	399	(4)%	**1,619**	1,629	(1)%
Malaysia	**117**	104	13%	**189**	180	5%	**201**	190	6%	**1,284**	1,237	4%
Philippines	**121**	176	(31)%	**39**	30	30%	**51**	48	6%	**248**	272	(9)%
Singapore	**677**	536	26%	**289**	284	2%	**357**	338	6%	**2,683**	2,428	11%
Thailand	**92**	59	56%	**74**	55	35%	**83**	61	36%	**392**	260	51%
Vietnam	**4**	2	100%	**61**	51	20%	**61**	51	20%	**247**	192	29%
SE Asia Operations inc. Hong Kong	**1,710**	1,441	19%	**1,615**	1,408	15%	**1,786**	1,552	15%	**10,350**	8,676	19%
China[6]	**239**	108	121%	**81**	68	19%	**105**	78	35%	**550**	387	42%
Korea	**212**	307	(31)%	**92**	81	14%	**113**	112	1%	**609**	633	(4)%
Taiwan	**83**	95	(13)%	**116**	100	16%	**124**	110	13%	**462**	457	1%
India[4]	**28**	31	(10)%	**106**	91	16%	**109**	94	16%	**360**	329	9%
Total Asia Insurance Operations	**2,272**	1,982	15%	**2,010**	1,748	15%	**2,237**	1,946	15%	**12,331**	10,482	18%
US Insurance Operations[1a] [1b]												
Variable Annuities	**10,899**	10,251	6%	**-**	-	N/A	**1,090**	1,025	6%	**10,899**	10,251	6%
Elite Access (Variable Annuity)	**3,108**	2,455	27%	**-**	-	N/A	**311**	246	26%	**3,108**	2,455	27%
Fixed Annuities	**527**	527	0%	**-**	-	N/A	**53**	53	0%	**527**	527	0%
Fixed Index Annuities	**370**	861	(57)%	**-**	-	N/A	**37**	86	(57)%	**370**	861	(57)%
Life	**-**	1	(100)%	**-**	2	(100)%	**-**	2	(100)%	**-**	12	(100)%
Wholesale	**651**	825	(21)%	**-**	-	N/A	**65**	82	(21)%	**651**	825	(21)%
Total US Insurance Operations	**15,555**	14,920	4%	**-**	2	(100)%	**1,556**	1,494	4%	**15,555**	14,931	4%
UK & Europe Insurance Operations[11]												
Direct and Partnership Annuities	**162**	284	(43)%	**-**	-	N/A	**16**	28	(43)%	**162**	284	(43)%
Intermediated Annuities	**139**	488	(72)%	**-**	-	N/A	**14**	49	(71)%	**139**	488	(72)%
Internal Vesting Annuities	**764**	1,305	(41)%	**-**	-	N/A	**76**	131	(42)%	**764**	1,305	(41)%
Total Individual Annuities	**1,065**	2,077	(49)%	**-**	-	N/A	**106**	208	(49)%	**1,065**	2,077	(49)%
Corporate Pensions	**92**	120	(23)%	**138**	161	(14)%	**147**	173	(15)%	**592**	686	(14)%
On-shore Bonds	**2,318**	1,754	32%	**-**	-	N/A	**232**	176	32%	**2,321**	1,756	32%
Other Products	**1,496**	901	66%	**51**	51	0%	**201**	140	44%	**1,783**	1,183	51%
Wholesale	**1,710**	276	520%	**-**	-	N/A	**171**	28	511%	**1,710**	276	520%
Total UK & Europe Insurance Operations	**6,681**	5,128	30%	**189**	212	(11)%	**857**	725	18%	**7,471**	5,978	25%
Group Total	**24,508**	22,030	11%	**2,199**	1,962	12%	**4,650**	4,165	12%	**35,357**	31,391	13%

Schedule A(iii) – Total Insurance New Business APE – By Quarter (Actual Exchange Rates)

	2013				2014			
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m	Q3 £m	Q4 £m
Group Insurance Operations								
Asia [(1a)]	495	515	513	602	507	489	548	**693**
US[(1a)]	358	439	405	371	432	439	364	**321**
UK	185	170	185	185	237	196	215	**209**
Group Total	**1,038**	**1,124**	**1,103**	**1,158**	**1,176**	**1,124**	**1,127**	**1,223**
Asia Insurance Operations[(1a)]								
Cambodia	-	-	-	1	-	1	1	**1**
Hong Kong	107	107	121	152	128	130	166	**221**
Indonesia	112	128	108	129	86	98	80	**121**
Malaysia	46	53	52	57	43	48	48	**62**
Philippines	14	15	12	12	11	11	13	**16**
Singapore	80	90	87	104	87	85	86	**99**
Thailand	11	14	22	21	25	17	18	**23**
Vietnam	10	13	14	17	11	12	16	**22**
SE Asia Operations inc. Hong Kong	**380**	**420**	**416**	**493**	**391**	**402**	**428**	**565**
China[(6)]	27	20	21	15	38	19	23	**25**
Korea	30	32	23	28	26	22	32	**33**
Taiwan	19	26	28	44	24	30	34	**36**
India[(4)]	39	17	25	22	28	16	31	**34**
Total Asia Insurance Operations	**495**	**515**	**513**	**602**	**507**	**489**	**548**	**693**
US Insurance Operations[(1a)]								
Variable Annuities	240	298	271	270	317	297	260	**216**
Elite Access (Variable Annuity)	54	73	64	68	69	80	80	**82**
Fixed Annuities	14	16	14	11	12	15	14	**12**
Fixed Index Annuities	34	28	22	7	8	10	10	**9**
Life	1	-	-	1	-	-	-	**-**
Wholesale	15	24	34	14	26	37	-	**2**
Total US Insurance Operations	**358**	**439**	**405**	**371**	**432**	**439**	**364**	**321**
UK & Europe Insurance Operations[(11)]								
Direct and Partnership Annuities	8	7	7	6	5	5	4	**2**
Intermediated Annuities	15	14	12	8	7	3	2	**2**
Internal Vesting Annuities	32	35	31	33	24	19	17	**16**
Total Individual Annuities	**55**	**56**	**50**	**47**	**36**	**27**	**23**	**20**
Corporate Pensions	53	40	45	35	40	39	38	**30**
On-shore Bonds	45	38	43	50	49	53	60	**70**
Other Products	32	36	32	40	39	46	57	**59**
Wholesale	-	-	15	13	73	31	37	**30**
Total UK & Europe Insurance Operations	**185**	**170**	**185**	**185**	**237**	**196**	**215**	**209**
Group Total	**1,038**	**1,124**	**1,103**	**1,158**	**1,176**	**1,124**	**1,127**	**1,223**

Schedule A(iv) – Total Insurance New Business APE – By Quarter (2013 at Constant Exchange Rates)

Note: In schedule A(iv) constant exchange rates have been used to calculate insurance new business for overseas operations for all periods in 2013. Discrete quarters in 2014 are presented on actual exchange rates.

	2013				2014			
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m	Q3 £m	Q4 £m
Group Insurance Operations								
Asia[1b]	437	454	473	582	507	489	548	**693**
US[1b]	337	410	381	366	432	439	364	**321**
UK	185	170	185	185	237	196	215	**209**
Group Total	**959**	**1,034**	**1,039**	**1,133**	**1,176**	**1,124**	**1,127**	**1,223**
Asia Insurance Operations[1b]								
Cambodia	-	-	-	1	-	1	1	**1**
Hong Kong	101	100	114	149	128	130	166	**221**
Indonesia	87	98	91	123	86	98	80	**121**
Malaysia	40	47	49	54	43	48	48	**62**
Philippines	12	13	11	12	11	11	13	**16**
Singapore	73	83	82	100	87	85	86	**99**
Thailand	9	13	19	20	25	17	18	**23**
Vietnam	9	12	13	17	11	12	16	**22**
SE Asia Operations inc. Hong Kong	**331**	**366**	**379**	**476**	**391**	**402**	**428**	**565**
China[6]	26	18	20	14	38	19	23	**25**
Korea	29	32	23	28	26	22	32	**33**
Taiwan	18	24	26	42	24	30	34	**36**
India[4]	33	14	25	22	28	16	31	**34**
Total Asia Insurance Operations	**437**	**454**	**473**	**582**	**507**	**489**	**548**	**693**
US Insurance Operations[1b]								
Variable Annuities	226	278	255	266	317	297	260	**216**
Elite Access (Variable Annuity)	51	68	60	67	69	80	80	**82**
Fixed Annuities	13	15	13	12	12	15	14	**12**
Fixed Index Annuities	32	26	21	7	8	10	10	**9**
Life	1	-	-	1	-	-	-	**-**
Wholesale	14	23	32	13	26	37	-	**2**
Total US Insurance Operations	**337**	**410**	**381**	**366**	**432**	**439**	**364**	**321**
UK & Europe Insurance Operations[11]								
Direct and Partnership Annuities	8	7	7	6	5	5	4	**2**
Intermediated Annuities	15	14	12	8	7	3	2	**2**
Internal Vesting Annuities	32	35	31	33	24	19	17	**16**
Total Individual Annuities	**55**	**56**	**50**	**47**	**36**	**27**	**23**	**20**
Corporate Pensions	53	40	45	35	40	39	38	**30**
On-shore Bonds	45	38	43	50	49	53	60	**70**
Other Products	32	36	32	40	39	46	57	**59**
Wholesale	-	-	15	13	73	31	37	**30**
Total UK & Europe Insurance Operations	**185**	**170**	**185**	**185**	**237**	**196**	**215**	**209**
Group Total	**959**	**1,034**	**1,039**	**1,133**	**1,176**	**1,124**	**1,127**	**1,223**

Schedule A(v) – Total Insurance New Business APE – By Quarter (2014 and 2013 at Constant Exchange Rates)

Note: In schedule A(v) constant exchange rates have been used to calculate insurance new business for overseas operations for all periods in 2013 and 2014 i.e the average exchange rate for the period ended 31 December 2014 is applied to each discrete quarter for 2013 and 2014.

	2013				2014			
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m	Q3 £m	Q4 £m
Group Insurance Operations								
Asia[1c]	437	454	473	582	510	496	550	**681**
US[1c]	337	410	381	366	434	448	370	**304**
UK	185	170	185	185	237	196	215	**209**
Group Total	**959**	**1,034**	**1,039**	**1,133**	**1,181**	**1,140**	**1,135**	**1,194**
Asia Insurance Operations[1c]								
Cambodia	-	-	-	1	-	1	1	**1**
Hong Kong	101	100	114	149	130	131	169	**215**
Indonesia	87	98	91	123	86	99	79	**121**
Malaysia	40	47	49	54	44	48	47	**62**
Philippines	12	13	11	12	11	12	13	**15**
Singapore	73	83	82	100	86	86	87	**98**
Thailand	9	13	19	20	25	18	17	**23**
Vietnam	9	12	13	17	11	13	15	**22**
SE Asia Operations inc. Hong Kong	**331**	**366**	**379**	**476**	**393**	**408**	**428**	**557**
China[6]	26	18	20	14	38	19	24	**24**
Korea	29	32	23	28	27	22	32	**32**
Taiwan	18	24	26	42	24	30	35	**35**
India[4]	33	14	25	22	28	17	31	**33**
Total Asia Insurance Operations	**437**	**454**	**473**	**582**	**510**	**496**	**550**	**681**
US Insurance Operations[1c]								
Variable Annuities	226	278	255	266	319	303	264	**204**
Elite Access (Variable Annuity)	51	68	60	67	69	82	81	**79**
Fixed Annuities	13	15	13	12	12	15	15	**11**
Fixed Index Annuities	32	26	21	7	8	10	10	**9**
Life	1	-	-	1	-	-	-	**-**
Wholesale	14	23	32	13	26	38	-	**1**
Total US Insurance Operations	**337**	**410**	**381**	**366**	**434**	**448**	**370**	**304**
UK & Europe Insurance Operations[11]								
Direct and Partnership Annuities	8	7	7	6	5	5	4	**2**
Intermediated Annuities	15	14	12	8	7	3	2	**2**
Internal Vesting Annuities	32	35	31	33	24	19	17	**16**
Total Individual Annuities	**55**	**56**	**50**	**47**	**36**	**27**	**23**	**20**
Corporate Pensions	53	40	45	35	40	39	38	**30**
On-shore Bonds	45	38	43	50	49	53	60	**70**
Other Products	32	36	32	40	39	46	57	**59**
Wholesale	-	-	15	13	73	31	37	**30**
Total UK & Europe Insurance Operations	**185**	**170**	**185**	**185**	**237**	**196**	**215**	**209**
Group Total	**959**	**1,034**	**1,039**	**1,133**	**1,181**	**1,140**	**1,135**	**1,194**

Schedule A(vi) – Investment Operations – By Quarter (Actual Exchange Rates)

	2013				2014			
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m	Q3 £m	Q4 £m
Group Investment Operations								
Opening FUM	129,498	138,926	137,407	142,820	143,916	147,914	153,849	**157,533**
Net Flows:[(8)]	3,502	2,344	5,093	126	2,571	4,123	2,893	**2,930**
- Gross Inflows	13,409	14,561	13,528	11,006	12,146	14,045	12,847	**13,670**
- Redemptions	(9,907)	(12,217)	(8,435)	(10,880)	(9,575)	(9,922)	(9,954)	**(10,740)**
Other Movements	5,926	(3,863)	320	970	1,427	1,812	791	**1,917**
Total Group Investment Operations[(10)]	**138,926**	**137,407**	**142,820**	**143,916**	**147,914**	**153,849**	**157,533**	**162,380**
M&G								
Retail								
Opening FUM	54,879	61,427	62,655	64,504	67,202	68,981	71,941	**73,012**
Net Flows:	2,446	2,308	1,132	1,456	1,291	2,493	1,531	**1,371**
- Gross Inflows	7,213	8,138	5,919	6,789	7,305	7,468	6,801	**7,414**
- Redemptions	(4,767)	(5,830)	(4,787)	(5,333)	(6,014)	(4,975)	(5,270)	**(6,043)**
Other Movements	4,102	(1,080)	717	1,242	488	467	(460)	**(94)**
Closing FUM	**61,427**	**62,655**	**64,504**	**67,202**	**68,981**	**71,941**	**73,012**	**74,289**
Comprising amounts for:								
UK	41,194	39,953	40,955	42,016	42,199	42,392	41,756	**40,705**
Europe (excluding UK)	18,696	21,198	22,064	23,699	25,244	27,927	29,622	**31,815**
South Africa	1,537	1,504	1,485	1,487	1,538	1,622	1,634	**1,769**
	61,427	**62,655**	**64,504**	**67,202**	**68,981**	**71,941**	**73,012**	**74,289**
Institutional[(3)]								
Opening FUM	56,989	57,745	55,484	59,810	58,787	59,736	60,830	**61,572**
Net Flows:	(15)	(899)	3,928	(866)	152	275	138	**(164)**
- Gross Inflows	2,656	2,591	5,364	2,163	1,655	2,894	2,295	**2,185**
- Redemptions	(2,671)	(3,490)	(1,436)	(3,029)	(1,503)	(2,619)	(2,157)	**(2,349)**
Other Movements	771	(1,362)	398	(157)	797	819	604	**1,350**
Closing FUM	**57,745**	**55,484**	**59,810**	**58,787**	**59,736**	**60,830**	**61,572**	**62,758**
Total M&G Investment Operations	**119,172**	**118,139**	**124,314**	**125,989**	**128,717**	**132,771**	**134,584**	**137,047**
PPM South Africa FUM included in Total M&G	**4,701**	**4,509**	**4,633**	**4,513**	**4,720**	**4,815**	**4,905**	**5,203**
Eastspring - excluding MMF[(8)]								
Equity/Bond/Other[(7)]								
Opening FUM	15,457	17,206	16,756	16,133	16,109	16,753	18,259	**19,893**
Net Flows:	795	838	65	118	540	1,063	1,127	**1,640**
- Gross Inflows	3,122	3,596	2,214	1,982	2,546	3,285	3,583	**3,760**
- Redemptions	(2,327)	(2,758)	(2,149)	(1,864)	(2,006)	(2,222)	(2,456)	**(2,120)**
Other Movements	954	(1,288)	(688)	(142)	104	443	507	**360**
Closing FUM[(5)]	**17,206**	**16,756**	**16,133**	**16,109**	**16,753**	**18,259**	**19,893**	**21,893**
Third Party Institutional Mandates								
Opening FUM	2,173	2,548	2,512	2,373	1,818	2,444	2,819	**3,056**
Net Flows:	276	97	(32)	(582)	588	292	97	**83**
- Gross Inflows	418	236	31	72	640	398	168	**311**
- Redemptions	(142)	(139)	(63)	(654)	(52)	(106)	(71)	**(228)**
Other Movements	99	(133)	(107)	27	38	83	140	**301**
Closing FUM[(5)]	**2,548**	**2,512**	**2,373**	**1,818**	**2,444**	**2,819**	**3,056**	**3,440**
Total Eastspring Investment Operations	**19,754**	**19,268**	**18,506**	**17,927**	**19,197**	**21,078**	**22,949**	**25,333**
US								
Curian - FUM[(5) (9)]	**6,315**	**6,466**	**6,371**	**6,601**	**6,781**	**6,948**	**7,421**	**7,933**

Schedule A(vii) – Total Insurance New Business Profit (Actual Exchange Rates)

	2013				2014			
	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m
Post-tax analysis								
New Business Profit(1a)								
Total Asia Insurance Operations	237	502	767	1,139	243	494	775	**1,162**
Total US Insurance Operations	125	311	492	706	195	376	530	**694**
Total UK & Europe Insurance Operations	48	100	163	237	91	145	209	**270**
Group Total	**410**	**913**	**1,422**	**2,082**	**529**	**1,015**	**1,514**	**2,126**
Annual Equivalent(1a) (2)								
Total Asia Insurance Operations	495	1,010	1,523	2,125	507	996	1,544	**2,237**
Total US Insurance Operations	358	797	1,202	1,573	432	871	1,235	**1,556**
Total UK & Europe Insurance Operations	185	355	540	725	237	433	648	**857**
Group Total	**1,038**	**2,162**	**3,265**	**4,423**	**1,176**	**2,300**	**3,427**	**4,650**
New Business Margin (NBP as % of APE)								
Total Asia Insurance Operations	48%	50%	50%	54%	48%	50%	50%	**52%**
Total US Insurance Operations	35%	39%	41%	45%	45%	43%	43%	**45%**
Total UK & Europe Insurance Operations	26%	28%	30%	33%	38%	33%	32%	**32%**
Group Total	**39%**	**42%**	**44%**	**47%**	**45%**	**44%**	**44%**	**46%**
PVNBP(1a) (2)								
Total Asia Insurance Operations	2,734	5,524	8,206	11,375	2,690	5,378	8,408	**12,331**
Total US Insurance Operations	3,581	7,957	12,006	15,723	4,323	8,703	12,352	**15,555**
Total UK & Europe Insurance Operations	1,540	2,943	4,398	5,978	2,072	3,741	5,598	**7,471**
Group Total	**7,855**	**16,424**	**24,610**	**33,076**	**9,085**	**17,822**	**26,358**	**35,357**
New Business Margin (NBP as % of PVNBP)								
Total Asia Insurance Operations	8.7%	9.1%	9.3%	10.0%	9.0%	9.2%	9.2%	**9.4%**
Total US Insurance Operations	3.5%	3.9%	4.1%	4.5%	4.5%	4.3%	4.3%	**4.5%**
Total UK & Europe Insurance Operations	3.1%	3.4%	3.7%	4.0%	4.4%	3.9%	3.7%	**3.6%**
Group Total	**5.2%**	**5.6%**	**5.8%**	**6.3%**	**5.8%**	**5.7%**	**5.7%**	**6.0%**

Schedule A(viii) – Total Insurance New Business Profit (2013 at Constant Exchange Rates)

Note: In schedule A(viii) constant exchange rates have been used to calculate insurance new business for overseas operations for all periods in 2013. The year-to-date amounts for 2014 are presented on actual exchange rates.

	2013				2014			
	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m
<u>**Post-tax analysis**</u>								
New Business Profit[1b]								
Total Asia Insurance Operations	204	433	678	1,032	243	494	775	**1,162**
Total US Insurance Operations	118	292	461	670	195	376	530	**694**
Total UK & Europe Insurance Operations	48	100	163	237	91	145	209	**270**
Group Total	**370**	**825**	**1,302**	**1,939**	**529**	**1,015**	**1,514**	**2,126**
Annual Equivalent[1b] [2]								
Total Asia Insurance Operations	437	891	1,364	1,946	507	996	1,544	**2,237**
Total US Insurance Operations	337	747	1,128	1,494	432	871	1,235	**1,556**
Total UK & Europe Insurance Operations	185	355	540	725	237	433	648	**857**
Group Total	**959**	**1,993**	**3,032**	**4,165**	**1,176**	**2,300**	**3,427**	**4,650**
New Business Margin (NBP as % of APE)								
Total Asia Insurance Operations	47%	49%	50%	53%	48%	50%	50%	**52%**
Total US Insurance Operations	35%	39%	41%	45%	45%	43%	43%	**45%**
Total UK & Europe Insurance Operations	26%	28%	30%	33%	38%	33%	32%	**32%**
Group Total	**39%**	**41%**	**43%**	**47%**	**45%**	**44%**	**44%**	**46%**
PVNBP[1b] [2]								
Total Asia Insurance Operations	2,434	4,912	7,409	10,482	2,690	5,378	8,408	**12,331**
Total US Insurance Operations	3,374	7,456	11,267	14,931	4,323	8,703	12,352	**15,555**
Total UK & Europe Insurance Operations	1,540	2,943	4,398	5,978	2,072	3,741	5,598	**7,471**
Group Total	**7,348**	**15,311**	**23,074**	**31,391**	**9,085**	**17,822**	**26,358**	**35,357**
New Business Margin (NBP as % of PVNBP)								
Total Asia Insurance Operations	8.4%	8.8%	9.2%	9.8%	9.0%	9.2%	9.2%	**9.4%**
Total US Insurance Operations	3.5%	3.9%	4.1%	4.5%	4.5%	4.3%	4.3%	**4.5%**
Total UK & Europe Insurance Operations	3.1%	3.4%	3.7%	4.0%	4.4%	3.9%	3.7%	**3.6%**
Group Total	**5.0%**	**5.4%**	**5.6%**	**6.2%**	**5.8%**	**5.7%**	**5.7%**	**6.0%**

Schedule A(ix) – Total Insurance New Business Profit (2014 and 2013 at Constant Exchange Rates)

Note: In schedule A(ix) constant exchange rates have been used to calculate insurance new business for overseas operations for all periods in 2013 and 2014, i.e the average exchange rates for the period ended 31 December 2014 are applied to each period for 2013 and 2014.

	2013				2014			
	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m
Post-tax analysis								
New Business Profit[1c]								
Total Asia Insurance Operations	204	433	678	1,032	244	498	781	**1,162**
Total US Insurance Operations	118	292	461	670	196	381	537	**694**
Total UK & Europe Insurance Operations	48	100	163	237	91	145	209	**270**
Group Total	**370**	**825**	**1,302**	**1,939**	**531**	**1,024**	**1,527**	**2,126**
Annual Equivalent[1c] [2]								
Total Asia Insurance Operations	437	891	1,364	1,946	510	1,006	1,556	**2,237**
Total US Insurance Operations	337	747	1,128	1,494	434	882	1,252	**1,556**
Total UK & Europe Insurance Operations	185	355	540	725	237	433	648	**857**
Group Total	**959**	**1,993**	**3,032**	**4,165**	**1,181**	**2,321**	**3,456**	**4,650**
New Business Margin (NBP as % of APE)								
Total Asia Insurance Operations	47%	49%	50%	53%	48%	50%	50%	**52%**
Total US Insurance Operations	35%	39%	41%	45%	45%	43%	43%	**45%**
Total UK & Europe Insurance Operations	26%	28%	30%	33%	38%	33%	32%	**32%**
Group Total	**39%**	**41%**	**43%**	**47%**	**45%**	**44%**	**44%**	**46%**
PVNBP[1c] [2]								
Total Asia Insurance Operations	2,434	4,912	7,409	10,482	2,708	5,432	8,477	**12,331**
Total US Insurance Operations	3,374	7,456	11,267	14,931	4,343	8,818	12,516	**15,555**
Total UK & Europe Insurance Operations	1,540	2,943	4,398	5,978	2,072	3,741	5,598	**7,471**
Group Total	**7,348**	**15,311**	**23,074**	**31,391**	**9,123**	**17,991**	**26,591**	**35,357**
New Business Margin (NBP as % of PVNBP)								
Total Asia Insurance Operations	8.4%	8.8%	9.2%	9.8%	9.0%	9.2%	9.2%	**9.4%**
Total US Insurance Operations	3.5%	3.9%	4.1%	4.5%	4.5%	4.3%	4.3%	**4.5%**
Total UK & Europe Insurance Operations	3.1%	3.4%	3.7%	4.0%	4.4%	3.9%	3.7%	**3.6%**
Group Total	**5.0%**	**5.4%**	**5.6%**	**6.2%**	**5.8%**	**5.7%**	**5.7%**	**6.0%**

Schedule A(x) – Total UK and Europe Insurance Operations New Business APE

With effect from 1 January 2015, New Business APE for the UK and Europe Insurance Operations will be presented using revised product groupings. This aims to bring greater focus to products and groupings that reflect the evolving UK market and the business strategy of our UK business. This schedule shows the 2014 and 2013 numbers on this revised basis that will be presented from the first quarter of 2015.

(a) Total UK & Europe Insurance New Business APE (AER)

(i) Current presentation

	Single			Regular			Annual Equivalents[2]			PVNBP		
	2014 YTD £m	2013 YTD £m	+/- (%)	2014 YTD £m	2013 YTD £m	+/- (%)	2014 YTD £m	2013 YTD £m	+/- (%)	2014 YTD £m	2013 YTD £m	+/- (%)
Direct and Partnership Annuities	**162**	284	(43)%	**-**	-	N/A	**16**	28	(43)%	**162**	284	(43)%
Intermediated Annuities	**139**	488	(72)%	**-**	-	N/A	**14**	49	(71)%	**139**	488	(72)%
Internal Vesting Annuities	**764**	1,305	(41)%	**-**	-	N/A	**76**	131	(42)%	**764**	1,305	(41)%
Total Individual Annuities	**1,065**	2,077	(49)%	**-**	-	N/A	**106**	208	(49)%	**1,065**	2,077	(49)%
Corporate Pensions	**92**	120	(23)%	**138**	161	(14)%	**147**	173	(15)%	**592**	686	(14)%
On-shore Bonds	**2,318**	1,754	32%	**-**	-	N/A	**232**	176	32%	**2,321**	1,756	32%
Other Products	**1,496**	901	66%	**51**	51	-	**201**	140	44%	**1,783**	1,183	51%
Wholesale	**1,710**	276	520%	**-**	-	N/A	**171**	28	511%	**1,710**	276	520%
Total UK & Europe Insurance Operations	**6,681**	5,128	30%	**189**	212	(11)%	**857**	725	18%	**7,471**	5,978	25%

(ii) Revised presentation from 2015

	Single			Regular			Annual Equivalents[2]			PVNBP		
	2014 YTD £m	2013 YTD £m	+/- (%)	2014 YTD £m	2013 YTD £m	+/- (%)	2014 YTD £m	2013 YTD £m	+/- (%)	2014 YTD £m	2013 YTD £m	+/- (%)
Individual Annuities	**1,065**	2,077	(49)%	**-**	-	N/A	**106**	208	(49)%	**1,065**	2,077	(49)%
Bonds	**2,934**	2,187	34%	**-**	-	N/A	**294**	219	34%	**2,937**	2,190	34%
Corporate Pensions	**92**	120	(23)%	**138**	161	(14%)	**147**	173	(15)%	**592**	686	(14)%
Individual Pensions	**508**	298	70%	**22**	21	5%	**72**	50	44%	**595**	377	58%
Income Drawdown	**352**	146	141%	**-**	-	N/A	**35**	15	133%	**352**	146	141%
Wholesale	**1,710**	276	520%	**-**	-	N/A	**171**	28	511%	**1,710**	276	520%
Other Products	**20**	24	(17)%	**29**	30	(3)%	**32**	32	0%	**220**	226	(3)%
Total UK & Europe Insurance Operations	**6,681**	5,128	30%	**189**	212	(11)%	**857**	725	18%	**7,471**	5,978	25%

Schedule A(x) – Total UK and Europe Insurance Operations New Business APE (continued)

(b) Total UK & Europe Insurance New Business APE – By Quarter (AER)

(i) Current presentation

	2013				2014			
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m	Q3 £m	Q4 £m
Direct and Partnership Annuities	8	7	7	6	5	5	4	**2**
Intermediated Annuities	15	14	12	8	7	3	2	**2**
Internal Vesting Annuities	32	35	31	33	24	19	17	**16**
Total Individual Annuities	**55**	**56**	**50**	**47**	**36**	**27**	**23**	**20**
Corporate Pensions	53	40	45	35	40	39	38	**30**
On-shore Bonds	45	38	43	50	49	53	60	**70**
Other Products	32	36	32	40	39	46	57	**59**
Wholesale	-	-	15	13	73	31	37	**30**
Total UK & Europe Insurance Operations	**185**	**170**	**185**	**185**	**237**	**196**	**215**	**209**

(i) Revised presentation from 2015

	2013				2014			
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m	Q3 £m	Q4 £m
Individual Annuities	55	56	50	47	36	27	23	**20**
Bonds	52	48	55	64	63	67	77	**87**
Corporate Pensions	53	40	45	35	40	39	38	**30**
Individual Pensions	13	13	11	13	12	15	21	**24**
Income Drawdown	3	3	4	5	5	7	11	**12**
Wholesale	-	-	15	13	73	31	37	**30**
Other Products	9	10	5	8	8	10	8	**6**
Total UK & Europe Insurance Operations	**185**	**170**	**185**	**185**	**237**	**196**	**215**	**209**

B. Reconciliation of expected transfer of value of in-force business (VIF) and required capital to free surplus

The tables below show how the VIF generated by the in-force long-term business and the associated required capital is modelled as emerging into free surplus over the next 40 years. Although a small amount (less than 2 per cent) of the Group's embedded value emerges after this date analysis of cash flows emerging in the years shown in the tables is considered most meaningful. The modelled cash flows use the same methodology underpinning the Group's embedded value reporting and so are subject to the same assumptions and sensitivities.

In addition to showing the amounts, both discounted and undiscounted, expected to be generated from all in-force business at 31 December 2014, the tables also present the expected future free surplus to be generated from the investment made in new business during 2014 over the same 40 year period.

Expected transfer of value of in-force business (VIF) and required capital to free surplus

	2014 £m							
	Undiscounted expected generation from all in-force business at 31 December*				Undiscounted expected generation from 2014 long-term new business written*			
Expected period of emergence	Asia	US	UK	Total	Asia	US	UK	Total
2015	953	1,054	506	**2,513**	124	241	25	**390**
2016	920	902	514	**2,336**	144	108	22	**274**
2017	883	844	501	**2,228**	149	118	23	**290**
2018	846	792	503	**2,141**	119	29	22	**170**
2019	819	866	494	**2,179**	118	114	23	**255**
2020	796	801	482	**2,079**	104	96	23	**223**
2021	795	774	473	**2,042**	107	86	24	**217**
2022	790	744	465	**1,999**	108	131	24	**263**
2023	780	662	470	**1,912**	103	113	24	**240**
2024	751	540	459	**1,750**	111	97	23	**231**
2025	739	464	448	**1,651**	96	83	24	**203**
2026	744	392	436	**1,572**	105	71	23	**199**
2027	735	335	423	**1,493**	93	63	22	**178**
2028	719	290	411	**1,420**	95	56	22	**173**
2029	695	248	401	**1,344**	103	49	22	**174**
2030	668	204	388	**1,260**	92	40	22	**154**
2031	654	186	375	**1,215**	92	35	22	**149**
2032	637	196	366	**1,199**	90	30	22	**142**
2033	621	113	348	**1,082**	88	24	22	**134**
2034	607	104	327	**1,038**	96	24	24	**144**
2035-2039	2,921	19	1,327	**4,267**	434	(14)	107	**527**
2040-2044	2,542	-	1,110	**3,652**	387	-	97	**484**
2045-2049	2,161	-	521	**2,682**	335	-	82	**417**
2050-2054	1,801	-	287	**2,088**	289	-	29	**318**
Total free surplus expected to emerge in the next 40 years	24,577	10,530	12,035	**47,142**	3,582	1,594	773	**5,949**

* The analysis excludes amounts incorporated into VIF at 31 December 2014 where there is no definitive timeframe for when the payments will be made or receipts received. In particular it excludes the value of the shareholders' interest in the estate. It also excludes any free surplus emerging after 2054. Following their sale, the cash flows exclude any cash flows in respect of Japan and PruHealth and PruProtect.

The above amounts can be reconciled to the new business amounts as follows:

New business	2014 £m			
	Asia	US	UK	Total
Undiscounted expected free surplus generation for years 2015-2054	3,582	1,594	773	**5,949**
Less: discount effect	(2,111)	(532)	(451)	**(3,094)**
Discounted expected free surplus generation for years 2015-2054	1,471	1,062	322	**2,855**
Discounted expected free surplus generation for years 2054+	91	-	2	**93**
PruHealth and PruProtect free surplus generation for new business not included above**	-	-	19	**19**
Less: Free surplus investment in new business[note 13]	(346)	(187)	(73)	**(606)**
Other items***	(54)	(181)	-	**(235)**
Post-tax EEV new business profit[note 13]	1,162	694	270	**2,126**

** In November 2014 the Group disposed of its stake in the PruHealth and PruProtect businesses for an EEV profit of £44 million. New business profit for the year includes new business written by the businesses prior to the disposed date. For the analysis above such profits have been excluded as the Group has realised the cash through sale in 2014.

*** Other items represent the impact of the time value of options and guarantees on new business, foreign exchange effects and other non-modelled items. Foreign exchange effects arise as EEV new business profit amounts are translated at average exchange rates and the expected free surplus generation uses year end closing rates.

The undiscounted expected free surplus generation from all in-force business at 31 December 2014 shown below can be reconciled to the amount that was expected to be generated as at 31 December 2013 as follows:

Group	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Other £m	Total £m
2013 expected free surplus generation for years 2014-2053**	2,165	2,109	2,025	1,911	1,884	1,814	31,638	**43,546**
Less: Amounts expected to be realised in the current year	(2,165)	-	-	-	-	-	-	**(2,165)**
Add: Expected free surplus to be generated in year 2054*	-	-	-	-	-	-	367	**367**
Foreign exchange differences	-	77	73	67	65	63	850	**1,195**
New business	-	390	274	290	170	255	4,570	**5,949**
Sale of PruHealth and PruProtect	-	(2)	(2)	(5)	(7)	(7)	(48)	**(71)**
Operating movements	-	9	(9)	18	47	58	(1,632)	**(1,679)**
Non-operating and other movements	-	(70)	(25)	(53)	(18)	(4)		
2014 expected free surplus generation for years 2015-2054**	-	2,513	2,336	2,228	2,141	2,179	35,745	**47,142**

Asia	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Other £m	Total £m
2013 expected free surplus generation for years 2014-2053**	801	821	798	735	705	682	17,471	**22,013**
Less: Amounts expected to be realised in the current year	(801)	-	-	-	-	-	-	**(801)**
Add: Expected free surplus to be generated in year 2054 *	-	-	-	-	-	-	324	**324**
Foreign exchange differences	-	25	26	23	22	21	548	**665**
New business	-	124	144	149	119	118	2,928	**3,582**
Operating movements	-	-	(29)	(1)	7	13	(1,115)	**(1,206)**
Non-operating and other movements	-	(17)	(19)	(23)	(7)	(15)		
2014 expected free surplus generation for years 2015-2054**	-	953	920	883	846	819	20,156	**24,577**

US	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Other £m	Total £m
2013 expected free surplus generation for years 2014-2053	902	817	760	709	700	666	4,834	**9,388**
Less: Amounts expected to be realised in the current year	(902)	-	-	-	-	-	-	**(902)**
Add: Expected free surplus to be generated in year 2054 *	-	-	-	-	-	-	-	**-**
Foreign exchange differences	-	52	47	44	43	42	302	**530**
New business	-	241	108	118	29	114	984	**1,594**
Operating movements	-	(10)	7	10	37	35	(48)	**(80)**
Non-operating and other movements	-	(46)	(20)	(37)	(17)	9		
2014 expected free surplus generation for years 2015-2054	-	1,054	902	844	792	866	6,072	**10,530**

UK	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Other £m	Total £m
2013 expected free surplus generation for years 2014-2053	462	471	467	467	479	466	9,333	**12,145**
Less: Amounts expected to be realised in the current year	(462)	-	-	-	-	-	-	**(462)**
Add: Expected free surplus to be generated in year 2054*	-	-	-	-	-	-	43	**43**
New business	-	25	22	23	22	23	658	**773**
Sale of PruHealth and PruProtect	-	(2)	(2)	(5)	(7)	(7)	(48)	**(71)**
Operating movements	-	19	13	9	3	10	(469)	**(393)**
Non-operating and other movements	-	(7)	14	7	6	2		
2014 expected free surplus generation for years 2015-2054	-	506	514	501	503	494	9,517	**12,035**

* Excluding 2014 new business.
** Includes the removal of Japan life business following the sale.

At 31 December 2014 the total free surplus expected to be generated over the next five years (years 2015-2019 inclusive), using the same assumptions and methodology as those underpinning our embedded value reporting was £11.4 billion, an increase of £1.7 billion from the £9.7 billion expected over the same period at the end of 2013.

This increase primarily reflects the new business written in 2014, which is expected to generate £1,379 million of free surplus over the next five years. Operating, non-operating and disposal of our share of PruHealth and PruProtect and other items are expected to decrease free surplus generation by £70 million over the next five years, which is more than offset by the favourable foreign exchange movements of £345 million.

At 31 December 2014 the total free surplus expected to be generated on an undiscounted basis in the next forty years is £47.1 billion, up from the £43.5 billion expected at end of 2013 reflecting the effect of new business written across all three business operations and a positive foreign exchange translation effect arising in the US and Asia operations of £1.2 billion.These positive effects have been offset by a £(1.7) billion adverse effect reflecting operating, market assumption changes and the disposal of our share of PruHealth and PruProtect and other items. These principally reflect the impact of falling interest rates, particularly in Asia. The overall growth in the undiscounted value of free surplus reflects our ability to write both growing and profitable new business.

Actual underlying free surplus generated in 2014 from life business in-force at the end of 2014 was £2.7 billion inclusive of £0.3 billion of changes in operating assumptions and experience variances. This compares with the expected 2014 realisation at the end of 2013 of £2.2 billion. This can be analysed further as follows:

	Asia £m	US £m	UK £m	Total £m
Transfer to free surplus in 2014	828	883	565	**2,276**
Expected return on free assets	62	30	14	**106**
Changes in operating assumptions and experience variances	(30)	278	66	**314**
Underlying free surplus generated from in-force life business in 2014	**860**	**1,191**	**645**	**2,696**
2014 free surplus expected to be generated at 31 December 2013	801	902	462	2,165

The equivalent discounted amounts of the undiscounted totals shown previously are shown below:

	2014 £m							
	Discounted expected generation from all in-force business at 31 December				Discounted expected generation from long-term 2014 new business written			
Expected period of emergence	Asia	US	UK	Total	Asia	US	UK	Total
2015	908	1,017	471	**2,396**	118	233	23	**374**
2016	807	820	457	**2,084**	125	97	20	**242**
2017	720	724	419	**1,863**	119	101	19	**239**
2018	644	642	397	**1,683**	88	23	18	**129**
2019	581	664	367	**1,612**	81	86	18	**185**
2020	529	576	337	**1,442**	67	68	16	**151**
2021	494	526	312	**1,332**	65	56	16	**137**
2022	459	478	289	**1,226**	61	81	15	**157**
2023	424	406	274	**1,104**	54	65	14	**133**
2024	383	312	252	**947**	54	52	13	**119**
2025	354	255	231	**840**	43	42	12	**97**
2026	335	204	212	**751**	45	33	11	**89**
2027	311	165	193	**669**	37	28	10	**75**
2028	289	137	176	**602**	36	23	10	**69**
2029	264	112	161	**537**	37	19	9	**65**
2030	239	90	146	**475**	32	15	8	**55**
2031	221	80	133	**434**	30	12	8	**50**
2032	204	83	122	**409**	28	10	7	**45**
2033	188	42	109	**339**	26	7	7	**40**
2034	174	39	96	**309**	28	7	7	**42**
2035-2039	747	99	321	**1,167**	112	4	27	**143**
2040-2044	518	-	195	**713**	82	-	18	**100**
2045-2049	362	-	63	**425**	60	-	12	**72**
2050-2054	247	-	25	**272**	43	-	4	**47**
Total discounted free surplus expected to emerge in the next 40 years	10,402	7,471	5,758	**23,631**	1,471	1,062	322	**2,855**

The above amounts can be reconciled to the Group's financial statements as follows:

	Total £m
Discounted expected generation from all in-force business for years 2015-2054	**23,631**
Discounted expected generation from all in-force business for years after 2054	**470**
Discounted expected generation from all in-force business (excluding Japan) at 31 December 2014 [note 14]	**24,101**
Add: Free surplus of life operations held at 31 December 2014 [note 13]	**4,193**
Less: Time value of guarantees [note 14]	**(575)**
Expected cashflow from the sale of Japan Life business*	**23**
Other non-modelled items** [note 14]	**1,382**
Total EEV for life operations	**29,124**

* Upon completion of the sale of the Japan life business £23 million of free surplus will be released. See note 8 and note 14 of the EEV basis results section for further details.

** These relate to items where there is no definitive timeframe for when the payments will be made or receipts received and are, consequently, excluded from the amounts incorporated into the tables above showing the expected generation of free surplus from in-force business at 31 December 2014. In particular it excludes the value of the shareholders' interest in the estate.

C Foreign currency source of key metrics

The tables below show the Group's key free surplus, IFRS and EEV metrics analysis by contribution by currency group:

Free surplus and IFRS 2014 results

	Underlying free surplus generated[2]	Pre-tax Operating profit[2,3,4]	Shareholders' funds[2,3,4]
	%	%	%
US$ linked[1]	**14**	**17**	**14**
Other Asia currencies	**9**	**18**	**18**
Total Asia	**23**	**35**	**32**
UK sterling[3,4]	**38**	**20**	**46**
US$ [4]	**39**	**45**	**22**
Total	**100**	**100**	**100**

EEV 2014 results

	Post-tax New Business profits	Post-tax Operating Profit[2,3,4]	Shareholders' Funds[2,3,4]
	%	%	%
US$ linked[1]	**36**	**35**	**29**
Other Asia currencies	**18**	**13**	**15**
Total Asia	**54**	**48**	**44**
UK sterling[3,4]	**13**	**14**	**33**
US$[4]	**33**	**38**	**23**
Total	**100**	**100**	**100**

Notes:
[1]US$ linked – comprising the Hong Kong and Vietnam operations where the currencies are pegged to the US dollar and the Malaysia and Singapore operations where the currencies are managed against a basket of currencies including the US dollar.
[2]Includes long-term, asset management business and other businesses.
[3]For operating profit and shareholders' funds UK sterling includes amounts in respect of central operations as well as UK insurance operations and M&G.
[4] For shareholders' funds, the US$ grouping includes US$ denominated core structural borrowings. Sterling operating profits include all interest payable as sterling denominated, reflecting interest rate currency swaps in place.

D Results of sold PruHealth and PruProtect business

The tables below show the results of the sold PruHealth and PruProtect business which were included in the Group's results for full year and half year 2014.

IFRS 2014 results

	2014 £m	
	Full year	**Half year**
Pre-tax operating profit	**23**	8

EEV 2014 post-tax results

	2014 £m	
	Full year	**Half year**
APE sales	**23**	14
Operating profit		
New business contribution	**11**	6
Total operating profit	**11**	8

APE and new business contribution

	2014 £m	
	APE	**Post-tax new business contribution**
Full year 2014	**23**	**11**
Q3 2014	20	9
Half year 2014	14	6
Q1 2014	7	3

Risk Factors

A number of risk factors affect Prudential's operating results and financial condition and, accordingly, the trading price of its shares. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The information given is as of the date of this document, and any forward-looking statements are made subject to the reservations specified below under 'Forward-Looking Statements'.

Prudential's approaches to managing risks are explained in the "Group Chief Risk Officer's report on the risks facing our business and our capital strength" section of this document.

Risks relating to Prudential's business

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

Prudential's businesses are inherently subject to market fluctuations and general economic conditions. Uncertainty or negative trends in international economic and investment climates could adversely affect Prudential's business and profitability. Since 2008 Prudential has operated against a challenging background of periods of significant volatility in global capital and equity markets, interest rates (which in some jurisdictions have become negative) and liquidity, and widespread economic uncertainty. For example, government interest rates remain at or near historic lows in the US, the UK and some Asian countries in which Prudential operates. These factors have, at times during this period, had a material adverse effect on Prudential's business and profitability.

In the future, the adverse effects of such factors would be felt principally through the following items:

- investment impairments or reduced investment returns, which could reduce Prudential's capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees, or have a negative impact on its assets under management and profit;

- higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses;

- failure of counterparties to transactions with Prudential that could give rise to a negative impact on Prudential's financial position and on the accessibility or recoverability of amounts due or, for derivative transactions, adequate collateral not being in place;

- estimates of the value of financial instruments being difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time); and

- increased illiquidity also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline.

Global financial markets are subject to uncertainty and volatility created by a variety of factors, including concerns over sovereign debt, general slowing in world growth, the timing and scale of quantitative easing programmes of central banks and socio-political events. Upheavals in the financial markets may affect general levels of economic activity, employment and customer behaviour. For example, insurers may experience an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums. The demand for insurance products may also be adversely affected. In addition, there may be a higher incidence of counterparty failures. If sustained, this environment is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on Prudential's business and its balance sheet and profitability. For example, this could occur if the recoverable value of intangible assets for bancassurance agreements and deferred acquisition costs are reduced. New challenges related to market fluctuations and general economic conditions may continue to emerge.

For some non-unit-linked investment products, in particular those written in some of the Group's Asian operations, it may not be possible to hold assets which will provide cash flows to match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets where regulated surrender values are set with reference to the interest rate environment prevailing at the time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. While this residual asset/liability mismatch risk can be managed, it cannot be eliminated. Where interest rates in these markets remain lower than those used to calculate surrender values over a sustained period, this could have a material adverse effect on Prudential's reported profit.

In the US, fluctuations in prevailing interest rates can affect results from Jackson which has a significant spread-based business, with the majority of its assets invested in fixed income securities. In particular, fixed annuities and stable value products written by Jackson expose Prudential 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 rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. Declines in spread from these products or other spread businesses that Jackson conducts, and increases in surrenders levels arising from interest rate rises, could have a material impact on its businesses or results of operations.

Jackson also writes a significant amount of variable annuities that offer capital or income protection guarantees. The value of these guarantees is affected by market factors (such as interest rates, equity values, bond spreads and realised volatility) and policyholder behaviour. There could be market circumstances where the derivatives that Jackson enters into to hedge its market risks may not fully cover its exposures under the guarantees. The cost of the guarantees that remain unhedged will also affect Prudential's results.

Jackson hedges the guarantees on its variable annuity book on an economic basis and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate economic result. In particular, for Prudential's Group IFRS reporting, the measurement of the Jackson variable annuity guarantees is typically less sensitive to market movements than for the corresponding hedging derivatives, which are held at market value. However, depending on the level of hedging conducted regarding a particular risk type, certain market movements can drive volatility in the economic results which may be less significant under IFRS reporting.

A significant part of the profit from Prudential's UK insurance operations is related to bonuses for policyholders declared on with-profits products, which are broadly based on historical and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns. This profit could be lower in a sustained low interest rate environment.

Prudential is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio

Prudential is subject to the risk of potential sovereign debt credit deterioration on the amounts of sovereign debt obligations held in its investment portfolio. In recent years, rating agencies have downgraded the sovereign debt of some countries. There is a risk of further downgrades.

Investing in sovereign debt creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of states or monarchs) in the countries in which the issuers are located and the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and Prudential may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject.

Moreover, governments may use a variety of techniques, such as intervention by their central banks or imposition of regulatory controls or taxes, to devalue their currencies' exchange rates, or may adopt monetary and other policies (including to manage their debt burdens) that have a similar effect, all of which could adversely impact the value of an investment in sovereign debt even in the absence of a technical default. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issuers.

In addition, if a sovereign default or other such events described above were to occur, other financial institutions may also suffer losses or experience solvency or other concerns, and Prudential might face additional risks relating to any debt of such financial institutions held in its investment portfolio. There is also risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be affected, as might counter party relationships between financial institutions. If a sovereign were to default on its obligations, or adopt policies that devalue or otherwise alter the currencies in which its obligations are denominated this could have a material adverse effect on Prudential's financial condition and results of operations.

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

Due to the geographical diversity of Prudential's businesses, Prudential is subject to the risk of exchange rate fluctuations. Prudential's operations in the US and Asia, which represent a significant proportion of operating profit based on longer-term investment returns and shareholders' funds, generally write policies and invest in assets denominated in local currencies. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential's consolidated financial statements upon translation of results into pounds sterling. This exposure is not currently separately managed. The currency exposure relating to the translation of reported earnings could impact on financial reporting ratios such as dividend cover, which is calculated as operating profit after tax on an IFRS basis, divided by the current year interim dividend plus the proposed final dividend. The impact of gains or losses on currency translations is recorded as a component of shareholders' funds within other comprehensive income. Consequently, this could impact on Prudential's gearing ratios (defined as debt over debt plus shareholders' funds). The Group's surplus capital position for regulatory reporting purposes may also be affected by fluctuations in exchange rates with possible consequences for the degree of flexibility the Prudential has in managing its business.

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

Changes in government policy, legislation (including tax) or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates, which in some circumstances may be applied retrospectively, may adversely affect Prudential's product range, distribution channels, competitiveness, profitability, capital requirements and, consequently, reported results and financing requirements. Also, regulators in jurisdictions in which Prudential operates may change the level of capital required to be held by individual businesses or could introduce possible changes in the regulatory framework for pension arrangements and policies, the regulation of selling practices and solvency requirements. In addition, there could be changes to the maximum level of non-domestic ownership by foreign companies in certain jurisdictions. Furthermore, as a result of interventions by governments in response to recent financial and global economic conditions, it is widely expected that there will continue to be a substantial increase in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transactions and enhanced supervisory powers.

Current EU directives, including the EU Insurance Groups Directive (IGD) require EU 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 test is a continuous requirement, so that Prudential needs to maintain a higher amount of regulatory capital at the group level than otherwise necessary in respect of some of its individual businesses to accommodate, for example, short-term movements in global foreign exchange rates, interest rates, deterioration in credit quality and equity markets. The EU is also developing a new prudential regulatory framework for insurance companies, referred to as 'Solvency II'.

The Solvency II Directive covers valuation, the treatment of insurance groups, the definition of capital and the overall level of capital requirements. A key aspect of Solvency II is that the assessment of risks and capital requirements are intended to be aligned more closely with economic capital methodologies, and may allow Prudential to make use of its internal capital models, if approved by the Prudential Regulation Authority (PRA). The Solvency II Directive was formally approved by the Economic and Financial Affairs Council in November 2009 and the Omnibus II Directive, which amended certain aspects of the Solvency II Directive, was adopted by the Council of the European Union in April 2014. As such, Solvency II is expected to be implemented as of 1 January 2016, although the European Commission and the European Insurance and Occupational Pensions Authority (EIOPA) are continuing to develop the detailed rules and guidelines that will supplement the high-level rules and principles of the Solvency II and Omnibus II Directives, including the Delegated Acts relating to third-country equivalence. These detailed rules and guidelines are not currently expected to be finalised until mid to late 2015. Further, the effective application of a number of key measures incorporated in the Omnibus II Directive, including the provisions for third-country equivalence, is subject to supervisory judgement and approval. As a result there is a risk that the effect of the measures finally adopted could be adverse for Prudential, including potentially a significant increase in the capital required to support its business and that Prudential may be placed at a competitive disadvantage to other European and non-European financial services groups.

Currently there are also a number of other global regulatory developments which could impact the way in which Prudential is supervised in its many jurisdictions. These include the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in the US, the work of the Financial Stability Board (FSB) on Global Systemically Important Insurers (G-SIIs) and the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) being developed by the International Association of Insurance Supervisors (IAIS).

The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States that, among other reforms to financial services entities, products and markets, may subject financial institutions designated as systemically important to heightened prudential and other requirements intended to prevent or mitigate the impact of future disruptions in the US financial system. The full impact of the Dodd-Frank Act on Prudential's businesses is not currently clear, as many of its provisions have a delayed effectiveness and/or require rulemaking or other actions by various US regulators over the coming years.

In July 2013 the FSB announced the initial list of nine insurance groups that have been designated as G-SIIs of which Prudential was one. Designation as a G-SII has led to additional policy measures being applied to the designated group. Based on the policy framework released by the IAIS and subsequent guidance papers these additional policy measures include enhanced group- wide supervision, effective resolution measures of the group in the event of failure, loss absorption, and higher loss absorption capacity. Prudential is monitoring the development and potential impact of, the framework of policy measures and is continuing to engage with the PRA on the implications of the policy measures and Prudential's designation as a G-SII. The G-SII regime also introduces two types of capital requirements; the first, a Basic Capital Requirement (BCR), designed to act as a minimum group capital requirement and the second, a Higher Loss Absorption (HLA) requirement that should reflect the drivers of the assessment of G-SII designation. G-SIIs will be required to report on their BCR to group-wide supervisors on a confidential basis from 2015. The HLA requirement will apply from January 2019 to the insurance groups identified as G-SIIs in November 2017.

ComFrame is also being developed by the IAIS to provide common global requirements for the supervision of insurance groups. The framework is designed to outline a set of common global principles and standards for group supervision and may increase the focus of regulators in some jurisdictions. One of the framework's key components is an Insurance Capital Standard (ICS) which would be expected to form the group solvency capital standard under ComFrame. This new framework is expected to be implemented in 2019.

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.

The Group's accounts are prepared in accordance with current International Financial Reporting Standards (IFRS) applicable to the insurance industry. The International Accounting Standards Board (IASB) introduced a framework that it described as Phase I, which permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In July 2010, the IASB published its first Exposure Draft for its Phase II on insurance accounting, which would introduce significant changes to the statutory reporting of insurance entities that prepare accounts according to IFRS. A revised Exposure Draft was issued in June 2013. The IASB is currently re-deliberating the Exposure Draft proposals in light of comments by the insurance industry and other respondents. The timing of the final proposals taking effect is uncertain but not expected to be before 2019.

Any changes or modification of IFRS accounting policies may require a change in the future results or a retrospective adjustment of reported results.

The resolution of several issues affecting the financial services industry could have a negative impact on Prudential's reported results or on its relations with current and potential customers

Prudential is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally. These actions could involve a review of types of business sold in the past under acceptable market practices at the time, such as the requirement in the UK to provide redress to certain past purchasers of pension and mortgage endowment policies, changes to the tax regime affecting products, and regulatory reviews on products sold and industry practices, including, in the latter case, lines of business it has closed.

Regulators' interest may include the approach that product providers use to select third party distributors and to monitor the appropriateness of sales made by them. In some cases, product providers can be held responsible for the deficiencies of third-party distributors.

In the US, there has been significant attention on the different regulatory standards applied to investment advice delivered to retail customers by different sectors of the industry. As a result of reports relating to perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms. This includes focus on the suitability of sales of certain products, alternative investments and the widening of the circumstances under which a person or entity providing investment advice with respect to certain employee benefit and pension plans would be considered a fiduciary which would subject the person or entity to certain regulatory requirements. There is a risk that new regulations introduced may have a material adverse effect on the sales of the products by Prudential and increase Prudential's exposure to legal risks.

In Asia, regulatory regimes are developing at different speeds, driven by a combination of global factors and local considerations. There is a risk that new requirements are introduced that challenge current practices, or are retrospectively applied to sales made prior to their introduction.

Litigation, disputes and regulatory investigations may adversely affect Prudential's profitability and financial condition

Prudential is, and may be in the future, subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of Prudential's businesses and operations that are specific to Prudential, or that are common to companies that operate in Prudential's markets. Legal actions and disputes may arise under contracts, regulations (including tax) or from a course of conduct taken by Prudential, and may be class actions. Although Prudential believes that it has adequately provided in all material aspects for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought, other sanctions that might be applicable and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome could, from time to time, have an adverse effect on Prudential's reputation, results of operations or cash flows.

Prudential's businesses are conducted in highly competitive environments with developing demographic trends and continued profitability depends upon management's ability to respond to these pressures and trends

The markets for financial services in the UK, US and Asia are highly competitive, with several factors affecting Prudential's ability to sell its products and continued profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance, historical bonus levels, developing demographic trends and customer appetite for certain savings products. In some of its markets, Prudential faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates. Further, heightened competition for talented and skilled employees and agents with local experience, particularly in Asia, may limit Prudential's potential to grow its business as quickly as planned.

In Asia, the Group's principal competitors in the region are international financial companies, including global life insurers such as Allianz, AXA, AIA, and Manulife and multinational asset managers such as J.P. Morgan Asset Management, Schroders, HSBC Global Asset Management and Franklin Templeton. In a number of markets, local companies have a very significant market presence.

Within the UK, Prudential's principal competitors include many of the major retail financial services companies and fund management companies including, in particular, Aviva, Legal & General, Lloyds Banking Group, Standard Life, Schroders, Invesco Perpetual and Fidelity.

Jackson's competitors in the US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies such as AIG, AXA Financial Inc., Allianz, Prudential Financial, Lincoln National, MetLife and Aegon.

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.

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

Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in Prudential's products, and as a result its competitiveness. Downgrades in Prudential's ratings, as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns, could have an adverse effect on its ability to market products; retain current policyholders; and on the Group's financial flexibility. In addition, the interest rates Prudential pays on its borrowings are affected by its credit ratings, which are in place to measure the Group's ability to meet its contractual obligations.

Prudential plc's long-term senior debt is rated as A2 by Moody's, A+ by Standard & Poor's and A by Fitch. These ratings have a stable outlook.

Prudential plc's short-term debt is rated as P-1 by Moody's, A-1 by Standard & Poor's and F1 by Fitch.

The Prudential Assurance Company Limited's financial strength is rated Aa2 (negative outlook) by Moody's, AA (stable outlook) by Standard & Poor's and AA (stable outlook) by Fitch.

Jackson's financial strength is rated AA by Standard & Poor's and Fitch, A1 by Moody's, and A+ by AM Best. These ratings have a stable outlook.

Prudential Assurance Co. Singapore (Pte) Ltd's financial strength is rated AA (stable outlook) by Standard & Poor's.

In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition.

Adverse experience in the operational risks inherent in Prudential's business, including failure in information technology and cyber-security, could disrupt its business functions and 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 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 the Group's business, accurate records have to be maintained for significant periods.

These factors, among others, result in significant reliance on and require significant investment in information technology (IT), compliance and other operational systems, personnel and processes. In addition, Prudential outsources several operations, including a significant part of its UK back office and customer-facing functions as well as a number of IT functions, resulting in reliance upon the operational processing performance of its outsourcing partners.

Although Prudential's IT, compliance and other operational systems and processes incorporate controls designed to manage and mitigate the operational risks associated with its activities, there can be no assurance that such controls will always be effective. Due to human error among other reasons, operational incidents do happen periodically and no system or process can entirely prevent them although there have not been any material such events to date. For example, although Prudential has not identified a material failure or breach in relation to its legacy and other IT systems and processes to date, it has been, and likely will continue to be, subject to computer viruses, attempts at unauthorised access and cyber-security attacks. Prudential's legacy and other IT systems and processes, as with operational systems and processes generally, may be susceptible to failure or breaches.

Being part of the financial services sector, Prudential and its business partners are increasingly exposed to the risk that third parties may attempt to disrupt the availability, confidentiality and integrity of its IT systems. This could result in loss of trust from Prudential's customers, reputational damage and financial loss. The cyber-security threat continues to evolve globally in sophistication and potential significance as Prudential increasingly moves to digitalize its business and provide on-line business operations for its customers. Whilst a focus of Prudential is on being proactive to the exposure faced from emerging threats through continually reviewing and enhancing its IT environment to remain robust and secure, together with increasing its ability to detect system compromise, and recover should such an incident occur, there can be no assurance that such events will not take place with adverse consequential effects on Prudential's business and financial position.

Such events could, among other things, harm Prudential's ability to perform necessary business functions, result in the loss of confidential or proprietary data (exposing it to potential legal claims and regulatory sanctions) and damage its relationships with its business partners and customers. Similarly, any weakness in administration systems (such as those relating to policyholder records or meeting regulatory requirements) or actuarial reserving processes could have a material adverse effect on its results of operations during the effective period.

Adverse experience relative to the assumptions used in pricing products and reporting business results could significantly affect Prudential's results of operations

In common with other life insurers, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity levels and trends, policy surrenders and take-up rates on guarantee features of products, investment performance and impairments, unit cost of administration and new business acquisition expense.

Prudential needs to make assumptions about a number of factors in determining the pricing of its products, setting reserves, for reporting its capital levels and the results of its long-term business operations. For example, the assumption that Prudential makes about future expected levels of mortality is particularly relevant for its UK annuity business. In exchange for a premium equal to the capital value of their accumulated pension fund, pension annuity policyholders receive a guaranteed payment, usually monthly, for as long as they are alive. Prudential conducts rigorous research into longevity risk, using data from its substantial annuitant portfolio. As part of its pension annuity pricing and reserving policy, Prudential's UK business assumes that current rates of mortality continuously improve over time at levels based on adjusted data and models from the Continuous Mortality Investigations (CMI) as published by the Institute and Faculty of Actuaries. Assumptions about future expected levels of mortality is similarly relevant to the Guaranteed Minimum Withdrawal Benefit (GMWB) of Jackson's variable annuity business. If mortality improvement rates significantly exceed the improvement assumed, Prudential's results of operations could be adversely affected.

A further example is the assumption that Prudential makes about future expected levels of the rates of early termination of products by its customers (persistency). This is particularly relevant to its lines of business other than its UK annuity business, especially Jackson's portfolio of traditional and variable annuities. Prudential's persistency assumptions reflect recent past experience for each relevant line of business. Any expected change in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly different than assumed , the Group's results of operations could be adversely affected. Furthermore, Jackson's variable annuity products are sensitive to other types of policyholder behaviour, such as the take-up of its GMWB product features.

Another example is the impact of epidemics and other effects that cause a large number of deaths. Significant influenza epidemics have occurred three times in the last century, but the likelihood, timing, or the severity of future epidemics cannot be predicted. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemics could have a material impact on the Group's loss experience.

As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments

The Group's insurance and investment management operations are generally conducted through direct and indirect subsidiaries.

As a holding company, Prudential's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper.

Certain of the subsidiaries are restricted by applicable insurance, foreign exchange and tax laws, rules and regulations that can limit remittances. In some circumstances, this could limit Prudential's ability to pay dividends to shareholders or to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group.

Prudential operates in a number of markets through joint ventures and other arrangements with third parties (including in China and India), involving certain risks that Prudential does not face with respect to its consolidated subsidiaries

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures (including in China and India). For the Group's joint venture operations, management control is exercised jointly with the venture participants. The level of control exercisable by the Group depends on the terms of the joint venture agreements, in particular, the allocation of control among, and continued co-operation between, the joint venture participants. Prudential may face financial, reputational and other exposure (including regulatory censure) in the event that any of its joint venture partners fails to meet its obligations under the joint venture, encounters financial difficulty, or fails to comply with local or international regulation and standards such as those pertaining to the prevention of financial crime. In addition, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not controlled by Prudential and is dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements, such as through significant deterioration in the reputation, financial position or other circumstances of the third party or material failure in controls (such as those pertaining to the prevention of financial crime) could adversely affect the results of operations of Prudential.

Prudential's Articles of Association contain an exclusive jurisdiction provision

Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings by a shareholder (in its capacity as such) against Prudential and/or its directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service provider. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

Changes in tax legislation may result in adverse tax consequences

Tax rules, including those relating to the insurance industry, and their interpretation, may change, possibly with retrospective effect, in any of the jurisdictions in which Prudential operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation could affect Prudential's financial condition and results of operations.

By order of the Board
Prudential plc
Alan F. Porter
Group Company Secretary

10 March 2015, London

As at the date of this announcement, the Board of Directors of Prudential plc comprises:

Chairman
Paul Victor Falzon Sant Manduca

Executive Directors
Cheick Tidjane Thiam *(Group Chief Executive)*, Nicolaos Andreas Nicandrou ACA,
Pierre-Olivier Marie Georges Bouée, Jacqueline Hunt, Michael George Alexander McLintock,
Barry Lee Stowe and Michael Andrew Wells

Independent Non-executive Directors
Sir Howard John Davies, Ann Frances Godbehere FCGA, Alexander Dewar Kerr Johnston CMG FCA,
Kaikhushru Shiavax Nargolwala FCA, Anthony John Liddell Nightingale CMG SBS JP,
The Hon. Philip John Remnant CBE ACA, Alice Davey Schroeder and Lord Andrew Turnbull KCB CVO

** For identification purposes*