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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 2013

NEWS RELEASE

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12 March 2014

PRUDENTIAL PLC FULL YEAR 2013 RESULTS

ALL SIX 2013 'GROWTH AND CASH' OBJECTIVES ACHIEVED AND DIVIDEND REBASED UPWARDS

Performance Highlights:

- IFRS operating profit[1] of £2,954 million, up 17 per cent
- Underlying free surplus generation[1] of £3,099 million (before investment in new business), up 15 per cent
- Net remittances from business units up 12 per cent to £1,341 million
- EEV new business profit of £2,843 million, up 16 per cent
- Total US IFRS operating profit of £1,302 million, up 30 per cent
- M&G delivers record IFRS operating profit of £395 million, up 23 per cent

2009-2013 'Growth and Cash' Objectives:

- Asia IFRS operating profit[1,2] of £1,075 million, up 16 per cent[3], more than double that of 2009
- Asia EEV new business profit of £1,460 million, up 15 per cent, more than double that of 2009
- Asia net full year cash remittance of £400 million, up 17 per cent, above 2013 objective of £300 million
- Jackson full year cash remittance of £294 million, above 2013 objective of £260 million
- UK full year cash remittance of £355 million, above 2013 objective of £350 million
- Cumulative net remittances to Group of £4.6 billion, above 2013 objective of £3.8 billion

Capital & Dividend:

- IFRS shareholders' funds of £9.7 billion, down 7 per cent
- EEV shareholders' funds of £24.9 billion, up 11 per cent, equivalent to 971 pence per share
- Insurance Groups Directive (IGD) capital surplus[4] estimated at £5.1 billion; solvency requirements covered 2.8 times
- 2013 full year dividend increased by 15 per cent to 33.57 pence per share

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

"The Group has delivered a strong performance in 2013. We have now met all six of the 2013 'Growth and Cash' objectives we set ourselves in 2010. Our focus on three long-term opportunities – (i) the protection and savings needs of the growing Asian middle class, (ii) the transition into retirement of American 'baby-boomers' and (iii) the needs for savings and income in retirement of an ageing UK population – and our discipline have allowed us to navigate successfully the 2009 to 2013 period, which was not without its challenges, following one of the most severe financial crises ever. Our focus on execution across our geographic markets of Asia, the US and the UK has delivered profitable growth and increasing cash generation – 'Growth and Cash'. In 2013 our key financial metrics of IFRS operating profit, cash and new business profits have all seen double-digit growth. Our business, which used to rely on the UK for IFRS earnings and to fund all its cash needs, is now well diversified not only in terms of IFRS earnings but also in terms of cash.

"These results are only possible because we provide customers with products and services of value to them. Across Asia, we deliver health and protection products to families at an affordable price in markets where there are limited social safety nets. In the US, our range of variable annuities is providing income to retirees in the world's largest retirement market. In the UK, we have a history of more than 165 years of providing savings and protection to policyholders whatever the prevailing economic conditions.

[1] The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards as discussed in note 3 of 'Notes to Editors'. In addition, following its reclassification to held for sale during 2013, operating results exclude the results of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis.
[2] Including Eastspring Investments, and after development costs.
[3] Excluding the 2012 one-off gain of £51 million from the sale of the Group's holding in China Life Insurance Company of Taiwan.
[4] Before allowing for final dividend.

"At the heart of our future prospects is Asia. We are pursuing the increasing demand for protection products from the rapidly growing middle class in our chosen markets across the region. We have rigorously allocated capital towards providing regular-premium policies with health and protection riders – a popular product with our customers, which allows them both to save for the future of their families and to protect them – delivering resilient, profitable and cash-generative growth for our shareholders. In 2013, Asia IFRS operating profit[1,2] increased by 16 per cent[3] to £1,075 million while new business profit was up 15 per cent to £1,460 million, allowing us to exceed our objectives of doubling the 2009 value of both metrics (being £930 million and £1,426 million respectively) in 2013. Asia net cash remittance of £400 million, up 17 per cent, also surpassed the 2013 full-year cash objective of £300 million and is 10 times higher than the amount remitted in 2009.

"In the US, we remain focused on meeting the needs of the 'baby-boomer' generation as they transition into retirement. Jackson has been capitalising on this large opportunity and has increased both its IFRS operating earnings and its cash generation through the economic cycle, through disciplined pricing and risk management in a sector where many companies encountered serious difficulties. We have continued to diversify our product mix with Elite Access, our innovative variable annuity with no guarantees, tripling its sales levels in 2013. Variable annuities without living benefit guarantees now account for almost one-third of our overall variable annuity sales. Total US IFRS operating profit of £1,302 million was up 30 per cent over 2012. Jackson has remitted £294 million of cash, exceeding its 2013 cash remittance objective, which had been increased from £200 million to £260 million after the REALIC acquisition. Since 2008 Jackson has remitted over US$1.8 billion of cash to the Group, tangible evidence of the success of our strategy in this market.

"Our UK life business serves the needs of an ageing population. The UK remitted £355 million of cash in 2013, above its objective of £350 million, an excellent performance from a mature business in an industry facing considerable regulatory change. The UK achieved IFRS operating profit of £735 million, a resilient performance as industry sales volumes remain negatively affected by the implementation of the requirements of the Retail Distribution Review (RDR). We believe the strength of our products and brand will position us well once distributors have adjusted to the new environment.

"In asset management, our operations are focused on delivering superior long-term investment performance while expanding distribution reach to new markets and customers. M&G has delivered record IFRS operating profit of £395 million, up 23 per cent, reflecting the benefits of its diversification across funds, asset classes and geographies. Eastspring Investments, our Asia asset management business, saw stable net inflows of £1.6 billion, with IFRS operating profit growing by 7 per cent, a credible performance in the face of volatile investment market conditions in the second half of the year.

"Looking ahead, we believe that the global economic outlook is improving. However, investment markets are impacted by short-term volatility as the market adjusts to policy normalisation in the US. The macro-economic adjustments that we are seeing in emerging markets, partly driven by the return of robust US growth, are ultimately a net positive for these countries, the global economy and Prudential.

"We remain confident that our Asian business is well positioned and offers a compelling opportunity to deliver long-term value both for our customers and for our shareholders. A rapidly growing, increasingly wealthy and well educated middle class with significant savings and protection needs underpins demand for our products. Our leadership positions in six out of 13 Asian markets, combined with our multi-product, multi-channel platform, position us well to capitalise on this opportunity and deliver long-term profitable growth. In addition to these positive Asian prospects, we expect our leading businesses in the US and the UK to continue to generate significant levels of earnings and cash as we serve the savings and retirement income needs of their ageing populations.

"To underline our confidence in the Group's prospects, we set out three new objectives[4] at our investor conference in December 2013:

(i) To achieve Underlying Free Surplus Generation[5] from Asia of between £0.9 billion and £1.1 billion in 2017, up from £484 million in 2012;
(ii) To grow Asia life and asset management pre-tax IFRS operating profit at a compound annual rate of at least 15 per cent over the period 2012 to 2017, up from £924 million in 2012 to at least £1,858 million in 2017[6]; and
(iii) To generate Group Underlying Free Surplus of at least £10 billion cumulatively over the four-year period from 2014 to end-2017.

"In addition to the attractive prospects we see in our existing markets, we are thinking beyond 2017. Therefore we are selectively investing in new countries where we see opportunities similar to those we see in our most successful markets in Asia: positive demography, strong economic growth and unmet needs for protection due to the absence of a social safety net. Over the last two

[1] The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards as discussed in note 3 of 'Notes to Editors'. In addition, following its reclassification to held for sale during 2013, operating results exclude the results of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis.
[2] Including Eastspring Investments, and after development costs.
[3] Excluding the 2012 one-off gain of £51 million from the sale of the Group's holding in China Life Insurance Company of Taiwan.
[4] 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.
[5] Underlying Free Surplus Generation comprises underlying free surplus generated 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.
[6] Asia 2012 IFRS operating profit of £924 million, 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.

years, we have invested in four new markets – Cambodia, Myanmar, Poland and most recently Ghana – and are exploring a fifth opportunity in Saudi Arabia.

"The strength and sustainability of our performance over the last five years have allowed the Board to recommend the rebase of our dividend upwards for the third time in four years. I wish to underline that these successive rebasings have been possible due to the exceptionally strong operational and financial performance of the Group during the last five years and that our dividend policy as defined by the Board is unchanged.

"In accordance with our dividend policy 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.

"We believe the Group is well positioned to continue to deliver good value to customers and attractive returns to shareholders while continuing to manage capital prudently."

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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 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. Where appropriate the EEV basis results include the effects of IFRS. Period-on-period percentage increases are stated on an actual exchange rate basis unless otherwise stated.

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

3. Operating profits are determined on the basis of including longer-term investment returns. EEV and IFRS operating profits are stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions, gain on dilution of Group holdings, the costs arising from the domestication of our Hong Kong business, and (loss)profit attaching to held for sale Japan Life insurance business. In addition, 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 and for 2012, the gain on acquisition of REALIC. Separately on the IFRS basis, operating profit also excludes amortisation of accounting adjustments on the acquisition of REALIC. In 2013 the Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefit accounting standard. The 2012 comparative results have been retrospectively adjusted from those previously published so as to be presented on a consistent basis to 2013.

4. Total number of Prudential plc shares in issue as at 31 December 2013 was 2,560,381,736.

5. There will be a conference call today for media at 10.00am (UK) / 6.00pm (Hong Kong) hosted by Tidjane Thiam, Group Chief Executive. UK dial-in telephone number: +44 (0)203 139 4830 Hong Kong dial-in telephone number: +852 3068 9834 (Freephone). Passcode: 28260176#.

6. A presentation for analysts and investors will be held today at 11.00am (UK)/ 7.00pm (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 10.30am (UK) / 6.30pm (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: 6292659#. This will be available from approximately 11.00am (UK) / 7.00pm (Hong Kong) on 13 March 2014 until 11.59pm (UK) / 7.59am (Hong Kong) on 27 March 2014.

7. 2013 Dividend

Ex-dividend date	26 March 2014 (UK, Ireland and Singapore) 27 March 2014 (Hong Kong)
Record date	28 March 2014
Payment of dividend	22 May 2014 (UK, Ireland and Hong Kong) On or about 29 May 2014 (Singapore) On or about 2 June 2014 (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 services groups. It provides insurance and financial services through its subsidiaries and affiliates throughout the world. It has been in existence for more than 165 years and has £443 billion in assets under management (as at 31 December 2013). 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 2013 financial performance

Financial highlights

Life APE new business sales, profits and investment in new business

	2013 £m			2012 £m			Change %		
	Sales (APE)	**NBP[1]**	**Free surplus invested in new business**	**Sales (APE)**	**NBP[1]**	**Free surplus invested in new business**	**Sales (APE)**	**NBP[1]**	**Free surplus investment in new business**
Asia	**2,125**	**1,460**	**310**	1,897	1,266	292	12	15	6
US	**1,573**	**1,086**	**298**	1,462	873	281	8	24	6
UK	**725**	**297**	**29**	836	313	45	(13)	(5)	(36)
Total Group	**4,423**	**2,843**	**637**	4,195	2,452	618	5	16	3

Profit before tax - IFRS[2]

	Actual Exchange Rate			Constant Exchange Rate	
	2013 £m	**2012 £m**	**Change %**	**2012 £m**	**Change %**
Operating profit					
Long-term business:					
Asia (excl. gain on sale of stake in China Life of Taiwan)	**1,001**	855	17	832	20
Gain on sale of stake in China Life of Taiwan	**-**	51	-	51	-
Asia	**1,001**	906	10	883	13
US	**1,243**	964	29	977	27
UK	**706**	703	-	703	-
Long-term business operating profit	**2,950**	2,573	15	2,563	15
UK general insurance commission	**29**	33	(12)	33	(12)
Asset management business:					
M&G (including Prudential Capital)	**441**	371	19	371	19
Eastspring Investments	**74**	69	7	68	9
US	**59**	39	51	39	51
Other income and expenditure	**(599)**	(565)	(6)	(565)	(6)
Total operating profit based on longer-term investment returns	**2,954**	2,520	17	2,509	18
Non-operating items	**(1,319)**	227	n/a		
Profit before tax attributable to shareholders	**1,635**	2,747	(40)		

Profit before tax - EEV[2]

	Actual Exchange Rate			Constant Exchange Rate	
	2013 £m	**2012 £m**	**Change %**	**2012 £m**	**Change %**
Operating profit					
Long-term business:					
Asia	**2,385**	1,951	22	1,891	26
US	**2,221**	1,610	38	1,630	36
UK	**1,033**	866	19	866	19
Long-term business operating profit	**5,639**	4,427	27	4,387	29
UK general insurance commission	**29**	33	(12)	33	(12)
Asset management business:					
M&G (including Prudential Capital)	**441**	371	19	371	19
Eastspring Investments	**74**	69	7	68	9
US	**59**	39	51	39	51
Other income and expenditure	**(662)**	(626)	(6)	(626)	(6)
Total operating profit based on longer-term investment returns	**5,580**	4,313	29	4,272	31
Non-operating items	**84**	644	(87)		
Profit before tax attributable to shareholders	**5,664**	4,957	14		

Basic earnings per share - based on operating profit after tax and non-controlling interest[2]

			Change %	
	2013 pence	**2012 pence**	**Actual Exchange Rate**	**Constant Exchange Rate**
IFRS	**90.9**	76.9	18	19
EEV	**165.0**	124.9	32	33

Underlying free surplus generated[3]

	2013 £m		2012 £m		Change %	
	Long-term	Total	Long-term	Total	Long-term	Total
Asia (excl. gain on sale of stake in China Life of Taiwan)	**509**	**573**	426	484	19	18
Gain on sale of stake in China Life of Taiwan	**-**	**-**	51	51	-	-
Asia	**509**	**573**	477	535	7	7
US	**831**	**870**	755	773	10	13
UK	**651**	**673**	462	487	41	38
M&G (incl. Prudential Capital)	**-**	**346**	-	285	-	21
Total Group	**1,991**	**2,462**	1,694	2,080	18	18

Cash remitted by the business units to the Group

	2013 £m	2012 £m	Change %
	Total	Total	Total
Asia	**400**	341	17
US	**294**	249	18
UK	**355**	313	13
M&G	**235**	206	14
Pru Cap	**57**	91	(37)
Total Group	**1,341**	1,200	12

Cash and capital

	2013	2012	Change %
Dividend per share relating to the reporting period	**33.57p**	29.19p	15
Holding company cash and short-term investments	**£2,230m**	£1,380m	62
IGD capital surplus before final dividend[4]	**£5.1bn**	£5.1bn	n/a
Group economic capital ratio before final dividend[5]	**257%**	215%	+42%

Group shareholders' funds (including goodwill attributable to shareholders)

	2013	2012	Change %
IFRS	**£9.7bn**	£10.4bn	(7)
EEV	**£24.9bn**	£22.4bn	11

	2013%	2012%
Return on IFRS shareholders' funds[6]	**23**	23
Return on embedded value [6]	**19**	16

	2013	2012	Change %
EEV shareholders' funds per share (including goodwill attributable to shareholders)	**971p**	878p	11
EEV shareholders' funds per share (excluding goodwill attributable to shareholders)	**914p**	820p	11

1 New Business Profit (NBP)

2 For IFRS reporting purposes, the Group adopted new and amended accounting standards in 2013. Accordingly, the IFRS elements and EEV basis shareholders' interest for the comparative results have been adjusted for the retrospective application of this adoption of IFRS accounting policies, as discussed in note A2 of the IFRS financial statements and note 1 of the EEV basis results. In addition, following its reclassification as held for sale during 2013, operating results exclude the results of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis.

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. 2012 comparatives have been retrospectively adjusted on a comparable basis.

4 Estimated. As disclosed in full year 2012 results, from March 2013 the basis of calculating Jackson's contribution to the Group's IGD surplus was changed. Further detail can be found in the section: Capital management – Regulatory Capital (IGD) of 'Group Chief Risk Officer's report on the risks facing our business and our capital strength'. The 2012 comparative is as previously reported and does not reflect the new basis. When assessed on a comparable basis, the 2013 estimated Group IGD surplus of £5.1 billion is 31 per cent higher than the 2012 pro-forma comparative of £3.9 billion.

5 The methodology and assumptions used in calculating the economic capital result are set out in note II of Additional unaudited financial information. The Group 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 do not expect to submit our Solvency II internal model to the Prudential Regulation Authority for approval until 2015 and therefore the 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. For IFRS reporting purposes, the Group adopted amended accounting standards in 2013. Accordingly, the IFRS elements and EEV basis shareholders' interest for the comparative results have been adjusted for the retrospective application of this adoption of IFRS accounting policies for the purpose of the calculation above as discussed in note A2 of the IFRS financial statements and in note 1 of the EEV basis results. In addition, following its reclassification as held for sale during 2013, operating results exclude the results of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis. For the purpose of the calculation above Japan has been removed from opening shareholders' funds.

Group Chief Executive's Report

I am pleased to report a strong performance in 2013. This performance has enabled us to deliver all of our six 2013 'Growth and Cash' objectives. Over the four-year period we gave ourselves to achieve these objectives, the Group's performance has been transformed, with all our business units now making significant contributions to both earnings and cash generation from a starting point where in 2008 most of the Group's earnings and cash were coming from our historic UK business.

In December 2013, we defined a new set of objectives that we aim to achieve by 2017. We are entering this new period with confidence in the prospects of the Group and the capacity of our teams across Asia, the US and the UK to execute. With our 2013 results, we have made a positive start towards our newly launched 2017 objectives.

The Group's strategy remains unchanged and is focused on capturing three significant opportunities across our three geographic markets – (i) in Asia, the significant and growing protection needs of the emerging middle class, particularly in our 'sweet spot' markets of South-east Asia; (ii) in the US, the financial needs of the 'baby-boomers' as they transition into retirement and (iii) in the UK, meeting the savings and retirement income needs of an ageing population. Our disciplined execution of this strategy has continued to drive profitable growth and higher cash generation, underlining our commitment to delivering both 'Growth and Cash'.

Group performance[1]

Our Group IFRS operating profit[2] based on longer-term investment returns increased by 17 per cent during the year to £2,954 million (2012: £2,520 million). Asia life operating profit[2] was up 17 per cent[3] to just over a landmark £1 billion, with collective double-digit growth from our four largest operations of Hong Kong, Singapore, Indonesia and Malaysia and increasingly material contributions from some of our smaller but fast-growing businesses such as the Philippines, Thailand and Vietnam. On an underlying basis[4], Asia life IFRS operating profit was up 20 per cent[3]. US life IFRS operating profit increased 29 per cent to £1,243 million (2012: £964 million), reflecting our focus on driving fee income from our variable annuity business and a full year's contribution of insurance income from REALIC. UK life IFRS operating profit was broadly in line with the prior year at £706 million (2012: £703 million) despite lower business volumes. M&G delivered record operating profit of £395 million, an increase of 23 per cent, reflecting continued strong third-party net inflows combined with favourable market movements in the period, which together have increased external funds under management by £14 billion to £126 billion (2012: increase of £20 billion to £112 billion).

Free surplus generation[2] from our life and asset management businesses, a key indicator of the actual cash generation from our life in-force book and from our large asset management activities, was 15 per cent higher at £3,099 million, before reinvestment in new business, reflecting the benefits we derive from the increased scale of our in-force life portfolio and a growing contribution from our asset management businesses. Investment in new business of £637 million (2012: £618 million) has increased far less rapidly than new business profits, highlighting the capital-efficient nature of our growth. Net cash remittances from our businesses to the Group increased by 12 per cent to £1,341 million (2012: £1,200 million).

New business profit was up 16 per cent to £2,843 million (2012: £2,452 million), mainly led by 15 per cent growth in Asia, with strong contributions from both agency and bancassurance channels and 24 per cent growth from the US, reflecting the positive impact of pricing and product actions as well as the beneficial impact of rising interest rates.

APE sales increased by 5 per cent to £4,423 million (2012: £4,195 million), led mainly by our Asian business, which saw double-digit sales growth on a constant exchange rate basis in eight markets: Thailand up 79 per cent, China up 41 per cent, Hong Kong up 21 per cent, Vietnam up 20 per cent, Singapore, Indonesia and the Philippines up 18 per cent and Korea up 14 per cent. Jackson APE sales were higher at £1,573 million (2012: £1,462 million), reflecting the excellent progress achieved by our no-guarantees Elite Access variable annuity product, which delivered sales volumes of £2,585 million ($4,045 million) in 2013, three times those achieved in 2012. In the UK, we continue to focus on value over volume, with retail APE sales lower by 12 per cent as the market adjusts to the post-Retail Distribution Review environment, while retail new business profits were 3 per cent lower year-over-year, as we have partially offset the impact of lower volumes through pricing and product actions. M&G has delivered strong net inflows of £9.5 billion (2012: £16.9 billion including one institutional debt mandate of £7.6 billion) as it benefits from record levels of retail sales from Continental Europe, while Eastspring Investments, our Asia asset management business, reported stable net inflows[5] of £1.6 billion (2012: £1.6 billion).

Our balance sheet continues to be defensively positioned and at the end of the period our IGD surplus[6] was estimated at £5.1 billion, equating to coverage of 2.8 times.

2013 'Growth and Cash' objectives
The Group has now delivered all six of the 2013 'Growth and Cash' objectives we set out at our 2010 investor conference.

- At full year 2013, Asia delivered new business profits of £1,460 million, ahead of its objective of doubling 2009 new business profits to £1,426 million.

We had already achieved five of the six objectives early. To recap:

- At full year 2012, we more than doubled Asia's 2009 IFRS operating profit from £465 million to £988 million[12] (2013 objective: £930 million), achieving this objective a year earlier than planned;
- We also exceeded Asia's 2013 cash objective of £300 million, delivering £341 million at full year 2012, again achieving this objective a year earlier than planned;
- At the half year stage in 2013, we achieved two further objectives: delivering cumulative net cash remittances to the Group of almost £4.1 billion over the three and a half year period from 2010 against our end-2013 target level of £3.8 billion;
- Also at the half year stage in 2013, our US business remitted £294 million to Group, exceeding its 2013 cash remittance objective of £260 million; and
- Lastly, as announced at the investor conference in December 2013, the UK achieved its 2013 cash remittance objective of £350 million by remitting £355 million to the Group.

The successful delivery of all of our 2013 'Growth and Cash' objectives highlights the continued disciplined implementation of the Group's strategy.

2017 objectives
Looking ahead, confident in the future prospects of the Group, we announced new objectives[7] for 2017 at our investor conference in December 2013 in London. These objectives are:

(i) Asia Underlying Free Surplus Generation[8] of £0.9 billion to £1.1 billion in 2017 (2012: £484 million)

(ii) 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 to reach at least £1,858 million in 2017 (2012: £924 million[9])

(iii) Group Underlying Free Surplus Generation of at least £10 billion cumulatively over the four-year period from 2014 to end-2017.

At the end of 2013, we have made an encouraging start towards achieving two of these 2017 objectives. We have grown Asia life and asset management pre-tax IFRS operating profit by 16 per cent[3] over 2012 and we have also delivered an 18 per cent[3] increase in Underlying Free Surplus from Asia to £573 million in 2013. We will regularly update the market on our progress on all three objectives.

	2013	**2017 objective[7]**
Asia Underlying Free Surplus Generation[8]	£ 573 million	£0.9 - £1.1 billion
Asia pre-tax IFRS operating profit	£1,075 million	> £1,858 million
Cumulative Group Underlying Free Surplus Generation from 2014 to end-2017	Not applicable	> £10 billion

Our operating performance by business unit

Asia
Prudential's businesses in Asia continued to perform well in 2013 against turbulent markets, particularly during the second half of the year. Significantly we succeeded in more than doubling the 2009 new business profit (£713 million) by 2013, reaching £1,460 million. We have therefore completed all three Asia-specific financial objectives we set ourselves in 2010 – the IFRS profit and cash remittance objectives were achieved last year, one year ahead of our initial ambition. This performance reflects the appropriateness of our strategic choices and our discipline in building the distribution reach necessary to make our products and services available to Asia's rapidly growing middle classes so that we can both meet their needs and generate value for shareholders.

Operational highlights for 2013 reflect our continued focus on our 'sweet spot' markets, where the macro-economic, demographic, competitive and regulatory environments enable us to capitalise on our strengths and use multiple distribution channels to provide long-term savings and protection solutions to our customers. These same positive long-term drivers underpin our strong financial performance in 2013, with Asia IFRS operating profit up 16 per cent to £1,075 million (2012: £924 million[2,3]) and cash remitted to Group 17 per cent higher at £400 million (2012: £341 million).

In 2013 our Asia business delivered a 14 per cent increase in APE sales on a constant exchange rate basis (12 per cent on actual exchange rate) to £2,125 million. In times of currency volatility comparison of results using constant exchange rates provides better measure of underlying performance. In this paragraph, unless otherwise stated, the following movements are expressed on a constant exchange rate basis. Sales performance has been strong throughout the year, achieving double-digit growth in every quarter. Sales through the agency channel were 16 per cent higher, with increases in active manpower and improvements in productivity contributing broadly equally. Sales through bank partnerships grew by 18 per cent, excluding those from E-Sun, where

we have chosen not to provide low-margin guaranteed products. Looking at our performance within the region, in Hong Kong our agency force continues to excel. We delivered a 30 per cent increase in agent productivity, with our with-profits and enhanced protection products proving to be especially popular. As a result, sales in Hong Kong grew by 21 per cent (up 23 per cent on actual exchange rate). Our multi-channel distribution in Singapore is particularly effective, with increases in active agency numbers (up 9 per cent) and productivity (up 10 per cent), coupled with very strong bancassurance partners in Standard Chartered Bank (SCB), United Overseas Bank (UOB) and Maybank, resulting in overall APE sales growth of 18 per cent (up 20 per cent on actual exchange rate). We continue to expand our agency force rapidly in Indonesia, with overall sales increasing by 18 per cent (up 7 per cent on actual exchange rate). As expected, we have seen average case sizes decline as we extend our reach outside Jakarta. However, over time with increasing urbanisation, our first-mover advantage driven by our continued distribution expansion in upcoming cities and towns will drive long-term profitable growth. Malaysia APE sales were up 8 per cent excluding top-up products (up 7 per cent on actual exchange rate), which we have decided to de-emphasise deliberately. The 14 per cent increase (on actual exchange rate) in bancassurance sales from SCB and UOB in this market was particularly encouraging.

Our other smaller 'sweet spot' markets have also delivered excellent results, with collective growth in APE sales of 39 per cent. In the Philippines we have grown agency activity by 49 per cent and in Vietnam we have improved productivity by 16 per cent. In Thailand, the Thanachart bancassurance relationship is progressing well, delivering £22 million of APE sales in the first eight months of its operations. In Cambodia, where we launched in January 2013, our new life business has made a good start and the relationship with our distribution partner ACLEDA Bank is working well. We have also opened a representative office in Myanmar.

Our joint ventures in China and India represent different opportunities in these two large, but quite different markets. In China our business remains small in the context of the market, but we are very encouraged by the progress being made, with APE sales growth of 48 per cent in 2013. We consider this business to have great potential over the medium to long term. In India, our joint venture continues to be the market leader in the private sector, but the market is continuously going through fundamental restructuring and we expect it to remain challenging for some time.

We have niche positions in the Taiwanese and Korean markets that have been structured to meet our operating and financial disciplines, particularly around products and profitability. Within this context, both businesses are performing well. On 16 July 2013 we announced our intention to sell our closed-book life insurance business in Japan for US$85 million (£51 million at 31 December 2013 closing exchange rate), subject to regulatory approvals.

Asia's life new business profit grew by 15 per cent to £1,460 million (2012: £1,266 million), outpacing APE sales growth of 12 per cent. The beneficial impact of higher interest rates, primarily in Hong Kong, was offset by the weakening of some Asian currencies relative to UK sterling, primarily the Indonesian rupiah. There has clearly been downward pressure on some of our Asian currencies relative to UK sterling. We believe that the economic fundamentals of these economies remain very attractive in the long term and that the tensions observed currently will actually contribute to the long-term stabilisation and growth of these economies by improving their trade balances and ultimately their current account balances. We remain focused on managing each of our businesses at the local level and on their performance in local currency, which is more indicative of their true performance and of their actual long-term growth potential.

Life IFRS operating profit was £1,001 million, up 17 per cent[2,3], making a positive start towards our 2017 IFRS objective. EEV life operating profit grew by 22 per cent to £2,385 million, driven by our strong new business growth and the positive impact of higher interest rates on the in-force book.

Eastspring Investments saw net third-party inflows of £1.6 billion[5], down on the half year mainly due to market volatility in the second half. Total funds under management (including money market funds) were up 3 per cent on the prior year (10 per cent on a constant currency basis) with net inflows and positive market movements being offset by currency weakness relative to UK sterling. IFRS profits were up 7 per cent and reflect discipline in cost management in challenging market conditions.

I am pleased to report that the long-running project to domesticate the Hong Kong branch of the Prudential Assurance Company has been successfully completed.

Asia remains a significant and attractive opportunity for the Group, underpinned by favourable structural trends of faster economic growth, leading to higher wealth, combined with growing and young populations, high savings rates and rising demand for protection. This is particularly true of the rapidly growing and increasingly wealthy Asian middle class. These opportunities are most evident in our 'sweet spot' markets of South-east Asia, including Hong Kong, where the combination of long-term structural trends and the breadth and depth of the Prudential franchise and distribution positions us well to achieve long-term sustainable and profitable growth.

US

The US has delivered a strong performance in 2013, maintaining its disciplined approach to new business and management of the in-force book, while also improving its capital position. Total US IFRS operating profit increased 30 per cent to £1,302 million (2012: £1,003 million). Life IFRS operating profit in 2013 increased by 29 per cent, to £1,243 million, driven by higher fee income as a result of on-going positive flows and appreciation in average account values, as well as a first full year's contribution from REALIC. Reflecting the cash-generative nature of Jackson's business and capital formation during the year, cash remitted to the Group totalled £294 million, exceeding the 2013 objective of £260 million.

During 2013, equity markets experienced a strong rise as confidence in the US economy began to return and an increase in longer-dated Treasury yields followed long-anticipated actions by the Federal Reserve to taper bond purchases late in the year. In the variable annuity market, some larger variable annuity providers have consciously pulled back, while others are now returning. Against this background, Jackson's market share of annuities with living benefits has remained relatively steady, while it is continuing to write new business at aggregate internal rates of return in excess of 20 per cent and with a payback period of two years.

Total variable annuity APE sales increased to £1,338 million in 2013 (2012: £1,245 million). This growth was exclusively driven by the rapid progress of Elite Access, our variable annuity without guarantees launched in early 2012, which contributed £259 million of APE sales in the period (2012: £85 million). Excluding Elite Access, variable annuity sales were 7 per cent lower than in 2012, which is the direct result of our disciplined approach to the management of the economic cycle in the variable annuity market. The success of Elite Access has helped increase the diversification of our product mix, with 31 per cent of our 2013 variable annuity sales not featuring living benefit guarantees (2012: 17 per cent). As a percentage of total sales, variable annuities with living benefit guarantees are at their lowest since 2008. In addition, during the second half of 2013 Jackson implemented various product initiatives to continue to balance value, volume, capital and balance sheet strength. Net inflows for variable annuities' separate accounts continue to be strongly positive at £8.0 billion (2012: £7.8 billion), reflecting the growth in new business sales and low, stable levels of policy surrenders. Combined with the additional positive impact of market appreciation, this increased separate account balances to £66 billion at 31 December 2013 (31 December 2012: £49 billion).

Fixed annuity APE sales of £55 million remained relatively flat compared to 2012, while fixed index annuity APE sales of £91 million decreased 17 per cent.

New business profit increased 24 per cent to £1,086 million, reflecting the benefits of our pricing and product actions, the contribution from Elite Access and the positive effects of higher long-term yields.

EEV life operating profit increased by 38 per cent to £2,221 million (2012: £1,610 million), reflecting higher new business profits (as mentioned above) and the increased scale of our in-force book, which includes a first full year's contribution from REALIC.

Jackson's Risk Based Capital ratio at the end of 2013 was 450 per cent, compared to 423 per cent at the end of 2012. In 2013, statutory capital generation was driven by the strong operating performance. This capital generation enabled Jackson to remit £294 million (2012: £249 million) to Group, while supporting its balance sheet growth.

Jackson's strategy is unchanged. We continue to price new business on a conservative basis, targeting value over volume, and our financial market 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. This approach has enabled Jackson to deliver significant profitable growth across the cycle while maintaining a strong balance sheet. Since 2008 Jackson has remitted over US$1.8 billion of cash to the Group, demonstrating that Jackson's recent growth is quickly translating into profits and into cash, the ultimate metric of our successful strategy.

UK and Europe

The UK life and pensions industry has undergone considerable regulatory and market change in 2013, with the appointment of two new industry regulatory bodies, the phasing in of auto-enrolment for company pensions and the introduction of the voluntary ABI Code on Retirement Choices. The implementation of the recommendations of the Retail Distribution Review has changed the distribution landscape and providers, distributors, advisers and their clients continue to adjust to the new environment. The Financial Conduct Authority's Thematic Review into the UK annuity market, which ran throughout 2013, concluded in February 2014 with the announcement that it was launching a further study to examine competition and choice in the retirement income market as a whole. We continue to support both regulatory and other initiatives to improve consumer experience and outcomes.

We continue to manage our UK business by focusing on our strengths in individual annuities and with-profits products. The combined financial strength and investment performance track record of Prudential's UK with-profits fund provides a key source of differentiation in a competitive market. The performance of our with-profits fund in 2013 has allowed us to add an estimated £2 billion to with-profits policies in the year and policyholders will typically see year-on-year increases of between 5 per cent and 8 per cent in accumulating with-profits policy values over the past year. Total bonus payments are expected to top £2.0 billion in 2014.

The onset of the Retail Distribution Review has significantly impacted the timing of sales volumes in the UK retail investments markets over the last two years. For Prudential, this resulted in very strong sales of onshore bonds in 2012, due to heightened activity prior to the implementation of the Retail Distribution Review, while in 2013 volumes returned to levels consistent with 2011, the last 'undisturbed' year. Onshore bonds APE sales of £176 million were 23 per cent lower as a result, which contributed to an overall decrease in retail APE sales of 12 per cent, to £697 million (2012: £795 million).

In individual annuities, market volumes declined 15 per cent during the year[10] against a strong comparative, due to increased activity in 2012 prior to the introduction of Gender Neutral Pricing and the Retail Distribution Review. Our annuity sales sourced from internal vestings decreased 10 per cent as more customers are opting to defer their retirement date, the effect of which is partly offset by higher average fund values. The proportion of our internal customers who chose a Prudential annuity remained in line with 2012. Overall APE sales from individual annuities were 14 per cent lower than in 2012.

In corporate pensions, we continue to focus on securing new members and incremental business from our current portfolio of customers and on additional voluntary contribution plans within the public sector, where we now provide schemes for 69 of the 99 public sector authorities in the UK (2012: 68 schemes).

In the wholesale market, we have continued our selective participation in bulk annuities based on strict return criteria and using our financial strength, superior investment track record, extensive mortality risk assessment experience and servicing capabilities. Bulk annuity APE sales amounted to £28 million (2012: APE sales of £41 million), contributing EEV new business profit of £30 million (2012: £39 million).

Retail new business profit of £267 million in 2013 was 3 per cent below 2012, due to lower sales volumes, partly offset by the positive effects of product mix and proactive pricing actions. Overall, new business profits were 5 per cent lower year-over-year, reflecting lower bulk annuity volumes and lower retail new business profit.

IFRS life operating profit was in line with 2012 at £706 million (2012: £703 million), and EEV life operating profit of £1,033 million increased 19 per cent, reflecting our active management of the in-force book.

During 2013 the UK remitted cash of £355 million to Group (2012: £313 million), exceeding our cash objective of delivering £350 million.

In September 2013 Jackie Hunt joined as Chief Executive, Prudential UK and Europe, and became a member of the Board of Prudential plc. Jackie was previously Chief Financial Officer at Standard Life plc. Jackie is focused on delivering the strategic priorities for the business as outlined at the December 2013 investor conference.

Our direct advice service, Prudential Financial Planning, is seeing demand for advice from our existing direct customers. Adviser numbers grew to 196 advisers by the end of 2013, in line with our expectations.

During 2013 we commenced sales operations in Poland, one of Europe's fastest-growing economies, which has an expanding middle class and high savings rates. We have made a good start to the business, building an agency sales network of 481 financial planning consultants across 12 branches. The agency sales network will continue to be rolled out to more major Polish cities and towns during 2014.

M&G

Equity markets in developed economies rose to pre-crisis levels during 2013. By contrast, emerging markets suffered a series of setbacks as concerns about slowing economic growth in China and the tapering of quantitative easing in the US weighed heavily on investor sentiment.

Against this backdrop, M&G continues to deliver strong investment performance. Over the three years to 31 December 2013, 21 retail funds representing approximately 69 per cent of its retail funds under management produced first or second-quartile investment returns. The performance of funds managed on behalf of segregated institutional fixed income clients also remains very strong, with all actively managed fixed income mandates outperforming their benchmarks over this period.

M&G has pursued business diversification across funds, asset classes and geographies. Its retail funds are now registered for sale in 20 jurisdictions and M&G has operations in 18 countries.

Net retail fund flows in Continental Europe reached a record level of £7.6 billion, a 46 per cent improvement on the previous year. European retail funds under management now total £23.7 billion, up 64 per cent year-on-year, and represent 35 per cent of total retail funds under management, compared with 26 per cent at the end of 2012.

In the UK M&G's business has slowed after four consecutive years as the number-one house for net retail sales between 2009 and 2012. M&G remained the number-one firm for gross sales over the calendar year 2013, thereby leading the market for five consecutive years. However, the business did experience modest net outflows of £0.7 billion during the year, largely reflecting the decision in 2012 to slow flows into two market-leading UK corporate bond funds to protect investment performance. Investor appetite for equities strengthened in 2013 as markets recovered, but in many European countries fund buyers continue to have a structural preference for bonds and also favour mixed-asset funds.

It is still too early to offer a definitive assessment of the impact of the Retail Distribution Review, although we do expect more focus in the market on price. In the past few weeks, platforms have begun to disclose their own service pricing and any special fund fees agreed with asset managers. Those managers with strong brands and a reputation for investment performance will be expected to better withstand any such pressures on asset management fees.

M&G has continued its efforts to diversify its fund range. During the year 10 retail funds attracted net sales of at least £100 million each, with the majority of money continuing to go into the M&G Optimal Income Fund, a flexible bond portfolio, and into the M&G Global Dividend Fund. Total net retail sales for the year were £7.3 billion, including the contribution from M&G's associate company in South Africa. This is the fourth time in five years that M&G has posted net retail inflows exceeding £7 billion. After this very strong period of sustained net sales, we expect business to return to less elevated levels in 2014. Total retail funds under management at 31 December 2013 were £67.2 billion, 22 per cent higher than at the end of 2012 and up 251 per cent since the end of 2008.

M&G's institutional business recorded net inflows of £2.1 billion during 2013, mainly through increased sales of alternative credit and leveraged loan products. Net inflows of £9.0 billion in 2012, a record level, included a single low-margin mandate of £7.6 billion. Over the year, total institutional funds under management increased by 3 per cent to £58.8 billion, and have now more than doubled since the end of 2008.

As in previous years, M&G has a strong pipeline of institutional business still to fund. Products designed to help fill the gap left by the decline in long-term commercial bank loans continue to attract considerable interest, while opportunities to lend to medium-sized companies and infrastructure projects are improving. M&G currently manages, on behalf of Prudential and external investors, around £24 billion of direct infrastructure investments and provides around £11 billion of funding to the wider UK economy. As well as providing loans to British business and other organisations, these include investments in social and economic infrastructure, (eg public and private investment in utilities, energy, transport, hospital and schools) and investment in social and residential housing as mentioned below.

Our property business, formerly known as PRUPIM, was rebranded M&G Real Estate during the year. During 2013 it completed £3.5 billion of property transactions, covering both acquisitions and disposals. It has also returned to the UK residential property market for the first time in 30 years with a £105 million investment in London housing.

Fund sales, combined with a 15 per cent increase in equity market levels and an 8 per cent rise in bond markets, pushed total funds under management to £244.0 billion at 31 December 2013, 7 per cent higher than at the end of 2012. External client assets rose 13 per cent to £126.0 billion, nearly treble their level at the end of 2008, and accounted for 52 per cent of the total.

M&G's operating profit rose by 23 per cent to £395 million, a new record. Underlying profits - excluding performance fees, carried interest and profits from our associate company – were up 20 per cent to £358 million. Over the past five years, underlying profits have grown at an annualised rate of 15 per cent, principally reflecting the consistent accumulation of external assets on the back of strong net sales.

M&G's cost/income ratio remained unchanged at an historic low of 59 per cent, with higher fee income offsetting a larger cost base from increased head count and ongoing investment in operational infrastructure.

M&G continues to provide capital-efficient profits and cash generation for the Group and remitted cash totalling £235 million during 2013, compared with £206 million in 2012.

M&G has been recognised for its investment performance with numerous awards, including Investment Manager of the Year, Fixed Income Manager of the Year and Real Estate Manager of the Year at both the Financial News Awards 2013 and European Pensions Awards 2013.

The business remains focused on delivering excellent investment performance and service to its clients while continuing to seek diversification by both asset class and geography. It is the commercialisation of this investment performance through the acquisition of new fund flows that produces attractive profits and cash flow for the Group.

Capital and risk management

We take a disciplined approach to capital management and have continued to implement a number of measures over the last few years to enable us to make our capital work more efficiently and more effectively for the Group. Using the regulatory measure of the Insurance Groups Directive (IGD), our Group capital surplus position at 31 December 2013 was estimated at £5.1 billion, before allowing for the final dividend, equating to coverage of 2.8 times.

With greater visibility on the potential outcome of Solvency II, we are reporting an economic capital[11] surplus of £11.3 billion (2012: £8.8 billion), which is equivalent to an economic solvency ratio of 257 per cent (2012: ratio of 215 per cent). This result is based on an assumption of US equivalence, with no restrictions being placed on the economic value of overseas surplus, and using our internal model, which has not yet been reviewed or approved by the Prudential Regulation Authority.

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. Prudential is monitoring the development of and the potential impact of the framework of policy measures and engaging with the Prudential Regulation Authority on the implication of this designation.

Dividend

The Board proposes to rebase the full year dividend upwards by 4.38 pence, due to the strong and sustained operational and financial performance of the Group, evidenced by the achievement of all our demanding 2013 'Growth and Cash' Objectives. The directors recommend a final dividend of 23.84 pence per share (2012: 20.79 pence), which brings the total dividend for the year to 33.57 pence, representing an increase of 15 per cent over 2012.

The Board applies strict affordability tests against a broad range of criteria before making its dividend recommendation. It is the result of these tests, combined with the Group's exceptionally strong performance in the past five years, that has enabled the Board to take the unusual decision to recommend the rebase of the dividend in consecutive years, 2012 and 2013.

It is worth emphasising here again that although the Board has been able to recommend three upward rebases in the last four years, 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

In 2013, we have delivered a strong performance.

The global macro-economic environment is improving, with many signs of recovery in the US and the UK. While the transition to a world with a more normal US monetary policy might create some challenging short-term market and currency volatility in financial markets, a return to global growth and to a more normal interest-rate environment and the robust nature of the long-term secular drivers we benefit from in Asia are all positives for our business in the medium term.

We remain focused on pursuing the three significant opportunities – the significant protection gap in the Asian middle class, the transition of US 'baby-boomers' into retirement and the need for savings and retirement income for an ageing population in the UK – that are core to our strategy.

Of these, Asia remains more than ever central to the long-term, profitable growth opportunities for the Group. The longer-term structural trends of a rapidly growing and wealthier middle class with significant unmet needs for savings and protection remain intact and underpin our prospects in the region. We fully recognise the challenges that some of the economies in the region must deal with and we are never complacent in managing our diversified portfolio of businesses. We believe that the strength of our franchise in Asia, with leadership positions across our 'sweet spot' markets of South-east Asia, including Hong Kong, and our multi-channel, multi-product platform position us well to profitably capture this multi-decade opportunity.

In the US and the UK, we remain focused on meeting the needs of our customers and continue to implement a prudent strategy, putting value ahead of volume. This allows us to generate significant levels of earnings and cash in both geographies.

Over the last five years, the overall performance of the Group has been transformed, with all four of our businesses now making significant and – in Asia and the US – growing contributions to both earnings and cash generation, from a starting position where the UK was by far the main contributor to earnings and to cash generation. This newly achieved diversification of our cash generation lends both strength and resilience to the Group's performance over the medium term.

The disciplined execution of our strategy has enabled us to deliver all of the six, challenging 2013 objectives following one of the worst financial crises in history. Our confidence in the future prospects of the Group and our ability to execute across our businesses in Asia, the US and the UK is encapsulated in the three new objectives for 2017 that we announced at our December 2013 investor conference.

We believe the Group is well positioned to continue to deliver good value to customers and attractive returns to shareholders while continuing to manage capital prudently.

[1] The comparative results shown above and elsewhere in this document have been prepared using an actual exchange rate (AER) basis except where otherwise stated. Comparative results on a constant exchange rate (CER) basis are also shown for the analysis of IFRS and EEV operating profit based on longer-term investment returns in the Chief Financial Officers' report on our 2013 financial performance.

[2] The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards as discussed in note A2 in the IFRS financial statements. In addition, following its reclassification as held for sale during 2013, operating results exclude the results of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis.

[3] Excluding the 2012 one-off gain of £51 million from the sale of the Group's holding in China Life Insurance Company of Taiwan.

[4] Underlying basis is calculated at constant exchange rate.

[5] Excluding money market funds.

[6] Before allowing for final dividend.

[7] 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.

[8] Underlying free surplus generated comprises underlying free surplus generated 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 one-off gain of £51 million from the sale of the Group's holding in China Life Insurance Company of Taiwan.

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

[10] Source: Q4 2013 ABI APE Market Data.

[11] The methodology and assumptions used in calculating the economic capital result are set out in note II of Additional unaudited financial information. The economic solvency ratio is based on 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 do not expect to submit our Solvency II internal model to the Prudential Regulation Authority for approval until 2015 and therefore these economic capital disclosures should not be interpreted as outputs from an approved internal model.

[12] As previously published.

Chief Financial Officer's report on our 2013 financial performance

2013 has seen Prudential maintain its disciplined approach to value creation, combining a focus on cash generation with strict capital allocation, a robust balance sheet and conservative risk management. In doing so, 2013 has been another year of progress, delivering a strong financial performance in volatile investment markets and achieving all of the 2013 financial objectives we set in 2010. In addition, we continue to improve the quality and balance of our earnings and the resilience of our business to external shocks, through our bias for less volatile sources of income and increasing diversification by product, distribution and geography.

The delivery of profitable growth is predicated on our ability to accumulate assets through new business flows and strong retention, with a strict preference for products that offer high returns and rapid monetisation of profits to cash. As a result, we have focused on the financial reporting measures of IFRS operating profit and free surplus generation that most reflect this emphasis. During 2013, IFRS operating profit[1] increased 17 per cent to £2,954 million and underlying free surplus generated[1] was up 18 per cent to £2,462 million.

During 2013, global equity markets have performed well overall, and the gradually improving outlook in most of the major economies has also led to a long-awaited uplift in long-term interest rates. These are positive developments for our business performance, and we are well positioned to benefit from the recovery in investment markets, having proactively defended the economics of our business when markets fell. The favourable impact of appreciating equity markets and rising yields, in combination with our strong execution and risk management, has benefited all of our key operating profit and underlying capital generation metrics in 2013.

As part of the benefits we provide to our customers some of our products guarantee the value of the funds they hold with us to protect them against declines when markets fall. To protect ourselves from the downside risks to the Group's financial position associated with these guarantees, we hold derivatives and other instruments to mitigate these exposures. In times of rising equity markets these will generally generate negative investment variances. In addition, while higher interest rates are beneficial to the long-term performance of our business, they do give rise to negative value movements on our holdings of fixed income securities. The impact of these collective short-term movements in investment values, reported outside the operating result, gave rise to a lower profit before tax[1] attributable to shareholders on an IFRS basis of £1,635 million in 2013 (2012: £2,747 million). On an EEV basis, which recognises the economic benefit of movements in investment markets, profit before tax[1] attributable to shareholders increased 14 per cent to £5,664 million (2012: £4,957 million). In the remainder of my report, my comments on the Group's operating performance exclude these short-term market effects.

Another feature of 2013 was the volatility in the world's currency markets. Following the US Federal Reserve's statements in 2013 implying its intention to taper asset purchases, currencies in some of our key Asian markets, such as Indonesia in particular, saw significant depreciation in the second half of the year. The US dollar also depreciated against UK sterling as the strength of the economic recovery in the UK brought forward expectations of a UK interest rate increase. As the assets and liabilities of our overseas businesses are translated at year-end exchange rates, the effect of these currency movements has been incorporated within the end-2013 reported shareholders' equity. However, the results of our overseas businesses are translated using average exchange rates for the year, as this is a reasonable approximation of the rates prevailing at the dates that our normal trading transactions have taken place in these markets. Accordingly, the full impact of the currency movements on the operating results of 2013 is more muted. Year-on-year growth rates in financial metrics are shown both in UK sterling terms and on a constant exchange rate basis to assist understanding of reported and underlying trends.

IFRS Profits

	Actual Exchange Rate			Constant Exchange Rate	
	2013 £m	**2012 £m[1]**	**Change %**	**2012 £m**	**Change %**
Operating profit					
Long-term business:					
Asia	**1,001**	906	10	883	13
US	**1,243**	964	29	977	27
UK	**706**	703	-	703	-
Long-term business operating profit	**2,950**	2,573	15	2,563	15
UK general insurance commission	**29**	33	(12)	33	(12)
Asset management business:					
M&G (including Prudential Capital)	**441**	371	19	371	19
Eastspring Investments	**74**	69	7	68	9
US	**59**	39	51	39	51
Other income and expenditure[2]	**(599)**	(565)	(6)	(565)	(6)
Total operating profit based on longer-term investment returns	**2,954**	2,520	17	2,509	18
Short-term fluctuations in investment returns:					
Insurance operations	**(1,083)**	100			
Other operations	**(27)**	87			
	(1,110)	187			
Other non-operating items[2]	**(209)**	40			
Profit before tax attributable to shareholders	**1,635**	2,747			
Tax charge attributable to shareholders' returns	**(289)**	(584)			
Profit for the year attributable to shareholders	**1,346**	2,163			

Earnings per share

	2013 pence	2012 pence[1]	% Change Actual Exchange Rate	% Change Constant Exchange Rate
Basic earnings per share based on operating profit after tax	**90.9**	76.9	18	19
Basic earnings per share based on total profit after tax	**52.8**	85.1	(38)	(38)

IFRS Operating Profit

Total IFRS operating profit[1] increased by 17 per cent in 2013 to £2,954 million (2012: £2,520 million), driven by higher contributions from both life insurance and asset management. This represents a 23 per cent (2012: 23 per cent) post-tax return on opening IFRS shareholders' funds. Viewed on a geographical basis, each of our Asia, US and UK regions achieved IFRS operating profit in excess of £1 billion for the first time in the Group's history.

Asia life operating profit was up 10 per cent on a reported basis, and up 13 per cent after adjusting for the translational impact of currency movements. Excluding the 2012 one-off gain of £51 million on the sale of our holdings in China Life Insurance Company of Taiwan, underlying growth in Asia's life operating profit was 17 per cent (20 per cent at constant currency). US life operating profit increased by 29 per cent, including the first full year of REALIC following its acquisition in 2012. Excluding REALIC, profit was increased by 24 per cent, reflecting strong growth in variable annuity fee income. UK life operating profit was in line with 2012. M&G (including Prudential Capital), our UK-based asset management business, and Eastspring Investments, our Asia asset manager, delivered growth of 19 per cent and 7 per cent respectively.

IFRS operating profit[1] from our life insurance operations in Asia, the US and the UK increased 15 per cent to £2,950 million (2012: £2,573 million). The increase in the profitability of our life operations reflects the growth in the scale of our life business, driven primarily by positive business flows. We track the progress that we make in growing our life book of business by reference to the scale of our obligations to our customers, which are referred to in the financial statements as the policyholder liabilities. Each year these liabilities increase as we collect premiums and decrease as we pay claims. The overall scale of these policyholder liabilities is relevant in evaluating our profit potential, in that it is reflective of 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]

	2013 £m		2012 £m		Change %	
	Shareholder-backed		Shareholder-backed		Shareholder-backed	
	Policyholder liabilities	Net liability flows[5]	Policyholder liabilities	Net liability flows[5]	Policyholder liabilities	Net liability flows
Asia	**21,931**	**2,349**	21,213	1,982	3	19
US	**107,411**	**9,635**	92,261	9,597	16	-
UK	**50,779**	**(1,038)**	49,505	(1,129)	3	8
Total Group	**180,121**	**10,946**	162,979	10,450	11	5

Focusing on the business supported by shareholder capital, which accounts for the majority of the life profits, in the course of 2013 we have increased policyholder liabilities from £163.0 billion to £180.1 billion, equivalent to an 11 per cent rise. The consistent addition of high-quality new business and proactive management of the existing in-force portfolio underpin this increase, resulting in positive net liability flows[5] of £10.9 billion in 2013 in policyholder liabilities. Favourable investment market and other movements (including corporate transactions) have contributed a further £10.6 billion to the increase, offset by a £4.4 billion negative foreign currency translation effect.

Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver [1, 3]

	2013 £m			2012 £m		
	Operating profit	Average liability	Margin bps	Operating profit	Average liability	Margin bps
Spread income	**1,073**	**64,312**	**167**	1,061	61,432	173
Fee income	**1,391**	**96,337**	**144**	1,077	78,433	137
With-profits	**298**	**97,393**	**31**	311	95,681	33
Insurance margin	**1,356**			1,027		
Margin on revenues	**1,749**			1,655		
Acquisition costs	**(2,039)**	**4,423**	**(46)%**	(1,997)	4,195	(48)%
Administration expenses	**(1,428)**	**169,158**	**(84)**	(1,235)	142,205	(87)
DAC adjustments	**334**			418		
Expected return on shareholder assets	**216**			205		
Gain on China Life (Taiwan) shares	**-**			51		
Operating profit based on longer-term investment returns	**2,950**			2,573		

In 2013, alongside growing the scale of our life operating profit, we have continued to focus on improving its quality by maintaining our bias in favour of less market-sensitive sources of income such as insurance margin and fee income, ahead of spread income. Our emphasis on risk products such as health and protection, together with the acquisition of REALIC, a closed book of traditional US life business, has driven 32 per cent growth in our insurance margin, increasing the proportion of earnings that is least sensitive to economic conditions. In addition, fee income is up 29 per cent, reflecting both a modest improvement in annual management charges and a 23 per cent increase in the average account balances that we manage on behalf of our customers. In contrast, the contribution to our profits from spread income has increased modestly by 1 per cent, reflecting subdued customer preference for this type of business in the current low-interest rate environment. The fact that a higher proportion of our overall income now comprises insurance margin and fee income represents a healthy evolution in both the quality and the balance of our earnings.

The costs we have incurred in writing new business and maintaining the in-force life businesses have 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.

Our Asia life insurance business continues to benefit from the growth of the in-force portfolio and our focus on building the proportion of our business that comprises health and protection, with IFRS operating profit[1] of £1,001 million (2012: £906 million), up 10 per cent. Adjusting for the 2012 one-off gain on the sale of our holding in China Life Insurance Company in Taiwan and currency movements, underlying growth was 20 per cent. The principal driver of our profitability in the region is our health and protection business, which delivered 68 per cent or £679 million (2012: £589 million) of total life profits. Indonesia IFRS operating profit, our largest market on this measure, was up by 23 per cent at constant exchange rates, reflecting increased insurance and fee income from the high level of regular premium health and protection and unit-linked sales in recent years. Our other large established markets of Hong Kong, Malaysia and Singapore also showed collective double-digit growth in IFRS operating profit, driven by higher insurance margin and, in the case of Hong Kong, higher bonus rates on with-profits business. There was encouraging progress in our smaller, fast-growing South-east Asia businesses in Thailand, the Philippines and Vietnam. Their combined IFRS operating profit of £125 million has increased by 166 per cent during 2013, and now accounts for 12 per cent of the Asia life total compared to 5 per cent in 2012. In Thailand, the inclusion of profits since May 2013 from the acquired Thanachart in-force portfolio together with profits on new business written through our exclusive partnership with Thanachart Bank contributed IFRS operating profit of £30 million.

In the US, long-term business IFRS operating profit was up 29 per cent in 2013 to £1,243 million (2012: £964 million), which includes a contribution of £128 million from REALIC (2012: £67 million). Jackson's total income increased by 24 per cent to £2,514 million (2012: £2,031 million), outpacing the 19 per cent growth in total expenses net of deferred acquisition cost adjustments totalling £1,271 million (2012: £1,067 million). Fee income has become Jackson's main source of earnings and has grown by 34 per cent to £1,172 million (2012: £875 million). The uplift in fee income is in line with the 33 per cent growth in separate account assets in the period to £65.7 billion (2012: £49.3 billion), reflecting the benefit of variable annuity premium inflows and the rise in US equity markets since December 2012. Insurance margin at £588 million (2012: £399 million) is now a more significant contributor to Jackson's earnings following the acquisition of REALIC's seasoned book of term insurance business. Spread income has increased 4 per cent to £730 million (2012: £702 million). We continue to focus on improving the balance of Jackson's profits and diversifying its sources of earnings and we are pleased that the earnings from REALIC have been consistent with expectations at the time of the acquisition.

UK long-term business IFRS operating profit was in line with 2012 at £706 million (2012: £703 million). The comparative result included a £31 million profit from writing wholesale contracts, compared with £25 million for 2013. Excluding these contracts, UK retail IFRS operating profit increased 1 per cent, and included the £27 million positive impact of a longevity swap entered into this year to further optimise the capital position of the business. Consistent with our focused product strategy in the UK, the operating result is driven by profits from shareholder-backed individual annuities and with-profits business, which accounted for 92 per cent of the retail IFRS operating profit.

Asset management net inflows and external funds under management[6]

	Net in-flows			External funds under management		
	2013 £m	**2012 £m**	**Change %**	**2013 £m**	**2012 £m**	**Change %**
M&G						
Retail	**7,342**	7,842	(6)	**67,202**	54,879	22
Institutional	**2,148**	9,039	(76)	**58,787**	56,989	3
M&G	**9,490**	16,881	(44)	**125,989**	111,868	13
Eastspring[7]	**1,575**	1,626	(3)	**17,927**	17,630	2
Total asset management	**11,065**	18,507	(40)	**143,916**	129,498	11
Total asset management (inc. MMF)	**11,587**	18,281	(37)	**148,212**	133,502	11

Our asset management businesses also had a successful year, collectively contributing 20 per cent higher operating profit at £574 million (2012: £479 million). Similar to the life operations, growth in our asset management overall operating profit also reflects the increased scale of this business. We measure growth by reference to funds under management, representing the sum of net monies received from external institutional and retail customers, monies managed on behalf of our life operations together with accumulated investment returns. External retail and institutional funds under management, which drive the majority of our profits, increased by 11 per cent during the year to £148.2 billion (£133.5 billion). The increase is driven by net new money inflows of £11.6 billion, reflecting the attractiveness of our broad fund offering measured by reference to the investment performance delivered for our customers. This is only the fourth time in our history that we have exceeded £10 billion net inflows in a year (the previous three being in 2009, 2010 and 2012) and our success is evident in the fact that we achieved positive external net flows for 11 years in a row. 2012 net flows of £18.5 billion included a single low-margin mandate into M&G of £7.6 billion. Excluding this amount, net flows in 2013 of £11.1 billion were marginally higher than £10.9 billion in 2012.

M&G's IFRS operating profit increased 23 per cent to a new record level of £395 million (2012: £320 million). Underlying profits, excluding performance-related payments and earnings from associates, increased 20 per cent to £358 million (2012: £298 million), reflecting both a 13 per cent uplift in external funds under management following a period of strong net inflows and positive market movements, and also the positive mix effect from the growing proportion of higher-margin retail business. M&G's average fee income across all the external and internal funds it manages was up slightly at 37 basis points (2012: 36 basis points), with higher income helping to absorb the current phase of increased headcount and infrastructure investment, maintaining a cost-income ratio at 59 per cent (2012: 59 per cent).

Our Asia asset management business, Eastspring Investments, has also seen the combination of net inflows and more favourable equity market conditions, partially offset by adverse currency movement, contribute to a 7 per cent increase in IFRS operating profit[1] to £74 million (2012: £69 million). Higher funds under management resulted in a 10 per cent uplift in revenue, outstripping a 5 per cent increase in expenses, which included ongoing investment to expand the Eastspring Investments platform into new markets.

In the US, our asset management businesses, PPM America and Curian, and our broker-dealer network, National Planning Holdings, collectively generated IFRS operating profits of £59 million (2012: £39 million). Curian's profit increased from £15 million in 2012 to £29 million in 2013 due to higher average assets under management, particularly reflecting the addition of assets managed for Jackson's Elite Access product.

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 these longer-term returns is reported within short-term fluctuations in investment returns. In 2013 for our insurance operations these total negative £1,083 million, comprising negative £204 million for Asia, negative £625 million in the US and negative £254 million in the UK.

In Asia, the negative short-term fluctuations of £204 million primarily reflect net unrealised movements on bond holdings following rises in bond yields across the region during the year. Negative short-term fluctuations of £625 million in the US mainly represent the net unrealised value movement on derivatives held to manage the Group's exposure to market movements following rises in equity values. Jackson hedges the guarantees offered under its variable annuity proposition on an economic basis and, thus, accepts a degree of variability in its IFRS results in the short term in order to achieve the appropriate economic result. The negative fluctuations of £254 million in the UK include net unrealised movements on fixed-income assets supporting the capital of the shareholder-backed annuity business.

Free surplus generation

Our ongoing focus on disciplined capital allocation to new business opportunities that offer the most attractive mix of returns and short payback periods means we have continued to produce significant amounts of capital, which we measure by reference to free surplus generated. Free surplus generation is a financial metric we use to measure the internal cash generation of our business operations. For the insurance operations it represents amounts maturing from the in-force business during the period, net of amounts reinvested in writing new business, and for asset management it equates to post-tax IFRS profit for the year.

Free surplus generation

	2013 £m	2012 £m
Free surplus generation:[8,9]		
Asia	**883**	827
US	**1,168**	1,054
UK	**702**	532
M&G (incl. Prudential Capital)	**346**	285
Underlying free surplus generated from in-force life business and asset management	**3,099**	2,698
Investment in new business	**(637)**	(618)
Underlying free surplus generated	**2,462**	2,080
Market related movements, timing differences and other movements	**(807)**	(612)
Net cash remitted by business units	**(1,341)**	(1,200)
Total movement in free surplus	**314**	268
Free surplus at 1 January	**3,689**	3,421
Free surplus at end of year	**4,003**	3,689

Holding company cash[10]

	2013 £m	2012 £m
Net cash remitted by business units:		
Asia	**400**	341
US	**294**	249
UK	**355**	313
M&G	**235**	206
Prudential Capital	**57**	91
Net cash remitted by business units	**1,341**	1,200
Net central outflows	**(315)**	(289)
	1,026	911
Corporate activities / other (including foreign exchange)	**605**	(76)
Dividend paid	**(781)**	(655)
Net movement in holding company cash	**850**	180
Holding company cash at 1 January	**1,380**	1,200
Holding company cash at end of year	**2,230**	1,380

In 2013, our life in-force and asset management businesses generated £3,099 million of underlying free surplus before reinvestment in new business. This is 15 per cent higher than the £2,698 million generated in 2012, with higher contributions from all four of our business operations. For our life insurance businesses, the growth in underlying free surplus generated reflects the increased scale of our in-force portfolio, which is a clear indication of our continued success in capturing profitable new business flows in those markets where growth opportunities are most attractive, and highlights the benefits of targeting low-strain, high-return business with a fast payback profile.

We reinvested £637 million of the free surplus generated in the period into writing new business (2012: £618 million) equivalent to a re-investment rate of 21 per cent, which is in line with recent periods. The amount of free surplus we reinvested in Asia increased 6 per cent to £310 million (2012: £292 million), while new business profit increased 15 per cent. This reflects improvements in mix and pricing actions taken as a result of our strategic focus on more capital-efficient products and the impact of higher interest rates in the period. In the US, new business investment increased to £298 million (2012: £281 million), primarily due to higher volumes of new business and the increase in capital requirements from 235 per cent of the US Risk Based Capital Company Action Level to 250 per cent (see section 'Regulatory capital (IGD)' of Risk and capital management report). Reinvestment levels in the UK remained low at £29 million (2012: £45 million), principally reflecting changes to business mix, with a higher proportion of with-profits APE sales.

Of the remaining free surplus generated after reinvestment in new business, totalling £2,462 million (2012: £2,080 million), £1,341 million was remitted from the business units to Group. This cash was used to meet central costs of £315 million (2012: £289 million) and dividend payments of £781 million (2012: £655 million). The total free surplus stock deployed across our life and asset management operations at the end of 2013 was £4,003 million. We retain capital in the businesses both to finance future growth and to enable them to withstand the effect of adverse investment market shocks. As the business grows in size, so does the level of capital needed to meet these objectives, leading to an increase in the absolute value of free surplus held at 31 December 2013 compared to the £3,689 million held at 31 December 2012.

Cash remitted to the Group in 2013 increased by 12 per cent to £1,341 million (2012: £1,200 million), with well balanced contributions from across the Group. Asia's remittances increased 17 per cent to £400 million (2012: £341 million), demonstrating the highly cash-generative nature of recent volume growth, driven by the focus on health and protection products. The 2013 remittance of £294 million from the US represents an increase of 18 per cent on 2012, reflecting both growth in the size of the in-force portfolio and an additional contribution from REALIC following its acquisition in 2012. The UK insurance operations have continued to make sizeable remittances at £355 million (2012: £313 million), supported by shareholder transfers from the with-profits fund. M&G net remittances increased 14 per cent to £235 million (2012: £206 million), reflecting its relatively capital-light business model that facilitates high dividend payouts to Group.

By 31 December 2013 cumulative net remittances of £4.6 billion have been delivered by business operations since the beginning of 2010, exceeding the cumulative 2010 to 2013 net remittance objective of £3.8 billion. These remittances have been supported by strong underlying free surplus generated across all four business operations, totalling in excess of £8.2 billion over the same period since the start of 2010.

Net central outflows increased to £315 million in 2013 (2012: £289 million), with higher corporate costs and higher net interest payments offset by lower Solvency II costs and higher tax receipts.

After central costs, there was a net cash inflow before dividend of £1,026 million in 2013, compared to £911 million in 2012. Dividend payments in 2013 were £781 million, up 19 per cent from £655 million in 2012 following the decision to rebase the full year dividend upwards by 4 pence in 2012.

Outside of the normal recurring central cash flow items, the holding company generated £605 million in cash (2012: net payments of £76 million). This £605 million included the proceeds from the issue of US$700 million and £700 million (total £1,124 million) of hybrid debts in 2013. Offsetting these were payments of £397 million for the acquisition of Thanachart Life and we paid £31 million to capitalise the two new legal entities in Hong Kong in anticipation of the domestication of the Hong Kong branch business. In addition, the holding company incurred £83 million of other cash payments in 2013, including payments in respect of amounts due to the UK tax authorities following the settlement reached in 2010 on historic tax issues and amounts totalling £30 million paid to the Financial Services Authority over issues related to the terminated AIA transaction.

EEV Profits

	Actual Exchange Rate			Constant Exchange Rate	
	2013 £m	**2012 £m[1]**	**Change %**	**2012 £m[1]**	**Change %**
Operating profit					
Long-term business:					
Asia	**2,385**	1,951	22	1,891	26
US	**2,221**	1,610	38	1,630	36
UK	**1,033**	866	19	866	19
Long-term business operating profit	**5,639**	4,427	27	4,387	29
UK general insurance commission	**29**	33	(12)	33	(12)
Asset management business:					
M&G (including Prudential Capital)	**441**	371	19	371	19
Eastspring Investments	**74**	69	7	68	9
US	**59**	39	51	39	51
Other income and expenditure[11]	**(662)**	(626)	(6)	(626)	(6)
Total operating profit based on longer-term investment returns	**5,580**	4,313	29	4,272	31
Short-term fluctuations in investment returns:					
Insurance operations	**(792)**	423			
Other operations	**(27)**	87			
	(819)	510			
Effect of changes in economic assumptions	**821**	(2)			
Other non-operating items[11]	**82**	136			
Profit before tax attributable to shareholders	**5,664**	4,957			
Tax charge attributable to shareholders' profit	**(1,306)**	(1,188)			
Profit attributable to shareholders	**4,358**	3,769			

Earnings per share

			% Change	
	2013 pence	**2012 pence[1]**	**Actual Exchange Rate**	**Constant Exchange Rate**
Basic earnings per share based on operating profit after tax	**165.0**	124.9	32	33
Basic earnings per share based on total profit after tax	**171.0**	148.3	15	17

EEV Operating Profit

On an EEV basis, Group operating profit[1] based on longer-term investment returns was £5,580 million in 2013, 29 per cent higher than the £4,313 million earned in 2012. This represents a 19 per cent (2012: 16 per cent) return on opening EEV shareholders' funds. The improvement reflects higher profits on life business, which generated new business profit of £2,843 million (up 16 per cent) and £2,796 million (up 42 per cent) from our growing in-force portfolio, and higher contributions from our asset management businesses.

In Asia, EEV life operating profit was up 22 per cent to £2,385 million (2012: £1,951 million), with in-force profits up 35 per cent to £925 million (2012: £685 million), benefiting from increased scale and the recent rise in interest rates in some of our key territories. The contribution from operating experience and assumption changes was £81 million (2012: £97 million), driven by favourable persistency and claims experience in Hong Kong and Indonesia. Asia new business profit was 19 per cent higher at constant exchange rate, at £1,460 million, reflecting volume growth from the continued build-out of our agency and bancassurance distribution, with both channels growing their respective contribution to new business profit by over 20 per cent at constant currency, and management actions to improve product mix, geographic mix and pricing. Our seven 'sweet spot' ASEAN[15] markets, including Hong Kong, continue to drive the growth in this metric, increasing their contribution to new business profit by 21 per cent, underpinned by a 17 per cent rise from health and protection in these markets, both on constant exchange rate. The impact of weakening Asian currencies relative to UK sterling, primarily the Indonesian rupiah, reduced the Asia overall reported growth rate to 15 per cent. We are particularly encouraged by the progress of some of our smaller businesses such as the Philippines (new business profit up 31 per cent), Thailand (up 90 per cent), Vietnam (up 19 per cent) and China (up 42 per cent), as well as further growth in our larger markets of Hong Kong (up 69 per cent, benefiting from higher interest rates as well as pricing actions) and Indonesia (up 11 per cent at constant currency, 1 per cent on actual exchange rate). The mechanics of our new business profit reporting are such that the rise in long-term interest rates has benefited Hong Kong's new business profitability given the high proportion of with-profit products in the sales mix, and has depressed Indonesia's profitability given the predominance of health and protection. When assessing the economics of all our new business using internal rates of return and payback periods, the returns achieved across all of Asia's product and geographical locations remain attractive.

Jackson's EEV operating profit increased by 38 per cent to £2,221 million (2012: £1,610 million) due to higher profits from our existing book as we continue to manage the business for value, and growth in new business profits. 2013 experience and operating assumption changes contributed positive £527 million towards in-force profits compared to £325 million in 2012. Within these amounts, swap transactions undertaken from 2010 to more closely match the overall asset and liability duration contributed enhanced profits with an overall spread gain of £274 million (2012: £205 million). Improved persistency contributed £134 million (2012: £66 million) to the life in-force total. US new business profit improved significantly, up 24 per cent to £1,086 million (2012: £873 million), reflecting the benefit of Jackson's product and pricing actions, the contribution from sales of Elite Access and the favourable impact of the 130 basis points rise in 10-year Treasury yields since the end of 2012, the latter accounting for around two thirds of the overall increase. These effects more than offset the impact of Jackson's deliberate steps to slow sales of variable annuities with guarantees, which declined 7 per cent in 2013.

In the UK, EEV life operating earnings increased by 19 per cent to £1,033 million (2012: £866 million), reflecting both higher in-force and new business profits. Life in-force profit increased to £736 million (2012: £553 million), reflecting improved returns on the opening embedded value (up £65 million to £547 million), and the non-recurrence of £52 million net charged to the annuity business in 2012 following strengthened mortality assumptions. It also includes a contribution of £122 million relating to the benefit arising from the reductions announced in UK tax rates from 23 to 20 per cent, compared with £87 million from the 2 per cent tax rate reduction in 2012. In the UK, new business profit was 5 per cent lower at £297 million (2012: £313 million), partly reflecting a lower level of wholesale business in 2013. In UK retail, new business profit was down slightly at £267 million (2012: £274 million), on 12 per cent lower sales volumes following the market disruption caused by the application of the recommendations of the Retail Distribution Review, offset in part by the positive effects of business mix and pricing activity.

The internal rates of return achieved on new business remain attractive at over 20 per cent across all of our business operations and the average surplus undiscounted payback period for business written in 2013 was three years for Asia, two years for the US and two years for the UK.

EEV non-operating profit

EEV operating profit is based on longer-term investment returns and excludes the effect of short-term volatility arising from market movements and the effects of changes from economic assumptions. These items are captured in non-operating profit which benefitted the 2013 results by a net £84 million (2012: £644 million).

EEV short-term fluctuations

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 insurance operations of negative £792 million comprise negative £405 million for Asia, negative £422 million for our US operations and positive £35 million in the UK.

In Asia, negative short-term fluctuations of £405 million principally reflect unrealised movements on bond holdings in the year. In the US, the favourable impact of market movements on the expected level of future fee income from the variable annuity separate accounts is more than offset by the net value movements on derivatives held to manage the Group's equity and interest rates exposure, to give overall negative fluctuations of £422 million in 2013.

Effect of changes in economic assumptions

Improved long-term yields compared to last year have a beneficial impact on the 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 profit of £821 million in 2013 (2012: negative £2 million), more than offsetting the effects of short-term fluctuations above.

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 2013 our IGD surplus is estimated at £5.1 billion before deducting the 2013 final dividend, equivalent to available capital covering our capital requirement 2.8 times. 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.

Jackson's Risk-Based Capital ratio at the end of 2013 was 450 per cent, having earlier in the year remitted £294 million to Group while supporting its balance sheet growth and maintaining adequate capital.

All of our subsidiaries continue to hold strong capital positions on a local regulatory basis. During 2013, Prudential completed the long-running project for approval to domesticate the Hong Kong branch business of the PAC with-profits fund, which has an effective date of 1 January 2014. The value of the estate of our UK with-profits fund as at 31 December 2013 is estimated at £8.0 billion prior to the effect of this transfer (2012: £7.0 billion). The value of the shareholders' interest in future transfers from the UK with-profits fund is estimated at £2.7 billion (31 December 2012: £2.1 billion). Despite the continued volatility in financial markets, Prudential UK's with-profits fund performed well, achieving a 10 per cent pre-tax investment return for policyholder asset shares during 2013.

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 period, at 31 December 2013 we have maintained sizeable credit default reserves at £1.9 billion (31 December 2012: £2.1 billion), representing 47 per cent of the portfolio spread over swaps, compared with 40 per cent at 31 December 2012.

In 2013, Prudential plc was designated by the Financial Stability Board as a global systemically important insurer (G-SII). At the same time, the International Association of Insurance Supervisors (IAIS) announced details of its assessment methodology and proposed policy measures for G-SIIs, covering enhanced supervision, effective resolution and higher loss absorption capacity. We continue to monitor these developments.

With greater visibility on the potential outcome of Solvency II, we have for the first time published our economic capital position based on our Solvency II internal model. This result is based on an assumption of US equivalence, with no restrictions being placed on the economic value of overseas surplus, and the internal model on which these calculations are based has not yet been reviewed or approved by the Prudential Regulation Authority. Other key elements of the basis which are likely to be updated in future as Solvency II regulations become clearer relate to the liability discount rate for UK annuities, the impact of transitional arrangements and the credit risk adjustment to the risk-free rate. Therefore, the results represent an estimate of our Solvency II capital position, assessed against a draft set of rules, with a number of key working assumptions, and the eventual Solvency II capital position will change as we iterate both the methodology and the internal model to reflect final rules and regulatory feedback.

On this basis, our economic capital[12] surplus is £11.3 billion (2012: £8.8 billion), which is equivalent to an economic solvency ratio of 257 per cent (2012: ratio of 215 per cent). The economic solvency position is shown to be robust to a range of market sensitivities.

Financing and liquidity

Shareholders' net core structural borrowings and ratings	**2013 £m**			**2012 £m**		
	IFRS basis	**Mark to market value**	**EEV basis**	**IFRS basis**	**Mark to market value**	**EEV basis**
Shareholders' borrowings in holding company	**4,211**	**392**	**4,603**	3,126	536	3,662
Prudential Capital	**275**	**-**	**275**	275	-	275
Jackson surplus notes	**150**	**38**	**188**	153	43	196
Total	**4,636**	**430**	**5,066**	3,554	579	4,133
Less: Holding company cash and short-term investments	**(2,230)**	**-**	**(2,230)**	(1,380)	-	(1,380)
Net core structural borrowings of shareholder-financed operations	**2,406**	**430**	**2,836**	2,174	579	2,753

Our financing and liquidity position remained strong throughout the period. Our central cash resources amounted to £2.2 billion at 31 December 2013, up from £1.4 billion at 31 December 2012, and we retain a further £2.1 billion of untapped committed liquidity facilities.

The Group's core structural borrowings at 31 December 2013 totalled £4,636 million (2012: £3,554 million) on an IFRS basis and comprised £4,211 million (2012: £3,126 million) of debt held by the holding company and £425 million (2012: £428 million) of debt held by the Group's subsidiaries, Prudential Capital and Jackson.

The increase in the holding company debt of £1,085 million primarily arises from the two debt issues that took place in 2013, raising £1,124 million of cash for the Group. In January 2013 Prudential issued a US$700 million (£429 million net of costs) 5.25 per cent perpetual Innovative Tier 1 hybrid under this programme, primarily to Asian retail Investors, and in December 2013 issued a £700 million (£695 million net of costs) 5.7 per cent lower Tier 2 subordinated bonds.

Both these debt issuances were raised under our £5 billion medium-term note programme, which covers both core borrowings as included in the table above, and non-core borrowings, which tend to be shorter in nature. Under this programme at 31 December 2013 the outstanding subordinated debt was £1,535 million, US$2,000 million and €20 million.

In addition to its net core structural borrowings of shareholder-financed operations set out above, the Group has access to liquidity via the debt capital markets and has in place an unlimited global commercial paper programme. As at 31 December 2013, we had issued commercial paper under this programme totaling £175 million, US$1,948 million, €335 million and AU$8 million.

Prudential's holding company has access to £2.1 billion of syndicated and bilateral committed revolving credit facilities, provided by 17 major international banks, expiring between 2015 and 2018. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 31 December 2013. The medium-term note 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 2013, the gearing ratio (debt, net of cash and short-term investments, as a proportion of IFRS shareholders' funds plus net debt) was 20 per cent, compared to 17 per cent at 31 December 2012. Prudential plc has strong debt ratings from Standard & Poor's, Moody's and Fitch. Prudential'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.

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	
	2013 £m	**2012[1]£m**	**2013 £m**	**2012[1]£m**
Operating profit based on longer-term investment returns	**2,954**	2,520	**5,580**	4,313
Items excluded from operating profit	**(1,319)**	227	**84**	644
Total profit before tax	**1,635**	2,747	**5,664**	4,957
Tax and non-controlling interests	**(289)**	(584)	**(1,306)**	(1,188)
Profit for the year	**1,346**	2,163	**4,358**	3,769
Exchange movements, net of related tax	**(255)**	(216)	**(1,077)**	(469)
Unrealised gains and losses on Jackson securities classified as available for sale[13]	**(1,034)**	387	**-**	-
Dividends	**(781)**	(655)	**(781)**	(655)
Other	**15**	116	**(87)**	161
Net (decrease) increase in shareholders' funds	**(709)**	1,795	**2,413**	2,806
Shareholders' funds at beginning of the period	**10,359**	8,564	**22,443**	19,637
Shareholders' funds at end of the year	**9,650**	10,359	**24,856**	22,443
Return on Shareholders' funds[14]	**23%**	23%	**19%**	16%

During 2013 most equity markets recorded strong positive movements, although volatility increased through the period on speculation about the timing of the slowdown in the US Federal Reserve's quantitative easing programme. This also led to a sharp rise in US yields to 3.1 per cent at 31 December 2013, compared to 1.8 per cent at the end of 2012, with yields in many other global markets following higher. Higher yields generate adverse value movements on our holdings of fixed-income securities, which have given rise to negative short-term investment variances in some of our operations. However, these higher yields are also expected to generate higher investment returns going forward, whose estimated positive future value is also included within the non-operating results on the EEV basis of reporting and offsets the effect of the negative short-term investment variances.

In addition, fears of a broad economic slowdown returned during the year, particularly in emerging markets, as a consequence of the anticipated end to US quantitative easing. As a result, several developing countries have experienced marked currency depreciation against the major global currencies. While Prudential is well diversified by currency, this effect, combined with the appreciation of UK sterling in 2013 on better economic data, has a translational impact on conversion of local balance sheets to UK sterling.

Taking these non-operating movements into account, the Group's EEV shareholders' funds have increased by 11 per cent during 2013 to £24.9 billion (31 December 2012: £22.4 billion). On a per share basis EEV at 31 December 2013 stood at 971 pence, up from 878 pence at 31 December 2012.

Under IFRS, the effect of potential higher future returns will only be recognised as they are earned, meaning there is no offset available against short-term investment variances in the current period. IFRS shareholders' funds at 31 December 2013 of £9.7 billion were, therefore, 7 per cent lower than at the previous year end (31 December 2012: £10.4 billion).

Corporate transactions

Agreement to sell Japan life business

On 16 July 2013 the Group reached an agreement to sell its closed book life insurance business in Japan, PCA Life Insurance Company Limited, to SBI Holdings Inc. for US$85 million (£51 million at 31 December 2013 closing exchange rate). The transaction is subject to regulatory approval and is expected to complete in the second quarter of 2014. Consistent with the classification of the business as held for sale, the IFRS and EEV carrying values have been set to £48 million, representing the estimated proceeds, net of related expenses of £3 million. The IFRS loss of £102 million (2012: profit of £17 million) and EEV loss of £35 million (2012: profit of £21 million) comprises the 2013 reduction on re-measuring the carrying value of the business and its trading results.

Acquisition of Thanachart Life

On 3 May 2013, the agreement we 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 Thanachart Life Assurance Company Limited (Thanachart Life), a wholly owned life insurance subsidiary of Thanachart Bank. This transaction builds on Prudential's strategy of focusing on the highly attractive markets of South-east Asia and is in line with the Group's multichannel distribution strategy.

The consideration for the transaction is 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) in July 2013 for adjustments to reflect net asset value as at the completion date. In addition, a deferred payment of THB 0.535 billion (£12 million) is payable 12 months after completion. The THB 18.981 billion (£412 million), includes the amounts attributable to the acquisition of the distribution rights associated with the exclusive 15-year bancassurance partnership agreement with Thanachart Bank. No goodwill arose on this acquisition.

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, approximately £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) have been transferred.

Dividend

The Board proposes to rebase the full year dividend upwards by 4.38 pence, due to the strong and sustained operational and financial performance of the Group, evidenced by the achievement of all our demanding 2013 'Growth and Cash' Objectives. The directors recommend a final dividend of 23.84 pence per share (2012: 20.79 pence), which brings the total dividend for the year to 33.57 pence, representing an increase of 15 per cent over 2012.

The Board applies strict affordability tests against a broad range of criteria before making its dividend recommendation. It is the result of these tests, combined with the Group's exceptionally strong performance in the past five years, that has enabled the Board to take the unusual decision to recommend the rebase of the dividend in consecutive years, 2012 and 2013.

It is worth emphasising here again that although the Board has been able to recommend three upward rebases in the last four years, 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.

[1] For IFRS reporting purposes, the Group adopted new and amended accounting standards in 2013. Accordingly, the IFRS elements and EEV basis shareholders' interest for the comparative results have been adjusted for the retrospective application of this adoption of IFRS accounting policies, as discussed in note A2 of the IFRS financial statements and in note 1 of EEV basis results. In addition, following its reclassification as held for sale during 2013, operating results exclude the result of the Japan Life insurance business. Profit before tax continues to include these results. 2012 comparatives have been retrospectively adjusted on a comparable basis.

[2] Refer to note B1.1 in IFRS financial statements for the break-down of other income and expenditure, and other non-operating items.

[3] For basis of preparation see note 1(a) of Additional IFRS unaudited financial information.

[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] Includes Group's proportionate share in PPM South Africa and the Asian asset management joint ventures.

[7] Net inflows exclude Asia Money Market Fund (MMF) inflows of £522 million (2012: net outflows £226 million). External funds under management exclude Asia MMF balances of £4,296 million (2012: £4,004 million).

[8] 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.

[9] Following its reclassification as held for sale during 2013, operating results exclude the results of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis.

[10] The detailed Holding Company Cash flow is disclosed in note I(d) of Additional unaudited IFRS financial information.

[11] Refer to the EEV basis supplementary information – Operating profit based on longer-term investment returns and summarised consolidated income statement, for the break-down of other income and expenditure, and other non-operating items.

[12] The methodology and assumptions used in calculating the economic capital result are set out in note II of Additional unaudited financial information. The economic solvency ratio is based on 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 do not expect to submit our Solvency II internal model to the Prudential Regulation Authority for approval until 2015 and therefore these economic capital disclosures should not be interpreted as outputs from an approved internal model.

[13] Net of related charges to deferred acquisition costs and tax.

[14] Operating profit after tax and non-controlling interests as percentage of opening shareholders' funds. For IFRS reporting purposes, the Group adopted amended accounting standards in 2013. Accordingly, the IFRS elements and EEV basis shareholders' interest for the comparative results have been adjusted for the retrospective application of this adoption of IFRS accounting policies for the purpose of the calculation above as discussed in note A2 of the IFRS financial statements and in note 1 of EEV basis results. In addition, following its reclassification as held for sale during 2013, operating results exclude the results of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis. For the purpose of the calculation above Japan has been removed from opening shareholders' funds.

[15] Association of South-east Asian Nations.

Group Chief Risk Officer's report on the risks facing our business and our capital strength

As a provider of financial services the management of risk lies at the heart of our business and effective risk management capabilities represent a key source of competitive advantage for the Group. 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 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.

Group Risk Framework

Our Group Risk Framework describes our approach to risk management, including provisions for risk governance arrangements; our appetite and limits for risk exposures; policies for the management of various risk types; risk culture standards; and risk reporting. It is under this framework that the key arrangements and standards for risk management and internal control that support Prudential's compliance with statutory and regulatory requirements are defined.

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.

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.

Risk appetite and limits

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 cash flows) to service debt, expected dividends and to withstand unexpected shocks; and
c. earnings (and cash flows) 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 (ie 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 (eg 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 ongoing 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 arises from the assets in the with-profits fund. This risk 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 fund's large inherited estate – estimated at £8.0 billion as at 31 December 2013 (31 December 2012: £7.0 billion) – 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.

In Asia, our shareholder exposure to equities relates to revenue from unit-linked products and, from a capital perspective, 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 variable annuities 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 it incurs to hedge or reinsure its 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 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 cash flows 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 cash flows 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 33 per cent or £26.8 billion of our exposure. Credit risk arising from £48.0 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. Our UK business is exposed to a lesser extent to £7.2 billion of fixed income assets in our unit-linked business.

The debt portfolio at our Asia business totalled £18.6 billion at 31 December 2013. Of this, approximately 66 per cent was in unit-linked and with-profits funds with minimal shareholders' risk. The remaining 34 per cent is shareholder exposure and is invested predominantly (71 per cent) in investment grade bonds.

Credit risk arises in the general account of our US business, where £30.3 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 £1.8 billion of residential mortgage-backed securities, of which £0.9 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 £2.0 billion as at 31 December 2013 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.

Further details of the composition 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 £10 billion of the debt portfolio backing shareholder business at 31 December 2013 (31 December 2012: 15 per cent or £10.2 billion). 44 per cent of this was rated AAA and 92 per cent investment grade (31 December 2012: 38 per cent AAA, 92 per cent investment grade). At 31 December 2013, the Group's total holding in continental Europe shareholder sovereign debt[1] was £531 million. 78 per cent of this was AAA rated (31 December 2012: 79 per cent AAA rated). Shareholder exposure to the Eurozone sovereigns of Italy and Spain is £54 million (31 December 2012: £52 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 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 2013 are given in Note C3.3(b) 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 Asian 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 data from our substantial annuity portfolio. The assumptions that we make about future expected levels of mortality are particularly relevant in our UK annuity business. The attractiveness of transferring longevity risk (via reinsurance and other external solutions) is regularly evaluated. These are used as risk management tools where it is appropriate and attractive to do so.

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.

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 proactively post sale. 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 has £2.1 billion of undrawn committed facilities, expiring between 2015 and 2018. 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 experienced 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 ongoing 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 and is classified as a business environment risk under the Group Risk framework risk categorisation.

The European Union (EU) is developing 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, once adopted, will amend 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 economic capital models if approved by the Prudential Regulation Authority.

In November 2013, representatives from the European Parliament, the European Commission and the Council of the European Union reached an agreement on the Omnibus II Directive, which is currently expected to be adopted in early 2014. As a result, Solvency II is now expected to be implemented as of 1 January 2016, although the European Commission and the European Insurance and Occupational Pensions Authority are continuing to develop the detailed rules that will complement the high-level principles of the Solvency II and Omnibus II Directives, which are not currently expected to be finalised until mid-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, are expected to be 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 Chief Risk Officer and Chief Financial Officer Forums, 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 'pre-application' stage of 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 (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 our businesses is not currently clear. However, 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 G-SIIs. This list included Prudential as well as a number of our competitors. The designation as a G-SII is likely to lead to additional policy measures being applied to the designated group. Based on a policy framework released by the IAIS concurrently with the initial list, these additional policy measures will include enhanced group- wide supervision. This enhanced supervision is intended to commence immediately and will include the development by July 2014 of a Systemic Risk Management Plan under supervisory oversight and implementation thereafter and by the end of 2014, a group Recovery and Resolution Plan and Liquidity Risk Management Plan. The G-SII regime also introduces two types of capital requirements, the first, a Basic Capital Requirement, designed to act as a minimum group capital requirement and the second, a Higher Loss Absorption requirement for conducting non-traditional insurance and non-insurance activities. The IAIS released a consultation paper on the Basic Capital Requirement in December 2013 and we will participate in the field testing of the proposals (expected in the first half of 2014). We are monitoring the development of, and the potential impact of, the framework of policy measures and engaging with the Prudential Regulation Authority on the implications of this designation. The IAIS currently expects to finalise the Basic Capital Requirement and Higher Loss Absorption proposals by November 2014 and the end of 2015 respectively. Implementation of the regime is likely to be phased in over a period of years with the Basic Capital Requirement expected to be introduced between 2015 and 2019. The Higher Loss Absorption 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 develop common principles for supervision and so may increase the focus of regulators in some jurisdictions. It is also currently expected that some prescriptive requirements, including group capital requirements will be included in the framework. A revised draft ComFrame proposal was released for consultation in October 2013. The IAIS will undertake a field testing exercise from 2014-2018 to assess the impacts 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

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.

Our capital position remains strong. We have continued to place emphasis on maintaining the Group's financial strength through optimising the balance between writing profitable new business, conserving capital and generating cash. We estimate that our IGD capital surplus is £5.1 billion at 31 December 2013 (before taking into account the 2013 final dividend), with available capital covering our capital requirements 2.8 times. This compares to a capital surplus of £5.1 billion at the end of 2012 (before taking into account the 2012 final dividend), albeit this was calculated on a different basis.

The movements in 2013 mainly comprise:

- Net capital generation (net of market movements) mainly through operating earnings (in-force releases less investment in new business, net of tax) of £2.1 billion; and
- Subordinated-debt issuance of £1.1 billion.

Offset by:

- The impact of the Thanachart acquisition cost, net of IGD contribution, £0.3 billion;
- Reduction in respect of Jackson IGD of £1.2 billion, as described below;
- Reduction in the shareholders' interest in future transfers from the UK's with-profits fund asset allowance (as discussed below) of £0.2 billion;
- Final 2012 dividend of £0.5 billion and interim 2013 dividend of £0.3 billion;
- External financing costs and other central costs, net of tax, of £0.6 billion; and
- Negative impact arising from foreign exchange movements of £0.1 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. Global regulatory developments, such as Solvency II and ComFrame, aim to ensure that the calculation of regulatory surplus evolves over time into a more meaningful risk sensitive measure.

There is broad agreement that ultimately it would be beneficial to replace the IGD regime with a regime that is more risk based. Solvency II aims to provide such a framework and is expected to be implemented on 1 January 2016. The structure of the Group and the approach we have taken to managing our risks, with a sizeable credit reserve in the UK annuity book, a strong inherited estate in UK with profits and the relatively low risk nature of our asset management and Asian operations, together with a high level of IGD surplus means we have positioned ourselves well for future regulatory developments and stresses to our business. Our economic capital surplus based on outputs from our Solvency II internal model, is shown below.

In March 2013, we agreed with the PRA to amend the calculation of the contribution Jackson makes to the Group's IGD[2] surplus. Until then, the contribution of Jackson to the reported IGD was based on an intervention level set at 75 per cent of US Risk Based Capital Company Action Level. Post this change, the contribution of Jackson to IGD surplus now equals the surplus in excess of 250 per cent of Company Action Level. This is more in line with the level at which we have historically reported free surplus, which had been set at 235 per cent of Company Action Level, and which has been raised to 250 per cent in the first half of 2013 to align with IGD. In the absence of an agreed Solvency II approach, we believe that this change makes the IGD surplus a more meaningful measure and one that is more closely aligned with economic reality. The revised IGD surplus calculation has no impact on the way that the US business is managed or regulated locally. The impact of this change when it was introduced in March 2013, was a reduction in IGD surplus of £1.2 billion.

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 from the UK's with-profits business and this remained in place, contributing £0.4 billion to the IGD at 31 December 2012. We are phasing this out in two equal steps, reducing the credit taken to £0.2 billion from January 2013 and we expect to take zero credit from January 2014.

In addition to its strong capital position, on a statutory (Pillar 1) basis, the total credit reserve for the UK shareholder annuity funds also protects its capital position in excess of the IGD surplus. This credit reserve as at 31 December 2013 was £1.9 billion. This credit risk allowance represents 47 per cent of the bond portfolio spread over swap rates, compared to 40 per cent as at 31 December 2012.

Stress testing

As at 31 December 2013, 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 2013 levels would reduce the IGD surplus by £50 million;
- 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 £250 million;
- A 100 basis points reduction (subject to a floor of zero) in interest rates would reduce the IGD surplus by £50 million; and
- Credit defaults of ten times the expected level would reduce IGD surplus by £600 million.

We believe that the results of these stress tests, together with our 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.

We also use an economic capital assessment to monitor our capital requirements across the Group, allowing for realistic diversification benefits and continue to maintain a strong position. This assessment provides valuable insights into our risk profile.

Economic capital position

Following provisional agreement on the Solvency II Omnibus II Directive on 13 November 2013, Solvency II is now expected to come into force on 1 January 2016. Therefore our economic capital results are based on outputs from our Solvency II internal model. Although the Solvency II and Omnibus II Directives, together with draft Level 2 'Delegated Acts', provide a viable framework for the calculation of Solvency II results, there remain material areas of 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 do not expect to submit our Solvency II internal model to Prudential Regulation Authority for approval until 2015 and therefore the economic capital position disclosed below should not be interpreted as output from an approved internal model.

At 31 December 2013 the Group has an economic capital[3] surplus of £11.3 billion (2012: £8.8 billion) and an economic solvency ratio of 257 per cent (2012:215 per cent) before taking into account the 2013 final dividend.

Between full year 2012 and full year 2013, the Group economic capital surplus increased by £2.5 billion from £8.8 billion to £11.3 billion. The total movement over the year was equivalent to a 42 percentage point increase in the Group economic solvency ratio, driven by:

- *Model changes of £0.1 billion*: a positive impact to Group surplus arising from a number of modelling enhancements and refinements;
- *Operating experience of £2.1 billion*: generated by in-force business, new business written in 2013, the beneficial impact of management actions taken during 2013 to de-risk the business, and small impacts from non-market assumption changes and non-market experience variances over the year; and
- *Non-operating experience of £0.9 billion*: mainly arising from positive market experience during 2013.

Offset by:

- *Other capital movements of £0.6 billion*: a reduction in surplus from the acquisition of Thanachart Life and the preparation for sale of the Japanese business, the negative impact of exchange rate movements, an increase in surplus from new subordinated-debt issuances and a reduction in surplus due to dividend payments in 2013.

These results are based on outputs from our current Solvency II internal model, assessed against a draft set of rules and 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. By disclosing economic capital information at this stage, the Directors of Prudential plc are seeking to provide an indication of the potential outcome of Solvency II based on the Group's current interpretation of the draft rules. An update of the capital position based on the Solvency II internal model will be reported annually going forward and will evolve to reflect changes to the Solvency II rules, on-going refinements to our internal model calibrations, and feedback from the Prudential Regulation Authority on Prudential's approach to implementing this new capital regime. Against this background of uncertainty, it is possible that the final outcome of Solvency II could result in a fall in the Group solvency ratio, relative to the results shown above.

Stress testing

At 31 December 2013, 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 £0.3 billion but increase the economic solvency ratio to 260 per cent;
- An instantaneous 40 per cent fall in equity markets would reduce surplus by £1.0 billion but increase the economic solvency ratio to 258 per cent;
- A 100 basis points reduction in interest rates (subject to a floor of zero) would reduce surplus by £1.3 billion and reduce the economic solvency ratio to 225 per cent;
- A 100 basis points increase in interest rates would increase surplus by £0.8 billion and increase the economic solvency ratio to 284 per cent; and
- A 100 basis points increase in credit spreads would reduce surplus by £1.3 billion and reduce the economic solvency ratio to 254 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.

[1] Excludes Group's proportionate share in Joint Ventures and unit-linked assets and holdings of consolidated unit trusts and similar funds.
[2] Jackson previously reported IGD on an intervention level set at 75 per cent of US Risk Based Capital Company Action level (CAL). In March 2013 it was agreed with the PRA that going forward Jackson's IGD will be reported on an intervention level set at 250 per cent of CAL.
[3] The methodology and assumptions used in calculating the economic capital result are set out in note II of Additional unaudited financial information. The economic Solvency ratio is based on 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 do not expect to submit our Solvency II internal model to the Prudential Regulation Authority for approval until 2015 and therefore 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 directors of Prudential plc confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

- The Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED INCOME STATEMENT

Year ended 31 December	Note	2013 £m	2012* £m
Gross premiums earned		**30,502**	29,113
Outward reinsurance premiums		**(658)**	(491)
Earned premiums, net of reinsurance		**29,844**	28,622
Investment return		**20,347**	23,931
Other income		**2,184**	1,885
Total revenue, net of reinsurance		**52,375**	54,438
Benefits and claims		**(42,227)**	(44,116)
Outward reinsurers' share of benefit and claims		**622**	259
Movement in unallocated surplus of with-profits funds		**(1,549)**	(1,287)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		**(43,154)**	(45,144)
Acquisition costs and other expenditure	B3	**(6,861)**	(6,032)
Finance costs: interest on core structural borrowings of shareholder-financed operations		**(305)**	(280)
Remeasurement of carrying value of Japan life business classified as held for sale	D1	**(120)**	-
Total charges, net of reinsurance		**(50,440)**	(51,456)
Share of profits from joint ventures and associates, net of related tax	A2,D5	**147**	135
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)***		**2,082**	3,117
Less tax charge attributable to policyholders' returns		**(447)**	(370)
Profit before tax attributable to shareholders	B1.1	**1,635**	2,747
Total tax charge attributable to policyholders and shareholders	B5	**(736)**	(954)
Adjustment to remove tax charge attributable to policyholders' returns		**447**	370
Tax charge attributable to shareholders' returns	B5	**(289)**	(584)
Profit for the year attributable to equity holders of the Company		**1,346**	2,163

Earnings per share (in pence)		2013	2012*
Based on profit attributable to the equity holders of the Company:	B6		
Basic		**52.8p**	85.1p
Diluted		**52.7p**	85.0p

Dividends per share (in pence)		2013	2012*
Dividends relating to reporting year:	B7		
Interim dividend		**9.73p**	8.40p
Final dividend		**23.84p**	20.79p
Total		**33.57p**	29.19p
Dividends declared and paid in reporting year:	B7		
Current year interim dividend		**9.73p**	8.40p
Final dividend for prior year		**20.79p**	17.24p
Total		**30.52p**	25.64p

* The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefits accounting standard, from 1 January 2013 as described in note A2. Accordingly, the 2012 comparative results and related notes have been adjusted retrospectively from those previously published.

** 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	2013 £m	2012* £m
Profit for the year		**1,346**	2,163
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		**(255)**	(214)
Related tax		**-**	(2)
		(255)	(216)
Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:			
Net unrealised holding (losses) gains arising during the year		**(2,025)**	930
Net gains included in the income statement on disposal and impairment		**(64)**	(68)
Total	C3.3	**(2,089)**	862
Related change in amortisation of deferred acquisition costs	C5.1(b)	**498**	(270)
Related tax		**557**	(205)
		(1,034)	387
Total		**(1,289)**	171
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		**(62)**	45
Related tax		**14**	(11)
		(48)	34
Other comprehensive (loss) income for the year, net of related tax		**(1,337)**	205
Total comprehensive income for the year		**9**	2,368

* The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefits accounting standard, from 1 January 2013 as described in note A2. Accordingly, the 2012 comparative results and related notes have been adjusted retrospectively from those previously published.

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 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 CHANGES IN EQUITY

		Year ended 31 December 2012* £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		-	-	2,163	-	-	2,163	-	2,163
Other comprehensive income (loss):									
Exchange movements on foreign operations and net investment hedges, net of related tax		-	-	-	(216)	-	(216)	-	(216)
Net unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax		-	-	-	-	387	387	-	387
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, net of tax		-	-	34	-	-	34	-	34
Total other comprehensive income		-	-	34	(216)	387	205	-	205
Total comprehensive income for the year		-	-	2,197	(216)	387	2,368	-	2,368
Dividends	**B7**	-	-	(655)	-	-	(655)	-	(655)
Reserve movements in respect of share-based payments		-	-	42	-	-	42	-	42
Change in non-controlling interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds		-	-	-	-	-	-	(38)	(38)
Share capital and share premium									
New share capital subscribed	**C10**	1	16	-	-	-	17	-	17
Treasury shares									
Movement in own shares in respect of share-based payment plans		-	-	(13)	-	-	(13)	-	(13)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		-	-	36	-	-	36	-	36
Net increase (decrease) in equity		1	16	1,607	(216)	387	1,795	(38)	1,757
At beginning of year		127	1,873	5,244	282	1,038	8,564	43	8,607
At end of year		128	1,889	6,851	66	1,425	10,359	5	10,364

* The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefits accounting standard, from 1 January 2013 as described in note A2. Accordingly, the 2012 comparative results and related notes have been adjusted retrospectively from those previously published.

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December	Note	2013 £m	2012* £m
Assets			
Intangible assets attributable to shareholders:			
Goodwill	C5.1(a)	**1,461**	1,469
Deferred acquisition costs and other intangible assets	C5.1(b)	**5,295**	4,177
Total		**6,756**	5,646
Intangible assets attributable to with-profits funds:			
Goodwill in respect of acquired subsidiaries for venture fund and other investment purposes		**177**	178
Deferred acquisition costs and other intangible assets		**72**	78
Total		**249**	256
Total intangible assets		**7,005**	5,902
Other non-investment and non-cash assets:			
Property, plant and equipment		**920**	754
Reinsurers' share of insurance contract liabilities		**6,838**	6,854
Deferred tax assets	C8	**2,412**	2,306
Current tax recoverable		**244**	248
Accrued investment income		**2,609**	2,771
Other debtors		**1,746**	1,325
Total		**14,769**	14,258
Investments of long-term business and other operations:			
Investment properties		**11,477**	10,554
Investment in joint ventures and associates accounted for using the equity method		**809**	635
Financial investments**:			
Loans	C3.4	**12,566**	12,743
Equity securities and portfolio holdings in unit trusts		**120,222**	98,626
Debt securities	C3.3	**132,905**	138,907
Other investments		**6,265**	7,547
Deposits		**12,213**	12,248
Total		**296,457**	281,260
Assets held for sale‡	D1(c)	**916**	98
Cash and cash equivalents		**6,785**	6,126
Total assets	C1,C3.1	**325,932**	307,644

* The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefits accounting standard, from 1 January 2013 as described in note A2. Accordingly, the 2012 comparative balance sheets and the 2012 related notes have been adjusted retrospectively from those previously published.

** Included within financial investments are £3,791 million (2012: £3,015 million) of lent securities.

‡ The Group agreed in July 2013 to sell, subject to regulatory approval, its closed book life assurance business in Japan. As at 31 December 2013, the business was classified as held for sale.

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December	Note	2013 £m	2012* £m
Equity and liabilities			
Equity			
Shareholders' equity		**9,650**	10,359
Non-controlling interests		**1**	5
Total equity		**9,651**	10,364
Liabilities			
Policyholder liabilities and unallocated surplus of with-profits funds:			
Insurance contract liabilities		**218,185**	205,484
Investment contract liabilities with discretionary participation features		**35,592**	33,812
Investment contract liabilities without discretionary participation features		**20,176**	18,378
Unallocated surplus of with-profits funds		**12,061**	10,589
Total	C4	**286,014**	268,263
Core structural borrowings of shareholder-financed operations:			
Subordinated debt		**3,662**	2,577
Other		**974**	977
Total	C6.1	**4,636**	3,554
Other borrowings:			
Operational borrowings attributable to shareholder-financed operations	C6.2	**2,152**	2,245
Borrowings attributable to with-profits operations	C6.2	**895**	968
Other non-insurance liabilities:			
Obligations under funding, securities lending and sale and repurchase agreements		**2,074**	2,381
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		**5,278**	5,145
Deferred tax liabilities	C8	**3,778**	3,964
Current tax liabilities		**395**	443
Accruals and deferred income		**824**	751
Other creditors		**3,307**	2,701
Provisions		**635**	591
Derivative liabilities		**1,689**	2,832
Other liabilities		**3,736**	3,442
Total		**21,716**	22,250
Liabilities held for sale‡		**868**	-
Total liabilities	C1,C3.1	**316,281**	297,280
Total equity and liabilities		**325,932**	307,644

* The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefits accounting standard, from 1 January 2013 as described in note A2. Accordingly, the 2012 comparative balance sheets and the 2012 related notes have been adjusted retrospectively from those previously published.

‡ The Group agreed in July 2013 to sell, subject to regulatory approval, its closed book life assurance business in Japan. As at 31 December 2013, the business was classified as held for sale.

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December	Note	2013 £m	2012* £m
Cash flows from operating activities			
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*note (i)		**2,082**	3,117
Non-cash movements in operating assets and liabilities reflected in profit before tax:			
Investments		**(23,487)**	(26,993)
Other non-investment and non-cash assets		**(1,146)**	(774)
Policyholder liabilities (including unallocated surplus)		**21,951**	26,362
Other liabilities (including operational borrowings)		**1,907**	(511)
Interest income and expense and dividend income included in result before tax		**(8,345)**	(7,772)
Other non-cash itemsnote (ii)		**81**	188
Operating cash items:			
Interest receipts		**6,961**	6,483
Dividend receipts		**1,738**	1,530
Tax paid		**(418)**	(925)
Net cash flows from operating activities		**1,324**	705
Cash flows from investing activities			
Purchases of property, plant and equipment		**(221)**	(139)
Proceeds from disposal of property, plant and equipment		**42**	14
Acquisition of subsidiaries and distribution rights, net of cash balancenote (iii)	**D1**	**(405)**	(224)
Change to Group's holdings, net of cash balancenote (iii)		**-**	23
Net cash flows from investing activities		**(584)**	(326)
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**	-
Bank loan		**-**	25
Interest paid		**(291)**	(270)
With-profits operations:note (v)	**C6.2**		
Interest paid		**(9)**	(9)
Equity capital:			
Issues of ordinary share capital		**6**	17
Dividends paid		**(781)**	(655)
Net cash flows from financing activities		**49**	(892)
Net increase (decrease) in cash and cash equivalents		**789**	(513)
Cash and cash equivalents at beginning of year		**6,126**	6,741
Effect of exchange rate changes on cash and cash equivalents		**(130)**	(102)
Cash and cash equivalents at end of year		**6,785**	6,126

* The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefits accounting standard, from 1 January 2013 as described in note A2. Accordingly, the 2012 comparative results and related notes have been adjusted retrospectively from those previously published.

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) The acquisition of Thanachart Life and the related distribution agreements in 2013 resulted in a net cash outflow of £396 million. The acquisition of REALIC in 2012, resulted in a net cash outflow of £224 million and a further cash payment of £9 million in 2013. See note D1 for further details.
The net cash inflow of £23 million for change in Group's holdings in 2012 was in respect of the dilution of M&G's holdings in PPM South Africa resulting in a reclassification from a subsidiary to an associate.

(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 Background and basis of preparation

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 2013, there were no unendorsed standards effective for the two years ended 31 December 2013 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 2012.

The exchanges 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 2013	**Average for 2013**	**Closing rate at 31 Dec 2012**	**Average for 2012**
Local currency: £				
Hong Kong	**12.84**	**12.14**	12.60	12.29
Indonesia	**20,156.57**	**16,376.89**	15,665.76	14,842.01
Malaysia	**5.43**	**4.93**	4.97	4.89
Singapore	**2.09**	**1.96**	1.99	1.98
India	**102.45**	**91.75**	89.06	84.70
Vietnam	**34,938.60**	**32,904.71**	33,875.42	33,083.59
US	**1.66**	**1.56**	1.63	1.58

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2013 or 2012 but is derived from those accounts. The auditors have reported on the 2013 statutory accounts. Statutory accounts for 2012 have been delivered to the registrar of companies, and those for 2013 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 and amended accounting standards in 2013

The following accounting standards and amendments issued and endorsed for use in the EU have been adopted for 2013:

Accounting standard	Key Requirements	Impact on results
IFRS 11,'Joint arrangements', IFRS 12,'Disclosures of interest in other entities' and IAS 28,'Investments in associates and joint ventures'	The standards are effective from annual periods beginning on or after 1 January 2014 for IFRS as endorsed by the EU and have been early adopted by the Group from 1 January 2013 with adjustments to comparative results. IFRS 11 requires a joint venture to be recognised as an investment and be accounted for using the equity method in accordance with IAS 28. IFRS 12 requires certain disclosures in respect of the Group's interest in the joint ventures.	The Group has early adopted the standards from 1 January 2013 and has applied the requirements for the relevant interests in accordance with the transition provisions of IFRS 11. The Group has recognised its investment in joint ventures as the aggregate of the carrying amounts of the assets and liabilities that were previously proportionately consolidated by the Group. This determines the deemed cost of the Group's investments in joint ventures for applying equity accounting.
IFRS 10,'Consolidated financial statements', IFRS 12,'Disclosures of interest in other entities', and IAS 27,'Separate financial statements'	The standards are effective for annual periods beginning on or after 1 January 2014 for IFRS as endorsed by the EU and have been early adopted by the Group. Comparative results are retrospectively adjusted. The standard changes the definition of control such that an investor has control over an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has ability to influence those returns through power over the investee. The principal category of vehicles affected is the Group's interest in investment funds.	The Group has assessed whether the investment holdings as at 1 January 2013 that need to be consolidated under IAS 27 for SIC12 differ under IFRS 10. Where consolidation has led to the additional funds being consolidated, the principal effect has been to 'gross up' the consolidated statement of financial position for: (i) the difference between the net value of the newly consolidated assets and liabilities (including those attributable to external parties) and the previous carrying value for the Group's interest; and (ii) the equal and opposite liability or non-controlling interest for the external parties' interests in the funds.
IFRS 13, 'Fair value measurement'	IFRS 13 creates a uniform framework to explain how to measure fair value and aims to enhance fair value disclosures. The standard is effective from annual periods beginning on or after 1 January 2013, with no adjustment to comparative results.	The Group has adopted the standard for 1 January 2013 and there is no material impact on the fair value measurement of the Group's assets and liabilities.
Amendments to IAS 19, 'Employee benefits'	These amendments are effective from 1 January 2013 and key revisions relevant to the Group are: (i) Presentation of actuarial gains and losses in 'other comprehensive income'. (ii) The replacement of the expected return on plan assets with an amount based on the liability discount rate in the determination of pension costs. (iii) Enhanced disclosures, specifically on risks arising from defined benefit plans.	Following this adoption, the Group presents actuarial gains and losses in 'other comprehensive income' instead of the 'income statement'. The revision to the assumption relating to expected returns altered the pension costs by an insignificant amount, with a corresponding equal and opposite effect on the actuarial gains and losses included in other comprehensive income.
Amendments to IAS 1, 'Presentation of financial statements'	These amendments, effective from 1 January 2013, require items in other comprehensive income to be presented separately based on whether or not they may be recycled to profit or loss in the future.	The Group has adopted these amendments from 1 January 2013 and amended the presentation of the statement of other comprehensive income.
Amendment to IFRS 7, 'Financial Instruments: Disclosures'	The amendment requires additional disclosures for recognised financial instruments that have been offset in accordance with IAS 32 or are subject to enforceable master netting agreements or similar arrangements.	This is disclosure only requirement with the relevant disclosures provided in note C3.5(c).
Amendment to IAS 36, 'Recoverable Amount Disclosures for Non-financial Assets'	The Group has early adopted the amendment for 2013. The amendment effective in 2014 clarifies that the recoverable amount for a cash-generating unit to which significant goodwill has been allocated is only required to be disclosed when an impairment loss has been recognised or reversed.	There is no consequential impact on the Group's disclosures.

Additional information on the quantitative effect of the adoption of the new and amended accounting standards on the Group's primary financial statements and supplementary analysis of profit is provided in note D5. For some of these changes additional disclosure requirements apply. These are reflected in the financial statements.

B EARNINGS PERFORMANCE

B1 Analysis of performance by segment

B1.1 Segment results – profit before tax

	Note	2013 £m	2012* £m
Asia operations			
Insurance operations	B4(a)		
Operating result before gain on sale of stake in China Life of Taiwan		**1,003**	862
Gain on sale of stake in China Life of Taiwan		**-**	51
Total Asia insurance operations		**1,003**	913
Development expenses		**(2)**	(7)
Total Asia insurance operations after development expenses		**1,001**	906
Eastspring Investments		**74**	69
Total Asia operations		**1,075**	975
US operations			
Jackson (US insurance operations)	B4(b)	**1,243**	964
Broker-dealer and asset management		**59**	39
Total US operations		**1,302**	1,003
UK operations			
UK insurance operations:	B4(c)		
Long-term business		**706**	703
General insurance commission [note (i)]		**29**	33
Total UK insurance operations		**735**	736
M&G (including Prudential Capital)		**441**	371
Total UK operations		**1,176**	1,107
Total segment profit		**3,553**	3,085
Other income and expenditure			
Investment return and other income		**10**	13
Interest payable on core structural borrowings		**(305)**	(280)
Corporate expenditure [note (ii)]		**(263)**	(231)
Total		**(558)**	(498)
Solvency II implementation costs		**(29)**	(48)
Restructuring costs [note (iii)]		**(12)**	(19)
Operating profit based on longer-term investment returns		**2,954**	2,520
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	**(1,110)**	187
Amortisation of acquisition accounting adjustments		**(72)**	(19)
Gain on dilution of Group holdings [note (iv)]		**-**	42
(Loss) profit attaching to held for sale Japan Life business [note (v)]	D1	**(102)**	17
Costs of domestication of Hong Kong branch	D2	**(35)**	-
Profit before tax attributable to shareholders		**1,635**	2,747

Basic earnings per share (in pence)	**B6**	**2013**	**2012***
Based on operating profit based on longer-term investment returns		**90.9p**	76.9p
Based on profit for the year		**52.8p**	85.1p

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

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.

(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 expenses incurred in securing expense savings.

(iv) During 2012, M&G reduced its holdings in PPM South Africa resulting in a reclassification from a subsidiary to an associate giving rise to a gain on dilution of £42 million.

(v) 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 above.

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

	2013 £m	2012* £m
Insurance operations:		
Asia note (ii)	**(204)**	54
US note (iii)	**(625)**	(90)
UK note (iv)	**(254)**	136
Other operations:		
– Economic hedge value movement note (v)	**-**	(32)
– Other note (vi)	**(27)**	119
Total note (i)	**(1,110)**	187

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new and amended accounting standards described in note A2. In addition, to facilitate comparisons of results that reflect the Group's retained operations, the short-term fluctuations in investment returns attributable to the held for sale Japan Life business are included separately within the supplementary analysis of profit.

Notes

(i) *General overview of defaults*

The Group did not experience any defaults on its shareholder-backed debt securities portfolio in 2013 or 2012.

(ii) *Asia insurance operations*

In Asia, the negative short-term fluctuations of £(204) million (2012: positive £54 million) primarily reflect net unrealised movements on bond holdings following a rise in bond yields during the year.

(iii) *US insurance operations*

The short-term fluctuations in investment returns for US insurance operations comprise the following items:

	2013 £m	2012 £m
Short-term fluctuations relating to debt securities		
Charges in the year:		
Losses on sales of impaired and deteriorating bonds	**(5)**	(23)
Bond write downs	**(8)**	(37)
Recoveries / reversals	**10**	13
Total charges in the year note (a)	**(3)**	(47)
Less: Risk margin charge included in operating profit based on longer-term investment returns note (b)	**85**	79
	82	32
Interest-related realised gains:		
Arising in the year	**64**	94
Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns	**(89)**	(91)
	(25)	3
Related amortisation of deferred acquisition costs	**(15)**	(3)
Total short-term fluctuations related to debt securities	**42**	32
Derivatives (other than equity-related): market value movements (net of related amortisation of deferred acquisition costs) note (c)	**(531)**	135
Net equity hedge results (principally guarantees and derivatives, net of related amortisation of deferred acquisition costs) note (d)	**(255)**	(302)
Equity-type investments: actual less longer-term return (net of related amortisation of deferred acquisition costs)	**89**	23
Other items (net of related amortisation of deferred acquisition costs)	**30**	22
Total	**(625)**	(90)

The short-term fluctuations in investment returns shown in the table above are stated net of a credit for the related amortisation of deferred acquisition costs of £228 million (2012: credit of £76 million). See note C5.1(b).

Notes

(a) The charges on the debt securities of Jackson comprise the following:

	2013 £m	2012 £m
Residential mortgage-backed securities:		
Prime (including agency)	**1**	(4)
Alt-A	**(1)**	(1)
Sub-prime	**-**	(3)
Total residential mortgage-backed securities	**-**	(8)
Corporate debt securities	**(1)**	(14)
Other	**(2)**	(25)
Total	**(3)**	(47)

(b) The risk margin reserve charge for longer-term credit-related losses included in operating profit based on longer-term investment returns of Jackson for 2013 is based on an average annual risk margin reserve of 25 basis points (2012: 26 basis points) on average book values of US$54.4 billion (2012: US$47.6 billion) as shown below:

Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	2013				2012			
	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	**27,557**	**0.11**	**(32)**	**(20)**	23,129	0.11	(26)	(16)
Baa1, 2 or 3	**24,430**	**0.25**	**(62)**	**(40)**	21,892	0.26	(56)	(36)
Ba1, 2 or 3	**1,521**	**1.18**	**(18)**	**(11)**	1,604	1.12	(18)	(11)
B1, 2 or 3	**530**	**2.80**	**(15)**	**(9)**	597	2.82	(17)	(11)
Below B3	**317**	**2.32**	**(7)**	**(5)**	342	2.44	(8)	(5)
Total	**54,355**	**0.25**	**(134)**	**(85)**	47,564	0.26	(125)	(79)
Related change to amortisation of deferred acquisition costs (see below)			**25**	**16**			21	13
Risk margin reserve charge to operating profit for longer-term credit related losses			**(109)**	**(69)**			(104)	(66)

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.

(c) Derivatives (other than equity-related): negative fluctuation of £(531) million (2012: positive fluctuation of £135 million) net of related amortisation of deferred acquisition costs.

These losses and gains are in respect of interest rate swaps and swaptions and for the Guaranteed Minimum Income Benefit (GMIB) reinsurance. The swaps and swaptions are undertaken to manage interest rate exposures and durations within the general account and the variable annuity and fixed index annuity guarantees (as described in note (d) below). The GMIB reinsurance is in place so as to insulate Jackson from the GMIB exposure.
The amounts principally reflect the fair value movement on these instruments, net of related amortisation of deferred acquisition costs.

Under the Group's IFRS reporting of Jackson's derivatives (other than equity-related) programme significant accounting mismatches arise. This is because:

- The derivatives are required to be fair valued with the value movements booked in the income statement;
- As noted above, part of the derivative value movements arises in respect of interest rate exposures within Jackson's guarantee liabilities for variable annuity and fixed index annuity business which are only partially fair valued under IFRS (see below); and
- The GMIB liability is valued under the US GAAP insurance measurement basis applied for IFRS in a way that substantially does not recognise the effect of market movements. However, notwithstanding that the liability is reinsured, as the reinsurance asset is net settled it is deemed a derivative under IAS39 which requires fair valuation.

In 2013, the negative fluctuation of £(531) million reflects principally the adverse mark-to-market impact of the 1.3 per cent increase in swap rates on the valuation of the interest rate swaps, swaptions, and the GMIB reinsurance asset.

(d) Net equity hedge result: negative fluctuation of £(255) million (2012: negative fluctuation £(302) million).

These amounts are in respect of the equity-based derivatives and associated guarantee liabilities of Jackson's variable and fixed index annuity business. The equity based derivatives are undertaken to manage the equity risk exposure of the guarantee liabilities. The economic exposure of these guarantee liabilities also includes the effects of changes in interest rates which are managed through the swaps and swaptions programmes described in note (c) above.

The amounts reflect the net effect of:

- Fair value movements on free standing equity derivatives;
- The accounting value movements on the variable annuity and fixed index annuity guarantee liabilities;

- Fee assessments and claim payments in respect of guarantee liabilities; and
- Related DAC amortisation.

Under the Group's IFRS reporting of Jackson's equity-based derivatives and associated guarantee liabilities significant accounting mismatches arise. This is because:

- The free standing derivatives and Guaranteed Minimum Withdrawal Benefit (GMWB) "not for life" embedded derivative liabilities are required to be fair valued. These fair value movements include the effects of changes to levels of equity markets, implied volatility and interest rates. The interest rate exposure is managed through the derivative programme explained above in note (c);
- The Guaranteed Minimum Death Benefit (GMDB) and GMWB "for life" guarantees 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.

In 2013, the negative fluctuation of £(255) million reflects the net effect of mark-to-market reductions on the free standing derivatives being offset by reductions in the carrying amounts of those guarantees that are fair valued embedded derivatives. Both aspects reflect increased equity markets (the S&P 500 increased by 30 per cent) with the value movement on the embedded derivatives also being affected by decreases in average implied volatility levels and the 1.3 per cent increase in Treasury bond interest rates.

(iv) *UK insurance operations*

The negative short-term fluctuations in investment returns for UK insurance operations of £(254) million (2012: positive £136 million) reflect mainly net investment movements arising in the period on fixed income assets backing the capital of the annuity business following the rise in bond yields during the year. In addition, the amount for 2013 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 the year. This hedge reduces the risk arising from equity market declines.

(v) *Economic hedge value movement*

This item represents the cost on short-dated hedge contracts taken out in first half of 2012 to provide downside protection against severe equity market falls through a period of particular uncertainty with respect to the Eurozone. The hedge contracts were terminated in the second half of 2012.

(vi) *Other*

Short-term fluctuations in investment returns of other operations, were negative £(27) million (2012: positive £119 million) representing principally unrealised value movements on investments and foreign exchange items

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

- Asia
- US (Jackson)
- UK

Asset management operations

- M&G (including Prudential Capital)
- Eastspring Investments
- US broker-dealer and asset management (including Curian)

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.
- 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.
- For 2012, gain on dilution of the Group's holdings in PPM South Africa.
- (Loss) profit attaching to the held for sale Japan Life business. See note D1 for further details.
- For 2013, the costs associated with the domestication of the Hong Kong branch.

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.

Except in the case of assets backing the UK annuity, unit-linked and US variable annuity separate account liabilities, operating profit based on longer-term investment returns for shareholder-financed business is determined on the basis of expected longer-term investment returns. In the case of assets backing the UK annuity business, unit-linked and US variable annuity separate account liabilities, the basis of determining operating profit based on longer-term investment returns is as follows:

- UK annuity business liabilities: 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.
- Unit-linked and US variable annuity business separate account liabilities: 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.

In the case of 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.

(a) 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.
- 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.

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.

For debt securities backing non-linked shareholder-financed business of the UK insurance operations (other than the annuity business) and of the Asia insurance operations, 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.

At 31 December 2013, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £461 million (2012: net gain of £495 million).

For equity-type securities, the longer-term rates of return are estimates of the long-term trend investment return 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.

As at 31 December 2013, the equity-type securities for US insurance non-separate account operations amounted to £1,118 million (2012: £1,004 million). For these operations, the longer-term rates of return for income and capital applied in 2013 and 2012, which reflect the combination of risk free rates and appropriate risk premiums are as follows:

	2013	**2012**
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	**5.7% to 6.8%**	5.5% to 6.2%
Other equity-type securities such as investments in limited partnerships and private equity funds	**7.7% to 9.0%**	7.5% to 8.2%

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 £571 million as at 31 December 2013 (2012: £474 million). The rates of return applied in the years 2013 and 2012 ranged from 3.42 per cent to 13.75 per cent with the rates applied varying by territory.

The longer-term rates of return discussed above for equity-type securities 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.

(b) 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:

- 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 note);
- movements in accounts carrying value of Guaranteed Minimum Death Benefit and Guaranteed Minimum Withdrawal Benefit 'for life' 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.

Note: US operations – Embedded derivatives for variable annuity guarantee features

The Guaranteed Minimum Income Benefit liability, which is 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.

(c) Other 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. 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.

(d) Other liabilities to policyholders and embedded derivatives for product guarantees
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 (ie after allocated investment return and change for policyholder benefits) the operating result reflects longer-term market returns.

Examples where such bifurcation is necessary are:

Asia – Hong Kong
For certain non-participating business, 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 other Hong Kong non-participating business, longer term interest rates are used to determine the movement in policyholder liabilities for determining operating results. Similar principles apply for other Asia operations.

UK shareholder-backed annuity business
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
- 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. Negative experience compared to assumptions is included within short-term fluctuations in investment returns without further adjustment. This is to be contrasted with positive experience where surpluses are retained in short-term allowances for credit risk for IFRS reporting purposes. 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.

(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 (including impairments) in the operating result with unrealised gains and losses being included in short-term fluctuations. For this purpose impairments are calculated as the credit loss determined by comparing the projected cash flows discounted at the original effective interest rate to the carrying value. 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:

	2013 £m				2012* £m
	M&G	US	Eastspring Investments	Total	Total
Revenue (excluding revenue of consolidated investment funds and NPH broker-dealer fees)	**1,308**	**362**	**244**	**1,914**	1,739
NPH broker-dealer fees note (i)	**-**	**504**	**-**	**504**	435
Gross revenue	**1,308**	**866**	**244**	**2,418**	2,174
Charges (excluding charges of consolidated investment funds and NPH broker-dealer fees)	**(857)**	**(303)**	**(193)**	**(1,353)**	(1,144)
NPH broker-dealer fees note (i)	**-**	**(504)**	**-**	**(504)**	(435)
Gross charges	**(857)**	**(807)**	**(193)**	**(1,857)**	(1,579)
Share of profit from joint ventures and associates, net of related tax	**12**	**-**	**23**	**35**	24
Profit before tax	**463**	**59**	**74**	**596**	619
Comprising:					
Operating profit based on longer-term investment returns note (ii)	**441**	**59**	**74**	**574**	479
Short-term fluctuations in investment returns note (iii)	**22**	**-**	**-**	**22**	98
Gain on dilution of Group's holdings	**-**	**-**	**-**	**-**	42
Profit before tax	**463**	**59**	**74**	**596**	619

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new and amended accounting standards described in note A2. One of the new accounting standards adopted was IFRS 11 which requires joint ventures to be equity accounted. Accordingly, share of profit from joint ventures and associates is disclosed as a separate line.

Notes

(i) The segment revenue of the Group's asset management operations is required to include:
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 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:

	2013 £m	2012 £m
Asset management fee income	**859**	728
Other income	**4**	6
Staff costs	**(339)**	(289)
Other costs	**(166)**	(147)
Underlying profit before performance-related fees	**358**	298
Share of associate results	**12**	13
Performance-related fees	**25**	9
Operating profit from asset management operations	**395**	320
Operating profit from Prudential Capital	**46**	51
Total M&G operating profit based on longer-term investment returns	**441**	371

The difference between the fees and other income shown above in respect of asset management operations, and the revenue figure for M&G shown (excluding consolidated investment funds) in the main table primarily relates to the total revenue of Prudential Capital (including short-term fluctuations) of £144 million (2012: £218 million) and commissions which have been netted off in arriving at the fee income of £859 million (2012: £728 million) in the table above. 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.

B3 Acquisition costs and other expenditure

	2013 £m	2012* £m
Acquisition costs incurred for insurance policies	**(2,553)**	(2,557)
Acquisition costs deferred less amortisation of acquisition costs	**566**	595
Administration costs and other expenditure	**(4,303)**	(3,863)
Movements in amounts attributable to external unit holders of consolidated investment funds	**(571)**	(207)
Total acquisition costs and other expenditure	**(6,861)**	(6,032)

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

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

In addition to the effect of the new accounting pronouncements for 2013 as disclosed in note A2, the following features are of particular relevance to the determination of the 2013 results:

(a) Asia insurance operations

In 2013, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net £44 million credit (2012: £48 million) representing a small number of non-recurring items.

In 2012, the basis of determining the valuation rate of interest was altered to align with a permitted practice of the Hong Kong authorities for regulatory reporting. The main change is to apply a valuation rate of interest that incorporates a reinvestment yield that is weighted by reference to current and the historical three year average rather than the year end rate. The change reduced the carrying value of policyholder liabilities at 31 December 2012 by £95 million. This benefit is included within the short-term fluctuations in investment returns in the Group's supplementary analysis of profit. The 2012 operating profit also included the £51 million gain on sale of stake in China Life of Taiwan.

(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 2013, reflecting the positive market returns in the year, there was a credit for decelerated amortisation of £82 million (2012: £56 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.

(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.

Prudential Retirement Income Limited (PRIL) is the principal company which writes the UK's shareholder backed business.

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 December 2013			31 December 2012		
31 December 2013	Pillar 1 regulatory basis (bps)	Adjustment from regulatory to IFRS basis (bps)	IFRS (bps)	Pillar 1 regulatory basis (bps)	Adjustment from regulatory to IFRS basis (bps)	IFRS (bps)
Bond spread over swap rates note (i)	**133**	**-**	**133**	161	-	161
Credit risk allowance						
Long-term expected defaults note (ii)	**15**	**-**	**15**	15	-	15
Additional provisions note (iii)	**47**	**(19)**	**28**	50	(23)	27
Total credit risk allowance	**62**	**(19)**	**43**	65	(23)	42
Liquidity premium	**71**	**19**	**90**	96	23	119

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

The movement during 2013 of the average basis points allowance for PRIL on Pillar 1 regulatory and IFRS bases are as follows:

	Pillar 1 Regulatory basis (bps) Total	IFRS (bps) Total
Total allowance for credit risk at 31 December 2012	**65**	**42**
Credit rating changes	**2**	**1**
Asset trading	**(3)**	**(2)**
New business and other	**(2)**	**2**
Total allowance for credit risk at 31 December 2013	**62**	**43**

The methodology applied is to retain favourable credit experience in short-term allowances for credit risk on the IFRS basis but such surplus experience is not retained in the Pillar 1 credit provisions.

Overall the movement has led to the credit allowance for Pillar 1 purposes to be 47 per cent (2012: 40 per cent) of the bond spread over swap rates. For IFRS purposes it represents 32 per cent (2012: 26 per cent) of the bond spread over swap rates.

The reserves for credit risk allowance at 31 December 2013 for the UK shareholder annuity fund were as follows:

	Pillar 1 Regulatory basis Total £bn	IFRS Total £bn
PRIL	**1.7**	**1.2**
PAC non-profit sub-fund	**0.2**	**0.1**
Total -31 December 2013	**1.9**	**1.3**
Total -31 December 2012	2.1	1.3

Mortality and other assumption changes

For the shareholder-backed business, the net effect of assumption changes was a credit of £20 million (2012: a charge of £17 million). This comprises the aggregate effect of changes to mortality assumptions offsetting releases of margins and altered expenses and other assumptions, where appropriate, in the two periods.

B5 Tax charge

(a) Total tax charge by nature of expense

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

Tax charge	2013 £m Current tax	Deferred tax	Total	2012* £m Total
UK tax	**(178)**	**(122)**	**(300)**	(421)
Overseas tax	**(221)**	**(215)**	**(436)**	(533)
Total tax charge	**(399)**	**(337)**	**(736)**	(954)

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

The current tax charge of £399 million includes £18 million (2012: £17 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.

Until the end of 2012 for the Group's UK life insurance companies, shareholders' profits were calculated using regulatory surplus as a starting point, with appropriate deferred tax adjustments for IFRS. Beginning in 2013, under new UK life tax rules, shareholders' profits are calculated using accounting profit or loss as a starting point.

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

Tax charge	2013 £m Current tax	Deferred tax	Total	2012* £m Total
Tax charge to policyholders' returns	**(207)**	**(240)**	**(447)**	(370)
Tax charge attributable to shareholders	**(192)**	**(97)**	**(289)**	(584)
Total tax charge	**(399)**	**(337)**	**(736)**	(954)

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

The principal reason for the increase in the tax charge attributable to policyholders' returns is an increase in deferred tax on net unrealised gains on investments in UK insurance operations.

b Reconciliation of effective tax rate

Reconciliation of tax charge on profit attributable to shareholders

	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 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 on operating profit 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 (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.

* The expected and actual tax rates as shown includes the impact of the held for sale Japan Life business. 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%

	2012* £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	906	964	736	(86)	2,520
Non-operating profit (loss)	71	(109)	136	129	227
Profit before tax attributable to shareholders	977	855	872	43	2,747
Expected tax rate:†	23%	35%	24.5%	24.5%	27%
Tax at the expected tax rate	225	300	214	11	750
Effects of:					
Adjustment to tax charge in relation to prior years	(14)	10	(26)	(10)	(40)
Movements in provisions for open tax matters	-	(3)	-	32	29
Income not taxable or taxable at concessionary rates	(68)	(68)	-	(2)	(138)
Deductions not allowable for tax purposes	29	-	-	3	32
Impact of changes in local statutory tax rates	-	-	(39)	9	(30)
Deferred tax adjustments	(5)	-	8	-	3
Effect of results of joint ventures and associates	(24)	-	-	(5)	(29)
Irrecoverable withholding taxes	-	-	-	14	14
Other	3	(5)	7	(12)	(7)
Total actual tax charge	146	234	164	40	584
Analysed into:					
Tax on operating profit based on longer-term investment returns	133	272	126	36	567
Tax on non-operating profit (loss)	13	(38)	38	4	17
Actual tax rate:					
Operating profit based on longer-term investment returns	15%	28%	17%	(42)%	23%
Total profit	15%	27%	19%	93%	21%

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

† 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.

B6 Earnings per share

		2013				
	Note	**Before tax** B1.1	**Tax** B5	**Net of tax**	**Basic earnings per share**	**Diluted earnings per share**
		£m	**£m**	**£m**	**Pence**	**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**

		2012*				
	Note	**Before tax** B1.1	**Tax** B5	**Net of tax**	**Basic earnings per share**	**Diluted earnings per share**
		£m	**£m**	**£m**	**Pence**	**Pence**
Based on operating profit based on longer-term investment returns		2,520	(567)	1,953	76.9p	76.8p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	187	(24)	163	6.4p	6.4p
Gain on dilution of holdings in PPMSA		42	-	42	1.7p	1.7p
Amortisation of acquisition accounting adjustments arising on the purchase of REALIC		(19)	7	(12)	(0.5)p	(0.5)p
Profit attaching to held for sale Japan life business	D1	17	-	17	0.6p	0.6p
Based on profit for the year		2,747	(584)	2,163	85.1p	85.0p

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

The tables above exclude actuarial and other gains and losses on defined benefit pension schemes which following the changes to IAS 19 described in note A2 are now reported in Other Comprehensive Income. Furthermore, 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.

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:

	2013 (millions)	**2012 (millions)**
Weighted average number of shares for calculation of:		
Basic earnings per share	**2,548**	2,541
Shares under option at end of year	**10**	9
Number of shares that would have been issued at fair value on assumed option price	**(6)**	(6)
Diluted earnings per share	**2,552**	2,544

B7 Dividends

	2013		2012	
	Pence per share	£m	Pence per share	£m
Dividends relating to reporting year:				
Interim dividend	**9.73p**	**249**	8.40p	215
Final dividend	**23.84p**	**610**	20.79p	532
Total	**33.57p**	**859**	29.19p	747
Dividends declared and paid in reporting year:				
Current year interim dividend	**9.73p**	**249**	8.40p	215
Final dividend for prior year	**20.79p**	**532**	17.24p	440
Total	**30.52p**	**781**	25.64p	655

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 2012 of 20.79 pence per ordinary share was paid to eligible shareholders on 23 May 2013 and the 2013 interim dividend of 9.73 pence per ordinary share was paid to eligible shareholders on 26 September 2013.

The 2013 final dividend of 23.84 pence per ordinary share will be paid on 22 May 2014 in sterling to shareholders on the principal register and the Irish branch register at 6.00pm BST on 28 March 2014 (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 2 June 2014. The final dividend will be paid on or about 29 May 2014 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 11 March 2014. 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 more comprehensively the assets, liabilities and capital of the Group's businesses, 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

		2013 £m								2012* £m
		Insurance operations								
	Note	Asia	US	UK	Total insurance operations	Asset management operations	Unallocated to a segment (central operations)	Intra -group eliminations	31 Dec Group Total	31 Dec Group Total
By operating segment		C2.1	C2.2	C2.3		C2.4				
Assets										
Intangible assets attributable to shareholders:										
Goodwill	**C5.1(a)**	**231**	**-**	**-**	**231**	**1,230**	**-**		**1,461**	1,469
Deferred acquisition costs and other intangible assets	**C5.1(b)**	**1,026**	**4,140**	**90**	**5,256**	**20**	**19**		**5,295**	4,177
Total		**1,257**	**4,140**	**90**	**5,487**	**1,250**	**19**	**-**	**6,756**	5,646
Intangible assets attributable to with-profits funds:										
Goodwill in respect of acquired subsidiaries for venture fund and other investment purposes		**-**	**-**	**177**	**177**	**-**	**-**		**177**	178
Deferred acquisition costs and other intangible assets		**66**	**-**	**6**	**72**	**-**	**-**		**72**	78
Total		**66**	**-**	**183**	**249**	**-**	**-**	**-**	**249**	256
Total		**1,323**	**4,140**	**273**	**5,736**	**1,250**	**19**	**-**	**7,005**	5,902
Deferred tax assets	**C8**	**55**	**2,042**	**142**	**2,239**	**119**	**54**		**2,412**	2,306
Other non-investment and non-cash assets		**1,073**	**6,710**	**5,808**	**13,591**	**1,356**	**4,500**	**(7,090)**	**12,357**	11,952
Investments of long-term business and other operations:										
Investment properties		**1**	**28**	**11,448**	**11,477**	**-**	**-**		**11,477**	10,554
Investments in joint ventures and associates accounted for using the equity method		**268**	**-**	**449**	**717**	**92**	**-**		**809**	635
Financial investments:										
Loans	**C3.4**	**922**	**6,375**	**4,173**	**11,470**	**1,096**	**-**		**12,566**	12,743
Equity securities and portfolio holdings in unit trusts		**14,383**	**66,008**	**39,745**	**120,136**	**65**	**21**		**120,222**	98,626
Debt securities	**C3.3**	**18,554**	**30,292**	**82,014**	**130,860**	**2,045**	**-**		**132,905**	138,907
Other investments		**41**	**1,557**	**4,603**	**6,201**	**61**	**3**		**6,265**	7,547
Deposits		**896**	**-**	**11,252**	**12,148**	**65**	**-**		**12,213**	12,248
Total investments		**35,065**	**104,260**	**153,684**	**293,009**	**3,424**	**24**		**296,457**	281,260
Assets held for sale	**D1**	**916**	**-**	**-**	**916**	**-**	**-**		**916**	98
Cash and cash equivalents		**1,522**	**604**	**2,586**	**4,712**	**1,562**	**511**		**6,785**	6,126
Total assets	**C3.1**	**39,954**	**117,756**	**162,493**	**320,203**	**7,711**	**5,108**	**(7,090)**	**325,932**	307,644

By operating segment	Note	2013 £m Insurance operations Asia	US	UK	Total insurance operations	Asset management operations	Unallocated to a segment (central operations)	Intra -group eliminations	31 Dec Group Total	2012* £m 31 Dec Group Total
Equity and liabilities										
Equity										
Shareholders' equity		2,795	3,446	2,998	9,239	1,991	(1,580)		9,650	10,359
Non-controlling interests		1	-	-	1	-	-		1	5
Total equity		2,796	3,446	2,998	9,240	1,991	(1,580)	-	9,651	10,364
Liabilities										
Policyholder liabilities and unallocated surplus of with-profits funds:										
Insurance contract liabilities		31,540	104,971	81,674	218,185	-	-		218,185	205,484
Investment contract liabilities with discretionary participation features		240	-	35,352	35,592	-	-		35,592	33,812
Investment contract liabilities without discretionary participation features		130	2,440	17,606	20,176	-	-		20,176	18,378
Unallocated surplus of with-profits funds		77	-	11,984	12,061	-	-		12,061	10,589
Total policyholder liabilities and unallocated surplus of with-profits funds	C4	31,987	107,411	146,616	286,014	-	-	-	286,014	268,263
Core structural borrowings of shareholder-financed operations:										
Subordinated debt		-	-	-	-	-	3,662		3,662	2,577
Other		-	150	-	150	275	549		974	977
Total	C6.1	-	150	-	150	275	4,211	-	4,636	3,554
Operational borrowings attributable to shareholder-financed operations	C6.2	-	142	74	216	3	1,933		2,152	2,245
Borrowings attributable to with-profits operations	C6.2	-	-	895	895	-	-		895	968
Obligations under funding, securities lending and sale and repurchase agreements		-	794	1,280	2,074	-	-		2,074	2,381
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		1,038	26	4,214	5,278	-	-		5,278	5,145
Deferred tax liabilities	C8.1	594	1,948	1,213	3,755	14	9		3,778	3,964
Current tax liabilities	C8.2	45	-	181	226	8	161		395	443
Accruals and deferred income		106	-	383	489	302	33		824	751
Other creditors		1,797	666	3,240	5,703	4,684	10	(7,090)	3,307	2,701
Provisions		85	11	166	262	298	75		635	591
Derivative liabilities		58	515	804	1,377	112	200		1,689	2,832
Other liabilities		580	2,647	429	3,656	24	56		3,736	3,442
Total		4,303	6,607	11,910	22,820	5,442	544	(7,090)	21,716	22,250
Liabilities held for sale	D1(c)	868	-	-	868	-	-		868	-
Total liabilities		37,158	114,310	159,495	310,963	5,720	6,688	(7,090)	316,281	297,280
Total equity and liabilities	C3.1	39,954	117,756	162,493	320,203	7,711	5,108	(7,090)	325,932	307,644

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

		31 Dec 2013 £m							31 Dec 2012* £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)	Intra-group eliminations	Group Total	Group Total
Assets									
Intangible assets attributable to shareholders:									
Goodwill	C5.1	-	-	231	1,230	-	-	1,461	1,469
Deferred acquisition costs and other intangible assets	C5.1	-	-	5,256	20	19	-	5,295	4,177
Total		-	-	5,487	1,250	19	-	6,756	5,646
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes		177	-	-	-	-	-	177	178
Deferred acquisition costs and other intangible assets		72	-	-	-	-	-	72	78
Total		249	-	-	-	-	-	249	256
Total		249	-	5,487	1,250	19	-	7,005	5,902
Deferred tax assets	C8	83	1	2,155	119	54	-	2,412	2,306
Other non-investment and non-cash assets		3,331	599	9,661	1,356	4,500	(7,090)	12,357	11,952
Investments of long-term business and other operations:									
Investment properties		9,260	645	1,572	-	-	-	11,477	10,554
Investments in joint ventures and associates accounted for using the equity method		383	-	334	92	-	-	809	635
Financial investments:									
Loans	C3.4	3,346	-	8,124	1,096	-	-	12,566	12,743
Equity securities and portfolio holdings in unit trusts		28,365	90,872	899	65	21	-	120,222	98,626
Debt securities	C3.3	57,791	9,622	63,447	2,045	-	-	132,905	138,907
Other investments		4,309	36	1,856	61	3	-	6,265	7,547
Deposits		9,486	1,024	1,638	65	-	-	12,213	12,248
Total investments		112,940	102,199	77,870	3,424	24	-	296,457	281,260
Assets held for sale	D1	-	328	588	-	-	-	916	98
Cash and cash equivalents		1,952	982	1,778	1,562	511	-	6,785	6,126
Total assets		118,555	104,109	97,539	7,711	5,108	(7,090)	325,932	307,644
Equity and liabilities									
Equity									
Shareholders' equity		-	-	9,239	1,991	(1,580)	-	9,650	10,359
Non-controlling interests		-	-	1	-	-	-	1	5
Total equity		-	-	9,240	1,991	(1,580)	-	9,651	10,364
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)		96,991	101,251	75,711	-	-	-	273,953	257,674
Unallocated surplus of with-profits funds		12,061	-	-	-	-	-	12,061	10,589
Total policyholder liabilities and unallocated surplus of with-profits funds	C4	109,052	101,251	75,711	-	-	-	286,014	268,263
Core structural borrowings of shareholder-financed operations:									
Subordinated debt		-	-	-	-	3,662	-	3,662	2,577
Other		-	-	150	275	549	-	974	977
Total	C6.1	-	-	150	275	4,211	-	4,636	3,554
Operational borrowings attributable to shareholder-financed operations	C6.2	-	-	216	3	1,933	-	2,152	2,245
Borrowings attributable to with-profits operations	C6.2	895	-	-	-	-	-	895	968
Deferred tax liabilities	C8	1,192	44	2,519	14	9	-	3,778	3,964
Other non-insurance liabilities		7,416	2,486	9,163	5,428	535	(7,090)	17,938	18,286
Liabilities held for sale	D1	-	328	540	-	-	-	868	-
Total liabilities		118,555	104,109	88,299	5,720	6,688	(7,090)	316,281	297,280
Total equity and liabilities		118,555	104,109	97,539	7,711	5,108	(7,090)	325,932	307,644

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

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 2013 £m				31 Dec 2012* £m
	With-profits business note (i)	**Unit-linked assets and liabilities**	**Other business**	**Total**	**Total**
Assets					
Intangible assets attributable to shareholders:					
Goodwill	-	-	**231**	**231**	239
Deferred acquisition costs and other intangible assets	-	-	**1,026**	**1,026**	819
Total	-	-	**1,257**	**1,257**	1,058
Intangible assets attributable to with-profits funds:					
Deferred acquisition costs and other intangible assets	**66**	-	-	**66**	72
Deferred tax assets	-	**1**	**54**	**55**	76
Other non-investment and non-cash assets	**320**	**131**	**622**	**1,073**	1,023
Investments of long-term business and other operations:					
Investment properties	-	-	**1**	**1**	2
Investments in joint ventures and associates accounted for using the equity method	-	-	**268**	**268**	284
Financial investments:					
Loans [C3.4]	**522**	-	**400**	**922**	1,006
Equity securities and portfolio holdings in unit trusts	**4,538**	**9,274**	**571**	**14,383**	12,730
Debt securities [C3.3]	**9,736**	**2,451**	**6,367**	**18,554**	20,067
Other investments	**8**	**21**	**12**	**41**	927
Deposits	**304**	**260**	**332**	**896**	851
Total investments	**15,108**	**12,006**	**7,951**	**35,065**	35,867
Assets held for sale	-	**328**	**588**	**916**	-
Cash and cash equivalents	**392**	**332**	**798**	**1,522**	1,545
Total assets	**15,886**	**12,798**	**11,270**	**39,954**	39,641
Equity and liabilities					
Equity					
Shareholders' equity	-	-	**2,795**	**2,795**	2,529
Non-controlling interests	-	-	**1**	**1**	4
Total equity	-	-	**2,796**	**2,796**	2,533
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)	**13,138**	**11,918**	**6,854**	**31,910**	31,501
Unallocated surplus of with-profits funds [note (ii)]	**77**	-	-	**77**	63
Total[C4.1(b)]	**13,215**	**11,918**	**6,854**	**31,987**	31,564
Operational borrowings attributable to shareholder-financed operations	-	-	-	-	7
Deferred tax liabilities	**403**	**44**	**147**	**594**	582
Other non-insurance liabilities	**2,268**	**508**	**933**	**3,709**	4,955
Liabilities held for sale	-	**328**	**540**	**868**	-
Total liabilities	**15,886**	**12,798**	**8,474**	**37,158**	37,108
Total equity and liabilities	**15,886**	**12,798**	**11,270**	**39,954**	39,641

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

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) For the purposes of the presentation of unallocated surplus of with-profits within the statement of financial position, the Hong Kong branch balance is reported within the unallocated surplus of the PAC with-profits sub-fund of the UK insurance operations.

C2.2 US insurance operations

	31 Dec 2013 £m			31 Dec 2012 £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	-	**4,140**	**4,140**	3,222
Total	-	**4,140**	**4,140**	3,222
Deferred tax assets	-	**2,042**	**2,042**	1,889
Other non-investment and non-cash assets[note (iv)]	-	**6,710**	**6,710**	6,792
Investments of long-term business and other operations:				
Investment properties	-	**28**	**28**	24
Financial investments:				
Loans[C3.4]	-	**6,375**	**6,375**	6,235
Equity securities and portfolio holdings in unit trusts[note (iii)]	**65,681**	**327**	**66,008**	49,551
Debt securities[C3.3]	-	**30,292**	**30,292**	32,993
Other investments[note (ii)]	-	**1,557**	**1,557**	2,296
Deposits	-	-	-	211
Total investments	**65,681**	**38,579**	**104,260**	91,310
Cash and cash equivalents	-	**604**	**604**	513
Total assets	**65,681**	**52,075**	**117,756**	103,726
Equity and liabilities				
Equity				
Shareholders' equity[note (vi)]	-	**3,446**	**3,446**	4,343
Total equity	-	**3,446**	**3,446**	4,343
Liabilities				
Policyholder liabilities:				
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) [note (v)]	**65,681**	**41,730**	**107,411**	92,261
Total[C4.1 (c)]	**65,681**	**41,730**	**107,411**	92,261
Core structural borrowings of shareholder-financed operations	-	**150**	**150**	153
Operational borrowings attributable to shareholder-financed operations	-	**142**	**142**	26
Deferred tax liabilities	-	**1,948**	**1,948**	2,168
Other non-insurance liabilities[note (v)]	-	**4,659**	**4,659**	4,775
Total liabilities	**65,681**	**48,629**	**114,310**	99,383
Total equity and liabilities	**65,681**	**52,075**	**117,756**	103,726

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:

	2013 £m	2012 £m
Derivative assets*	**766**	1,546
Partnerships in investment pools and other**	**791**	750
	1,557	2,296

* After taking account of the derivative liabilities of £515 million (2012: £645 million), which are also included in Other non-insurance liabilities, the derivative position for US operations is a net asset of £251 million (2012: £901 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 166 (2012: 167) 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 includes investments in mutual funds, the majority of which are equity based.

(iv) Included within other non-investment and non-cash assets of £6,710 million (2012: £6,792 million) were balances of £6,065 million (2012: £6,076 million) for reinsurers' share of insurance contract liabilities. Of the £6,065 million as at 31 December 2013, £5,410 million related to the reinsurance ceded by the REALIC business acquired in 2012 (2012: £5,234 million). REALIC holds collateral for certain of these reinsurance arrangements with a corresponding funds withheld liability. As of 31 December 2013, the funds withheld liability of £2,051 million (2012: £2,021 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, £485 million (2012: £825 million) and are included in Other non-insurance liabilities in the statement of financial position above.

(vi) Changes in shareholders' equity

	2013 £m	2012 £m
Operating profit based on longer-term investment returns [B1.1]	**1,243**	964
Short-term fluctuations in investment returns [B1.2]	**(625)**	(90)
Amortisation of acquisition accounting adjustments arising on the purchase of REALIC	**(65)**	(19)
Profit before shareholder tax	**553**	855
Tax [B5]	**(101)**	(234)
Profit for the year	**452**	621

	2013 £m	2012 £m
Profit for the year (as above)	**452**	621
Items recognised in other comprehensive income:		
Exchange movements	**(32)**	(181)
Unrealised valuation movements on securities classified as available-for sale:		
Unrealised holding (losses) gains arising during the year	**(2,025)**	930
Deduct net gains included in the income statement	**(64)**	(68)
Total unrealised valuation movements	**(2,089)**	862
Related change in amortisation of deferred acquisition costs [C5.1(b)]	**498**	(270)
Related tax	**557**	(205)
Total other comprehensive (loss) income	**(1,066)**	206
Total comprehensive (loss) income for the year	**(614)**	827
Dividends, interest payments to central companies and other movements	**(283)**	(245)
Net (decrease) increase in equity	**(897)**	582
Shareholders' equity at beginning of year	**4,343**	3,761
Shareholders' equity at end of year	**3,446**	4,343

C2.3 UK insurance operations

Of the total investments of £154 billion in UK insurance operations, £98 billion of investments are held by SAIF and the PAC WPSF. Shareholders are exposed only indirectly to value movements on these assets.

	2013 £m						2012* £m
			Other funds and subsidiaries				
By operating segment	Scottish Amicable Insurance Fund note (iii)	PAC with-profits sub-fund notes (i),(ii)	Unit-linked assets and liabilities	Annuity and other long-term business	Total	31 Dec Total	31 Dec Total
Assets							
Intangible assets attributable to shareholders:							
Deferred acquisition costs and other intangible assets	**-**	**-**	**-**	**90**	**90**	**90**	105
Total	**-**	**-**	**-**	**90**	**90**	**90**	105
Intangible assets attributable to with-profits funds:							
In respect of acquired subsidiaries for venture fund and other investment purposes	**-**	**177**	**-**	**-**	**-**	**177**	178
Deferred acquisition costs	**-**	**6**	**-**	**-**	**-**	**6**	6
Total	**-**	**183**	**-**	**-**	**-**	**183**	184
Total	**-**	**183**	**-**	**90**	**90**	**273**	289
Deferred tax assets	**1**	**82**	**-**	**59**	**59**	**142**	183
Other non-investment and non-cash assets	**267**	**2,744**	**468**	**2,329**	**2,797**	**5,808**	5,448
Investments of long-term business and other operations:							
Investment properties	**456**	**8,804**	**645**	**1,543**	**2,188**	**11,448**	10,528
Investments in joint ventures and associates accounted for using the equity method	**-**	**383**	**-**	**66**	**66**	**449**	259
Financial investments:							
Loans [C3.4]	**96**	**2,728**	**-**	**1,349**	**1,349**	**4,173**	4,303
Equity securities and portfolio holdings in unit trusts	**2,060**	**21,767**	**15,917**	**1**	**15,918**	**39,745**	36,281
Debt securities [C3.3]	**3,340**	**44,715**	**7,171**	**26,788**	**33,959**	**82,014**	84,008
Other investments[note (iv)]	**315**	**3,986**	**15**	**287**	**302**	**4,603**	4,256
Deposits	**694**	**8,488**	**764**	**1,306**	**2,070**	**11,252**	11,131
Total investments	**6,961**	**90,871**	**24,512**	**31,340**	**55,852**	**153,684**	150,766
Assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	98
Cash and cash equivalents	**196**	**1,364**	**650**	**376**	**1,026**	**2,586**	2,668
Total assets	**7,425**	**95,244**	**25,630**	**34,194**	**59,824**	**162,493**	159,452

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

	2013 £m						2012*£m
			Other funds and subsidiaries				
	Scottish Amicable Insurance Fund	PAC with-profits sub-fund	Unit-linked assets and liabilities	Annuity and other long-term business	Total	31 Dec Total	31 Dec Total
	note (iii)	notes (i),(ii)					
Equity and liabilities							
Equity							
Shareholders' equity	-	-	-	**2,998**	**2,998**	**2,998**	3,033
Non-controlling interests	-	-	-	-	-	-	1
Total equity	-	-	-	**2,998**	**2,998**	**2,998**	3,034
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)	**7,112**	**76,741**	**23,652**	**27,127**	**50,779**	**134,632**	133,912
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds) [C4.1(d)]	-	**11,984**	-	-	-	**11,984**	10,526
Total	**7,112**	**88,725**	**23,652**	**27,127**	**50,779**	**146,616**	144,438
Operational borrowings attributable to shareholder-financed operations	-	-	-	**74**	**74**	**74**	127
Borrowings attributable to with-profits funds	**12**	**883**	-	-	-	**895**	968
Deferred tax liabilities	**53**	**736**	-	**424**	**424**	**1,213**	1,185
Other non-insurance liabilities	**248**	**4,900**	**1,978**	**3,571**	**5,549**	**10,697**	9,700
Total liabilities	**7,425**	**95,244**	**25,630**	**31,196**	**56,826**	**159,495**	156,418
Total equity and liabilities	**7,425**	**95,244**	**25,630**	**34,194**	**59,824**	**162,493**	159,452

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

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 £12.2 billion (2012: £13.3 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 3.6 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 Hong Kong branch balance is reported within the unallocated surplus of the PAC with-profits sub-fund and excludes policyholder liabilities of the Hong Kong branch of PAC.

(iii) 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.

(iv) Other investments comprise:

	2013 £m	2012* £m
Derivative assets**	**1,472**	1,349
Partnerships in investment pools and other†	**3,131**	2,907
	4,603	4,256

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

** After including derivative liabilities of £806 million (2012: £1,010 million), which are also included in the statement of financial position, the overall derivative position was a net asset of £666 million (2012: £339 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

	2013 £m				2012* £m
	M&G	US	Eastspring Investments	31 Dec Total	31 Dec Total
	note (i)				
Assets					
Intangible assets:					
Goodwill	**1,153**	**16**	**61**	**1,230**	1,230
Deferred acquisition costs and other intangible assets	**17**	**2**	**1**	**20**	13
Total	**1,170**	**18**	**62**	**1,250**	1,243
Other non-investment and non-cash assets	**1,210**	**198**	**67**	**1,475**	1,142
Investments in joint ventures and associates accounted for using the equity method	**34**	**-**	**58**	**92**	92
Financial investments:					
Loans[C3.4]	**1,096**	**-**	**-**	**1,096**	1,199
Equity securities and portfolio holdings in unit trusts	**54**	**-**	**11**	**65**	64
Debt securities[C3.3]	**2,045**	**-**	**-**	**2,045**	1,839
Other investments	**47**	**14**	**-**	**61**	41
Deposits	**-**	**32**	**33**	**65**	55
Total investments	**3,276**	**46**	**102**	**3,424**	3,290
Cash and cash equivalents	**1,405**	**56**	**101**	**1,562**	918
Total assets	**7,061**	**318**	**332**	**7,711**	6,593
Equity and liabilities					
Equity					
Shareholders' equity	**1,602**	**134**	**255**	**1,991**	1,937
Total equity	**1,602**	**134**	**255**	**1,991**	1,937
Liabilities					
Core structural borrowing of shareholder-financed operations	**275**	**-**	**-**	**275**	275
Intra-group debt represented by operational borrowings at Group level [note (ii)]	**1,933**	**-**	**-**	**1,933**	2,084
Other non-insurance liabilities[note (iii)]	**3,251**	**184**	**77**	**3,512**	2,297
Total liabilities	**5,459**	**184**	**77**	**5,720**	4,656
Total equity and liabilities	**7,061**	**318**	**332**	**7,711**	6,593

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

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.
Operational borrowings for M&G are in respect of Prudential Capital's short-term fixed income security programme and comprise:

	2013 £m	2012 £m
Commercial paper	**1,634**	1,535
Medium Term Notes	**299**	549
Total intra-group debt represented by operational borrowings at Group level	**1,933**	2,084

(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 IFRS13 'Fair value measurement'. The basis applied is summarised below:

	2013 £m					2012* £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			
Intangible assets attributable to shareholders:										
Goodwill	-	-	**1,461**	**1,461**		-	-	1,469	1,469	
Deferred acquisition costs and other intangible assets	-	-	**5,295**	**5,295**		-	-	4,177	4,177	
Total	-	-	**6,756**	**6,756**		-	-	5,646	5,646	
Intangible assets attributable to with-profits funds:										
In respect of acquired subsidiaries for venture fund and other investment purposes	-	-	**177**	**177**		-	-	178	178	
Deferred acquisition costs and other intangible assets	-	-	**72**	**72**		-	-	78	78	
Total	-	-	**249**	**249**		-	-	256	256	
Total intangible assets	-	-	**7,005**	**7,005**		-	-	5,902	5,902	
Other non-investment and non-cash assets:										
Property, plant and equipment	-	-	**920**	**920**		-	-	754	754	
Reinsurers' share of insurance contract liabilities	-	-	**6,838**	**6,838**		-	-	6,854	6,854	
Deferred tax assets	-	-	**2,412**	**2,412**		-	-	2,306	2,306	
Current tax recoverable	-	-	**244**	**244**		-	-	248	248	
Accrued investment income	-	-	**2,609**	**2,609**	**2,609**	-	-	2,771	2,771	2,771
Other debtors	-	-	**1,746**	**1,746**	**1,746**	-	-	1,325	1,325	1,325
Total	-	-	**14,769**	**14,769**		-	-	14,258	14,258	
Investments of long-term business and other operations:[note (ii)]										
Investment properties	**11,477**	-	-	**11,477**	**11,477**	10,554	-	-	10,554	10,554
Investments accounted for using the equity method	-	-	**809**	**809**		-	-	635	635	
Loans	**2,137**	-	**10,429**	**12,566**	**12,995**	2,068	-	10,675	12,743	13,255
Equity securities and portfolio holdings in unit trusts	**120,222**	-	-	**120,222**	**120,222**	98,626	-	-	98,626	98,626
Debt securities	**102,700**	**30,205**	-	**132,905**	**132,905**	106,082	32,825		138,907	138,907
Other investments	**6,265**	-	-	**6,265**	**6,265**	7,547	-	-	7,547	7,547
Deposits	-	-	**12,213**	**12,213**	**12,213**	-	-	12,248	12,248	12,248
Total investments	**242,801**	**30,205**	**23,451**	**296,457**		224,877	32,825	23,558	281,260	
Assets held for sale	**916**	-	-	**916**	**916**	98	-	-	98	98
Cash and cash equivalents	-	-	**6,785**	**6,785**	**6,785**	-	-	6,126	6,126	6,126
Total assets	**243,717**	**30,205**	**52,010**	**325,932**		224,975	32,825	49,844	307,644	

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

	2013 £m					2012* £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	**-**	**-**	**218,185**	**218,185**		-	-	205,484	205,484	
Investment contract liabilities with discretionary participation features note (iii)	**-**	**-**	**35,592**	**35,592**		-	-	33,812	33,812	
Investment contract liabilities without discretionary participation features	**17,736**	**-**	**2,440**	**20,176**	**20,177**	16,309	-	2,069	18,378	18,419
Unallocated surplus of with-profits funds	**-**	**-**	**12,061**	**12,061**		-	-	10,589	10,589	
Total	**17,736**	**-**	**268,278**	**286,014**		16,309	-	251,954	268,263	
Core structural borrowings of shareholder-financed operations:	**-**	**-**	**4,636**	**4,636**	**5,066**	-	-	3,554	3,554	4,133
Other borrowings:										
Operational borrowings attributable to shareholder-financed operations	**-**	**-**	**2,152**	**2,152**	**2,152**	-	-	2,245	2,245	2,245
Borrowings attributable to with-profits operations	**18**	**-**	**877**	**895**	**909**	40	-	928	968	977
Other non-insurance liabilities:										
Obligations under funding, securities lending and sale and repurchase agreements	**-**	**-**	**2,074**	**2,074**	**2,085**	-	-	2,381	2,381	2,400
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**5,278**	**-**	**-**	**5,278**	**5,278**	5,145	-	-	5,145	5,145
Deferred tax liabilities	**-**	**-**	**3,778**	**3,778**		-	-	3,964	3,964	
Current tax liabilities	**-**	**-**	**395**	**395**		-	-	443	443	
Accruals and deferred income	**-**	**-**	**824**	**824**		-	-	751	751	
Other creditors	**263**	**-**	**3,044**	**3,307**	**3,307**	259	-	2,442	2,701	2,701
Provisions	**-**	**-**	**635**	**635**		-	-	591	591	
Derivative liabilities	**1,689**	**-**	**-**	**1,689**	**1,689**	2,832	-	-	2,832	2,832
Other liabilities	**2,051**	**-**	**1,685**	**3,736**	**3,736**	2,021	-	1,421	3,442	3,442
Total	**9,281**	**-**	**12,435**	**21,716**		10,257	-	11,993	22,250	
Liabilities held for sale	**868**	**-**	**-**	**868**	**868**	-	-	-	-	
Total liabilities	**27,903**	**-**	**288,378**	**316,281**		26,606	-	270,674	297,280	

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

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 2013 recognised in the income statement amounted to a net gain of £2.5 billion (2012: £6.8 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 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 the 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 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 fund 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%**

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 2013 in respect of Japan Life business included a net financial instruments balance of £934 million, primarily for equity securities and debt securities. Of this amount, £905 million has been classified as level 1 and £29 million as level 2.

	31 Dec 2012* £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	22,057	2,496	480	25,033
Debt securities	16,056	45,550	542	62,148
Other investments (including derivative assets)	108	1,743	2,574	4,425
Derivative liabilities	(61)	(1,075)	-	(1,136)
Total financial investments, net of derivative liabilities	38,160	48,714	3,596	90,470
Percentage of total	42%	54%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	72,488	183	39	72,710
Debt securities	3,660	5,409	2	9,071
Other investments (including derivative assets)	26	10	-	36
Derivative liabilities	-	(1)	-	(1)
Total financial investments, net of derivative liabilities	76,174	5,601	41	81,816
Percentage of total	93%	7%	0%	100%
Non-linked shareholder-backed				
Loans	-	226	1,842	2,068
Equity securities and portfolio holdings in unit trusts	827	7	49	883
Debt securities	13,357	54,146	185	67,688
Other investments (including derivative assets)	24	2,301	761	3,086
Derivative liabilities	(16)	(1,484)	(195)	(1,695)
Total financial investments, net of derivative liabilities	14,192	55,196	2,642	72,030
Percentage of total	20%	76%	4%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	-	226	1,842	2,068
Equity securities and portfolio holdings in unit trusts	95,372	2,686	568	98,626
Debt securities	33,073	105,105	729	138,907
Other investments (including derivative assets)	158	4,054	3,335	7,547
Derivative liabilities	(77)	(2,560)	(195)	(2,832)
Total financial investments, net of derivative liabilities	128,526	109,511	6,279	244,316
Investment contracts liabilities without discretionary participation features held at fair value	-	(16,309)	-	(16,309)
Borrowings attributable to the with-profits fund held at fair value	-	(40)	-	(40)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(3,653)	(268)	(1,224)	(5,145)
Other financial liabilities held at fair value	-	(259)	(2,021)	(2,280)
Total financial instruments at fair value	124,873	92,635	3,034	220,542
Percentage of total	57%	42%	1%	100%

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

Investment properties at fair value

Group total

	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 inputs	
Investment properties	**-**	**-**	**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 above 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 £100,687 million at 31 December 2013 (2012: £105,105 million), £8,556 million are valued internally (2012: £8,248 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 2013 the Group held £3,385 million (2012: £3,034 million), 2 per cent of the total fair valued financial assets net of fair valued financial liabilities (2012: 1 per cent), within level 3.

Included within these amounts were loans of £1,887 million at 31 December 2013 (2012: £1,842 million), measured at the loan outstanding balance, attached to REALIC acquired in 2012 and held to back the liabilities for funds withheld under reinsurance

arrangements. The funds withheld liability of £2,051 million at 31 December 2013 (2012: £2,021 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 £(164) million (2012: £(179) million), the level 3 fair valued financial assets net of financial liabilities were £3,549 million (2012: £3,213 million). Of this amount, a net liability of £(304) million (2012: net liability of £(213) million) were internally valued, representing 0.1 per cent of the total fair valued financial assets net of financial liabilities (2012: 0.1 per cent). Internal valuations are inherently more subjective than external valuations. Included within these internally valued net liabilities were:

(a) Debt securities of £118 million (2012: £75 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 £878 million (2012: £904 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 £(1,301) million (2012: £(1,199) million) for the Net asset value attributable to external unit holders respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities are valued by reference to the underlying assets.
(d) Other sundry individual financial investments of £1 million (2012: £7 million).

Of the internally valued net liability referred to above of £(304) million (2012: net liability of £(213) million):

(e) A net liability of £(380) million (2012: net liability of £(240) 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.
(f) A net asset of nil (2012: £3 million) was held by the Group's unit-linked funds for which the investment return is wholly attributable to policyholders.
(g) A net asset of £76 million (2012: £24 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 £8 million (2012: £2 million), which would reduce shareholders' equity by this amount before tax. Of this amount, a decrease of £6 million (2012: an increase of £1 million) would pass through the income statement substantially as part of short-term fluctuations in investment returns outside of operating profit and a £2 million decrease (2012: a £3 million decrease) 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 2013, the transfers between levels within the Group's portfolio were primarily transfers from level 1 to 2 of £471million and transfers from level 2 to level 1 of £260 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, the transfers into and out of level 3 in 2013 were £228 million and £(51) million, respectively. 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 2013 provided in the notes below.

	2013 £m	2012* £m
Insurance operations:		
Asia note (a)	**18,554**	20,067
US note (b)	**30,292**	32,993
UK note (c)	**82,014**	84,008
Asset management operations	**2,045**	1,839
Total	**132,905**	138,907

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

In the tables below, with the exception of some mortgage-backed securities, Standards & 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

	2013 £m				2012* £m
	With-profits business	Unit-linked assets	Other business	Total	Total
S&P – AAA	**489**	**13**	**222**	**724**	785
S&P – AA+ to AA-	**2,584**	**432**	**1,717**	**4,733**	5,523
S&P – A+ to A-	**1,710**	**257**	**929**	**2,896**	3,272
S&P – BBB+ to BBB-	**1,349**	**516**	**852**	**2,717**	1,906
S&P – Other	**351**	**238**	**844**	**1,433**	3,132
	6,483	**1,456**	**4,564**	**12,503**	14,618
Moody's – Aaa	**1,076**	**218**	**434**	**1,728**	1,389
Moody's – Aa1 to Aa3	**128**	**31**	**17**	**176**	271
Moody's – A1 to A3	**104**	**22**	**51**	**177**	147
Moody's – Baa1 to Baa3	**238**	**207**	**127**	**572**	375
Moody's – Other	**30**	**13**	**33**	**76**	112
	1,576	**491**	**662**	**2,729**	2,294
Fitch	**415**	**131**	**182**	**728**	533
Other	**1,262**	**373**	**959**	**2,594**	2,622
Total debt securities	**9,736**	**2,451**	**6,367**	**18,554**	20,067

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

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

	2013 £m	2012* £m
Government bonds	**387**	58
Corporate bonds rated as investment grade by local external ratings agencies	**491**	428
Structured deposits issued by banks which are rated, but specific deposits are not	**1**	-
Other	**80**	123
	959	609

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

(b) US insurance operations

(i) Overview

	2013 £m	2012 £m
Corporate and government security and commercial loans:		
Government	**3,330**	4,126
Publicly traded and SEC Rule 144A securities*	**18,875**	19,699
Non-SEC Rule 144A securities	**3,395**	3,542
Total	**25,600**	27,367
Residential mortgage-backed securities (RMBS)	**1,760**	2,400
Commercial mortgage-backed securities (CMBS)	**2,339**	2,639
Other debt securities	**593**	587
Total US debt securities†	**30,292**	32,993

* 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:

	2013 £m	2012 £m
Available-for-sale	**30,205**	32,825
Fair value through profit and loss:		
Securities held to back liabilities for funds withheld under reinsurance arrangement	**87**	168
	30,292	32,993

(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 2013, 0.1 per cent of Jackson's debt securities were classified as Level 3 (31 December 2012: 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

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 £2,807 million to a net unrealised gain of £781 million as analysed in the table below. This decrease reflects the effects of rising long-term interest rates.

	2013	Changes in unrealised appreciation**	Foreign exchange translation	2012
		Reflected as part of movement in Other comprehensive income		
	£m	£m	£m	£m
Assets fair valued at below book value				
Book value*	**10,825**			4,551
Unrealised (loss) gain	**(849)**	**(714)**	**43**	(178)
Fair value (as included in statement of financial position)	**9,976**			4,373
Assets fair valued at or above book value				
Book value*	**18,599**			25,467
Unrealised gain (loss)	**1,630**	**(1,375)**	**20**	2,985
Fair value (as included in statement of financial position)	**20,229**			28,452
Total				
Book value*	**29,424**			30,018
Net unrealised gain (loss)	**781**	**(2,089)**	**63**	2,807
Fair value (as included in statement of financial position)	**30,205**			32,825

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

** Translated at the average rate of US$1.5646: £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:

	2013 £m		2012 £m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Between 90% and 100%	**7,624**	**(310)**	4,214	(112)
Between 80% and 90%	**1,780**	**(331)**	85	(13)
Below 80%	**572**	**(208)**	74	(53)
Total	**9,976**	**(849)**	4,373	(178)

(b) Unrealised losses by maturity of security

	2013 £m	2012 £m
1 year to 5 years	**(5)**	(1)
5 years to 10 years	**(224)**	(9)
More than 10 years	**(558)**	(91)
Mortgage-backed and other debt securities	**(62)**	(77)
Total	**(849)**	(178)

(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:

	2013 £m			2012 £m		
	Non-investment grade	Investment grade	Total	Non-investment grade	Investment grade	Total
Less than 6 months	**(2)**	**(52)**	**(54)**	(5)	(101)	(106)
6 months to 1 year	**(12)**	**(329)**	**(341)**	(1)	(1)	(2)
1 year to 2 years	**(2)**	**(423)**	**(425)**	(2)	-	(2)
2 years to 3 years	**(1)**	-	**(1)**	(1)	-	(1)
More than 3 years	**(13)**	**(15)**	**(28)**	(31)	(36)	(67)
Total	**(30)**	**(819)**	**(849)**	(40)	(138)	(178)

(d) Securities whose fair value were below 80 per cent of the book value

£208 million of the £849 million of gross unrealised losses as shown in the table (a) above at 31 December 2013 (31 December 2012: £53 million of the £178 million of gross unrealised losses) related to securities whose fair value was below 80 per cent of the book value. The analysis of the £208 million (31 December 2012: £53 million), by category of debt securities and by age analysis indicating the length of time for which their fair value was below 80 per cent of the book value, is as follows:

	2013 £m		2012 £m	
Category analysis	Fair value	Unrealised loss	Fair value	Unrealised loss
Residential mortgage-backed securities				
Prime (including agency)	-	-	5	(2)
Sub-prime	**4**	**(1)**	18	(8)
	4	**(1)**	23	(10)
Commercial mortgage-backed securities	**16**	**(6)**	10	(23)
Other asset-backed securities	**9**	**(6)**	41	(20)
Total structured securities	**29**	**(13)**	74	(53)
Government bonds	**521**	**(188)**	-	-
Corporates	**22**	**(7)**	-	-
Total	**572**	**(208)**	74	(53)

The following table shows the age analysis as at 31 December 2013, of the securities whose fair value were below 80 per cent of the book value:

	2013 £m		2012 £m	
Age analysis	**Fair value**	**Unrealised loss**	**Fair value**	**Unrealised loss**
Less than 3 months	**93**	**(24)**	7	(2)
3 months to 6 months	**418**	**(159)**	-	-
More than 6 months	**61**	**(25)**	67	(51)
	572	**(208)**	74	(53)

(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:

	2013 £m	2012 £m
S&P – AAA	**132**	187
S&P – AA+ to AA-	**5,252**	6,343
S&P – A+ to A-	**7,728**	7,728
S&P – BBB+ to BBB-	**9,762**	10,230
S&P – Other	**941**	1,173
	23,815	25,661
Moody's – Aaa	**65**	55
Moody's – Aa1 to Aa3	**13**	18
Moody's – A1 to A3	**65**	21
Moody's – Baa1 to Baa3	**70**	56
Moody's – Other	**10**	13
	223	163
Implicit ratings of MBS based on NAIC* valuations (see below)		
NAIC 1	**2,774**	2,934
NAIC 2	**179**	207
NAIC 3-6	**87**	321
	3,040	3,462
Fitch	**159**	184
Other **	**3,055**	3,523
Total debt securities	**30,292**	32,993

* 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:

	2013 £m	2012 £m
NAIC 1	**1,165**	1,453
NAIC 2	**1,836**	2,022
NAIC 3-6	**54**	48
	3,055	3,523

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

	Scottish Amicable Insurance Fund	PAC with-profits fund	Other funds and subsidiaries: Unit-linked assets	Other funds and subsidiaries: PRIL	Other funds and subsidiaries: Other annuity and long-term business	UK insurance operations: 2013 Total	UK insurance operations: 2012 Total *
	£m	£m	£m	£m	£m	£m	£m
S&P – AAA	**367**	**4,403**	**785**	**2,944**	**338**	**8,837**	9,200
S&P – AA+ to AA-	**502**	**5,421**	**1,202**	**3,161**	**404**	**10,690**	9,688
S&P – A+ to A-	**825**	**10,896**	**1,720**	**6,599**	**851**	**20,891**	23,000
S&P – BBB+ to BBB-	**819**	**9,972**	**1,679**	**4,017**	**638**	**17,125**	17,720
S&P – Other	**214**	**2,578**	**97**	**292**	**74**	**3,255**	3,043
	2,727	**33,270**	**5,483**	**17,013**	**2,305**	**60,798**	62,651
Moody's – Aaa	**93**	**1,544**	**229**	**395**	**72**	**2,333**	8,446
Moody's – Aa1 to Aa3	**105**	**2,525**	**1,107**	**2,179**	**504**	**6,420**	1,420
Moody's – A1 to A3	**49**	**847**	**55**	**994**	**132**	**2,077**	927
Moody's – Baa1 to Baa3	**41**	**702**	**93**	**331**	**47**	**1,214**	1,385
Moody's – Other	**10**	**125**	**-**	**4**	**1**	**140**	307
	298	**5,743**	**1,484**	**3,903**	**756**	**12,184**	12,485
Fitch	**18**	**349**	**60**	**166**	**18**	**611**	527
Other	**297**	**5,353**	**144**	**2,433**	**194**	**8,421**	8,345
Total debt securities	**3,340**	**44,715**	**7,171**	**23,515**	**3,273**	**82,014**	84,008

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

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 £8,421 million total debt securities held at 31 December 2013 (2012: £8,345 million) which are not externally rated are either internally rated or unrated. These are analysed as follows:

	2013 £m	2012* £m
Internal ratings or unrated:		
AAA to A-	**3,691**	3,173
BBB to B-	**3,456**	3,810
Below B- or unrated	**1,274**	1,362
Total	**8,421**	8,345

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. For the £2,627 million for PRIL and other annuity and long-term business investments for non-linked shareholder-backed business which are not externally rated, £605 million were internally rated AA+ to AA-, £948 million A+ to A-, £868 million BBB+ to BBB-, £65 million BB+ to BB- and £141 million were internally rated B+ and below or unrated.

(d) Asset management operations

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

	2013 £m	2012 £m
M&G		
AAA to A- by Standard & Poor's or Aaa to A3 rated by Moody's	**1,690**	1,529
Other	**355**	310
Total M&G (including Prudential Capital)	**2,045**	1,839

(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 2013 is as follows:

	2013 £m	2012 £m
Shareholder-backed operations (excluding assets held in unit-linked funds):		
Asia insurance operations note (i)	**139**	144
US insurance operations note (ii)	**4,692**	5,626
UK insurance operations (2013: 36% AAA, 23% AA) note (iii)	**1,727**	1,408
Other operations note (iv)	**667**	566
	7,225	7,744
With-profits operations:		
Asia insurance operations note (i)	**200**	241
UK insurance operations (2013: 60% AAA, 12% AA) note (iii)	**5,765**	5,850
	5,965	6,091
Total	**13,190**	13,835

Notes

(i) Asia insurance operations
The Asia insurance operations' exposure to asset-backed securities is primarily held by the with-profits operations. Of the £200 million, 53 per cent (31 December 2012: 63 per cent) are investment graded.

(ii) US insurance operations
US insurance operations' exposure to asset-backed securities at 31 December 2013 comprises:

	2013 £m	2012 £m
RMBS		
Sub-prime (2013: 10% AAA, 10% AA)	**255**	261
Alt-A (2013: 1% AA, 7% BBB)	**270**	323
Prime including agency (2013: 75% AA, 2% A)	**1,235**	1,816
CMBS (2013: 43% AAA, 22% AA)	**2,339**	2,639
CDO funds (2013: 25% AA, 19% A), including £nil exposure to sub-prime	**46**	44
Other ABS (2013: 25% AAA, 20% AA), including £69 million exposure to sub-prime	**547**	543
Total	**4,692**	5,626

(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, £1,490 million (31 December 2012: £1,697 million) relates to exposure to the US markets and with the remaining exposure being primarily to the UK market.

(iv) Asset management operations
Asset management operations' exposure to asset-backed securities is held by Prudential Capital with no sub-prime exposure. Of the £667 million, 85 per cent (31 December 2012: 77 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 2013:

Exposure to sovereign debts

	2013 £m		2012* £m	
	Shareholder-backed business	With-profits funds	Shareholder-backed business	With-profits funds
Italy	**53**	**53**	51	59
Spain	**1**	**14**	1	31
France	**19**	**-**	18	-
Germany	**413**	**389**	444	469
Other Europe (principally Belgium and Isle of Man)	**45**	**45**	50	41
Total Continental Europe	**531**	**501**	564	600
United Kingdom	**3,516**	**2,432**	3,432	2,306
Total Europe	**4,047**	**2,933**	3,996	2,906
United States**	**3,045**	**4,026**	3,725	3,547
Other, predominantly Asia	**3,084**	**1,508**	3,069	1,401
Total	**10,176**	**8,467**	10,790	7,854

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new accounting standards described in A2 and their consequential impact.

** 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. As discussed in note A2 following the adoption of IFRS 11 these operations are accounted for using single line equity method in the balance sheet.

Exposure to bank debt securities

	Bank debt securities £m							
	Senior debt			Subordinated debt			Total	
Shareholder-backed business	Covered	Senior	Total senior debt	Tier 2	Tier 1	Total subordinated debt	31 Dec 2013	31 Dec 2012
Portugal	-	45	45	-	-	-	45	37
Ireland	-	17	17	-	-	-	17	16
Italy	-	30	30	-	-	-	30	39
Spain	100	12	112	23	-	23	135	168
Austria	-	-	-	12	-	12	12	11
France	23	64	87	71	17	88	175	195
Germany	-	3	3	63	-	63	66	22
Netherlands	-	14	14	57	81	138	152	182
Total Continental Europe	123	185	308	226	98	324	632	670
United Kingdom	409	175	584	673	112	785	1,369	1,466
Total Europe	532	360	892	899	210	1,109	2,001	2,136
United States	-	1,688	1,688	456	19	475	2,163	2,243
Other, predominantly Asia	21	281	302	300	96	396	698	741
Total	553	2,329	2,882	1,655	325	1,980	4,862	5,120
With-profits funds								
Portugal	-	6	6	-	-	-	6	6
Ireland	10	-	10	-	-	-	10	6
Italy	15	67	82	-	-	-	82	75
Spain	136	13	149	-	-	-	149	186
France	12	168	180	57	-	57	237	157
Germany	-	24	24	-	-	-	24	-
Netherlands	-	208	208	7	-	7	215	138
Total Continental Europe	173	486	659	64	-	64	723	568
United Kingdom	598	442	1,040	635	20	655	1,695	1,904
Total Europe	771	928	1,699	699	20	719	2,418	2,472
United States	-	1,942	1,942	129	143	272	2,214	2,083
Other, predominantly Asia	108	638	746	174	182	356	1,102	655
Total	879	3,508	4,387	1,002	345	1,347	5,734	5,210

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. As discussed in note A2 following the adoption of IFRS 11 these operations are accounted for using a single line equity method in the balance sheet.

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 and 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.

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

	2013 £m	2012* £m
Insurance operations:		
Asia[note (a)]	**922**	1,006
US[note (b)]	**6,375**	6,235
UK[note (c)]	**4,173**	4,303
Asset management operations:		
M&G[note (d)]	**1,096**	1,199
Total	**12,566**	12,743

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

(a) Asia insurance operations

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

	2013 £m	2012* £m
Mortgage loans[‡]	**57**	43
Policy loans[‡]	**611**	602
Other loans[‡‡]	**254**	361
Total Asia insurance operations loans	**922**	1,006

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

‡ 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:

	2013 £m			2012 £m		
	Loans backing liabilities for funds withheld	Other loans	Total	Loans backing liabilities for funds withheld	Other loans	Total
Mortgage loans[†]	**-**	**3,671**	**3,671**	-	3,543	3,543
Policy loans[††]	**1,887**	**817**	**2,704**	1,842	850	2,692
Total US insurance operations loans	**1,887**	**4,488**	**6,375**	1,842	4,393	6,235

† 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 breakdown by property type is as follows:

	2013 %	2012 %
Industrial	**28**	29
Multi-family residential	**30**	25
Office	**13**	17
Retail	**19**	19
Hotels	**9**	10
Other	**1**	-
	100	100

†† The policy loans are fully secured by individual life insurance policies or annuity policies. The purchase of REALIC in the second half of 2012 included policy loans which are accounted for at fair value through profit and loss to back liabilities for funds withheld under reinsurance. The policy loans are valued at £1,887 million at 31 December 2013 (2012: £1,842 million). 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 £6.5 million (2012: £6.3 million). The portfolio has a current estimated average loan to value of 61 per cent (2012: 65 per cent).

At 31 December 2013, Jackson had mortgage loans with a carrying value of £47 million (2012: £78 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:

	2013 £m	2012* £m
SAIF and PAC WPSF		
Mortgage loans†	**1,183**	1,311
Policy loans	**12**	16
Other loans‡	**1,629**	1,712
Total SAIF and PAC WPSF loans	**2,824**	3,039
Shareholder-backed operations		
Mortgage loans†	**1,345**	1,259
Other loans	**4**	5
Total loans of shareholder-backed operations	**1,349**	1,264
Total UK insurance operations loans	**4,173**	4,303

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

† The mortgage loans are collateralised by properties. By carrying value, 84 per cent of the £1,345 million held for shareholder-backed business relates to lifetime (equity release) mortgage business which has an average loan to property value of 30 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:

	2013 £m	2012 £m
Loans and receivables internal ratings:		
AAA	**108**	-
AA+ to AA-	**28**	-
BBB+ to BBB-	**516**	836
BB+ to BB-	**174**	339
B+ to B-	**250**	24
Other	**20**	-
Total M&G (including Prudential Capital) loans	**1,096**	1,199

C4 Policyholder liabilities and unallocated surplus

The note provides information of policyholder liabilities and unallocated surplus of with-profit 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	**US**	**UK**	**Total**
	note C4.1(b)	note C4.1(c)	note C4.1(d)	
At 1 January 2012	30,912	69,189	136,189	236,290
Comprising:				
*- Policyholder liabilities on the consolidated statement of financial position**	28,110	69,189	127,024	224,323
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	50	-	9,165	9,215
- Group's share of policyholder liabilities of joint ventures‡	2,752	-	-	2,752
Net flows:				
Premiums	5,620	14,907	8,340	28,867
Surrenders	(2,541)	(4,356)	(4,785)	(11,682)
Maturities/Deaths	(658)	(954)	(8,009)	(9,621)
Net flows	2,421	9,597	(4,454)	7,564
Shareholders' transfers post tax	(31)	-	(205)	(236)
Investment-related items and other movements	2,178	4,241	13,006	19,425
Foreign exchange translation differences	(816)	(3,678)	(98)	(4,592)
Acquisition of REALIC [note D1]	-	12,912	-	12,912
As at 31 December 2012 / 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**
At 31 December 2013	**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**
Average policyholder liability balances†				
2013	**34,423**	**99,836**	**134,272**	**268,531**
2012	32,732	77,497	130,468	240,697

* The 2012 comparative results in the consolidated statement of financial position have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note A2.

** The reclassification of Japan Life business as held for sale reflects the value of policyholder liabilities held at 1 January 2013 following its reclassification during 2013 as held for sale. No other amounts are shown within the 2013 analysis above in respect of Japan. The comparatives include the Japan Life business. If Japan Life business had been excluded from the 2012 amount, the average policyholder liability balance for 2012 would have been £31,616 million for Asia.

† 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 and adjusted for corporate transactions in the year.

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

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 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

		2012* £m			
Shareholder-backed business		**Asia**	**US**	**UK**	**Total**
At 1 January		18,269	69,189	46,048	133,506
Net flows:					
Premiums		4,141	14,907	3,801	22,849
Surrenders		(1,933)	(4,356)	(2,585)	(8,874)
Maturities/Deaths		(226)	(954)	(2,345)	(3,525)
Net flows	note (a)	1,982	9,597	(1,129)	10,450
Investment-related items and other movements		1,539	4,241	4,586	10,366
Acquisition of subsidiaries		-	12,912	-	12,912
Foreign exchange translation differences		(577)	(3,678)	-	(4,255)
At 31 December		21,213	92,261	49,505	162,979
Comprising:					
- Policyholder liabilities on the consolidated statement of financial position		18,113	92,261	49,505	159,879
- Group's share of policyholder liabilities relating to joint ventures		3,100	-	-	3,100

		2013 £m			
Shareholder-backed business		**Asia**	**US**	**UK**	**Total**
At 1 January		**21,213**	**92,261**	**49,505**	**162,979**
Reclassification of Japan business as held for sale	note (b)	**(1,026)**	**-**	**-**	**(1,026)**
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 (a)	**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**

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

Notes

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

(b) The reclassification of Japan Life business as held for sale reflects the value of policyholder liabilities held at 1 January 2013 following its reclassification during 2013 as held for sale. No other amounts are shown within the 2013 analysis above in respect of Japan.

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 2012	12,643	12,015	6,254	30,912
Comprising:				
*- Policyholder liabilities on the consolidated statement of financial position**	12,593	10,101	5,416	28,110
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	50	-	-	50
- Group's share of policyholder liabilities relating to joint ventures‡	-	1,914	838	2,752
Premiums				
New business	216	1,336	636	2,188
In-force	1,263	1,292	877	3,432
	1,479	2,628	1,513	5,620
Surrenders note (c)	(608)	(1,675)	(258)	(2,541)
Maturities/Deaths	(432)	(30)	(196)	(658)
Net flows note (b)	439	923	1,059	2,421
Shareholders' transfers post tax	(31)	-	-	(31)
Investment-related items and other movements	639	1,451	88	2,178
Foreign exchange translation differences note (a)	(239)	(361)	(216)	(816)
At 31 December 2012 / 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 (c)	**(714)**	**(1,799)**	**(217)**	**(2,730)**
Maturities/Deaths	**(634)**	**(46)**	**(317)**	**(997)**
Net flows note (b)	**479**	**975**	**1,374**	**2,828**
Shareholders' transfers post tax	**(38)**	**-**	**-**	**(38)**
Investment-related items and other movements note (d)	**(160)**	**369**	**253**	**462**
Acquisition of Thanachart life	**-**	**-**	**487**	**487**
Foreign exchange translation differences note (a)	**(517)**	**(1,241)**	**(473)**	**(2,231)**
At 31 December 2013	**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**
Average policyholder liability balances†				
2013	**13,263**	**13,714**	**7,446**	**34,423**
2012	12,990	13,022	6,720	32,732

* The 2012 comparative results in the consolidated statement of financial position have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note A2.

† 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 and the Group's share of the policyholder liabilities as shown above relate to the joint venture life business in China, India and of the Takaful business in Malaysia.

** The reclassification of Japan Life business as held for sale reflects the value of policyholder liabilities held at 1 January 2013 following its reclassification during 2013 as held for sale. No other amounts are shown within the 2013 analysis above in respect of Japan. The 2012 comparatives include the Japan Life business. If Japan Life business had been excluded from the 2012 amount, the average policyholder liability balance for 2012 would have been £31,616 million in total allocated £12,990 million, £12,648 million and £5,978 million for its with-profits business, unit-linked business and other business respectively.

Notes

(a) Movements in the year have been translated at the average exchange rates for the year ended 31 December 2013. The closing balance has been translated at the closing spot rates as at 31 December 2013. Differences upon retranslation are included in foreign exchange translation differences.

(b) Net flows have increased by £407 million to £2,828 million in 2013 compared with £2,421 million in 2012 reflecting increased flows from new business and growth in the in-force books.

(c) The rate of surrenders for shareholder-backed business (expressed as a percentage of opening liabilities after the removal of Japan) was 10.0 per cent in 2013, lower than the 10.6 per cent recorded in 2012. Maturities/deaths have increased from £658 million in 2012 to £997 million in 2013, primarily as a result of an increased number of endowment products within Hong Kong, Singapore and Thailand reaching their maturity point.

(d) Investment-related items and other movements for 2013 principally represents unrealised losses on bonds, following the rise in bond yields within the with-profits funds and positive investment gains from the Asia equity market in the unit-linked and other business.

(ii) Duration of liabilities

The table below shows the carrying value of policyholder liabilities. The table below also shows the maturity profile of the cash flows on a discounted basis for 2013 and 2012, taking account of expected future premiums and investment returns:

	2013 £m	2012* £m
Policyholder liabilities	**31,910**	31,501
Expected maturity:	**%**	%
0 to 5 years	**23**	22
5 to 10 years	**20**	19
10 to 15 years	**16**	16
15 to 20 years	**12**	13
20 to 25 years	**9**	10
Over 25 years	**20**	20

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

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 2012	37,833	31,356	69,189
Premiums	10,361	4,546	14,907
Surrenders	(2,149)	(2,207)	(4,356)
Maturities/Deaths	(404)	(550)	(954)
Net flows note (b)	7,808	1,789	9,597
Transfers from general to separate account	1,577	(1,577)	-
Investment-related items and other movements	4,014	227	4,241
Foreign exchange translation differences note (a)	(1,998)	(1,680)	(3,678)
Acquisition of REALIC note (d)	64	12,848	12,912
At 31 December 2012 / 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	**65,681**	**41,730**	**107,411**
Average policyholder liability balances*			
2013	**57,489**	**42,347**	**99,836**
2012	43,549	33,948	77,497

* Averages have been based on opening and closing balances, and adjusted for acquisitions and disposals in the year.

Notes

(a) Movements in the year have been translated at an average rate of US$1.56/£1.00 (2012: US$1.58/£1.00). The closing balances have been translated at closing rate of US$1.66/£1.00 (2012: US$1.63/£1.00). Differences upon retranslation are included in foreign exchange translation differences.

(b) Net flows for the year were £9,635 million compared with £9,597 million in 2012. Gross inflows increased by 7 per cent primarily reflecting increased variable annuity new business volume.

(c) Positive investment-related items and other movements in variable annuity separate account liabilities of £8,725 million for 2013 primarily reflects the increase in the US equity market during the year. Fixed annuity, GIC and other business investment and other movements primarily reflects the reduction in guarantee reserves (reflecting the impact of higher equity values and higher interest rates on these reserves), which has more than offset the increase in general account reserves which arise from interest credited to policyholder accounts in the year.

(d) The amounts shown for the acquisition of REALIC represents the liabilities, before reduction for reinsurance ceded, acquired at the date of acquisition.

(ii) Duration of liabilities

The table below shows the carrying value of policyholder liabilities. The table below also shows the maturity profile of the cash flows on a discounted basis for 2013 and 2012:

	2013			2012		
	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	**41,730**	**65,681**	**107,411**	42,963	49,298	92,261
	%	%	%	%	%	%
Expected maturity:						
0 to 5 years	**49**	**48**	**48**	45	46	46
5 to 10 years	**27**	**31**	**30**	27	31	29
10 to 15 years	**11**	**13**	**12**	12	13	13
15 to 20 years	**6**	**5**	**5**	7	6	6
20 to 25 years	**4**	**2**	**3**	5	2	3
Over 25 years	**3**	**1**	**2**	4	2	3

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 2012	90,141	21,281	24,767	136,189
Comprising:				
- Policyholder liabilities	80,976	21,281	24,767	127,024
- Unallocated surplus of with-profits funds	9,165	-	-	9,165
Premiums	4,539	1,775	2,026	8,340
Surrenders	(2,200)	(2,378)	(207)	(4,785)
Maturities/Deaths	(5,664)	(658)	(1,687)	(8,009)
Net flows [note (a)]	(3,325)	(1,261)	132	(4,454)
Shareholders' transfers post tax	(205)	-	-	(205)
Switches	(236)	236	-	-
Investment-related items and other movements [note (b)]	8,656	1,941	2,409	13,006
Foreign exchange translation differences	(98)	-	-	(98)
At 31 December 2012 / 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 (a)]	**(4,287)**	**(757)**	**(281)**	**(5,325)**
Shareholders' transfers post tax	**(192)**	**-**	**-**	**(192)**
Switches	**(195)**	**195**	**-**	**-**
Investment-related items and other movements [note (b)]	**5,695**	**2,017**	**100**	**7,812**
Foreign exchange translation differences	**(117)**	**-**	**-**	**(117)**
At 31 December 2013	**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**
Average policyholder liability balances*				
2013	**84,130**	**22,924**	**27,218**	**134,272**
2012	82,691	21,739	26,038	130,468

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

Notes

(a) Net outflows increased from £4,454 million in 2012 to £5,325 million in 2013, driven primarily by lower sales of with-profits bonds in the year as a result from the implementation of the recommendations of the Retail Distribution Review and lower bulk annuity sales in 2013 compared to 2012. This increase is partly offset by a decrease in the outflow of the unit-linked business. The levels of inflows/outflows for unit-linked business is driven by corporate pension schemes with transfers in or out from only one or two schemes influencing the level of flows in the year. Excluding these transactions, the net flow in the unit-linked business for 2013 is broadly consistent to 2012.

(b) Investment-related items and other movements of £7,812 million reflects the strong growth in the UK equity markets in 2013, partly offset by the impact on liabilities of rising long term bond yields.

(ii) Duration of liabilities

The tables above show the carrying value of the policyholder liabilities. The tables notes below show the maturity profile of the cash flows for insurance contracts, as defined by IFRS, ie those containing significant insurance risk, and investment contracts, which do not.

	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	
	2013 £m									
Policyholders 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**
	2012 £m									
Policyholders liabilities	37,698	33,486	71,184	13,223	20,114	33,337	13,231	16,160	29,391	133,912
	2012 %									
Expected maturity:										
0 to 5 years	45	39	42	30	26	27	35	28	31	36
5 to 10 years	24	25	24	24	22	22	25	23	24	24
10 to 15 years	13	17	15	18	17	18	17	17	17	16
15 to 20 years	8	11	10	12	13	13	10	12	11	11
20 to 25 years	5	6	5	8	9	9	6	9	8	7
over 25 years	5	2	4	8	13	11	7	11	9	6

Notes

(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

	2013 £m	2012 £m
Cost		
At beginning of year	**1,589**	1,585
Additional consideration paid on previously acquired business	**-**	2
Exchange differences	**(8)**	2
At end of year	**1,581**	1,589
Aggregate impairment	**(120)**	(120)
Net book amount at end of year	**1,461**	1,469

Goodwill attributable to shareholders comprises:

	2013 £m	2012 £m
M&G	**1,153**	1,153
Other	**308**	316
	1,461	1,469

Other goodwill represents amounts allocated to entities in Asia and the US operations in respect of acquisitions made prior to 2012. As discussed in note D1 there was no goodwill attached to the purchase of REALIC or Thanachart Life. Other goodwill amounts by acquired operations are not individually material.

The aggregate goodwill impairment of £120 million at 31 December 2013 and 2012 relates to the goodwill held in relation to the Japan Life business which was impaired in 2005. The Group signed an agreement to sell the Japan Life business in July 2013.The completion of the transaction is dependent on regulatory approval.

(b) Deferred acquisition costs and other intangible assets attributable to shareholders
The deferred acquisition costs and other intangible assets attributable to shareholders comprise:

	2013 £m	2012* £m
Deferred acquisition costs related to insurance contracts as classified under IFRS 4	**4,684**	3,776
Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	**96**	100
	4,780	3,876
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF)	**67**	64
Distribution rights and other intangibles	**448**	237
	515	301
Total of deferred acquisition costs and other intangible assets	**5,295**	4,177

* The 2012 comparative results have been retrospectively adjusted from those previously published for the application of IFRS 11 described in note A2 whereby equity presentation rather than proportionate consolidation for joint venture operations applies.

	2013 £m						2012* £m
	Deferred acquisition costs						
	Asia	US	UK	Asset management	PVIF and other intangibles†	Total	Total
Balance at 1 January							
As previously reported	**654**	**3,199**	**103**	**10**	**301**	**4,267**	4,234
Effect of adoption of IFRS 11 [note A2]	**(90)**	**-**	**-**	**-**	**-**	**(90)**	(90)
After effect of change	**564**	**3,199**	**103**	**10**	**301**	**4,177**	4,144
Reclassification of Japan Life as held for sale [note D5]	**(28)**	**-**	**-**	**-**	**-**	**(28)**	-
Additions	**202**	**716**	**3**	**12**	**297**	**1,230**	1,059
Acquisition of subsidiaries	**-**	**-**	**-**	**-**	**21**	**21**	5
Amortisation to the income statement:							
Operating profit	**(167)**	**(403)**	**(17)**	**(5)**	**(51)**	**(643)**	(682)
Non-operating profit	**-**	**228**	**-**	**-**	**-**	**228**	76
	(167)	**(175)**	**(17)**	**(5)**	**(51)**	**(415)**	(606)
Disposals	**-**	**-**	**-**	**-**	**(1)**	**(1)**	-
Exchange differences and other movements	**(18)**	**(117)**	**-**	**-**	**(52)**	**(187)**	(155)
Amortisation of DAC related to net unrealised valuation movements on Jackson's available-for-sale securities recognised within other comprehensive income	**-**	**498**	**-**	**-**	**-**	**498**	(270)
Balance at 31 December	**553**	**4,121**	**89**	**17**	**515**	**5,295**	4,177

* The 2012 comparative results have been retrospectively adjusted from those previously published for the application of IFRS 11 described in note A2 whereby equity presentation rather than proportionate consolidation for joint venture operations applies.

† PVIF and other intangibles includes software rights of £56 million (2012: £60 million) with additions of £26 million, amortisation of £27 million, disposals and other movements of £1 million and exchange losses of £2 million. The additions of £297 million for PVIF and other intangibles in 2013 include the amount advanced to secure the exclusive 15-year bancassurance partnership agreement entered into with Thanachart Bank in Thailand. Further, the addition of £21 million for acquisition of subsidiaries is for the acquisition of Thanachart Life. The amount of £5 million for 2012 was for the acquisition of REALIC. See note D1 for further details.

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

	2013 £m	2012 £m
Variable annuity business	**3,716**	3,330
Other business	**868**	821
Cumulative shadow DAC (for unrealised gains/losses booked in other comprehensive income)*	**(463)**	(952)
Total DAC for US operations	**4,121**	3,199

* Consequent upon the negative unrealised valuation movement in 2013 of £2,089 million (2012: positive unrealised valuation movement of £862 million), there is a credit of £498 million (2012: a debit of £270 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 2013, the cumulative shadow DAC balance as shown in the table above was negative £463 million (2012: negative £952 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 profits. 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 and 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.

As with fixed and index annuity and interest-sensitive life business, acquisition costs for Jackson's variable annuity products are 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, and expense.

Mean reversion technique

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 A2, for Jackson, is 7.4 per cent (2012: 8.4 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 (2012: 8.4 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 (2012: 8.4 per cent) assumption.

However, to ensure that the methodology does not over anticipate a reversion to trend 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 (both gross of asset management fees) in each year.

Sensitivity of amortisation charge

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 2013, the DAC amortisation charge for operating profit was determined after including a credit for decelerated amortisation of £82 million (2012: £56 million). The 2013 amount primarily reflects the separate account performance of 20 per cent, which is higher 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 2014 (outside the range of negative 37 per cent to positive 27 per cent) for the mean reversion assumption to move outside the corridor.

C6 Borrowings

C6.1 Core structural borrowings of shareholder-financed operations

	2013 £m	2012 £m
Holding company operations:		
Perpetual subordinated capital securities (Innovative Tier 1)[note (i),(iv)]	**2,133**	1,746
Subordinated notes (Lower Tier 2)[note (i),(v)]	**1,529**	831
Subordinated debt total	**3,662**	2,577
Senior debt:[note (ii)]		
£300m 6.875% Bonds 2023	**300**	300
£250m 5.875% Bonds 2029	**249**	249
Holding company total	**4,211**	3,126
Prudential Capital bank loan[note (iii)]	**275**	275
Jackson US$250m 8.15% Surplus Notes 2027 (Lower Tier 2)	**150**	153
Total (per consolidated statement of financial position)	**4,636**	3,554

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$3.55 billion (2012: US$2.85 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, currently drawn at a cost of 12 month £LIBOR plus 0.4 per cent and a £115 million loan also maturing on 20 December 2017 and currently drawn at a cost of 12 month £LIBOR plus 0.59 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.

C6.2 Other borrowings

(a) Operational borrowings attributable to shareholder-financed operations

	2013 £m	2012 £m
Borrowings in respect of short-term fixed income securities programmes[note (ii)]	**1,933**	2,084
Non-recourse borrowings of US operations	**18**	20
Other borrowings [note (iii)]	**201**	141
Total[note (i)]	**2,152**	2,245

Notes

(i) In addition to the debt listed above, £200 million Floating Rate Notes were issued by Prudential plc in October 2013 which will mature in April 2014. These Notes have been wholly subscribed by 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) In January 2013 the Company repaid on maturity, £250 million Medium Term Notes included within borrowings in respect of short-term fixed income securities in the table above.

(iii) 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.

(b) Borrowings attributable to with-profits operations

	2013 £m	2012* £m
Non-recourse borrowings of consolidated investment funds	**691**	759
£100m 8.5% undated subordinated guaranteed bonds of Scottish Amicable Finance plc**	**100**	100
Other borrowings (predominantly obligations under finance leases)	**104**	109
Total	**895**	968

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

** The interests of the holders of the bonds issued by Scottish Amicable Finance plc, a subsidiary of the Scottish Amicable Insurance Fund, are subordinate 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' within the Strategic Report.

As part of the risk management framework, the Group regularly monitors concentration of risk using a variety of risk monitoring tools, including scenario testing and sensitivity analysis of the Group's capital and profitability metrics involving IGD, Group economic capital, EEV and IFRS, to help identify concentrations of risks by risk types, products and business units, as well as the benefits of diversification of risks (as described further below). Business units are also required to disclose to the Group risk function all material risks, along with information on their severity and likelihood, and mitigating actions taken or planned. Credit risk remains one of the largest risk exposure. This reflects the relative size of exposure in Jackson and the UK shareholder annuities business. The Group manages concentration of credit risks by setting limits on the maximum exposure to each counterparty based on their credit ratings.

The financial and insurance assets and liabilities attaching to the Group's life assurance business 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.

Market risk is the risk that the fair value or future cash flows of a financial instrument or, in the case of liabilities of insurance contracts, their carrying value will fluctuate because of changes in market prices. Market risk comprises three types of risk, namely:

- Foreign exchange risk: due to changes in foreign exchange rates;
- Interest rate risk: due to changes in market interest rates; and
- Other price risk: due to fluctuations in market prices (other than those arising from interest rate risk or foreign exchange risk).

Policyholder liabilities relating to the Group's life assurance businesses are also sensitive to the effects of other changes in experience, or expected future experience, such as for mortality, other insurance risk and lapse risk.

Three key points are to be noted, namely:

- The Group's with-profits and unit-linked funds absorb most market risk attaching to the funds' investments. Except for second order effects, for example on asset management fees and shareholders' share of cost of bonuses for with-profits business, shareholder results are not directly affected by market value movements on the assets of these funds;
- The Group's shareholder results are most sensitive to market risks for assets of the shareholder-backed business; and
- The main exposures of the Group's IFRS basis results to market risk for its life assurance operations on investments of the shareholder-backed business are for debt securities.

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 these variables 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: Investments/derivatives	Market and credit risk: Liabilities / unallocated surplus	Market and credit risk: Other exposure	Insurance and lapse risk
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 and fund performance	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 and by the use of swaption contracts
UK insurance operations (see also section C7.4)				
With-profits business (including Prudential Annuities Limited)	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
Shareholder-backed annuity business	Asset/liability mismatch risk			
	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.

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
- Non-financial risk factors

Correlation across risk factors

- Longevity risk
- Expenses
- Persistency
- 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 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 2013, 10-year government bond rates vary from territory to territory and range from 1.7 per cent to 9.0 per cent (2012: 0.6 per cent to 9.5 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 2013 and 2012 is as follows:

	2013 £m		**2012* £m**	
	Decrease of 1%	**Increase of 1%**	**Decrease of 1%**	**Increase of 1%**
Pre-tax profit	**311**	**(215)**	205	(259)
Related deferred tax (where applicable)	**(34)**	**40**	(45)	43
Net effect on profit and shareholders' equity	**277**	**(175)**	160	(216)

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

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.

Equity price risk
The non-linked shareholder business has limited exposure to equity and property investment (£571 million at 31 December 2013). 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 2013 and 2012 would be as follows:

	2013 £m		**2012* £m**	
	Decrease of 20%	**Decrease of 10%**	**Decrease of 20%**	**Decrease of 10%**
Pre-tax profit	**(114)**	**(57)**	(129)	(65)
Related deferred tax (where applicable)	**24**	**12**	26	13
Net effect on profit and shareholders' equity	**(90)**	**(45)**	(103)	(52)

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

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.

In the equity risk sensitivity analysis shown above, 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 in place mitigating management actions.

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 would be decreased by approximately £38 million (2012: £30 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 2013, the rates for the most significant operations are given in note A1.

A 10 per cent increase or decrease 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**	
	2013 £m	**2012 £m**	**2013 £m**	**2012 £m**
Profit before tax attributable to shareholders [note]	**(63)**	(90)	**77**	110
Profit for the year	**(49)**	(75)	**60**	92
Shareholders' equity, excluding goodwill, attributable to Asia operations	**(246)**	(243)	**300**	297

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.

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 second order equity-based exposure 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 (2012: 94 per cent) of its general account investments support fixed interest rate and fixed index annuities, life business and surplus and 6 per cent (2012: 6 per cent) support institutional business. 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 VA contracts; and • related to meeting contractual accumulation requirements in FIA contracts.
Interest rate risk	• related to meeting guaranteed rates of accumulation on fixed annuity products following a sharp and sustained fall in • related to the guarantee features attaching 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 GMWB variable annuity features and reinsured GMIB 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 10 years. Put-swaptions hedge against significant movements in interest rates.
Equity index futures contracts and equity index options	These derivatives (including various call, put options and put spreads) are used to hedge Jackson's obligations associated with its issuance of fixed index immediate and 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 2013 and 2012, 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 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%**	**5,632**	**46**		
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*		**717**	**62**		
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%**	**40,906**	**1,059**		

31 December 2012

	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%	40,964	1,839	64.4 years	
GMWB - Premium only	0%	2,213	91		
GMWB*	0-5%**	3,359	88*		
GMAB - Premium only	0%	53	-		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		4,554	324	64.0 years	
GMWB - Highest anniversary only		1,880	245		
GMWB*		697	137		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	2,705	348	66.4 years	
GMIB†	0-6%	1,588	469		3.3 years
GMWB*	0-8%**	31,167	1,918		

* 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 fully reinsured.

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

	2013 £m	2012 £m
Mutual fund type:		
Equity	**40,529**	28,706
Bond	**10,043**	10,433
Balanced	**10,797**	8,379
Money market	**703**	729
Total	**62,072**	48,247

As noted above, Jackson is exposed to equity risk through the options embedded in the fixed index 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, including that relating to the reinsurance of Guaranteed Minimum Income Benefit guarantees.

At 31 December 2013, 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.

	2013 £m				2012 £m			
	Decrease of 20%	Decrease of 10%	Increase of 10%	Increase of 20%	Decrease of 20%	Decrease of 10%	Increase of 10%	Increase of 20%
Pre-tax profit, net of related changes in amortisation of DAC	**485**	**165**	**77**	**213**	295	139	(105)	(256)
Related deferred tax effects	**(170)**	**(58)**	**(27)**	**(74)**	(103)	(49)	37	89
Net sensitivity of profit after tax and shareholders' equity	**315**	**107**	**50**	**139**	192	90	(68)	(167)

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 2013.

In the equity risk sensitivity analysis shown above, 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 in place mitigating management actions.

(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 GMWB features attaching 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 2013 and 2012 is as follows:

	2013 £m				2012 £m			
	Decrease of 2%	Decrease of 1 %	Increase of 1%	Increase of 2 %	Decrease of 2%	Decrease of 1 %	Increase of 1%	Increase of 2 %
Profit and loss:								
Pre-tax profit effect (net of related changes in amortisation of DAC)	**(128)**	**(66)**	**(52)**	**(161)**	(187)	-	(54)	(186)
Related effect on charge for deferred tax	**45**	**23**	**18**	**56**	65	-	19	65
Net profit effect	**(83)**	**(43)**	**(34)**	**(105)**	(122)	-	(35)	(121)
Other comprehensive income:								
Direct effect on carrying value of debt securities (net of related changes in amortisation of DAC)	**2,624**	**1,477**	**(1,477)**	**(2,624)**	2,541	1,427	(1,427)	(2,541)
Related effect on movement in deferred tax	**(918)**	**(517)**	**517**	**918**	(889)	(499)	499	889
Net effect	**1,706**	**960**	**(960)**	**(1,706)**	1,652	928	(928)	(1,652)
Total net effect on shareholders' equity	**1,623**	**917**	**(994)**	**(1,811)**	1,530	928	(963)	(1,773)

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.

(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 2013, the rates were US$1.56 (2012: $1.58) and US$1.66 (2012: US$1.63) to £1.00 sterling, respectively. A 10 per cent increase or decrease 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	
	2013 £m	**2012 £m**	**2013 £m**	**2012 £m**
Profit before tax attributable to shareholders [note]	**(50)**	(78)	**61**	95
Profit for the year	**(41)**	(56)	**50**	69
Shareholders' equity attributable to US insurance operations	**(313)**	(395)	**383**	483

Note

Sensitivity on profit 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 GMDB reserves, the profits of Jackson are relatively insensitive to changes in insurance risk.
Jackson is sensitive to lapse risk. However, 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 2013 was 7.4 per cent (2012: 8.4 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 PRIL and the PAC 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.

With-profits business

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 WPSF and of Prudential Annuities Limited (PAL), which is owned by the WPSF) 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 gross profits by approximately £71 million (2012: £74 million). A decrease in credit default assumptions of five basis points would increase gross profits by £151 million (2012: £157 million). A decrease in renewal expenses (excluding asset management expenses) of 5 per cent would increase gross profits by £27 million (2012: £25 million). The effect on profits would be approximately symmetrical for changes in assumptions that are directionally opposite to those explained above.

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 under the Company's stewardship, 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 2013 annuity liabilities accounted for 98 per cent (2012: 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 PAC WPSF (for PAL) and shareholders (for annuity liabilities of PRIL 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.

	2013 £m				**2012 £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	**8,602**	**3,843**	**(3,170)**	**(5,827)**	9,006	3,993	(3,265)	(5,983)
Policyholder liabilities	**(7,525)**	**(3,366)**	**2,762**	**5,054**	(7,878)	(3,513)	2,867	5,235
Related deferred tax effects	**(215)**	**(95)**	**82**	**155**	(259)	(110)	91	172
Net sensitivity of profit after tax and shareholders' equity	**862**	**382**	**(326)**	**(618)**	869	370	(307)	(576)

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.

	2013 £m		**2012 £m**	
	A decrease of 20%	**A decrease of 10%**	**A decrease of 20%**	**A decrease of 10%**
Pre-tax profit	**(309)**	**(154)**	(316)	(158)
Related deferred tax effects	**72**	**36**	73	36
Net sensitivity of profit after tax and shareholders' equity	**(237)**	**(118)**	(243)	(122)

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.

In the equity risk sensitivity analysis shown above, 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 in place mitigating management actions.

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 £21 million (2012: £10 million) and £44 million (2012: £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 2013 by asset management operations were £2,045 million (2012: £1,839 million), the majority of which are held by the Prudential Capital operation. Debt securities held by M&G and 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 £75 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	
	2013 £m	**2012* £m**	**2013 £m**	**2012* £m**
Unrealised losses or gains on investments	**315**	100	**(1,450)**	(1,812)
Balances relating to investment and insurance contracts	**8**	1	**(451)**	(428)
Short-term timing differences	**2,050**	2,092	**(1,861)**	(1,715)
Capital allowances	**10**	15	**(16)**	(9)
Unused deferred tax losses	**29**	98	**-**	-
Total	**2,412**	2,306	**(3,778)**	(3,964)

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

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 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 2013 full year results and financial position at 31 December 2013 the possible tax benefit of approximately £127 million (2012: £158 million), which may arise from capital losses valued at approximately £0.6 billion (2012: £0.8 billion), is sufficiently uncertain that it has not been recognised. In addition, a potential deferred tax asset of £61 million (2012: £122 million), which may arise from trading tax losses and other potential temporary differences totalling £0.4 billion (2012: £0.5 billion) is sufficiently uncertain that it has not been recognised. Of these, losses of £54 million will expire within the next seven years. Of the remaining losses £0.5m will expire within 20 years and the rest have no expiry date.

The table that follows provides a breakdown of the recognised deferred tax assets set out in the table above for both the short-term timing 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 timing differences		Unused tax losses	
	2013 £m	**Expected period of recoverability**	**2013 £m**	**Expected period of recoverability**
Asia	**24**	**1 to 3 years**	**20**	**3 to 5 years**
Jackson	**1,733**	**With run-off of in-force book**	**-**	**-**
UK long-term business	**135**	**1 to 10 years**	**2**	**1 to 3 years**
Other	**158**	**1 to 10 years**	**7**	**1 to 3 years**
Total	**2,050**		**29**	

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 periods.

The reduction in the UK corporation tax rate to 21 per cent from 1 April 2014 and a further reduction to 20 per cent from 1 April 2015 was substantively enacted on 2 July 2013 which has had the effect of reducing the UK with-profits and shareholder-backed business element of the deferred tax balances as at 31 December 2013 by £51 million. As the 2013 Finance Act has been enacted at the balance sheet date, the effects of these changes are reflected in the financial statements for the year ended 31 December 2013.

C8.2 Current tax asset and liability

Of the £244 million (2012: £248 million) current tax recoverable, the majority is expected to be recovered in one year or less.

The current tax liability decreased to £395 million (2012: £443 million) reflecting the settlement of prior year balances in the UK and Asia following the agreement with taxation authorities.

C9 Defined benefit pension schemes

(a) Summary and background information

The Group asset/liability in respect of defined benefit pension schemes is as follows:

	2013 £m			2012 £m
	PSPS	Other schemes	Total	Total
Underlying economic surplus note (c)	726	(80)	646	1,138
Less: unrecognised surplus note (c)	(602)	-	(602)	(1,010)
Economic surplus (deficit) (including investment in Prudential insurance policies) note (c)	124	(80)	44	128
Attributable to:				
PAC with-profits fund	87	(58)	29	78
Shareholder-backed operations	37	(22)	15	50
Consolidation adjustment against policyholder liabilities for investment in Prudential insurance policies	-	(114)	(114)	(169)
IAS 19 pension asset (liability) on the Group statement of financial position*	124	(194)	(70)	(41)

* At 31 December 2013, the PSPS pension asset of £124 million (2012: £164 million) and the other schemes' pension liabilities of £194 million (2012: £205 million) are included within 'Other debtors' and 'Provisions' respectively on the consolidated statement of financial position.

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 (2012: 86 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 and M&G. In addition, there are two small defined benefit schemes in Taiwan which have negligible deficits.

Triennial actuarial valuations

Defined benefit schemes in the UK are generally required to be subject to 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 last completed actuarial valuation of PSPS was as at 5 April 2011, finalised in 2012 by CG Singer, Fellow of the Institute of Actuaries, of Towers Watson Limited. This valuation demonstrated the scheme to be 111 per cent funded by reference to the Scheme Solvency Target that forms the basis of the scheme's funding objective. Based on this valuation, future contributions into the scheme were reduced to the minimum level of contributions required under the scheme rules effective from July 2012. Excluding expenses, the contributions are now payable at approximately £6 million per annum for ongoing service of active members of the scheme. No deficit or other funding is required. Deficit funding for PSPS, where applicable, as applied prior to 2012, is apportioned in the ratio of 70/30 between the PAC with-profits fund and shareholder-backed operations following detailed consideration 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.

The last completed actuarial valuation of the Scottish Amicable Staff Pension Scheme (SASPS) was as at 31 March 2011, finalised in 2012 by Jonathan Seed, Fellow of the Institute and Faculty of Actuaries, of Xafinity Consulting. This valuation demonstrated the scheme to be 85 per cent funded. Based on this valuation, it was agreed with the Trustees that the existing level of deficit funding of £13.1 million per annum continues to be paid into the scheme until 31 December 2018, to eliminate the actuarial deficit. The deficit funding will be reviewed every three years at subsequent valuations.

The last completed actuarial valuation of the M&G Group Pension Scheme (M&GGPS) was as at 31 December 2011, finalised in 2012 by Paul Belok, Fellow of the Institute and Faculty of Actuaries, of AON Hewitt Limited. This valuation demonstrated the scheme to be 83 per cent funded. Based on this valuation, deficit funding amounts designed to eliminate the actuarial deficit over a three year period are being made from January 2013 of £18.6 million per annum for the first two years and £9.3 million in the third year.

Summary economic and IAS 19 financial positions

Under the IAS 19 'Employee Benefits' valuation basis, the Group applies IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. Under IFRIC 14, 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. For PSPS, the Group does not have an unconditional right of refund to any surplus of the scheme.

The underlying IAS 19 surplus for PSPS at 31 December 2013 was £726 million (31 December 2012: £1,174 million) of which reflecting the arrangements under the scheme rules only a portion of the surplus, being £124 million (2012: £164 million), is recognised as recoverable. The £ 124 million (2012: £164 million) represents the present value of the economic benefit to the Company from the difference between future ongoing contributions to the scheme and estimated accrued cost of service. Of this amount, £87 million has been allocated to the PAC with-profits fund and £37 million was allocated to the shareholders' fund (2012: £115 million and £49 million, respectively).

The IAS 19 deficit of the Scottish Amicable Pension Scheme at 31 December 2013 was a deficit of £115 million (2012: deficit of £74 million) and has been allocated approximately 50 per cent to the PAC with-profits fund and 50 per cent to the shareholders' fund.

The IAS 19 surplus of the M&GGPS on an economic basis at 31 December 2013 was a surplus of £36 million (2012: surplus of £38 million) and is wholly attributable to shareholders. 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. As at 31 December 2013, the M&GGPS has invested £114 million in Prudential insurance policies (2012: £169 million). After excluding these investments that are offset against liabilities to policyholders, the IAS 19 basis position of the M&GGPS is a deficit of £78 million (2012: deficit of £131 million).

(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:

	2013 %	**2012 %**
Discount rate*	**4.4**	4.4
Rate of increase in salaries	**3.3**	2.7
Rate of inflation**		
Retail prices index (RPI)	**3.3**	2.7
Consumer prices index (CPI)	**2.3**	2.0
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	**3.3**	2.7

* 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 2013 to reflect the 2011 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 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.

The tables used for PSPS immediate annuities in payment at 31 December 2012 were:

Male: 108.6 per cent PNMA00 with improvements in line with a custom calibration of the CMI's 2009 mortality model, with a long-term mortality improvement rate of 1.75 per cent per annum; and
Female: 103.4 per cent PNFA00 with improvements in line with a custom calibration of the CMI's 2009 mortality model, with a long-term mortality improvement rate of 1.00 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&G GPS, the most recent full valuations have been updated to 31 December 2013, 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 2013, the investments in Prudential insurance policies comprise £143 million (2012: £123 million) for PSPS and £114 million (2012: £169 million) for the M&G GPS. In principle, on consolidation the investments are eliminated against policyholder liabilities of UK insurance operations, so that the formal IAS 19 position for the schemes in isolation excludes these items. This treatment applies to the M&G GPS 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:

	2013 £m				
		(Charge) credit to income statement or other comprehensive income			
	Surplus (deficit) in schemes at 1 January 2013	Operating results (based on longer-term investment returns)	Actuarial and other gains and losses	Contributions paid	Surplus (deficit) in schemes at 31 Dec 2013
All schemes					
Underlying position (without the effect of IFRIC 14)					
Surplus	**1,138**	**15**	**(563)**	**56**	**646**
Less: amount attributable to PAC with-profits fund	**(787)**	**(21)**	**366**	**(15)**	**(457)**
Shareholders' share:					
Gross of tax surplus (deficit)	**351**	**(6)**	**(197)**	**41**	**189**
Related tax	**(81)**	**1**	**50**	**(8)**	**(38)**
Net of shareholders' tax	**270**	**(5)**	**(147)**	**33**	**151**
Application of IFRIC 14 for the derecognition of PSPS surplus					
Derecognition of surplus	**(1,010)**	**(39)**	**447**	**-**	**(602)**
Less: amount attributable to PAC with-profits fund	**709**	**32**	**(313)**	**-**	**428**
Shareholders' share:					
Gross of tax surplus (deficit)	**(301)**	**(7)**	**134**	**-**	**(174)**
Related tax	**69**	**2**	**(36)**	**-**	**35**
Net of shareholders' tax	**(232)**	**(5)**	**98**	**-**	**(139)**
With the effect of IFRIC 14					
Surplus (deficit)	**128**	**(24)**	**(116)**	**56**	**44**
Less: amount attributable to PAC with-profits fund	**(78)**	**11**	**53**	**(15)**	**(29)**
Shareholders' share:					
Gross of tax surplus (deficit)	**50**	**(13)**	**(63)**	**41**	**15**
Related tax	**(12)**	**3**	**14**	**(8)**	**(3)**
Net of shareholders' tax	**38**	**(10)**	**(49)**	**33**	**12**

Underlying investments and liabilities 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 net assets at 31 December comprise the following investments and liabilities:

	2013				2012**			
	PSPS £m	Other schemes £m	Total £m	%	PSPS £m	Other schemes £m	Total £m	%
Equities								
UK	**133**	**76**	**209**	**3**	123	63	186	3
Overseas	**12**	**317**	**329**	**5**	-	249	249	3
Bonds*:								
Government	**4,288**	**311**	**4,599**	**66**	4,754	274	5,028	70
Corporate	**715**	**107**	**822**	**12**	454	141	595	8
Asset-backed securities	**45**	**17**	**62**	**1**	39	3	42	1
Derivatives	**91**	**6**	**97**	**1**	165	11	176	2
Properties	**71**	**44**	**115**	**2**	167	40	207	3
Other assets	**687**	**24**	**711**	**10**	698	16	714	10
Total value of assets	**6,042**	**902**	**6,944**	**100**	6,400	797	7,197	100

* 97 per cent of the bonds are investment graded (2012: 98 per cent).

** The 2012 comparatives have been reclassified to align to the current year's asset categorisation.

(d) Sensitivity of the pension scheme liabilities to key variables

The total underlying Group pension scheme liabilities of £6,298 million (2012: £6,059 million) comprise £5,316 million (2012: £5,226 million) for PSPS and £982 million (2012: £833 million) for the other schemes. The table below shows the sensitivity of the underlying PSPS and the other scheme liabilities at 31 December 2013 and 2012 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 to changes in discount, inflation and mortality rates 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.

The sensitivity to the changes in the key variables as shown in the table above has no significant impact on the pension costs included in the Group's operating results. This is due to the pension costs charged in each of the periods presented being derived largely from market conditions at the beginning of the period. After applying IFRIC 14 and to the extent attributable to shareholders, any residual impact from the changes to these variables is reflected as actuarial gains and losses on defined benefit pension schemes within the supplementary analysis of profits.

	Assumption applied		**Sensitivity change in assumption**	**Impact of sensitivity on scheme liabilities on IAS 19 basis**		
	2013	**2012**			**2013**	**2012**
Discount rate	**4.4%**	4.4%	**Decrease by 0.2%**	**Increase in scheme liabilities by:**		
				PSPS	**3.3%**	3.3%
				Other schemes	**5.1%**	4.9%
Discount rate	**4.4%**	4.4%	**Increase by 0.2%**	**Decrease in scheme liabilities by:**		
				PSPS	**3.1%**	3.1%
				Other schemes	**4.7%**	4.6%
Rate of inflation	**RPI: 3.3%**	RPI: 2.7%	**RPI: Decrease by 0.2%**	**Decrease in scheme liabilities by:**		
	CPI: 2.3%	CPI: 2.0%	**CPI: Decrease by 0.2% with consequent reduction in salary increases**	**PSPS**	**0.7%**	0.6%
				Other schemes	**4.6%**	4.3%
Mortality rate			**Increase life expectancy by 1 year**	**Increase in scheme liabilities by:**		
				PSPS	**2.7%**	2.6%
				Other schemes	**2.7%**	2.4%

C10 Share capital, share premium and own shares

	2013			2012		
	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	**2,557,242,352**	**128**	**1,889**	2,548,039,330	127	1,873
Shares issued under share-based schemes	**3,139,384**	**-**	**6**	9,203,022	1	16
At 31 December	**2,560,381,736**	**128**	**1,895**	2,557,242,352	128	1,889

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 2013, 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 2013	**10,233,986**	**288p**	**901p**	**2019**
31 December 2012	9,396,810	288p	629p	2018

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 £141 million as at 31 December 2013 (2012: £97 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans. At 31 December 2013, 7.1 million (2012: 8.0 million) Prudential plc shares with a market value of £94.5 million (2012: £69 million) were held in such trusts all of which are for employee incentive plans.

The Company purchased the following number of shares in respect of employee incentive plans.

	Number of shares purchased (in millions)*	**Cost £m**
2013	**4.4**	**53.8**
2012	5.9	47.9

*The maximum number of shares held in 2013 was 8.0 million which was in January 2013.

The shares purchased each month are as follows:

	2013 Share Price				2012 Share Price			
	Number of shares	Low	High	Cost	Number of shares	Low	High	Cost
		£	£	£		£	£	£
January	**11,864**	**9.15**	**9.15**	**108,496**	15,573	6.40	6.40	99,589
February	**10,900**	**9.25**	**9.25**	**100,868**	12,678	7.33	7.33	92,930
March*	**11,342**	**10.15**	**10.15**	**115,121**	522,002	7.10	8.03	3,946,335
April	**894,567**	**10.30**	**10.86**	**9,692,613**	368,901	7.27	7.67	2,712,460
May	**54,781**	**11.56**	**11.72**	**643,608**	939,541	6.80	7.26	6,407,556
June	**15,950**	**10.89**	**11.11**	**176,139**	482,377	6.61	6.84	3,208,338
July	**11,385**	**11.20**	**11.20**	**135,132**	15,047	7.26	7.26	109,166
August	**924,499**	**11.48**	**11.94**	**10,955,609**	28,488	7.88	8.12	228,176
September	**10,960**	**11.38**	**11.38**	**124,725**	712,649	8.16	8.25	5,829,154
October	**103,999**	**11.54**	**11.69**	**1,201,870**	12,549	8.39	8.39	105,329
November	**12,108**	**12.52**	**12.65**	**151,773**	492,993	8.55	9.15	4,502,129
December	**2,362,435**	**12.63**	**12.93**	**30,377,986**	2,277,012	8.86	9.27	20,706,597
Total	**4,424,790**			**53,783,940**	5,879,810			47,947,759

* The 2012 comparative has been adjusted from previously published numbers.

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 2013 was 7.1 million (2012: 4.5 million) and the cost of acquiring these shares of £60 million (2012: £27 million) is included in the cost of own shares. The market value of these shares as at 31 December 2013 was £95 million (2012: £39 million). During 2013, these funds made net additions of 2,629,816 Prudential shares (2012: net disposals of 4,143,340) for a net increase of £33.1 million to book cost (2012: net decrease of £25.1 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 2013 or 2012.

D OTHER NOTES

D1 Business acquisitions and disposals

(a) 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. This transaction builds on Prudential's strategy of focusing on the highly attractive markets of South-east Asia and is in line with the Group's multichannel distribution strategy.

The consideration for the transaction is 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) is payable 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.

The purchase consideration paid was equivalent to the fair value of the acquired assets and liabilities assumed. No goodwill has been recognised.

In addition to the purchase consideration, the Group incurred £4 million of acquisition related costs, of which £3 million was recognised as an expense in the consolidated income statement in the second half of 2012 and the remaining £1 million recognised in 2013.

Assets acquired and liabilities assumed at the date of acquisition

The fair value of the acquired assets and liabilities are shown in the table below:

	Fair value recognised at acquisition date £m
Assets	
Acquired value of in-force business	21
Investments (principally debt securities)	642
Cash and cash equivalents	4
Other assets (including distribution rights)	293
Total assets	**960**
Liabilities	
Insurance contract liabilities	487
Other non-insurance liabilities	61
Total liabilities	**548**
Net assets acquired and liabilities assumed	**412**
Purchase consideration (including £12 million of deferred consideration)	**412**

Insurance contract liabilities were valued consistent with Prudential's existing IFRS valuation basis for the Thailand Life business, determined in accordance with methods prescribed by local GAAP adjusted to comply, where necessary, with UK GAAP. In accordance with IFRS 3 'Business Combinations', an acquired value of in-force business has been recognised.

Included within the identifiable assets as shown above are loans and other debtors acquired with fair values of £6 million. These values represent the gross contractual amounts all of which are expected to be collected.

The consolidated statement of cash flows contains a £396 million net cash outflow in respect of the acquisition of Thanachart Life and the cost of the distribution rights representing cash consideration paid of £400 million less cash and cash equivalents acquired of £4 million.

Impact of the acquisition on the results of the Group

	Actual £m	Proforma £m
	Post acquisition period from 3 May to 31 December 2013	Estimated full year 2013 note (i)
Revenue	**113**	**197**
Operating profit based on longer-term investment returns	30	40
Short-term fluctuations in investment returns	(7)	(7)
Amortisation of acquisition accounting adjustments[note (ii)]	(3)	(4)
Profit before tax	**20**	**29**

Notes

(i) The proforma shows the estimation of the Thanachart Life business' contribution to the Group's consolidated revenue and profit before tax for the period if the acquisition had occurred on 1 January 2013. In determining these amounts, it has been assumed that the fair value adjustments which arose on the date of acquisition would have been the same as if the acquisition had occurred on 1 January 2013. These amounts have been determined using actual results for the four month period to 2 May 2013 and the post-acquisition results from 3 May to 31 December 2013.

(ii) The amortisation of acquisition accounting adjustments represents the amortisation of the acquired value of in-force business.

(b) Acquisition of Reassure America Life Insurance Company in 2012

On 4 September 2012, the Group through its indirect wholly-owned subsidiary, Jackson completed the acquisition of 100 per cent issued share capital of SRLC America Holding Corp. and its primary operating subsidiary, Reassure America Life Insurance Company (REALIC). REALIC is a US-based insurance company whose business model was to acquire, through purchase or reinsurance, closed blocks of insurance business, primarily life assurance risks. REALIC did not and does not write new business. At 31 December 2012, the purchase consideration was subject to final agreement under the terms of the transaction with Swiss Re. No goodwill was recognised under IFRS on the date of the completion of the acquisition as the purchase consideration paid was equivalent to the fair value of the identifiable assets and liabilities assumed.

In the course of 2013, following the conclusion of an independent arbitration process over outstanding matters, the purchase consideration for REALIC was revised to £381 million in line with the re-measured value of the individual acquired assets and liabilities. This compares to the provisional estimates of £370 million for consideration and net assets reported in the 2012 consolidated IFRS financial statements.

The consolidated statement of cash flows in 2012 contained a £224 million net cash outflow in respect of this acquisition representing cash consideration of £371 million less cash and cash equivalents acquired of £147 million. In 2013 an additional cash outflow of £9 million was recorded reflecting the revised consideration.

(c) Agreement to sell Japan Life business

On 16 July 2013 the Group reached an agreement to sell the Group's closed book life insurance business in Japan, PCA Life Insurance Company Limited to SBI Holdings Inc. for US$85 million (£51 million at 31 December 2013 closing exchange rate). Completion of the transaction is dependent on regulatory approval.

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'. Consistent with its classification as held for sale, the IFRS carrying value of the Japan Life business has been set to £48 million at 31 December 2013, representing the proceeds, net of related expenses. This has resulted in a charge as for 'Remeasurement of Japan Life business classified as held for sale' of £(120) million in the income statement.

In order to facilitate comparisons of the Group's retained businesses, the supplementary analysis of profit of the Group as shown in note B1.1 has been adjusted to show separately the results for the Japan Life business. Accordingly, the comparative results for 2012 have been retrospectively adjusted. For 2013 the result for the year, including short-term fluctuations in investment returns, together with the adjustment to the carrying value have given rise to an aggregate loss of £(102) million (2012: £17 million profit). This comprises:

	2013 £m	2012 £m
Remeasurement of carrying value on classification as held for sale	**(120)**	-
Amounts that would otherwise be classified within:		
Operating profit based on longer-term investment returns	**3**	(2)
Short-term fluctuations in investment returns	**15**	19
(Loss) profit attaching to held for sale Japan Life business	**(102)**	17
Related tax charge	**-**	-

The assets and liabilities of the Japan Life business classified as held for sale on the statement of financial position as at 31 December 2013 are as follows:

	2013 £m
Assets	
Investments	**956**
Other assets	**80**
	1,036
Adjustment for remeasurement of the carrying value to fair value less costs to sell	**(120)**
Assets held for sale	**916**
Liabilities	
Policyholder liabilities	**814**
Other liabilities	**54**
Liabilities held for sale	**868**
Net assets	**48**

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) have been transferred.

The costs of enabling the domestication in 2013 were £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 various litigation and regulatory issues. Whilst the outcome of such matters cannot be predicted with certainty, Prudential believes that the ultimate outcome of such litigation and regulatory issues will not have a material adverse effect on the Group's financial condition, results of operations or cash flows.

There have been no material changes to the Group's contingencies and related obligations since 31 December 2012.

D4 Post Balance sheet events

Final dividend

The 2013 final dividend approved by the Board of Directors after 31 December 2013 is as described in note B7.

D5 Additional information on the effect of adoption of new and amended accounting standards

The new and amended accounting standards adopted by the Group in 2013 are explained in note A2. The tables below show the quantitative effect of the adoption of these new and amended standards on the Group primary financial statements and supplementary analysis of profit.

(a) The aggregate effect of the adoption of the standards on the income statement, earnings per share, statement of comprehensive income, statement of changes in equity, statement of financial position and cash flow statement is shown in the tables below:

Consolidated income statement

	2013 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Total revenue, net of reinsurance	**53,499**	**116**	**(1,240)**	**-**	**52,375**
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(43,948)**	**-**	**837**	**(43)**	**(43,154)**
Acquisition costs and other expenditure	**(7,409)**	**(116)**	**244**	**115**	**(7,166)**
Remeasurement of carrying value of Japan life business classified as held for sale	**(120)**	**-**	**-**	**-**	**(120)**
Share of profit from joint ventures and associates, net of related tax*	**-**	**-**	**147**	**-**	**147**
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*	**2,022**	**-**	**(12)**	**72**	**2,082**
Less tax charge attributable to policyholders' returns	**(437)**	**-**	**-**	**(10)**	**(447)**
Profit before tax attributable to shareholders	**1,585**	**-**	**(12)**	**62**	**1,635**
Total tax charge attributable to policyholders and shareholders	**(724)**	**-**	**12**	**(24)**	**(736)**
Adjustment to remove tax charge (credit) attributable to policyholders' returns	**437**	**-**	**-**	**10**	**447**
Tax charge attributable to shareholders' returns	**(287)**	**-**	**12**	**(14)**	**(289)**
Profit for the year attributable to equity holders of the Company	**1,298**	**-**	**-**	**48**	**1,346**
Earnings per share (in pence)					
Based on profit attributable to the equity holders of the Company:					
Basic	**50.9p**	**-**	**-**	**1.9p**	**52.8p**
Diluted	**50.8p**	**-**	**-**	**1.9p**	**52.7p**

	2012 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Total revenue, net of reinsurance	55,476	52	(1,090)	-	54,438
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	(45,953)	-	715	94	(45,144)
Acquisition costs and other expenditure	(6,335)	(52)	220	(145)	(6,312)
Share of profit from joint ventures and associates, net of related tax*	-	-	135	-	135
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*	3,188	-	(20)	(51)	3,117
Less tax charge attributable to policyholders' returns	(378)	-	2	6	(370)
Profit before tax attributable to shareholders	2,810	-	(18)	(45)	2,747
Total tax charge attributable to policyholders and shareholders	(991)	-	20	17	(954)
Adjustment to remove tax charge (credit) attributable to policyholders' returns	378	-	(2)	(6)	370
Tax charge attributable to shareholders' returns	(613)	-	18	11	(584)
Profit for the year attributable to equity holders of the Company	2,197	-	-	(34)	2,163
Earnings per share (in pence)					
Based on profit attributable to the equity holders of the Company:					
Basic	86.5p	-	-	(1.4)p	85.1p
Diluted	86.4p	-	-	(1.4)p	85.0p

* The effect of change from IFRS 11 in the table above includes the reclassification of the Group's share of profit from its investments in associates into the line for Share of profit from joint ventures and associates, net of related tax. These investments were already on the equity method accounting prior to 2013 but their results were previously included within the Investment return included with total Revenue.

Consolidated statement of comprehensive income and statement of changes in equity

	2013 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS11	IAS 19R	
Profit for the year	**1,298**	**-**	**-**	**48**	**1,346**
Exchange movements on foreign operations and net investment hedges, net of related tax	**(255)**	**-**	**-**		**(255)**
Net unrealised valuation on securities of US insurance operations classified as available-for-sale net of amortisation of deferred acquisition costs and related tax	**(1,034)**	**-**	**-**	**-**	**(1,034)**
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, net of related tax	**-**	**-**	**-**	**(48)**	**(48)**
Total comprehensive income for the year	**9**	**-**	**-**	**-**	**9**
Net increase in shareholders' equity	**(709)**	**-**	**-**	**-**	**(709)**
At beginning of year	**10,359**	**-**	**-**	**-**	**10,359**
At end of year	**9,650**	**-**	**-**	**-**	**9,650**

	2012 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS11	IAS 19R	
Profit for the year	2,197	-	-	(34)	2,163
Exchange movements on foreign operations and net investment hedges, net of related tax	(216)	-	-	-	(216)
Net unrealised valuation on securities of US insurance operations classified as available-for-sale net of amortisation of deferred acquisition costs and related tax	387	-	-	-	387
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, net of related tax	-	-	-	34	34
Total comprehensive income for the year	2,368	-	-	-	2,368
Net increase in shareholders' equity	1,795	-	-	-	1,795
At beginning of year	8,564	-	-	-	8,564
At end of year	10,359	-	-	-	10,359

Consolidated statement of financial position

	31 Dec 2013 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Assets					
Intangible assets attributable to shareholders	**6,837**	**-**	**(81)**	**-**	**6,756**
Intangible assets attributable to with-profits funds	**249**	**-**	**-**	**-**	**249**
Reinsurers' share of insurance contract liabilities	**6,846**	**-**	**(8)**	**-**	**6,838**
Other non-investment and non-cash assets	**8,038**	**21**	**(128)**	**-**	**7,931**
Investments of long-term business and other operations:					
Investment properties	**12,015**	**-**	**(538)**	**-**	**11,477**
Investments accounted for using the equity method	**100**	**-**	**709**	**-**	**809**
Financial investments:					
Loans	**11,755**	**830**	**(19)**	**-**	**12,566**
Equity securities and portfolio holdings in unit trusts	**120,974**	**547**	**(1,299)**	**-**	**120,222**
Debt securities	**134,278**	**139**	**(1,512)**	**-**	**132,905**
Other investments	**6,291**	**(1)**	**(25)**	**-**	**6,265**
Deposits	**12,563**	**(3)**	**(347)**	**-**	**12,213**
Total other assets	**8,128**	**(125)**	**(302)**	**-**	**7,701**
Total assets	**328,074**	**1,408**	**(3,550)**	**-**	**325,932**
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds	**289,173**	**-**	**(3,159)**	**-**	**286,014**
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**4,167**	**1,111**	**-**	**-**	**5,278**
Total other liabilities	**25,083**	**297**	**(391)**	**-**	**24,989**
Total liabilities	**318,423**	**1,408**	**(3,550)**	**-**	**316,281**
Equity					
Shareholders' equity	**9,650**	**-**	**-**	**-**	**9,650**
Non-controlling interests	**1**	**-**	**-**	**-**	**1**
Total equity	**9,651**	**-**	**-**	**-**	**9,651**
Total equity and liabilities	**328,074**	**1,408**	**(3,550)**	**-**	**325,932**

	31 Dec 2012 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Assets					
Intangible assets attributable to shareholders	5,736	-	(90)	-	5,646
Intangible assets attributable to with-profits funds	256	-	-	-	256
Reinsurers' share of insurance contract liabilities	6,859	-	(5)	-	6,854
Other non-investment and non-cash assets	7,492	25	(113)	-	7,404
Investments of long-term business and other operations:					
Investment properties	10,880	-	(326)	-	10,554
Investments accounted for using the equity method	113	-	522	-	635
Financial investments:					
Loans	11,821	930	(8)	-	12,743
Equity securities and portfolio holdings in unit trusts	99,958	172	(1,504)	-	98,626
Debt securities	140,103	146	(1,342)	-	138,907
Other investments	7,900	(323)	(30)	-	7,547
Deposits	12,653	(3)	(402)	-	12,248
Total other assets	6,482	(121)	(137)		6,224
Total assets	310,253	826	(3,435)	-	307,644
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds	271,363	-	(3,100)	-	268,263
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	4,345	800	-	-	5,145
Total other liabilities	24,181	26	(335)	-	23,872
Total liabilities	299,889	826	(3,435)	-	297,280
Equity					
Shareholders' equity	10,359	-	-	-	10,359
Non-controlling interests	5	-	-	-	5
Total equity	10,364	-	-	-	10,364
Total equity and liabilities	310,253	826	(3,435)	-	307,644

Consolidated statement of cash flows

	2013 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Cash flows from operating activities					
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*	**2,022**	**-**	**(12)**	**72**	**2,082**
Non-cash movements in operating assets and liabilities reflected in profit before tax and Other items	**(272)**	**(124)**	**(290)**	**(72)**	**(758)**
Net cash flows from operating activities	**1,750**	**(124)**	**(302)**	**-**	**1,324**
Cash flows from investing activities	**(584)**	**-**	**-**	**-**	**(584)**
Cash flows from financing activities	**49**	**-**	**-**	**-**	**49**
Net (decrease) increase in cash and cash equivalents	**1,215**	**(124)**	**(302)**	**-**	**789**
Cash and cash equivalents at beginning of year	**6,126**	**-**	**-**	**-**	**6,126**
Effect of exchange rate changes on cash and cash equivalents	**(130)**	**-**	**-**	**-**	**(130)**
Cash and cash equivalents at end of year	**7,211**	**(124)**	**(302)**	**-**	**6,785**

	2012 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Cash flows from operating activities					
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*	3,188	-	(20)	(51)	3,117
Non-cash movements in operating assets and liabilities reflected in profit before tax and Other items	(2,742)	190	89	51	(2,412)
Net cash flows from operating activities	446	190	69	-	705
Cash flows from investing activities	(326)	-	-	-	(326)
Cash flows from financing activities	(892)	-	-	-	(892)
Net (decrease) increase in cash and cash equivalents	(772)	190	69	-	(513)
Cash and cash equivalents at beginning of year	7,257	(310)	(206)	-	6,741
Effect of exchange rate changes on cash and cash equivalents	(101)	-	(1)	-	(102)
Cash and cash equivalents at end of year	6,384	(120)	(138)	-	6,126

(b) The effect of the adoption of the new and amended accounting standards in 2013 on the Group's supplementary analysis of profit is shown in the table below.

Segment disclosure – profit before tax

	2013 £m			
	Under previous accounting requirements	Effect of IFRS changes		After IFRS changes
		IFRS 11	IAS 19R	
Operating profit based on longer-term investment returns				
Asia operations:				
Asia insurance operations:				
Before reclassification of held for sale Japan Life business	**1,009**	**(5)**	**-**	**1,004**
Reclassification of Japan Life business	**(3)**	**-**	**-**	**(3)**
	1,006	**(5)**	**-**	**1,001**
Eastspring Investments	**82**	**(8)**	**-**	**74**
Other operations	**1,879**	**-**	**-**	**1,879**
Total	**2,967**	**(13)**	**-**	**2,954**
Short-term fluctuations in investment returns:				
Before reclassification of held for sale Japan Life business	**(1,095)**	**1**	**(1)**	**(1,095)**
Reclassification of Japan Life business	**(15)**	**-**	**-**	**(15)**
	(1,110)	**1**	**(1)**	**(1,110)**
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(63)**	**-**	**63**	**-**
Amortisation of acquisition accounting adjustments	**(72)**	**-**	**-**	**(72)**
Loss attaching to held for sale Japan Life business:				
Reclassification from operating profit based on longer-term investment returns	**3**	**-**	**-**	**3**
Reclassification from short-term fluctuations in investment returns	**15**	**-**	**-**	**15**
Remeasurement of carrying value of Japan Life business classified as held for sale	**(120)**	**-**	**-**	**(120)**
	(102)	**-**	**-**	**(102)**
Costs of domestication of Hong Kong branch	**(35)**	**-**	**-**	**(35)**
Profit before tax attributable to shareholders	**1,585**	**(12)**	**62**	**1,635**
Basic EPS based on operating profit based on longer-term investment returns after tax and non-controlling interests	**90.9p**	**-**	**-**	**90.9p**
Basic EPS based on total profit after tax and non-controlling interests	**50.9p**	**-**	**1.9p**	**52.8p**

	2012 £m			
	Under previous accounting requirements	Effect of IFRS changes		After IFRS changes
		IFRS 11	IAS 19R	
Operating profit based on longer-term investment returns				
Asia operations:				
Asia insurance operations:				
Before reclassification of held for sale Japan Life business	913	(9)	-	904
Reclassification of Japan Life business	2	-	-	2
	915	(9)	-	906
Eastspring Investments	75	(6)	-	69
Other operations	1,545	-	-	1,545
Total	2,535	(15)	-	2,520
Short-term fluctuations in investment returns:				
Before reclassification of held for sale Japan Life business	204	(3)	5	206
Reclassification of Japan Life business	(19)	-	-	(19)
	185	(3)	5	187
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	50	-	(50)	-
Amortisation of acquisition accounting adjustments	(19)	-	-	(19)
Gain on dilution of Group holdings	42	-	-	42
Profit attaching to held for sale Japan Life business:				
Reclassification from operating profit based on longer-term investment returns	(2)	-	-	(2)
Reclassification from short-term fluctuations in investment returns	19	-	-	19
	17	-	-	17
Profit before tax attributable to shareholders	2,810	(18)	(45)	2,747
Basic EPS based on operating profit based on longer-term investment returns after tax and non-controlling interests	76.9p	-	-	76.9p
Basic EPS based on total profit after tax and non-controlling interests	86.5p	-	(1.4)p	85.1p

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:

i **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.**

ii **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.

iii **With-profits** business represents the shareholders' transfer from the with-profits fund in the year.

iv **Insurance margin** primarily represents profits derived from the insurance risks of mortality, morbidity and persistency.

v **Margin on revenues** primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses.

vi **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).

vii **DAC adjustments** comprises DAC amortisation for the year, excluding amounts related to short-term fluctuations, net of costs deferred in respect of new business.

Analysis of pre-tax IFRS operating profit by source

	2013 £m						
	Asia						
	On prior basis	Adjustments notes (ii),(iii)	Asia	US	UK	Unallocated	Total
Spread income	125	(10)	115	730	228	-	1,073
Fee income	154	-	154	1,172	65	-	1,391
With-profits	47	-	47	-	251	-	298
Insurance margin	681	(2)	679	588	89	-	1,356
Margin on revenues	1,574	(12)	1,562		187	-	1,749
Expenses:							
Acquisition costs	(1,015)	-	(1,015)	(914)	(110)	-	(2,039)
Administration expenses	(647)	13	(634)	(670)	(124)	-	(1,428)
DAC adjustments	32	3	35	313	(14)	-	334
Expected return on shareholder assets	58	-	58	24	134	-	216
Long-term business operating profit	1,009	(8)	1,001	1,243	706	-	2,950
Asset management operating profit	82	(8)	74	59	441	-	574
GI commission	-	-	-	-	29	-	29
Other income and expenditure[note (i)]	-	-	-	-	-	(599)	(599)
Total operating profit based on longer-term investment returns	1,091	(16)	1,075	1,302	1,176	(599)	2,954

	2012 £m						
	Asia						
	As previously reported	Adjustments notes (ii),(iii)	Asia	US	UK	Unallocated	Total
Spread income	106	(13)	93	702	266	-	1,061
Fee income	141	-	141	875	61	-	1,077
With-profits	39	-	39	-	272	-	311
Insurance margin	594	(5)	589	399	39	-	1,027
Margin on revenues	1,453	(14)	1,439	-	216	-	1,655
Expenses:							
Acquisition costs	(903)	-	(903)	(972)	(122)	-	(1,997)
Administration expenses	(583)	13	(570)	(537)	(128)	-	(1,235)
DAC adjustments	(28)	12	(16)	442	(8)	-	418
Expected return on shareholder assets	43	-	43	55	107	-	205
Gain on China Life (Taiwan) shares	51	-	51	-	-	-	51
Long-term business operating profit	913	(7)	906	964	703	-	2,573
Asset management operating profit	75	(6)	69	39	371	-	479
GI commission	-	-	-	-	33	-	33
Other income and expenditure[note (i)]	-	-	-	-	-	(565)	(565)
Total operating profit based on longer-term investment returns	988	(13)	975	1,003	1,107	(565)	2,520

Notes

(i) Including restructuring and Solvency II implementation costs.

(ii) The analysis excludes the results of the held for sale life insurance business of Japan. The results of Japan Life business excluded in 2013 were: profit of £3 million (2012: loss of £2 million).

(iii) The Group has adopted new accounting standards on joint arrangements as described in Section A2. The only impact of the resulting change on the analysis above is to deduct the associated tax expense from the joint ventures' operating profit by treating it as an administration expense. This contributed to an additional expense, as follows:

- Long-term business – 2013: £5 million (2012: £9 million); and
- Asset management business – 2013: £8 million (2012: £6 million).

All other lines continue to include the Group's share of the relevant part of the joint ventures' pre-tax operating profit.

Margin analysis of 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 of the Group's average policyholder liability balances are given in note (iii).

	Total					
	2013			2012		
		note (v)			notes (iv),(v)	
	Profit	Average Liability	Margin	Profit	Average Liability	Margin
		note (iii)	note (ii)		note (iii)	note (ii)
Long-term business	£m	£m	bps	£m	£m	bps
Spread income	**1,073**	**64,312**	**167**	1,061	61,432	173
Fee income	**1,391**	**96,337**	**144**	1,077	78,433	137
With-profits	**298**	**97,393**	**31**	311	95,681	33
Insurance margin	**1,356**			1,027		
Margin on revenues	**1,749**			1,655		
Expenses:						
Acquisition costs[note (i)]	**(2,039)**	**4,423**	**(46)%**	(1,997)	4,195	(48)%
Administration expenses	**(1,428)**	**169,158**	**(84)**	(1,235)	142,205	(87)
DAC adjustments	**334**			418		
Expected return on shareholder assets	**216**			205		
Gain on China Life (Taiwan) shares	**-**			51		
Operating profit	**2,950**			2,573		

Notes

(i) The ratio for acquisition costs is calculated as a percentage of APE 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) 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. In addition, for REALIC (acquired in 2012), which are included in the average liability to calculate the administration expense margin, the calculation excludes the liabilities reinsured to third parties prior to the acquisition by Jackson. Average liabilities are adjusted for business acquisitions and disposals in the year.

(iv) The Group has adopted new accounting standards on joint arrangements as described in note A2. The only impact of the resulting change on the analysis above is to deduct the associated tax expense from the joint ventures' operating profit by treating it as an administration expense. The impact of this change is explained in note (iii), to the 'Analysis of pre-tax IFRS operating profit by source' table earlier in this section. All other lines continue to include the Group's share of the relevant part of the joint ventures' pre-tax operating profit.

(v) The 2013 analysis excludes 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. The comparative results have been presented on a consistent basis.

	Asia note (iii)					
	2013			**2012** note (ii)		
Long-term business	**Profit** £m	**Average Liability** note (iv) £m	**Margin** bps	**Profit** £m	**Average Liability** note (iv) £m	**Margin** bps
Spread income	**115**	**7,446**	**154**	93	5,978	155
Fee income	**154**	**13,714**	**112**	141	12,648	111
With-profits	**47**	**13,263**	**35**	39	12,990	30
Insurance margin	**679**			589		
Margin on revenues	**1,562**			1,439		
Expenses:						
Acquisition costs[note (i)]	**(1,015)**	**2,125**	**(48)%**	(903)	1,897	(48)%
Administration expenses	**(634)**	**21,160**	**(300)**	(570)	18,626	(306)
DAC adjustments	**35**			(16)		
Expected return on shareholder assets	**58**			43		
Gain on China Life (Taiwan) shares	**-**			51		
Operating profit	**1,001**			906		

Notes

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

(ii) The Group has adopted new accounting standards on joint arrangements as described in note A2. The only impact of the resulting change on the analysis above is to deduct the associated tax expense from the joint ventures' operating profit by treating it as an administration expense. The impact of this change is explained in note (iii) to the 'Analysis of pre-tax IFRS operating profit by source' table earlier in this section. All other lines continue to include the Group's share of the relevant part of the joint ventures' pre-tax operating profit.

(iii) The analysis excludes the 2012 and 2013 results of the life insurance business of Japan in both the individual profit and the average liability amounts shown in the table above.

(iv) Opening and closing policyholder liabilities, adjusted for corporate transactions, have been used to derive an average balance for the year, as a proxy for average balances throughout the year.

Analysis of Asia operating profit drivers

- Spread income has increased by £22 million from £93 million in 2012 to £115 million in 2013, an increase of 24 per cent, predominantly reflecting the growth of the Asian non-linked policyholder liabilities.
- Fee income has increased from £141 million in 2012 to £154 million in 2013, broadly in line with the increase in movement in average unit-linked liabilities.
- Insurance margin has increased by £90 million from £589 million in 2012 to £679 million in 2013 predominantly reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products and management action on claims controls and pricing. Insurance margin includes non-recurring items of £52 million (2012: £48 million), reflecting items that are not expected to reoccur in the future.
- Margin on revenues has increased by £123 million from £1,439 million in 2012 to £1,562 million in 2013 primarily reflecting the higher premium income recognised in the year.
- Acquisition costs have increased from £903 million in 2012 to £1,015 million in 2013, in line with the 12 per cent increase in sales, resulting in a stable acquisition cost 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 65 per cent (2012: 63 per cent) reflecting changes to product and country mix.
- Administration expenses have increased from £570 million in 2012 to £634 million in 2013 as the business continues to expand. The administration expense ratio remains broadly in line with prior periods at 300 basis points (2012: 306 basis points).

	US					
	2013			2012		
	Profit	Average Liability	Margin	Profit	Average Liability	Margin
		note (ii)			note (ii)	
Long-term business	£m	£m	bps	£m	£m	bps
Spread income	**730**	**29,648**	**246**	702	29,416	239
Fee income	**1,172**	**59,699**	**196**	875	44,046	199
Insurance margin	**588**			399		
Expenses						
Acquisition costs[note (i)]	**(914)**	**1,573**	**(58)%**	(972)	1,462	(66)%
Administration expenses	**(670)**	**97,856**	**(68)**	(537)	75,802	(71)
DAC adjustments	**313**			442		
Expected return on shareholder assets	**24**			55		
Operating profit	**1,243**			964		

Notes

(i) The ratio for acquisition costs is calculated as a percentage of APE.

(ii) 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.

Analysis of US operating profit drivers:

- Spread income has increased by 4 per cent to £730 million in 2013 from £702 million in 2012. The reported spread margin increased to 246 basis points from 239 basis points in 2012 primarily as a result of lower crediting rates. In addition, spread income benefited from swap transactions previously entered into to more closely match the overall asset and liability duration. Excluding this effect, the spread margin would have been 182 basis points (2012: 186 basis points).
- Fee income has increased by 34 per cent to £1,172 million in 2013, compared to £875 million in 2012, primarily due to higher average separate account balances due to positive net cash flows from variable annuity business and market appreciation. Fee income margin has remained broadly consistent with the prior year at 196 bps (2012: 199 bps), with the decrease primarily attributable to the 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 into variable annuity business with life contingent and other guarantee fees, coupled with a benefit in the year from re-pricing actions, have increased the insurance margin from £399 million in 2012 to £588 million in 2013. This includes a benefit due to the inclusion of the full year of operations for REALIC, which contributed £188 million in 2013, compared to £87 million in 2012.
- Acquisition costs, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, have decreased by £58 million compared to 2012 due largely to the discontinuation of certain policy enhancement options on annuity business. As a percentage of APE, acquisition costs have decreased to 58 per cent for 2013, compared to 66 per cent in 2012. This is due to the discontinuation of contract enhancements mentioned above and the continued increase in producers selecting asset-based commissions which are treated as an administrative expense in this analysis, rather than front end commissions.
- Administration expenses increased to £670 million during 2013 compared to £537 million in 2012, primarily as a result of higher asset based commissions paid on the larger 2013 separate account balance. Asset-based commissions are paid upon policy anniversary dates and are treated as an administration expense in this analysis as opposed to a cost of acquisition and are offset by higher fee income. Excluding the trail commissions previously mentioned, the resulting administration expense ratio would be lower at 44 basis points (2012: 48 basis points), reflecting the benefits of operational leverage.
- DAC adjustments decreased to £313 million in 2013 compared to £442 million in 2012 due to lower levels of current year acquisition costs being deferred and higher DAC amortisation being incurred following higher gross profits. Certain acquisition costs are not fully deferrable, resulting in new business strain of £198 million for 2013 (2012: £174 million) mainly reflecting the increase in sales in the period.

Analysis of pre-tax operating profit before and after acquisition costs and DAC adjustments

	2013 £m				2012 £m			
		Acquisition costs				Acquisition costs		
	Other operating profits	Incurred	Deferred	Total	Other operating profits	Incurred	Deferred	Total
Total operating profit before acquisition costs and DAC adjustments	**1,844**			**1,844**	1,494			1,494
Less new business strain		**(914)**	**716**	**(198)**		(972)	798	(174)
Other DAC adjustments - amortisation of previously deferred acquisition costs:								
Normal			**(485)**	**(485)**			(412)	(412)
Decelerated			**82**	**82**			56	56
Total	**1,844**	**(914)**	**313**	**1,243**	1,494	(972)	442	964

	UK					
	2013			2012		
	Profit	**Average Liability** note (ii)	**Margin**	**Profit**	**Average Liability** note (ii)	**Margin**
Long-term business	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	**228**	**27,218**	**84**	266	26,038	102
Fee income	**65**	**22,924**	**28**	61	21,739	28
With-profits	**251**	**84,130**	**30**	272	82,691	33
Insurance margin	**89**			39		
Margin on revenues	**187**			216		
Expenses:						
Acquisition costs[note (i)]	**(110)**	**725**	**(15)%**	(122)	836	(15)%
Administration expenses	**(124)**	**50,142**	**(25)**	(128)	47,777	(27)
DAC adjustments	**(14)**			(8)		
Expected return on shareholders' assets	**134**			107		
Operating profit	**706**			703		

Notes

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

(ii) 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.

Analysis of UK operating profit drivers:

- Spread income has reduced from £266 million in 2012 to £228 million in 2013 principally due to lower annuity sales in the year.
- Fee income has increased in line with the increase in unit-linked liabilities.
- With-profits income has decreased by £21 million from £272 million in 2012 to £251 million in 2013 principally due to a 50 basis point reduction in annual bonus rates. This has contributed to the reduction in the with-profits margin from 33 basis points in 2012 to 30 basis points in 2013.
- Insurance margin has increased from £39 million in 2012 to £89 million in 2013. This increase arises from our improved profits from our protection business, the non-recurrence of the 2012 effect of strengthening longevity assumptions on our annuity book and £27 million positive impact of undertaking a longevity swap on certain aspects of the UK's annuity back-book liabilities in the first half of 2013.
- Margin on revenues represents premiums charges for expenses and other sundry net income received by the UK. 2013 income was £187 million, £29 million lower than in 2012 reflecting lower premium volumes in the year.
- Acquisition costs as a percentage of new business sales are in line with 2012 at 15 per cent. Lower commission payments from the implementation of the recommendations of the Retail Distribution Review have more than offset by the effect of lower bulk annuity sales in the year, which traditionally are less capital intensive.
  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 were 32 per cent in 2013 (2012: 32 per cent).
- Administration expenses at £124 million are £4 million lower than for 2012 due to lower project spend in the first half of the year.
- Expected return on shareholder assets has increased from £107 million in 2012 to £134 million in 2013 principally due to improved investment returns in the year and higher surplus assets.

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:

	2013 £m	AER 2012* £m	AER vs'12	CER vs'12
Hong Kong	**101**	88	15%	13%
Indonesia	**291**	260	12%	23%
Malaysia	**137**	118	16%	17%
Philippines	**18**	15	20%	19%
Singapore	**219**	206	6%	5%
Thailand	**53**	7	657%	640%
Vietnam	**54**	25	116%	115%
SE Asia Operations inc. Hong Kong	**873**	719	21%	25%
China	**10**	16	(38)%	(40)%
India	**51**	50	2%	10%
Korea	**17**	16	6%	2%
Taiwan	**12**	18	(33)%	(34)%
Other	**(4)**	(5)	(20)%	(20)%
Non-recurrent items:[note (ii)]	**44**	48	(8)%	(10)%
Operating profit before gain on China Life of Taiwan	**1,003**	862	16%	20%
Gain on sale of stake in China Life of Taiwan[note (ii)]	**-**	51	(100)%	(100)%
Total insurance operations[note (i)]	**1,003**	913	10%	13%
Development expenses	**(2)**	(7)	(71)%	(71)%
Total long-term business operating profit[note (iii)]	**1,001**	906	10%	13%
Eastspring Investments	**74**	69	7%	9%
Total Asia operations	**1,075**	975	10%	13%

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

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:

	2013 £m	2012* £m
New business strain[†]	**(15)**	(46)
Business in force	**974**	860
Non-recurrent items:[note (ii)]		
Other non-recurrent items	**44**	48
Gain on sale of stake in China Life of Taiwan	**-**	51
Total	**1,003**	913

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

† The IFRS new business strain corresponds to approximately 1 per cent of new business APE premiums for 2013 (2012: approximately 2 per cent of new business APE). The improvement is driven by a shift in overall sales mix to lower strain products and countries.

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) During 2012, the Group sold its 7.74 per cent stake in China Life (Taiwan) for £97 million crystallising a gain of £51 million.

Other non-recurrent items of £44 million in 2013 (2012: £48 million) represent a small number of items that are not anticipated to re-occur in subsequent years.

(iii) 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 not included within the long-term business operating profit for Asia. The 2012 comparative results have also been adjusted. The Japan Life business contributed a profit of £3 million in 2013 (2012: loss of £(2) million).

I(c): Analysis of asset management operating profit based on longer-term investment returns

	2013 £m				
	M&G	Eastspring Investments	PruCap	US	Total
	note (ii)	note (ii)			
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%			

	2012 £m				
	M&G	Eastspring Investments	PruCap	US	Total
	note (ii)	note (ii),(iii)			
Operating income before performance-related fees	734	201	120	296	1,351
Performance-related fees	9	2	-	-	11
Operating income(net of commission)[note (i)]	743	203	120	296	1,362
Operating expense[note (i)]	(436)	(128)	(69)	(257)	(890)
Share of associate's results	13	-	-	-	13
Group's share of tax on joint ventures' operating profit	-	(6)	-	-	(6)
Operating profit based on longer-term investment returns	320	69	51	39	479
Average funds under management	£205.1 bn	£55.0 bn			
Margin based on operating income*	36 bps	37 bps			
Cost / income ratio**	59%	64%			

(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
2013	**550**	**89**	**313**	**18**	**863**	**37**
2012	438	91	297	19	734	36

	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
2013	**127**	**60**	**88**	**22**	**215**	**35**
2012	118	64	83	24	201	37

* 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.

(iii) The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note A2 following adoption of IFRS 11 for joint ventures group on the joint venture's operating profit. This amount is excluded from the cost for cost/income ratio purposes.

I(d): Holding company cash flow

	2013 £m	2012 £m
Net cash remitted by business units:		
UK net remittances to the Group		
UK Life fund paid to the Group	**206**	216
Shareholder-backed business:		
Other UK paid to the Group	**149**	101
Group invested in UK	**-**	(4)
Total shareholder-backed business	**149**	97
Total UK net remittances to the Group	**355**	313
US remittances to the Group	**294**	249
Asia net remittances to the Group		
Asia paid to the Group:		
Long-term business	**454**	491
Other operations	**56**	60
	510	551
Group invested in Asia:		
Long-term business	**(9)**	(107)
Other operations (including funding of Regional Head Office costs)	**(101)**	(103)
	(110)	(210)
Total Asia net remittances to the Group	**400**	341
M&G remittances to the Group	**235**	206
PruCap remittances to the Group	**57**	91
Net remittances to the Group from Business Units	**1,341**	1,200
Net interest paid	**(300)**	(278)
Tax received	**202**	194
Corporate activities	**(185)**	(158)
Solvency II costs	**(32)**	(47)
Total central outflows	**(315)**	(289)
Operating holding company cash flow before dividend*	**1,026**	911
Dividend paid	**(781)**	(655)
Operating holding company cash flow after dividend*	**245**	256
Issue of hybrid debt, net of costs	**1,124**	-
Acquisition of Thanachart Life	**(397)**	-
Hedge purchase cost (equity tail risks)	**-**	(32)
Costs of the domestication of the Hong Kong branch	**(31)**	-
Other net cash payments	**(83)**	(43)
Total holding company cash flow	**858**	181
Cash and short-term investments at beginning of year	**1,380**	1,200
Foreign exchange movements	**(8)**	(1)
Cash and short-term investments at end of year	**2,230**	1,380

* Including central finance subsidiaries.

I(e): Funds under management

(a) Summary[note (i)]

	2013 £bn	2012* £bn
Business area:		
Asia operations	**38.0**	38.9
US operations	**104.3**	91.4
UK operations	**157.3**	154.0
Prudential Group funds under management	**299.6**	284.3
External funds [note (ii)]	**143.3**	121.4
Total funds under management	**442.9**	405.7

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

Notes

(i) Including Group's share of assets managed by joint ventures.

(ii) External funds shown above as at 31 December 2013 of £143.3 billion (2012: £121.4 billion) comprise £148.2 billion (2012: £133.5 billion) of funds managed by M&G and Eastspring Investments as shown in note (c) below less £4.9 billion (2012: £12.1 billion) that are classified within Prudential Group's funds. The £148.2 billion (2012: £133.5 billion) investment products comprise £143.9 billion (2012: £129.5 billion) as published in the New Business schedules plus Asia Money Market Funds of £4.3 billion (2012: £4.0 billion).

(b) Prudential Group funds under management – analysis by business area

	Asia operations £bn		US operations £bn		UK operations £bn		Total £bn	
	2013	2012*	2013	2012*	2013	2012*	2013	2012*
Investment properties†	**-**	-	**-**	0.1	**11.7**	10.6	**11.7**	10.7
Equity securities	**14.4**	12.7	**66.0**	49.6	**39.8**	36.3	**120.2**	98.6
Debt securities	**18.6**	20.1	**30.3**	33.0	**84.0**	85.8	**132.9**	138.9
Loans and receivables	**0.9**	1.0	**6.4**	6.2	**5.3**	5.5	**12.6**	12.7
Other investments and deposits	**0.9**	1.8	**1.6**	2.5	**16.0**	15.5	**18.5**	19.8
Total included in statement of financial position	**34.8**	35.6	**104.3**	91.4	**156.8**	153.7	**295.9**	280.7
Internally managed funds held in insurance join ventures'	**3.2**	3.3	**-**	-	**0.5**	0.3	**3.7**	3.6
Total Prudential Group funds under management	**38.0**	38.9	**104.3**	91.4	**157.3**	154.0	**299.6**	284.3

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2.

† As included in the investments section of the consolidated statement of financial position at 31 December 2013, except for £0.3 billion (2012: £0.1 billion) investment properties which are held for sale or occupied by the Group and, accordingly under IFRS, are included in other statement of financial position captions.

(c) Investment products – external funds under management

	2013 £m				
	1 Jan 2013	Market gross inflows	Redemptions	Market exchange translation and other movements	31 Dec 2013
Eastspring Investments[note]	**21,634**	**74,206**	**(72,111)**	**(1,507)**	**22,222**
M&G	**111,868**	**40,832**	**(31,342)**	**4,631**	**125,989**
Group total	**133,502**	**115,038**	**(103,453)**	**3,124**	**148,211**

	2012 £m				
	1 Jan 2012	Market gross inflows	Redemptions	Market exchange translation and other movements	31 Dec 2012
Eastspring Investments[note]	19,221	60,498	(59,098)	1,013	21,634
M&G	91,948	36,463	(19,582)	3,039	111,868
Group total	111,169	96,961	(78,680)	4,052	133,502

Note
Including Asia Money Market Funds at 31 December 2013 of £4.3 billion (2012: £4.0 billion).

(d) M&G and Eastspring investments - total funds under management

	2013 £bn	2012 £bn
M&G		
External funds under management	**126.0**	111.9
Internal funds under management	**118.0**	116.4
Total funds under management	**244.0**	228.3

	2013 £bn	2012 £bn
Eastspring Investments		
External funds under management[note]	**22.2**	21.6
Internal funds under management	**37.7**	36.5
Total funds under management	**59.9**	58.1

Note
Including Asia Money Market Funds at 31 December 2013 of £4.3 billion (2012: £4.0 billion).

II Economic capital position

Following provisional agreement on the Omnibus II Directive on 13 November 2013, Solvency II is now expected to come into force on 1 January 2016. Therefore our economic capital results are based on outputs from our Solvency II internal model. Although the Solvency II and Omnibus II Directives, together with draft Level 2 'Delegated Acts' provide a viable framework for the calculation of Solvency II results, there remain material areas of uncertainty and in many areas the methodology and assumptions are subject to review and approval by the Prudential Regulation Authority, the Group's lead regulator. We do not expect to submit our Solvency II internal model to the Prudential Regulation Authority for approval until 2015 and therefore the economic capital results shown below should not be interpreted as outputs from an approved Solvency II internal model.

At 31 December 2013 the Group has an economic capital surplus of £11.3 billion and an economic solvency ratio of 257 per cent (before taking into account the 2013 final dividend). A summary of the capital position is shown in the table below:

31 December 2013 **£ billion**	**Economic capital position[1]**
Available capital	18.5
Economic Capital Requirement	7.2
Surplus	11.3
Economic solvency ratio	**257%**

[1] Based on the Group's Solvency II internal model which has not been reviewed or approved by the Prudential Regulation Authority.

These results are based on outputs from our current Solvency II internal model, assessed against a draft set of rules and with a number of key working assumptions. Further explanation of the underlying methodology and assumptions are set out in the sections below. By disclosing economic capital information at this stage, the Directors of Prudential plc are seeking to provide an indication of the potential outcome of Solvency II based on the Group's current interpretation of the draft rules. An update of the capital position will be reported annually going forwards and will evolve to reflect changes to the Solvency II rules, on-going refinements to our internal model calibrations, and feedback from the Prudential Regulation Authority on Prudential's approach to implementing this new capital regime. Against this background of uncertainty, it is possible that the final outcome of Solvency II could result in a fall in the Group solvency ratio, relative to the results shown above.

Methodology

In line with Solvency II, for the Group's European and Asian 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 arms' 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 and the relative liquidity of those liabilities. The best estimate liability 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, 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 the Solvency II Directive. 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.

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 the draft 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 contribution of Japan to the Group surplus has been set equal to the 'held for sale' accounting value of £48m, pending completion of the sale. The impact of the domestication of the Hong Kong branch, which became effective on 1 January 2014, is not allowed for in these economic capital results, but is estimated to have 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.

Consistently with evolving Solvency II requirements, 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 added; and
- holding companies are measured on a Solvency II basis, as if they were insurance companies, in line with draft Solvency II rules.

In addition to the assumption of US equivalence and without applying restrictions to the economic value of overseas surplus, other key elements of Prudential's methodology relating to areas that are presently unclear in the draft Solvency II rules, and which are likely to evolve as more detailed requirements are clarified, relate to:

(i) the liability discount rate for UK annuities, which is currently set by applying a 'liquidity premium' in addition to the risk-free rate. This liquidity premium addition reflects the long term buy-and-hold nature of the assets backing UK annuity liabilities, which are therefore not directly exposed to changes in market credit spreads, but instead to long term default risk over the term of the assets. This liquidity premium will be replaced with the corresponding Solvency II 'Matching Adjustment' when the rules and interpretation relating to this Solvency II calculation are clarified;

(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) the credit risk adjustment to the risk free rate, which is currently set at 10 basis points, consistent with the specification in Quantitative Impact Study 5, but where discussions are ongoing at a European level as part of the process to agree the more detailed Solvency II rules.

Further, current drafts of the Solvency II rules remain unclear in relation to capital tiering requirements and therefore tiering limits are not yet applied. Prudential's methodology in the areas highlighted above will evolve in the future as the final Solvency II requirements become clearer.

In addition, there are a range of other calibration issues which will remain unclear until Solvency II requirements have been finalised and our Solvency II internal model has been reviewed and approved by the Prudential Regulation Authority. Therefore the capital position may change as methodology is refined in the lead up to 2016 when Solvency II is expected to formally replace the current IGD regime.

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 where no liquid swap market exists and government bond yields are therefore used), with a deduction of 10 basis points to allow for a 'credit risk adjustment' to swap rates. In addition, a liquidity premium 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. In the absence of a Matching Adjustment calibration, the liquidity premium has been derived by reference to existing Solvency I allowances and a range of other industry benchmarks. The allowances vary by fund reflecting the nature of the respective asset portfolios and the extent of asset-liability cashflow matching, which are also likely to be key inputs into the Solvency II Matching Adjustment calculation. The resulting liquidity premium allowances are summarised in the table below. The final Solvency II discount curve is subject to considerable uncertainties and may vary significantly from these assumptions.

31 December 2013 **Line of business**	**Base liquidity premium - bps (relative to swaps)**	**Percentage of total stressed credit spreads attributed to liquidity premium**
PRIL annuities	61	51%
PAC non-profit sub-fund annuities	55	52%

Aside from UK annuities, no liquidity premium allowance has been assumed for any other lines of business.

Reconciliation of IFRS to economic available capital

The table below shows the reconciliation of Group IFRS shareholders' equity to available capital.

Reconciliation of IFRS equity to economic available capital (£ billion)	**Available capital[1]**
IFRS shareholders' equity at 31 December 2013	**9.7**
Adjustment to restate US insurance entities onto a US Risk Based Capital basis	(0.6)
Remove DAC, goodwill & intangibles	(2.7)
Add subordinated-debt treated as economic available capital	3.8
Insurance contract valuation differences	5.8
Add value of shareholder-transfers	4.1
Increase in value of net deferred tax liabilities (resulting from valuation differences above)	(1.3)
Other	(0.3)
Available capital at 31 December 2013	**18.5**

[1] Based on the Group's Solvency II internal model which has not been reviewed or approved by the Prudential Regulation Authority.

The key differences between the two metrics are:

- £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;
- £2.7 billion due to the removal of DAC and goodwill from the IFRS balance sheet;
- £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;
- £5.8 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; offset to some extent by the inclusion of a risk margin which is not required under IFRS;
- £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; and
- £1.3 billion due to the impact on the valuation of deferred tax assets and liabilities resulting from the other valuation differences noted above.

Analysis of movement in the economic capital position

The table below shows the movement during the financial year in the Group's economic capital surplus.

Analysis of movement from 1 January to 31 December 2013 (£ billion)	**Economic capital surplus**[2]	**Economic solvency ratio**[2]
Economic solvency position as at 1 January 2013	**8.8**	**215%**
Model changes	0.1	2%
Operating experience	2.1	31%
Non-operating experience	0.9	12%
Other capital movements:		
Acquisitions / disposals	(0.5)	(8)%
Foreign currency translation movements	(0.4)	0%
Subordinated debt issuance	1.1	16%
Dividends	(0.8)	(11)%
Economic solvency position as at 31 December 2013	**11.3**	**257%**

[2] Based on the Group's Solvency II internal model which has not been reviewed or approved by the Prudential Regulation Authority.

During 2013 the Group's economic capital surplus increased from £8.8 billion to £11.3 billion. The total movement over the year was equivalent to a 42 percentage point increase in the Group economic solvency ratio, driven by:

- *model changes:* a positive impact to Group surplus arising from a number of modelling enhancements and refinements;
- *operating experience:* generated by in-force business, new business written in 2013, the beneficial impact of management actions taken during 2013 to de-risk the business, and small impacts from non-market assumption changes and non-market experience variances over the year;
- *non-operating experience:* mainly arising from positive market experience during 2013;
- *other capital movements:* a reduction in surplus from the acquisition of Thanachart Life and the preparation for sale of the Japanese business, the negative impact of exchange rate movements, an increase in surplus from new subordinated-debt issuances and a reduction in surplus due to dividend payments in 2013.

Analysis of Group Economic Capital Requirement

The table below shows the split of the £7.2 billion Group Economic Capital Requirement by risk type[1] at 31 December 2013. However, there are material areas of uncertainty with regard to methodology and assumptions in the internal model which remain subject to review and approval by the Prudential Regulation Authority. Therefore, the results shown below should not be interpreted as outputs from an approved internal model.

	% of undiversified Economic Capital Requirement[2]	**% of diversified Economic Capital Requirement[2]**
Market	**53%**	**64%**
Equity	15%	24%
Credit	20%	37%
Yields (interest rates)	13%	0%
Other	5%	3%
Insurance	**36%**	**28%**
Mortality/morbidity	8%	4%
Lapse	19%	21%
Longevity	9%	3%
Operational/expense	**11%**	**8%**

[2]Based on 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 spreads, which we hold to generate a higher return on capital 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.
- The Group is also exposed to expense and operational risk, which is closely monitored and managed through internal control processes.

[1] The Group Economic Capital Requirement by risk type includes capital requirements in respect of Jackson's risk exposures, based on 250% of the US RBC Company Action Level.

Sensitivity testing of Group economic solvency position
Stress testing the economic capital position gives the following results (as at 31 December 2013):

- an instantaneous 20 per cent fall in equity markets would reduce surplus by £0.3 billion but increase the economic solvency ratio to 260 per cent;
- an instantaneous 40 per cent fall in equity markets would reduce surplus by £1.0 billion but increase the economic solvency ratio to 258 per cent;
- a 100 basis points reduction in interest rates (subject to a floor of zero) would reduce surplus by £1.3 billion and reduce the economic solvency ratio to 225 per cent;
- a 100 basis points increase in interest rates would increase surplus by £0.8 billion and increase the economic solvency ratio to 284 per cent;
- a 100 basis points increase in credit spreads[2] would reduce surplus by £1.3 billion and reduce the economic solvency ratio to 254 per cent.

These sensitivity results demonstrate the resilience of the economic capital position following large falls in equity markets, sizeable reductions in 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.

A fall in yields has a material adverse impact on Group surplus which 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.

Widening credit spreads adversely impacts on the annuity business in the UK since this is deemed to represent an increase, to some extent, in the expected level of future defaults. 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.

[2] For the credit spread widening stress 10 times expected defaults are assumed for Jackson since credit spread movements do not directly impact on the US RBC result.

European Embedded Value (EEV) basis results

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Description of EEV basis reporting

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 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 and expenses. Further details are explained in note 15.

European Embedded Value (EEV) basis results

Pre-tax operating profit based on longer-term investment returns

Results analysis by business area

	Note	2013 £m	2012 £m note (ii)
Asia operations			
New business	2	**1,460**	1,266
Business in force*	3	**927**	692
Long-term business*		**2,387**	1,958
Eastspring investments*		**74**	69
Development expenses		**(2)**	(7)
Total*		**2,459**	2,020
US operations			
New business	2	**1,086**	873
Business in force	3	**1,135**	737
Long-term business		**2,221**	1,610
Broker-dealer and asset management		**59**	39
Total		**2,280**	1,649
UK operations			
New business	2	**297**	313
Business in force	3	**736**	553
Long-term business		**1,033**	866
General insurance commission		**29**	33
Total UK insurance operations		**1,062**	899
M&G (including Prudential Capital)		**441**	371
Total		**1,503**	1,270
Other income and expenditure			
Investment return and other income		**10**	13
Interest payable on core structural borrowings		**(305)**	(280)
Corporate expenditure		**(263)**	(231)
Unwind of expected asset management margin[note (i)]		**(61)**	(56)
Total		**(619)**	(554)
Solvency II implementation costs		**(31)**	(50)
Restructuring costs		**(12)**	(22)
Pre-tax operating profit based on longer-term investment returns*		**5,580**	4,313
Analysed as profits (losses) from:			
New business	2	**2,843**	2,452
Business in force*	3	**2,798**	1,982
Long-term business*		**5,641**	4,434
Asset management*		**574**	479
Other results		**(635)**	(600)
Total*		**5,580**	4,313

* The Group has adopted the new accounting standard on 'Joint arrangements'(IFRS 11) from 1 January 2013. This has resulted in a reallocation of £(8) million in 2013 (2012: £(6) million) from the tax charge on operating profit based on longer-term investment returns to the pre-tax result for Eastspring investments, with no effect on the net of tax EEV basis results. In addition, the Group agreed in July 2013 to sell, dependent on regulatory approval, its closed book life insurance business in Japan. Accordingly, the presentation of the 2012 comparative EEV basis results and related notes have been adjusted from those previously published for the retrospective application of this standard and for the reclassification of the result attributable to the held for sale Japan Life business, as described in note 18. This approach has been adopted consistently throughout this supplementary information.

Notes

(i) The value of profits or losses from asset management and service companies that support the Group's covered insurance businesses (as defined in note 15(a)) are included in the profits for new business and the in-force value of the Group's long-term business. The results of the Group's asset management operations include the profits from the management of internal and external funds. For EEV basis reporting, Group shareholders' other income is adjusted to deduct the unwind of the expected profit margin for the year arising from the management of the assets of the covered business by the Group's asset management businesses. 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.

(ii) The comparative results have been prepared using previously reported average exchange rates for the year.

Summarised consolidated income statement

	Note	2013 £m	2012 £m
Pre-tax operating profit based on longer-term investment returns			
Asia operations*		**2,459**	2,020
US operations		**2,280**	1,649
UK operations:			
UK insurance operations		**1,062**	899
M&G (including Prudential Capital)		**441**	371
		1,503	1,270
Other income and expenditure		**(619)**	(554)
Solvency II implementation costs		**(31)**	(50)
Restructuring costs		**(12)**	(22)
Pre-tax operating profit based on longer-term investment returns*		**5,580**	4,313
(Loss) profit attaching to held for sale Japan Life business*	4	**(35)**	21
Short-term fluctuations in investment returns*	5	**(819)**	510
Effect of changes in economic assumptions*	6	**821**	(2)
Mark to market value movements on core borrowings		**152**	(380)
Costs of domestication of Hong Kong branch	12	**(35)**	-
Gain on acquisition of REALIC**	4	**-**	453
Gain on dilution of Group's holdings**		**-**	42
Total non-operating profit*	9	**84**	644
Profit before tax attributable to shareholders (including actual investment returns)*		**5,664**	4,957
Tax attributable to shareholders' profit*	10	**(1,306)**	(1,188)
Profit for the year attributable to equity holders of the Company*		**4,358**	3,769

* The 2012 comparative results have been adjusted retrospectively from those previously published for the adoption of IFRS 11 and revised 'Employee benefits' (IAS 19) and for the reclassification of the result attributable to the held for sale Japan Life business – see note 18.

** During 2012, the Group completed the acquisition of REALIC generating a gain of £453 million and M&G reduced its holding in PPM South Africa resulting in a reclassification from a subsidiary to an associate and a gain on dilution of £42 million.

Earnings per share (in pence)

	Note	2013	2012*
Based on post-tax operating profit including longer-term investment returns of £4,204 million (2012*: £3,174 million)	11	**165.0p**	124.9p
Based on post-tax profit of £4,358 million (2012*: £3,769 million)	11	**171.0p**	148.3p

* The 2012 comparative results have been adjusted retrospectively from those previously published for the adoption of IFRS 11 and revised IAS 19 - see note 18.

Dividends per share (in pence)

	2013	2012
Dividends relating to reporting year:		
Interim dividend	**9.73 p**	8.40 p
Final dividend	**23.84 p**	20.79 p
Total	**33.57 p**	29.19 p
Dividends declared and paid in reporting year:		
Current year interim dividend	**9.73 p**	8.40 p
Final dividend for prior year	**20.79 p**	17.24 p
Total	**30.52 p**	25.64 p

Movement in shareholders' equity

	Note	2013 £m	2012 £m
Profit for the year attributable to equity shareholders*		**4,358**	3,769
Items taken directly to equity:			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the year		**(1,077)**	(467)
Related tax		**-**	(2)
Dividends		**(781)**	(655)
New share capital subscribed		**6**	17
Post-tax shareholders' share of actuarial and other gains and losses on defined benefit pension schemes*		**(53)**	44
Reserve movements in respect of share-based payments		**98**	42
Treasury shares:			
Movement in own shares in respect of share-based payment plans		**(10)**	(13)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		**(31)**	36
Mark to market value movements on Jackson assets backing surplus and required capital:			
Mark to market value movements arising during the year		**(149)**	53
Related tax		**52**	(18)
Net increase in shareholders' equity	9	**2,413**	2,806
Shareholders' equity at beginning of year	9	**22,443**	19,637
Shareholders' equity at end of year	9	**24,856**	22,443

* The 2012 comparative results have been adjusted retrospectively from those previously published for the adoption of revised IAS 19 - see note 18.

	31 Dec 2013 £m			31 Dec 2012 £m		
Comprising:	**Long-term business operations**	**Asset management and other operations**	**Total**	**Long-term business operations**	**Asset management and other operations**	**Total**
Asia operations:						
Net assets of operations	**10,305**	**194**	**10,499**	9,462	207	9,669
Acquired goodwill	**231**	**61**	**292**	239	61	300
	10,536	**255**	**10,791**	9,701	268	9,969
US operations:						
Net assets of operations	**6,966**	**118**	**7,084**	6,032	108	6,140
Acquired goodwill	**-**	**16**	**16**	-	16	16
	6,966	**134**	**7,100**	6,032	124	6,156
UK insurance operations:						
Net assets of operations	**7,342**	**22**	**7,364**	6,772	25	6,797
M&G:						
Net assets of operations	**-**	**449**	**449**	-	392	392
Acquired goodwill	**-**	**1,153**	**1,153**	-	1,153	1,153
	-	**1,602**	**1,602**	-	1,545	1,545
	7,342	**1,624**	**8,966**	6,772	1,570	8,342
Other operations:						
Holding company net borrowings at market value[note 7]	**-**	**(2,373)**	**(2,373)**	-	(2,282)	(2,282)
Other net assets	**-**	**372**	**372**	-	258	258
	-	**(2,001)**	**(2,001)**	-	(2,024)	(2,024)
Shareholders' equity at end of year	**24,844**	**12**	**24,856**	22,505	(62)	22,443
Representing:						
Net assets (liabilities)	**24,613**	**(1,218)**	**23,395**	22,266	(1,292)	20,974
Acquired goodwill	**231**	**1,230**	**1,461**	239	1,230	1,469
	24,844	**12**	**24,856**	22,505	(62)	22,443

	31 Dec 2013	31 Dec 2012
Net asset value per share		
Based on EEV basis shareholders' equity of £24,856 million (2012: £22,443 million) (in pence)	**971p**	878p
Number of issued shares at year end (millions)	**2,560**	2,557
Return on embedded value**	**19%**	16%

** Return on embedded value is based on EEV post-tax operating profit, as shown in note 11, as a percentage of opening EEV basis shareholders' equity.

Summary statement of financial position

	Note	31 Dec 2013 £m	31 Dec 2012 £m
Total assets less liabilities, before deduction for insurance funds*		**288,826**	271,768
Less insurance funds**			
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds*		**(279,176)**	(261,409)
Less shareholders' accrued interest in the long-term business		**15,206**	12,084
		(263,970)	(249,325)
Total net assets	9	**24,856**	22,443
Share capital		**128**	128
Share premium		**1,895**	1,889
IFRS basis shareholders' reserves		**7,627**	8,342
Total IFRS basis shareholders' equity	9	**9,650**	10,359
Additional EEV basis retained profit	9	**15,206**	12,084
Total EEV basis shareholders' equity (excluding non-controlling interests)	9	**24,856**	22,443

* The 2012 comparative results have been adjusted retrospectively from those previously published for the adoption of IFRS 11 – see note 18.

** Including liabilities in respect of insurance products classified as investment contracts under IFRS 4. For 2013 the policyholder liabilities of the held for sale Japan Life business are included in total assets less liabilities, before deduction for insurance funds.

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 expanded by the Additional Guidance on EEV Disclosures published in October 2005. Where appropriate, the EEV basis results include the effects of adoption of International Financial Reporting Standards (IFRS).

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles. Except for the presentational change for the results of the held for sale Japan Life business and the consequential effects of the changes in accounting policies for IFRS reporting in respect of employee benefits (IAS 19) and joint venture operations (IFRS 11), as described in note 18, the 2012 results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2012. The supplement included an unqualified audit report from the auditors.

A detailed description of the EEV methodology and accounting presentation is provided in note 15.

2 Analysis of pre-tax new business contribution

	2013				
	Annual premium and contribution equivalents (APE) note 17	**Present value of new business premiums (PVNBP)** note 17	**Pre-tax new business contribution**	**Pre-tax New business margin**	
				APE	**PVNBP**
	£m	**£m**	**£m**	**%**	**%**
Asia operations	**2,125**	**11,375**	**1,460**	**69**	**12.8**
US operations	**1,573**	**15,723**	**1,086**	**69**	**6.9**
UK insurance operations	**725**	**5,978**	**297**	**41**	**5.0**
Total	**4,423**	**33,076**	**2,843**	**64**	**8.6**

	2012				
	Annual premium and contribution equivalents (APE) note 17	**Present value of new business premiums (PVNBP)** note 17	**Pre-tax new business contribution**	**Pre-tax New business margin**	
				APE	**PVNBP**
	£m	**£m**	**£m**	**%**	**%**
Asia operations	1,897	10,544	1,266	67	12.0
US operations	1,462	14,600	873	60	6.0
UK insurance operations	836	7,311	313	37	4.3
Total	4,195	32,455	2,452	58	7.6

	Pre-tax new business contributions	
	2013 £m	**2012 £m**
Asia operations:		
China	**37**	26
Hong Kong	**354**	210
India	**18**	19
Indonesia	**480**	476
Korea	**33**	26
Taiwan	**37**	48
Other	**501**	461
Total Asia operations	**1,460**	1,266

3 Pre-tax operating profit from business in force

(i) Group Summary

	2013 £m				2012 £m			
	Asia operations	US operations	UK insurance operations	Total	Asia operations*	US operations	UK insurance operations	Total*
	note (ii)	note (iii)	note (iv)		note (ii)	note (iii)	note (iv)	
Unwind of discount and other expected returns	**846**	**608**	**547**	**2,001**	595	412	482	1,489
Effect of changes in operating assumptions	**17**	**116**	**122**	**255**	22	35	87	144
Experience variances and other items	**64**	**411**	**67**	**542**	75	290	(16)	349
Total	**927**	**1,135**	**736**	**2,798**	692	737	553	1,982

* The 2012 comparative results have been adjusted retrospectively from those previously published for the reclassification of the result attributable to the held for sale Japan Life business – see note 18.

(ii) Asia operations

	2013 £m	2012* £m
Unwind of discount and other expected returns[note (a)]	**846**	595
Effect of changes in operating assumptions:		
Mortality and morbidity[note (b)]	**35**	79
Persistency and withdrawals[note (c)]	**(30)**	(24)
Expense[note (d)]	**(7)**	(45)
Other	**19**	12
	17	22
Experience variance and other items:		
Mortality and morbidity[note (e)]	**42**	57
Persistency and withdrawals[note (f)]	**44**	52
Expense[note (g)]	**(26)**	(30)
Other	**4**	(4)
	64	75
Total Asia operations	**927**	692

* The 2012 comparative results have been adjusted retrospectively from those previously published for the reclassification of the result attributable to the held for sale Japan Life business – see note 18.

Notes

(a) The increase in unwind of discount and other expected returns of £251 million from £595 million in 2012 to £846 million in 2013 reflects a £140 million effect of higher risk discount rates, driven by the increase in long-term interest rates, together with an effect of £111 million arising from the growth in the opening in-force value (adjusted for assumption changes) on which the discount rates are applied, partially offset by a £(21) million reduction due to unfavourable exchange rate movements, particularly in Indonesia, and a £21 million increase in the return on net worth.

(b) In 2013 the credit of £35 million for mortality and morbidity assumption changes mainly reflects a beneficial effect arising from the renegotiation of a reinsurance agreement in Indonesia. The 2012 credit of £79 million primarily reflected mortality improvements in Hong Kong and Singapore and revised assumptions for critical illness business in Singapore.

(c) The charge for persistency and withdrawals assumption changes reflects a number of offsetting items including for 2013, the effect of strengthening lapse and premium holiday assumptions in Korea.

(d) In 2012 the charge of £(45) million for expense assumption changes principally arose in Malaysia and reflected changes to the pension entitlements of agents.

(e) The favourable effect of mortality and morbidity experience in 2013 of £42 million (2012: £57 million) reflects continued better than expected experience, principally arising in Hong Kong, Indonesia and Singapore.

(f) The persistency and withdrawals experience variance in 2013 of £44 million (2012: £52 million) principally reflects favourable experience in Hong Kong and Indonesia.

(g) The negative expense experience variance of £(26) million in 2013 (2012: £(30) million) principally reflects expense overruns for operations which are currently sub-scale (China, Malaysia Takaful and Taiwan) and in India where the business model is being adapted in response to the regulatory changes introduced in recent years.

(iii) US operations

	2013 £m	2012 £m
Unwind of discount and other expected returns[note (a)]	**608**	412
Effect of changes in operating assumptions:		
Persistency[note (b)]	**72**	45
Variable annuity fees[note (c)]	**50**	(19)
Other	**(6)**	9
	116	35
Experience variances and other items:		
Spread experience variance[note (d)]	**274**	205
Amortisation of interest-related realised gains and losses[note (e)]	**89**	91
Other[note (f)]	**48**	(6)
	411	290
Total US operations[note (g)]	**1,135**	737

Notes

(a) The increase in unwind of discount and other expected returns of £196 million from £412 million for 2012 to £608 million in 2013 includes a £125 million effect of the increase in opening value of in-force business (after assumption changes), together with the positive effect of higher risk discount rates of £65 million and a £6 million increase in the return on net worth.

(b) The effect of changes in persistency assumptions of £72 million in 2013 (2012: £45 million) primarily relates to a reduction in lapse rates following the end of the surrender charge period, principally for variable annuity business.

(c) The effect of the change of assumption for variable annuity fees represents the capitalised value of the change in the projected policyholder advisory fees, which vary according to the size and the 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 16(ii)(b)). The spread experience variance in 2013 of £274 million (2012: £205 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 period when the bonds would have otherwise matured to better reflect the long-term returns included in operating profits.

(f) The credit of £48 million for other changes in experience variances and other items mainly reflects the positive persistency experience variance of £62 million (2012: £21 million) across all products.

(g) The result includes a full year contribution from the REALIC book of business of £61 million (2012: four months of £19 million).

(iv) UK insurance operations

	2013 £m	2012 £m
Unwind of discount and other expected returns[note (a)]	**547**	482
Effect of change in UK corporate tax rate[note (b)]	**122**	87
Other items[note (c)]	**67**	(16)
Total UK insurance operations	**736**	553

Notes

(a) The increase in unwind of discount and other expected returns of £65 million from £482 million in 2012 to £547 million for 2013 reflects a £34 million effect of higher discount rates, driven by the increase in gilt yields, a £24 million increase in the return on net worth and an effect of £7 million arising from the growth in the opening value of in-force.

(b) For 2013, the beneficial effect of the change in UK corporate tax rates of £122 million (2012: £87 million) reflects 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 (2012: from 25 per cent to 23 per cent) which were both enacted in July 2013. Consistent with the Group's approach of grossing up the movement in the post-tax value of in-force business for shareholder tax, the £122 million (2012: £87 million) benefit is presented gross.

(c) Other items of £67 million for 2013 includes the positive effects of rebalancing the investment portfolio backing annuity business. In 2012 the negative effect of £(16) million included a charge of £(52) million for the strengthening of mortality assumptions, net of reserve releases and the effects of portfolio rebalancing for annuity business.

4 Business acquisitions and disposals

(a) 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 is 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) is payable 12 months after completion. The acquired assets are comprised of:

	£m
Acquired assets:	
Net worth (including acquisition of distribution rights)	**386**
Value of in force acquired	**26**
Transaction consideration	**412**

The purchase consideration paid was equivalent to the fair value of the acquired assets and liabilities assumed. No goodwill has been recognised.

(b) Acquisition of Reassure America Life Insurance Company in 2012

On 4 September 2012, the Group through its indirect wholly-owned subsidiary, Jackson completed the acquisition of 100 per cent issued share capital of SRLC America Holding Corp. and its primary operating subsidiary, Reassure America Life Insurance Company (REALIC). REALIC is a US-based insurance company whose business model was to acquire, through purchase or reinsurance, closed blocks of insurance business, primarily life assurance risks. REALIC did not and does not write new business.

The gain of £453 million reflects the fair value of the acquired business as determined by applying the same methodology as applied for Jackson's non-variable annuity business. A risk discount rate of 4.3 per cent at the date of acquisition on 4 September 2012 was used.

(c) Agreement to sell Japan Life business

On 16 July 2013, the Group reached an agreement to sell, subject to regulatory approval, the life insurance business in Japan, PCA Life Insurance Company Limited, which was closed to new business in 2010, to SBI Holdings Inc. for US$85 million (£51 million at 31 December 2013 closing exchange rate) with related expenses of £3 million. Consistent with the 'held for sale' classification of the business for IFRS reporting, the EEV carrying value has been set to £48 million at 31 December 2013. For 2013 the result for the year, together with the adjustment to the carrying value have given rise to an aggregate loss of £(35) million which has been included in non-operating profit. Consistent with this treatment, the presentation of the comparative results has been adjusted retrospectively from those previously published.

5 Short-term fluctuations in investment returns

Short-term fluctuations in investment returns, net of the related change in the time value of cost of options and guarantees, arise as follows:

(i) Group Summary

	2013 £m	2012 £m
Insurance operations:		
Asia*, note (ii)	**(405)**	362
US note (iii)	**(422)**	(254)
UK note (iv)	**35**	315
	(792)	423
Other operations:		
Other*, note (v)	**(27)**	119
Economic hedge value movement note (vi)	**-**	(32)
Total*	**(819)**	510

*The 2012 comparative results have been adjusted retrospectively from those previously published for the adoption of revised IAS 19 and for the reclassification of the results attributable to the held for sale Japan Life business - see note 18.

(ii) Asia operations

For 2013, the negative short-term fluctuations in investment returns of £(405) million principally arise in Hong Kong of £(223) million and in Singapore of £(96) million, due to unrealised value reductions on bonds, arising from the increase in long-term interest rates, and in Indonesia of £(52) million for a decrease in future expected fee income for unit-linked business, driven by falls in equity markets.

For 2012, the positive short-term fluctuations in investment returns of £362 million in Asia operations were driven by unrealised gains on bonds and higher equity markets, principally arose in Hong Kong of £139 million mainly relating to positive returns on bonds backing participating business, Singapore of £114 million primarily relating to increasing future expected fee income for unit-linked business and unrealised gains on bonds, Taiwan of £56 million for unrealised gains on bonds and CDOs and India of £30 million.

(iii) US operations

The short-term fluctuations in investment returns for US operations comprise the following items:

	2013 £m	2012 £m
Investment return related experience on fixed income securities note (a)	**21**	(99)
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)	**(580)**	(183)
Other items including actual less long-term return on equity based investments note (c)	**137**	28
Total US operations	**(422)**	(254)

Notes

(a) The credit (charge) relating to fixed income securities comprises the following elements: (1) the excess of actual realised gains (losses) over the amortisation of interest related realised gains and losses recorded in the profit and loss account; (2) credit loss experience (versus the longer-term assumption); and (3) the impact of de-risking activities within the 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) Other items of £137 million in 2013 primarily reflects 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 arise from the following types of business:

	2013 £m	2012 £m
Shareholder-backed annuity note (a)	**(72)**	(3)
With-profits,unit-linked and other note (b)	**107**	318
Total UK insurance operations	**35**	315

Notes

(a) Short-term fluctuations in investment returns for shareholder-backed annuity business comprise: (1) gains/losses on surplus assets compared to the expected long-term rate of return reflecting reductions/increases in corporate bond and gilt yields; (2) the difference between actual and expected default experience; and (3) 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. The total return on the fund (including unallocated surplus) in 2013 was 8 per cent compared to an assumed rate of return of 6 per cent (2012: 10 per cent total return compared to assumed rate of 5 per cent).In addition, the amount for 2013 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 the year. This hedge reduces the risks arising from equity market declines.

(v) Other items

Short-term fluctuations in investment returns of Other operations, were negative £(27) million (2012: positive £119 million) representing principally unrealised value movements on investments and foreign exchange items.

(vi) Economic hedge value movements

This item represents the cost of short-dated hedge contracts taken out in the first half of 2012 to provide downside protection against severe equity market falls through a period of particular uncertainty with respect to the Eurozone. The hedge contracts were terminated in the second half of 2012.

6 Effect of changes in economic assumptions

The effects of changes in economic assumptions for in-force business, net of the related change in the time value of cost of options and guarantees, included within profit before tax (including actual investment returns) arise as follows:

(i) Group Summary

	2013 £m	2012 £m
Asia operations[*, note (ii)]	**283**	(135)
US operations[note (iii)]	**372**	85
UK insurance operations[note (iv)]	**166**	48
Total[*]	**821**	(2)

* The 2012 comparative results have been adjusted retrospectively from those previously published for the reclassification of the result attributable to the held for sale Japan Life business - see note 18.

(ii) Asia operations

The effect of changes in economic assumptions for Asia operations in 2013 of £283 million primarily reflects the overall impact of the increase in long-term interest rates in the year, principally arising in Hong Kong of £361 million, Singapore of £107 million and Taiwan of £99 million mainly due to the increase in fund earned rates for participating business. There are partial offsets arising in Indonesia of £(237) million and in Malaysia of £(77) million, mainly reflecting the negative impact of calculating health and protection future profits at a higher discount rate.

The charge of £(135) million in 2012 for the effect of changes in economic assumptions principally arose in Hong Kong of £(320) million, primarily reflecting the effect on projected cash flows of de-risking the asset portfolio and the reduction in fund earned rates on participating business, driven by the very low interest rate environment, and in Vietnam of £(47) million, following the fall in bond yields. There were partial offsets totalling £232 million, principally arising in Malaysia and Indonesia, mainly reflecting the positive impact of calculating projected health and protection profits at a lower rate, driven by the decrease in risk discount rates.

(iii) US operations

The effect of changes in economic assumptions for US operations reflects the following:

	2013 £m	2012 £m
Effect of changes in 10-year treasury rates and beta:		
Fixed annuity and other general account business [note (a)]	**(375)**	20
Variable annuity business[note (b)]	**587**	(83)
Decrease in additional allowance for credit risk[note (c)]	**160**	148
Total US operations [note (d)]	**372**	85

Notes

(a) For fixed annuity and other general account business the charge of £(375) million in 2013 principally arises from the effect of a higher discount rate on the opening value of the in-force book, driven by the 130 basis points increase in the risk-free rate. The projected cash flows for this business principally reflect projected spread, with secondary effects on the cash flows also resulting from changes to assumed future yields and resulting policyholder behaviour. The credit of £20 million in 2012 reflected a 10 basis point decrease in the risk free rate, partially offset by the effect for the acquired REALIC book (reflecting a 20 basis point increase in the risk-free rate from the 4 September acquisition date to 31 December 2012).

(b) For variable annuity business, the credit of £587 million principally reflects an increase in projected fee income and a decrease in projected benefit costs, arising from the increase in the rate of assumed future return on the underlying separate account assets, driven by the 130 basis points increase in the risk-free rate. There is a partial offset arising from the increase in the discount rate applied to those cash flows. The charge of £(83) million in 2012 reflected a decrease in the risk free rate of 10 basis points.

(c) For 2013 the £160 million (2012: £148 million) effect of the decrease in the additional allowance for credit risk within the risk discount rate reflected the reduction in credit spreads and represented a 50 basis points decrease for spread business and a 10 basis points decrease for variable annuity business, representing the proportion of business invested in the general account (as described in note 15(b)(iii)).

(d) The total effect of changes in economic assumptions for US operations of a credit of £372 million for 2013 includes a pre-tax charge of £(20) million for the effect of the change in required capital from 235 per cent to 250 per cent of risk-based capital (see note 15(b)(ii)).

(iv) UK insurance operations

The effect of changes in economic assumptions of a credit of £166 million for UK insurance operations for 2013 comprises the following:

	2013 £m	2012 £m
Effect of changes in expected long-term rates of return, risk discount rates and other changes:		
Shareholder-backed annuity business[note (a)]	**(70)**	140
With-profits and other business[note (b)]	**236**	(46)
Tax regime[note (c)]	**-**	(46)
Total UK insurance operations	**166**	48

Notes

(a) For shareholder-backed annuity business the overall effect of changes in expected long-term rates of return and risk discount rates reflect the combined effects of the changes in economic assumptions, which incorporate a default allowance for both best estimate defaults and in respect of the additional credit risk provisions (as shown in note 16(iii)).

(b) For with-profits and other business the total credit in 2013 of £236 million (2012: charge of £(46) million) includes the net effect of the changes in fund earned rates and risk discount rate (as shown in note 16(iii)), driven by the 120 basis points increase (2012: a reduction of 20 basis points) in the 15-year government bond rate.

(c) In 2012, the effect of the change in tax regime of £(46) million reflected the change in pattern of taxable profits for shareholder-backed annuity business arising from the acceleration of tax payments due to the altered timing of relief on regulatory basis provisions.

7 Net core structural borrowings of shareholder-financed operations

	31 Dec 2013 £m			31 Dec 2012 £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	**(2,230)**	**-**	**(2,230)**	(1,380)	-	(1,380)
Core structural borrowings – central funds**	**4,211**	**392**	**4,603**	3,126	536	3,662
Holding company net borrowings	**1,981**	**392**	**2,373**	1,746	536	2,282
Core structural borrowings – Prudential Capital	**275**	**-**	**275**	275	-	275
Core structural borrowings – Jackson	**150**	**38**	**188**	153	43	196
Net core structural borrowings of shareholder-financed operations	**2,406**	**430**	**2,836**	2,174	579	2,753

* Including central finance subsidiaries.

** In January 2013, the Company issued US$700 million (£423 million at 31 December 2013 closing exchange rate) perpetual subordinated capital securities. In addition the Company issued £700 million subordinated notes in December 2013.

8 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.

	2013 £m			2012* £m
Long-term business and asset management operationsnote (i)	**Long-term business** note 12	**Asset management and UK general insurance commission** note (iii)	**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**
Underlying movement:				
Investment in new businessnotes (ii), (viii)	**(637)**	-	**(637)**	(618)
Business in force:				
Expected in-force cash flows (including expected return on net assets)	**2,150**	**471**	**2,621**	2,405
Effects of changes in operating assumptions, operating experience variances and other operating items	**478**	-	**478**	293
	1,991	**471**	**2,462**	2,080
Effect of acquisition of REALIC	-	-	-	(169)
Increase in EEV assumed level of required capitalnote 12	**(58)**	-	**(58)**	-
(Loss) profit attaching to held for sale Japan Life business	**(40)**	-	**(40)**	31
Other non-operating itemsnote (iv)	**(739)**	**17**	**(722)**	(62)
	1,154	**488**	**1,642**	1,880
Net cash flows to parent companynote (v)	**(1,069)**	**(272)**	**(1,341)**	(1,200)
Bancassurance agreement and purchase of Thanachart Lifenotes 4 ,12	**365**	-	**365**	-
Exchange movements, timing differences and other itemsnote (vi)	**(187)**	**(165)**	**(352)**	(412)
Net movement in free surplus	**263**	**51**	**314**	268
Balance at 1 January 2013note (viii)	**2,957**	**732**	**3,689**	3,421
Balance at 31 December 2013note (viii)	**3,220**	**783**	**4,003**	3,689
Representing:				
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
Balance at 1 January 2013/ 1 January 2012 representing:				
Asia operations	974	207	1,181	1,278
US operations	1,211	108	1,319	1,333
UK operations	772	417	1,189	810
	2,957	732	3,689	3,421

*The 2012 comparative results have been adjusted retrospectively from those previously published for the adoption of the revised IAS 19 and for the reclassification of the result attributable to the Japan Life business – see note 18.

Notes

(i) All figures are shown post-tax.

(ii) Free surplus invested in new business represents amounts set aside for required capital and acquisition costs.

(iii) For the purposes of this analysis, free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis shareholders' equity.

(iv) Changes in non-operating items principally represent short-term fluctuations in investment returns and the effect of changes in economic assumptions for long-term business operations.

(v) 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.

(vi) Exchange movements, timing differences and other items represent:

	2013 £m		
	Long-term business	**Asset management and UK general insurance commission**	**Total**
Exchange movementsnote 12	**(164)**	**(28)**	**(192)**
Mark to market value movements on Jackson assets backing surplus and required capitalnote 9	**(97)**	**-**	**(97)**
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemesnote 9	**(22)**	**(18)**	**(40)**
Othernote (vii)	**96**	**(119)**	**(23)**
	(187)	**(165)**	**(352)**

(vii) Other primarily reflects the effect of intra-group loans, contingent loan funding, as shown in note 12(i), timing differences and other non-cash items.

(viii) The free surplus balance at 31 December 2013 includes £392 million (2012: £177 million) representing unamortised amounts advanced to bancassurance partners for securing exclusive distribution rights. The annual amortisation charge is recorded within 'investment in new business' each year at a rate that is determined by reference to the actual sales levels achieved.

9 Reconciliation of movement in shareholders' equity

	2013 £m						2012* £m
	Long-term business operations						
	Asia operations note (i)	US operations	UK insurance operations	Total long-term business operations	Other operations note (i)	Group Total	Group Total
Pre-tax operating profit (based on longer-term investment returns)							
Long-term business:							
New business[note 2]	**1,460**	**1,086**	**297**	**2,843**	**-**	**2,843**	2,452
Business in force[note 3]	**927**	**1,135**	**736**	**2,798**	**-**	**2,798**	1,982
	2,387	**2,221**	**1,033**	**5,641**	**-**	**5,641**	4,434
Asset management	**-**	**-**	**-**	**-**	**574**	**574**	479
Other results	**(2)**	**(1)**	**(16)**	**(19)**	**(616)**	**(635)**	(600)
Pre-tax operating profit based on longer-term investment returns	**2,385**	**2,220**	**1,017**	**5,622**	**(42)**	**5,580**	4,313
Total non-operating profit	**(157)**	**(46)**	**166**	**(37)**	**121**	**84**	644
Profit before tax (including actual investment returns)	**2,228**	**2,174**	**1,183**	**5,585**	**79**	**5,664**	4,957
Tax (charge) credit attributable to shareholders' profit[note 10]							
Tax on operating profit	**(494)**	**(695)**	**(198)**	**(1,387)**	**11**	**(1,376)**	(1,139)
Tax on non-operating profit	**69**	**12**	**(34)**	**47**	**23**	**70**	(49)
Profit for the year	**1,803**	**1,491**	**951**	**4,245**	**113**	**4,358**	3,769
Other movements (post-tax)							
Exchange movements on foreign operations and net investment hedges	**(974)**	**(175)**	**-**	**(1,149)**	**72**	**(1,077)**	(469)
Intra-group dividends (including statutory transfers)[note (ii)]	**(433)**	**(300)**	**(339)**	**(1,072)**	**1,072**	**-**	-
Investment in operations[note (iii)]	**40**	**-**	**-**	**40**	**(40)**	**-**	-
External dividends	**-**	**-**	**-**	**-**	**(781)**	**(781)**	(655)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes[note (v)]	**-**	**-**	**(22)**	**(22)**	**(31)**	**(53)**	44
Reserve movements in respect of share-based payments	**-**	**-**	**-**	**-**	**98**	**98**	42
Bancassurance agreement and purchase of Thanachart Life[notes (vi) and 4]	**412**	**-**	**-**	**412**	**(412)**	**-**	-
Other transfers	**(5)**	**15**	**(20)**	**(10)**	**10**	**-**	-
Treasury shares movements	**-**	**-**	**-**	**-**	**(41)**	**(41)**	23
New share capital subscribed	**-**	**-**	**-**	**-**	**6**	**6**	17
Mark to market value movements on Jackson assets backing surplus and required capital	**-**	**(97)**	**-**	**(97)**	**-**	**(97)**	35
Net increase in shareholders' equity	**843**	**934**	**570**	**2,347**	**66**	**2,413**	2,806
Shareholders' equity at 1 January 2013[note (i)]	**9,462**	**6,032**	**6,772**	**22,266**	**177**	**22,443**	19,637
Shareholders' equity at 31 December 2013[note (i)]	**10,305**	**6,966**	**7,342**	**24,613**	**243**	**24,856**	22,443
Representing:							
Statutory IFRS basis shareholders' equity	**2,564**	**3,446**	**2,976**	**8,986**	**664**	**9,650**	10,359
Additional retained profit (loss) on an EEV basis[note (iv)]	**7,741**	**3,520**	**4,366**	**15,627**	**(421)**	**15,206**	12,084
EEV basis shareholders' equity	**10,305**	**6,966**	**7,342**	**24,613**	**243**	**24,856**	22,443
Balance at 1 January 2013/1 January 2012							
Representing:							
Statutory IFRS basis shareholders' equity	2,290	4,343	3,008	9,641	718	10,359	8,564
Additional retained profit (loss) on an EEV basis[note (iv)]	7,172	1,689	3,764	12,625	(541)	12,084	11,073
EEV basis shareholders' equity	9,462	6,032	6,772	22,266	177	22,443	19,637

*The 2012 comparative results have been adjusted retrospectively from those previously published for the adoption of IFRS 11 and revised IAS 19 and for the reclassification of the result attributable to the held for sale Japan Life business – see note 18.

Notes

(i) For the purposes of the table above, goodwill 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 8 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) 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 £(392) million (2012: charge of £(536) million), as shown in note 7.

(v) The (charge) credit for the shareholders' share of actuarial and other gains and losses on defined benefit schemes comprises:

	2013 £m	2012* £m
IFRS basis	**(48)**	34
Additional shareholders' interest[note 15(c)(vi)]	**(5)**	10
EEV basis total	**(53)**	44

* The 2012 comparative results have been adjusted retrospectively from those previously published for the adoption of revised IAS 19 - see note 18.

(vi) The £412 million transfer from Other operations to Asia operations represents the funding of Asia operations to purchase the bancassurance agreement and Thanachart Life (as shown in note 4).

10 Tax attributable to shareholders' profit

The tax charge comprises:

	2013 £m	2012 £m
Tax charge on operating profit based on longer-term investment returns:		
Long-term business:*		
Asia operations	**494**	420
US operations	**695**	513
UK insurance operations	**198**	168
	1,387	1,101
Other operations**	**(11)**	38
Total tax charge on operating profit based on longer-term investment returns**	**1,376**	1,139
Tax (credit) charge on non-operating profit**	**(70)**	49
Tax charge on profit attributable to shareholders (including tax on actual investment returns)**	**1,306**	1,188

*The tax charge on operating profit for long-term business includes tax on Solvency II and restructuring costs.

** The 2012 comparative results have been adjusted retrospectively from those previously published for the adoption of IFRS 11 and revised IAS 19 - see note 18.

11 Earnings per share (EPS)

	2013 £m		2012* £m	
	Operating	Total	Operating	Total
Pre-tax profit	**5,580**	**5,664**	4,313	4,957
Tax	**(1,376)**	**(1,306)**	(1,139)	(1,188)
Post-tax profit	**4,204**	**4,358**	3,174	3,769
EPS (pence)	**165.0p**	**171.0p**	124.9p	148.3p
Average number of shares (millions)	**2,548**	**2,548**	2,541	2,541

* The 2012 comparative results have been adjusted retrospectively from those previously published for the adoption of IFRS 11, revised IAS 19 and for the reclassification of the result attributable to the held for sale Japan Life business - see note 18.

12 Reconciliation of post-tax movements in net worth and value of in-force for long-term business

	2013 £m				
	Free Surplus note 8	Required capital	Total net worth	Value of in-force business note (iv)	Total long-term business operations
Group					
Shareholders' equity at 1 January 2013	**2,957**	**3,898**	**6,855**	**15,411**	**22,266**
New business contribution[notes (ii), (iii)]	**(637)**	**461**	**(176)**	**2,258**	**2,082**
Existing business – transfer to net worth	**2,017**	**(347)**	**1,670**	**(1,670)**	**-**
Expected return on existing business	**133**	**90**	**223**	**1,277**	**1,500**
Changes in operating assumptions and experience variances *	**478**	**(7)**	**471**	**182**	**653**
Increase in EEV assumed level of required capital[note (vi)]	**(58)**	**58**	**-**	**(13)**	**(13)**
Loss attaching to held for sale Japan Life business	**(40)**	**-**	**(40)**	**5**	**(35)**
Other non-operating items	**(739)**	**(103)**	**(842)**	**900**	**58**
Post-tax profit from long-term business	**1,154**	**152**	**1,306**	**2,939**	**4,245**
Exchange movements on foreign operations and net investment hedges	**(164)**	**(117)**	**(281)**	**(868)**	**(1,149)**
Bancassurance agreement and purchase of Thanachart Life[notes 4 and (v)]	**365**	**21**	**386**	**26**	**412**
Intra-group dividends (including statutory transfers) and investment in operations[note (i)]	**(963)**	**-**	**(963)**	**(69)**	**(1,032)**
Other movements	**(129)**	**-**	**(129)**	**-**	**(129)**
Shareholders' equity at 31 December 2013[note(viii)]	**3,220**	**3,954**	**7,174**	**17,439**	**24,613**
Representing:					
Asia operations					
Shareholders' equity at 1 January 2013	**974**	**970**	**1,944**	**7,518**	**9,462**
New business contribution[note (iii)]	**(310)**	**107**	**(203)**	**1,342**	**1,139**
Existing business – transfer to net worth	**713**	**29**	**742**	**(742)**	**-**
Expected return on existing business	**74**	**(1)**	**73**	**595**	**668**
Changes in operating assumptions and experience variances*	**32**	**(9)**	**23**	**61**	**84**
Loss attaching to held for sale Japan Life business[note 4]	**(40)**	**-**	**(40)**	**5**	**(35)**
Other non-operating items	**(70)**	**(56)**	**(126)**	**73**	**(53)**
Post-tax profit from long-term business	**399**	**70**	**469**	**1,334**	**1,803**
Exchange movements on foreign operations and net investment hedges	**(155)**	**(84)**	**(239)**	**(735)**	**(974)**
Bancassurance agreement and purchase of Thanachart Life[notes 4 and (v)]	**365**	**21**	**386**	**26**	**412**
Intra-group dividends (including statutory transfers) and investment in operations	**(393)**	**-**	**(393)**	**-**	**(393)**
Other movements	**(5)**	**-**	**(5)**	**-**	**(5)**
Shareholders' equity at 31 December 2013[note (viii)]	**1,185**	**977**	**2,162**	**8,143**	**10,305**
US operations					
Shareholders' equity at 1 January 2013	**1,211**	**1,600**	**2,811**	**3,221**	**6,032**
New business contribution[note (iii)]	**(298)**	**288**	**(10)**	**716**	**706**
Existing business – transfer to net worth	**796**	**(296)**	**500**	**(500)**	**-**
Expected return on existing business	**41**	**53**	**94**	**301**	**395**
Changes in operating assumptions and experience variances*	**292**	**21**	**313**	**111**	**424**
Increase in EEV assumed level of required capital[note (vi)]	**(58)**	**58**	**-**	**(13)**	**(13)**
Other non-operating items	**(637)**	**(84)**	**(721)**	**700**	**(21)**
Post-tax profit from long-term business	**136**	**40**	**176**	**1,315**	**1,491**
Exchange movements on foreign operations and net investment hedges	**(9)**	**(33)**	**(42)**	**(133)**	**(175)**
Intra-group dividends (including statutory transfers)	**(300)**	**-**	**(300)**	**-**	**(300)**
Other movements	**(82)**	**-**	**(82)**	**-**	**(82)**
Shareholders' equity at 31 December 2013	**956**	**1,607**	**2,563**	**4,403**	**6,966**
UK insurance operations					
Shareholders' equity at 1 January 2013	**772**	**1,328**	**2,100**	**4,672**	**6,772**
New business contribution[note (iii)]	**(29)**	**66**	**37**	**200**	**237**
Existing business – transfer to net worth	**508**	**(80)**	**428**	**(428)**	**-**
Expected return on existing business	**18**	**38**	**56**	**381**	**437**
Changes in operating assumptions and experience variances*	**154**	**(19)**	**135**	**10**	**145**
Other non-operating items	**(32)**	**37**	**5**	**127**	**132**
Post-tax profit from long-term business	**619**	**42**	**661**	**290**	**951**
Intra-group dividends (including statutory transfers)[note (i)]	**(270)**	**-**	**(270)**	**(69)**	**(339)**
Other movements	**(42)**	**-**	**(42)**	**-**	**(42)**
Shareholders' equity at 31 December 2013[note (viii)]	**1,079**	**1,370**	**2,449**	**4,893**	**7,342**

* Changes in operating assumptions and experience variances as reported above include development, Solvency II and restructuring costs.

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 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) The movements arising from new business contribution are as follows:

	2013 £m	2012 £m
Free surplus invested in new business	**(637)**	(618)
Increase in required capital	**461**	454
Reduction in total net worth	**(176)**	(164)
Increase in the value associated with new business	**2,258**	1,955
Total post-tax new business contribution	**2,082**	1,791

(iii) Free surplus invested in new business is as follows:

	2013 £m				2012 £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
Pre-tax new business contribution[note 2]	**1,460**	**1,086**	**297**	**2,843**	1,266	873	313	2,452
Tax	**(321)**	**(380)**	**(60)**	**(761)**	(284)	(305)	(72)	(661)
Post-tax new business contribution	**1,139**	**706**	**237**	**2,082**	982	568	241	1,791
Free surplus invested in new business	**(310)**	**(298)**	**(29)**	**(637)**	(292)	(281)	(45)	(618)
Post-tax new business contribution per £1 million free surplus invested	**3.7**	**2.4**	**8.2**	**3.3**	3.4	2.0	5.4	2.9

(iv) The value of in-force business includes the value of future margins from current in-force business less the cost of holding required capital and represents:

	2013 £m				2012 £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	**8,540**	**4,769**	**5,135**	**18,444**	7,903	3,992	4,916	16,811
Cost of capital	**(347)**	**(220)**	**(242)**	**(809)**	(352)	(121)	(244)	(717)
Cost of time value of guarantees[note (vii)]	**(50)**	**(146)**	**-**	**(196)**	(33)	(650)	-	(683)
Net value of in-force business	**8,143**	**4,403**	**4,893**	**17,439**	7,518	3,221	4,672	15,411

(v) The free surplus increase of £365 million in respect of the transaction with Thanachart bank includes the purchase cost of the partnership agreement to enable future new sales through the bancassurance channel. As new business is written, the carrying value of this purchase cost is amortised against the new business contribution line of this reconciliation.

(vi) The increase in required capital in US operations of £58 million reflects the effect of the change from 235 per cent to 250 per cent of risk-based capital.

(vii) The decrease in the cost of time value of guarantees for US operations from £(650) million at 2012 to £(146) million at 2013 primarily relates to variable annuity business, mainly arising from the increase in the expected long-term separate account rate of return of 1.3 per cent driven by the increase in the US 10-year treasury bond rate and strong equity performance, partly offset by the impact from new business written in the year.

(viii) Effects of domestication of Hong Kong branch in 2014
The analysis of shareholders' equity at 31 December 2013 does not incorporate the impact of the domestication of the Hong Kong branch which took effect on 1 January 2014. In order to align the corporate structure of the branch business in Hong Kong more closely with Prudential's other Asia operations, the Board of PAC initiated a proposal to transfer the branch business to two Hong Kong-incorporated companies – Prudential Hong Kong Limited and Prudential General Insurance Hong Kong Limited – with one providing life insurance and the other providing general insurance.

Following consultation with policyholders of PAC and court approval, the assets and liabilities of the Hong Kong branch business of PAC transferred to separate subsidiaries on 1 January 2014. As a consequence of this restructuring, adjustments in respect of required capital, and the cost of that capital, will be necessary. This arises 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. These will be reflected in the movements in net worth and value of in force business reported in 2014 as adjustments to opening balances as follows:

Adjustment to shareholders' equity at 1 January 2014	£m 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
Net impact on Group total	(35)	35	-	(11)	(11)

The adjustments for UK insurance operations reflect the transfer of required capital, and attaching cost of capital, for amounts previously set aside whilst the Hong Kong business was a branch of Prudential Assurance Company, to the Asia operations segment. The adjustments for Asia operations reflect this transfer and the effects of additional capital requirements of the Hong Kong regulator under the arrangements for the newly domesticated business. The net effect reflects the higher required capital levels attributable to the stand-alone Hong Kong shareholder-backed long-term insurance business.

13 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 2013 and 2012 totals in the tables below for the emergence of free surplus as follows:

	2013 £m	2012 £m
Required capital[note 12]	**3,954**	3,898
Value of in-force (VIF)[note 12]	**17,439**	15,411
Add back: deduction for cost of time value of guarantees[note 12]	**196**	683
Expected cashflow from sale of Japan Life business	**(25)**	-
Other items[note]	**(1,157)**	(1,401)
Total	**20,407**	18,591

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.

		2013 £m Expected period of conversion of future post tax distributable earnings and required capital flows to free surplus					
	2013 Total 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.

		2012 £m Expected period of conversion of future post tax distributable earnings and required capital flows to free surplus					
	2012 Total as shown above	**1-5 years**	**6 -10 years**	**11-15 years**	**16 -20 years**	**21-40 years**	**40+ years**
Asia operations	8,410	2,987	1,873	1,181	840	1,297	232
US operations	5,439	2,723	1,607	698	301	110	-
UK insurance operations	4,742	1,890	1,185	756	456	445	10
Total	18,591	7,600	4,665	2,635	1,597	1,852	242
	100%	41%	25%	14%	9%	10%	1%

14 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 2013 (31 December 2012) and the pre-tax new business contribution after the effect of required capital for 2013 and 2012 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

	2013 £m				**2012 £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**
Pre-tax new business contribution[note 2]	**1,460**	**1,086**	**297**	**2,843**	1,266	873	313	2,452
Discount rates – 1% increase	**(187)**	**(52)**	**(36)**	**(275)**	(163)	(40)	(38)	(241)
Interest rates – 1% increase	**23**	**72**	**(1)**	**94**	33	104	6	143
Interest rates – 1% decrease	**(61)**	**(107)**	**-**	**(168)**	(106)	(161)	(11)	(278)
Equity/property yields – 1% rise	**56**	**96**	**13**	**165**	48	97	13	158
Long-term expected defaults - 5 bps increase	**-**	**-**	**(8)**	**(8)**	-	-	(10)	(10)
Liquidity premium - 10 bps increase	**-**	**-**	**16**	**16**	-	-	20	20

Embedded value of long-term business operations

	2013 £m				**2012 £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 9]	**10,305**	**6,966**	**7,342**	**24,613**	9,462	6,032	6,772	22,266
Discount rates – 1% increase	**(992)**	**(266)**	**(529)**	**(1,787)**	(879)	(209)	(482)	(1,570)
Interest rates – 1% increase	**(297)**	**(65)**	**(380)**	**(742)**	(218)	(124)	(328)	(670)
Interest rates – 1% decrease	**200**	**(12)**	**443**	**631**	85	49	399	533
Equity/property yields – 1% rise	**370**	**250**	**210**	**830**	328	230	202	760
Equity/property market values – 10% fall	**(183)**	**(90)**	**(238)**	**(511)**	(159)	(69)	(309)	(537)
Statutory minimum capital	**109**	**153**	**4**	**266**	108	89	4	201
Long-term expected defaults – 5 bps increase	**-**	**-**	**(114)**	**(114)**	-	-	(112)	(112)
Liquidity premium – 10 bps increase	**-**	**-**	**228**	**228**	-	-	224	224

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, to the extent that asset value changes are included in the sensitivities, within 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 2013 (31 December 2012) and the pre-tax new business contribution after the effect of required capital for 2013 and 2012 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 (ie increased longevity).

New business contribution

	2013 £m				2012 £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
Pre-tax new business contribution[note 2]	**1,460**	**1,086**	**297**	**2,843**	1,266	873	313	2,452
Maintenance expenses – 10% decrease	**29**	**12**	**4**	**45**	32	13	4	49
Lapse rates – 10% decrease	**109**	**41**	**8**	**158**	95	26	7	128
Mortality and morbidity – 5% decrease	**75**	**6**	**(8)**	**73**	76	5	(11)	70
Change representing effect on:								
Life business	**75**	**6**	**3**	**84**	76	5	3	84
UK annuities	**-**	**-**	**(11)**	**(11)**	-	-	(14)	(14)

Embedded value of long-term business operations

	2013 £m				2012 £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 9]	**10,305**	**6,966**	**7,342**	**24,613**	9,462	6,032	6,772	22,266
Maintenance expenses – 10% decrease	**126**	**59**	**58**	**243**	137	50	56	243
Lapse rates – 10% decrease	**352**	**294**	**79**	**725**	333	225	66	624
Mortality and morbidity – 5% decrease	**377**	**154**	**(254)**	**277**	387	178	(273)	292
Change representing effect on:								
Life business	**377**	**154**	**20**	**551**	387	178	13	578
UK annuities	**-**	**-**	**(274)**	**(274)**	-	-	(286)	(286)

15 Methodology and accounting presentation

(a) 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 results for covered business, including the Group's investments in joint venture insurance operations, are presented on a pre-tax basis, with tax reported separately. The EEV basis results for the Group's covered business are then combined with the 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.

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, as described in note 15(c)(vi).

A small amount of UK group pensions business is also not modelled for EEV reporting purposes.

(b) Methodology

(i) Embedded value

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:

- 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;
  - the time value of cost of options and guarantees;
- locked-in required capital; and
- 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 15(c)(iv)) no smoothing of market or account balance values, unrealised gains or investment return is applied in determining the embedded value or profit before tax. Separately, the analysis of profit is delineated between operating profit based on longer-term investment returns and other constituent items (as explained in note 15(c)(i)).

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. 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.

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 in response to the regulatory changes introduced in recent years), expense overruns are permitted 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 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.

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 year 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.

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 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 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 period economic assumptions are used.

New business profitability is a key metric for the Group's management of the development of the business. In addition, 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.

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.

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 PAC Hong Kong branch, 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 2013 and 2012, depending on the particular product, jurisdiction where issued, and date of issue. For 2013 and 2012, 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 2.8 per cent for 2013 and 2012.

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 would be 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 £36 million at 31 December 2013 (31 December 2012: £47 million) to honour guarantees on a small number of guaranteed annuity option products.

The only material guaranteed surrender values relate to investments in the PruFund range of with-profits funds. For these products the policyholder can choose to pay an additional management charge. In return, at the selected guarantee date, the fund will be increased if necessary to a guaranteed minimum value (based on the initial investment adjusted for any prior withdrawals). The with-profits fund held a reserve of £36 million at 31 December 2013 (31 December 2012: £52 million) in respect of this guarantee.

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 £328 million was held in SAIF at 31 December 2013 (31 December 2012: £371 million) to honour the guarantees. As described in note 15(a) 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 16(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.

(ii) 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 (2012: 235 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.

(iii) 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 16(ii). In determining this allowance a number of factors have been considered. These factors, in particular, include:

- 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
- 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:

- 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;
- 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;
- an allowance for a 1 notch downgrade of the asset portfolio subject to credit risk and;
- 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 16(iii)(b).

(2) With-profits fund non-profit annuity business
For UK non-profit annuity business including that written by Prudential Annuities Limited (PAL) 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 in PAL 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.

(iv) 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.

(v) Debt capital
Core structural debt liabilities are carried at market value. As the liabilities are generally held to maturity or for the long-term, no deferred tax asset or liability has been established on the difference, compared to the IFRS carrying value. Accordingly, no deferred tax credit or charge is recorded in the results for the reporting period in respect of the mark to market value adjustment.

(vi) 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.

(c) Accounting presentation

(i) Analysis of profit before tax
To the extent applicable, the presentation of the EEV profit for the year is consistent with the basis that the Group applies for analysis of IFRS basis profits before shareholder taxes between operating and non-operating results. Operating results reflect the underlying results including longer-term investment returns (which are determined as described in note 15(c)(ii) below) and incorporate the following:

- new business contribution, as defined in note 15(b)(i);
- unwind of discount on the value of in-force business and other expected returns, as described in note 15(c)(iv) below;
- the impact of routine changes of estimates relating to non-economic assumptions, as described in note 15(c)(iii) below; and
- non-economic experience variances, as described in note 15(c)(v) below.

Non-operating results comprise the recurrent items of short-term fluctuations in investment returns, the mark to market value movements on core borrowings and the effect of changes in economic assumptions.

In addition, the 2013 operating profit excludes the loss attaching to the held for sale Japan Life business and the costs associated with the domestication of the Hong Kong branch. The 2012 operating profit excluded the gain arising on the acquisition of REALIC, the profit attaching to the Japan Life business and the dilution of the Group's holding in PPM South Africa. The amounts for these items are included in total EEV profit attributable to shareholders. The Company believes that operating profit, as adjusted for these items, better reflects underlying performance. Profit before tax and basic earnings per share include these items, together with actual investment returns.

Post-tax results
The Group intends to alter its basis of presentation of EEV results for 2014 and subsequent reporting periods to a post-tax basis, in line with the approach adopted by a number of international insurance groups. An analysis of the Group's profit and loss account and key accompanying notes on a pre-tax and post-tax basis for the most recent reporting periods are shown in the additional unaudited financial information section C.

(ii) 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 15(c)(iv) 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 year 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 year 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) 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.

(iv) 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 (ie smoothed). In the summary statement of financial position and for total profit reporting, asset values and investment returns are not smoothed. At 31 December 2013 the shareholders' interest in the smoothed surplus assets used for this purpose only, were £136 million lower (31 December 2012: £121 million lower) than the surplus assets carried in the statement of financial position.

(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 year, such as persistency, mortality and morbidity, expenses and other factors.

(vi) Pension costs
Profit before tax
Movements on the shareholders' share of surpluses (to the extent not restricted by IFRIC 14) and deficits of the Group's defined benefit pension schemes adjusted for contributions paid in the year are recorded within Other Comprehensive Income. Consistent with the basis of distribution of bonuses and the treatment of the estate described in notes 15(b)(i) and (iv), the shareholders' share incorporates 10 per cent of the proportion of the financial position attributable to the PAC with-profits fund. The financial position is determined by applying the requirements of IAS 19 as booked for IFRS reporting.

(vii) 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 option and guarantees, are recorded in non-operating results.

(viii) Taxation
The profit for the year for covered business is in most cases calculated initially at the post-tax level. For 2013 and 2012 the post-tax profit for covered business is then grossed up for presentation purposes at the rates of tax applicable to the countries and periods concerned. 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 substantively enacted by the end of the reporting period. Current taxation and other legislation have been assumed to continue unaltered except where changes have been announced and substantively enacted in the year. Additional detail of pre and post-tax EEV basis results are shown in the additional financial information.

(ix) 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).

16 Assumptions

Deterministic assumptions

The tables below summarise the principal financial assumptions:

Assumed investment returns reflect the expected future returns on the assets held and allocated to the covered business at the valuation date.

(i) Asia operations[notes (b), (d)]

	Risk discount rate %				Expected long-term Inflation %		10-year government bond yield %	
	New business		In force					
	31 Dec		31 Dec		31 Dec		31 Dec	
	2013	2012	2013	2012	2013	2012	2013	2012
China	**11.2**	10.1	**11.2**	10.1	**2.5**	2.5	**4.7**	3.6
Hong Kong[notes (b), (c)]	**4.9**	3.8	**4.8**	3.5	**2.3**	2.3	**3.1**	1.8
India	**14.0**	13.2	**14.0**	13.2	**4.0**	4.0	**9.0**	8.2
Indonesia	**12.5**	9.4	**12.5**	9.4	**5.0**	5.0	**8.6**	5.3
Korea	**7.4**	7.4	**7.6**	7.2	**3.0**	3.0	**3.6**	3.2
Malaysia[note (c)]	**6.5**	5.8	**6.5**	5.8	**2.5**	2.5	**4.2**	3.5
Philippines	**10.5**	11.1	**10.5**	11.1	**4.0**	4.0	**3.8**	4.4
Singapore[note (c)]	**4.6**	3.6	**5.3**	4.3	**2.0**	2.0	**2.6**	1.3
Taiwan	**4.3**	3.3	**4.1**	3.4	**1.0**	1.0	**1.7**	1.2
Thailand	**10.7**	10.3	**10.7**	10.3	**3.0**	3.0	**3.9**	3.5
Vietnam	**15.7**	17.2	**15.7**	17.2	**5.5**	5.5	**9.0**	10.5
Total weighted risk discount rate[note (a)]	**8.1**	6.8	**7.2**	6.1				

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 pre-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 in the Asia operations were:

	31 Dec 2013 %	31 Dec 2012 %
Hong Kong	**7.1**	5.8
Malaysia	**10.1**	9.5
Singapore	**8.6**	7.4

(d) 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 2013 (2012: 3.5 per cent to 8.8 per cent).

(ii) US operations

	31 Dec 2013 %	31 Dec 2012 %
Assumed new business spread margins:[note (a)]		
Fixed Annuity business:*		
January to June issues	**1.2**	1.4
July to December issues	**1.75**	1.1
Fixed Index Annuity business:		
January to June issues	**1.45**	1.75
July to December issues	**2.00**	1.35
Institutional business	**0.75**	1.25
Allowance for long-term defaults included in projected spread[note (b)]	**0.25**	0.28
Risk discount rate:		
Variable annuity		
Risk discount rate	**7.6**	6.5
Additional allowance for credit risk included in risk discount rate[note (b)]	**0.2**	0.3
Non-variable annuity		
Risk discount rate	**4.8**	4.0
Additional allowance for credit risk included in risk discount rate[note (b)]	**1.0**	1.5
Weighted average total:[note (c)]		
New business	**7.4**	6.3
In force	**6.9**	5.6
US 10-year treasury bond rate at end of year	**3.1**	1.8
Pre-tax expected long-term nominal rate of return for US equities	**7.1**	5.8
Expected long-term rate of inflation	**2.6**	2.5
Equity risk premium	**4.0**	4.0
Assumed tax rate for value of in-force business	**35.0**	35.0

* including the proportion of variable annuity business invested in the general account

Notes

(a) The assumed new business spread margins represent the difference between the earned rate on investments, after allowance for long-term defaults, and the policy holder crediting rate. The spread margins shown above are the rates at inception. For fixed annuity business (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.

(b) The allowance for long-term defaults included in projected spread is shown as at the valuation date applied in the cash flow projections of the value of the in-force business. The risk discount rates include an additional allowance for credit risk premium and short-term downgrades and defaults. See note 15(b)(iii) for further details.

(c) The weighted average risk discount rates reflect the mix of business between variable annuity and non-variable annuity business. The increase in the weighted average risk discount rates from 2012 to 2013 primarily reflects the increase in the US 10-year Treasury bond rate of 130 basis points, partly offset by the effect of the decrease in additional allowance for credit risk.

(iii) UK insurance operations

	31 Dec 2013 %	31 Dec 2012 %
Shareholder-backed annuity business:[note (b)]		
Risk discount rate:		
New business	**6.8**	6.9
In force[note (a)]	**8.3**	8.0
Pre-tax expected long-term nominal rate of return for shareholder-backed annuity business:		
New business	**4.2**	4.2
In force[note (a)]	**4.3**	3.9
Other business:		
Risk discount rate:		
New business	**6.1**	5.2
In force	**6.8**	5.6
Pre-tax expected long-term nominal rates of investment return:		
UK equities	**7.5**	6.3
Overseas equities	**7.1 to 9.2**	5.8 to 9.6
Property	**6.2**	5.1
15-year gilt rate	**3.5**	2.3
Corporate bonds	**5.1**	3.9
Post-tax expected long-term nominal rate of return for the PAC with-profits fund:		
Pension business (where no tax applies)	**6.2**	5.0
Life business	**5.4**	4.4
Expected long-term rate of inflation	**3.4**	2.9
Equity risk premium	**4.0**	4.0
Assumed tax rate for value of in-force business[note 3(iv)(b)]	**20.0**	23.0

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 15(b)(iii)) and the residual liquidity premium element of the bond spread over swap rates is as follows:

	New business* (bps)		In-force business (bps)	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Bond spread over swap rates	**127**	150	**133**	161
Total credit risk allowance	**36**	35	**62**	65
Liquidity premium	**91**	115	**71**	96

* 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

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations described above. Assumptions specific to the stochastic calculations, such as the volatilities of asset returns, reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of longer-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 allowance for correlation between the various asset classes.

Details are given below of the key characteristics and calibrations of each model.

(iv) Asia operations

- The same asset return models as described for UK insurance operations below, appropriately calibrated, have been used for Asia operations. The principal asset classes are government and corporate bonds. Equity holdings are much lower than in the UK whilst property holdings do not represent a significant investment asset;
- the stochastic cost of guarantees is primarily only of significance for the Hong Kong, Korea, Malaysia, Singapore and Taiwan operations; and
- the mean stochastic returns are consistent with the mean deterministic returns for each country. The expected 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 are projected using a log-normal generator calibrated to historical US Treasury yield curves;
- corporate bond returns are based on Treasury securities plus a spread that has been calibrated to current market conditions and varies by credit quality; and
- variable annuity equity returns and bond interest rates have been stochastically generated using a log-normal model with parameters determined by reference to historical data. The volatility of equity fund returns ranges from 19 per cent to 32 per cent for both 2013 and 2012, depending on the risk class and the class of equity, 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 two-factor model calibrated to the initial market yield curve;
- the risk premium on equity assets is assumed to follow a log-normal distribution;
- the corporate bond return is calculated as the return on a zero-coupon bond plus a spread. The spread process is a mean reverting stochastic process; and
- property returns are modelled in a similar fashion to corporate bonds, namely as the return on a risk-free bond, plus a risk premium, plus a process representative of the change in residual values and the change in value of the call option on rents.

Mean returns have been derived as the annualised arithmetic average return across all simulations and durations.

For each projection year, standard deviations have been calculated by taking the square root of the annualised variance of the returns over all the simulations. These have been averaged over all durations in the projection. For equity and property, the standard deviations relate to the total return on these assets. The standard deviations applied for both years are as follows:

	%
Equities:	
UK	20
Overseas	18
Property	15

17 New business premiums and contributions [note (i)]

	Single		Regular		Annual premium and contribution equivalents (APE)[note 15(b)(i)]		Present value of new business premiums (PVNBP)[note 15(b)(i)]	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Group insurance operations								
Asia	**2,136**	1,568	**1,911**	1,740	**2,125**	1,897	**11,375**	10,544
US	**15,712**	14,504	**2**	12	**1,573**	1,462	**15,723**	14,600
UK	**5,128**	6,286	**212**	207	**725**	836	**5,978**	7,311
Group Total	**22,976**	22,358	**2,125**	1,959	**4,423**	4,195	**33,076**	32,455
Asia insurance operations								
Cambodia	**-**	-	**1**	-	**1**	-	**3**	-
Hong Kong	**326**	157	**455**	380	**487**	396	**2,795**	2,316
Indonesia	**303**	359	**445**	410	**477**	446	**1,943**	2,097
Malaysia	**114**	98	**197**	208	**208**	218	**1,352**	1,388
Philippines	**193**	172	**34**	28	**53**	45	**299**	254
Singapore	**571**	399	**304**	261	**361**	301	**2,588**	2,314
Thailand	**66**	12	**61**	36	**68**	37	**289**	140
Vietnam	**2**	1	**54**	44	**54**	45	**204**	159
SE Asia operations inc. Hong Kong	**1,575**	1,198	**1,551**	1,367	**1,709**	1,488	**9,473**	8,668
China[note (ii)]	**114**	37	**71**	53	**83**	56	**409**	277
Korea	**311**	94	**82**	86	**113**	95	**641**	438
Taiwan	**102**	172	**107**	138	**117**	156	**491**	723
India[note (iii)]	**34**	67	**100**	96	**103**	102	**361**	438
Total Asia operations	**2,136**	1,568	**1,911**	1,740	**2,125**	1,897	**11,375**	10,544
US insurance operations								
Variable annuities	**10,795**	11,596	-	-	**1,079**	1,160	**10,795**	11,596
Elite Access (variable annuity)	**2,585**	849	-	-	**259**	85	**2,585**	849
Fixed annuities	**555**	581	-	-	**55**	58	**555**	581
Fixed index annuities	**907**	1,094	-	-	**91**	109	**907**	1,094
Life	**1**	6	**2**	12	**2**	12	**12**	102
Wholesale	**869**	378	-	-	**87**	38	**869**	378
Total US insurance operations	**15,712**	14,504	**2**	12	**1,573**	1,462	**15,723**	14,600
UK and Europe insurance operations								
Direct and partnership annuities	**284**	297	**-**	-	**28**	30	**284**	297
Intermediated annuities	**488**	653	**-**	-	**49**	65	**488**	653
Internal vesting annuities	**1,305**	1,456	**-**	-	**131**	146	**1,305**	1,456
Total individual annuities	**2,077**	2,406	-	-	**208**	241	**2,077**	2,406
Corporate pensions	**120**	303	**161**	159	**173**	189	**686**	1,045
Onshore bonds	**1,754**	2,275	**-**	-	**176**	228	**1,756**	2,277
Other products	**901**	894	**51**	48	**140**	137	**1,183**	1,175
Wholesale	**276**	408	**-**	-	**28**	41	**276**	408
Total UK and Europe insurance operations	**5,128**	6,286	**212**	207	**725**	836	**5,978**	7,311
Group Total	**22,976**	22,358	**2,125**	1,959	**4,423**	4,195	**33,076**	32,455

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.

18 Additional information on the effect of the agreement to sell Japan Life business and adoption of new and amended IFRS accounting standards

In July 2013 the Group agreed to sell, dependent on regulatory approval, its life insurance business in Japan which we closed to new business in 2010. Also, in 2013 the Group has adopted new accounting standards on 'Joint arrangements' (IFRS 11) and amendments to 'Employee benefits' (IAS 19), from 1 January 2013. Accordingly, the 2012 comparative EEV basis results have been retrospectively adjusted from those previously published for the application of the IFRS standards and for the reclassification of the result attributable to the held for sale Japan Life business. The tables below show the results on the previous and revised basis of reporting.

	2013 £m			
	Under previous basis	Effect of change		Under new policies
		IFRS 11	IAS 19	
	note (i)	note (ii)	note (iii)	
Pre-tax operating profit based on longer-term investment returns				
Asia operations				
Long-term business:				
Before reclassification of held for sale Japan Life business	**2,394**	-	-	**2,394**
Reclassification of Japan Life business	**(7)**	-	-	**(7)**
	2,387	-	-	**2,387**
Eastspring investments	**82**	**(8)**	-	**74**
Other results	**3,119**	-	-	**3,119**
Pre-tax operating profit based on longer-term investment returns	**5,588**	**(8)**	-	**5,580**
Short-term fluctuations in investment returns:				
Before reclassification of held for sale Japan Life business	**(790)**	-	**(1)**	**(791)**
Reclassification of Japan Life business	**(28)**	-	-	**(28)**
	(818)	-	**(1)**	**(819)**
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(69)**	-	**69**	-
Effect of changes in economic assumptions:				
Before reclassification of held for sale Japan Life business	**818**	-	-	**818**
Reclassification of Japan Life business	**3**	-	-	**3**
	821	-	-	**821**
Loss attaching to held for sale Japan Life business:				
Reclassification from pre-tax operating profit based on longer-term investment returns	**7**	-	-	**7**
Reclassification from short-term fluctuations in investment returns	**28**	-	-	**28**
Reclassification from effect of changes in economic assumptions	**(3)**	-	-	**(3)**
Remeasurement of carrying value of Japan Life business classified as held for sale	**(67)**	-	-	**(67)**
	(35)	-	-	**(35)**
Mark to market value movements on core borrowings	**152**	-	-	**152**
Costs of domestication of Hong Kong branch	**(35)**	-	-	**(35)**
Profit before tax	**5,604**	**(8)**	**68**	**5,664**
Tax attributable to shareholders' profit	**(1,299)**	**8**	**(15)**	**(1,306)**
Profit for the year attributable to shareholders	**4,305**	-	**53**	**4,358**
Items taken directly to shareholders' equity	**(1,892)**	-	**(53)**	**(1,945)**
Net increase in shareholders' equity	**2,413**	-	-	**2,413**
Total EPS based on post-tax profit (in pence)	**169.0p**	-	**2.0p**	**171.0p**

Summary statement of financial position	31 Dec 2013 £m			
	Under previous basis	Effect of change		Under new policies
		IFRS 11	IAS 19	
	note (i)	note (ii)		
Total net assets				
Total assets less liabilities, before deduction for insurance funds:				
Before reclassification of held for sale Japan Life business	**292,791**	**(3,151)**	**-**	**289,640**
Reclassification of Japan Life business	**(814)**	**-**	**-**	**(814)**
	291,977	**(3,151)**	**-**	**288,826**
Less insurance funds:				
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds:				
Before reclassification of held for sale Japan Life business	**(283,141)**	**3,151**	**-**	**(279,990)**
Reclassification of Japan Life business	**814**	**-**	**-**	**814**
	(282,327)	**3,151**	**-**	**(279,176)**
Less shareholders' accrued interest in the long-term business	**15,206**	**-**		**15,206**
Total net assets	**24,856**	**-**	**-**	**24,856**

	2012 £m			
	As reported under previous basis	Effect of change		Under new policies
		IFRS 11	IAS 19	
	note (i)	note (ii)	note (iii)	
Pre-tax operating profit based on longer-term investment returns				
Asia operations				
Long-term business:				
Before reclassification of held for sale Japan Life business	1,960	-	-	1,960
Reclassification of Japan Life business	(2)	-	-	(2)
	1,958	-	-	1,958
Eastspring investments	75	(6)	-	69
Other results	2,286	-	-	2,286
Pre-tax operating profit based on longer-term investment returns	4,319	(6)	-	4,313
Short-term fluctuations in investment returns:				
Before reclassification of held for sale Japan Life business	538	-	5	543
Reclassification of Japan Life business	(33)	-	-	(33)
	505	-	5	510
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	62	-	(62)	-
Effect of changes in economic assumptions:				
Before reclassification of held for sale Japan Life business	(16)	-	-	(16)
Reclassification of Japan Life business	14	-	-	14
	(2)	-	-	(2)
Profit attaching to held for sale Japan Life business:				
Reclassification from pre-tax operating profit based on longer-term investment returns	2	-	-	2
Reclassification from short-term fluctuations in investment returns	33	-	-	33
Reclassification from effect of changes in economic assumptions	(14)	-	-	(14)
	21	-	-	21
Other items	115	-	-	115
Profit before tax	5,020	(6)	(57)	4,957
Tax attributable to shareholders' profit	(1,207)	6	13	(1,188)
Profit for the year attributable to shareholders	3,813	-	(44)	3,769
Items taken directly to shareholders' equity	(1,007)	-	44	(963)
Net increase in shareholders' equity	2,806	-	-	2,806
Total EPS based on post-tax profit (in pence)	150.1p	-	(1.8)p	148.3p

Summary statement of financial position	31 Dec 2012 £m			
	As reported under previous basis	Effect of change		Under new policies
		IFRS 11 note (ii)	IAS 19	
Total net assets				
Total assets less liabilities, before deduction for insurance funds	274,863	(3,095)	-	271,768
Less insurance funds:				
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds	(264,504)	3,095	-	(261,409)
Less shareholders' accrued interest in the long-term business	12,084	-	-	12,084
Total net assets	22,443	-	-	22,443

Notes

(i) Following the agreement in July 2013 to sell the Group's life insurance business in Japan, the results for the Japan Life business have been shown separately in the Group's analysis of profit – see note 4.

(ii) Consistent with the requirements of IFRS 11, the Group's EEV pre-tax results now incorporate the post-tax results for asset management joint venture operations. For life insurance joint venture operations, the EEV results continue to be presented on a pre-tax basis, ie as for the Group's other insurance businesses.

(iii) Under the amended IAS 19 all actuarial gains and losses and related tax are recognised in the movement in shareholders' equity rather than in the summarised consolidated income statement.

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, ie 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 has been determined using the European Embedded Value (EEV) methodology and assumptions set out in our 2013 Annual 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(ix)

(1) Prudential plc reports its results at both actual exchange rates (AER) to reflect actual rates and also constant year-to-date average exchange rates (CER) so as to eliminate the impact of exchange translation.

Local currency: £		FY 2013*	FY 2012*	2013 vs 2012 appreciation / (depreciation) of local currency
Hong Kong	Average Rate	12.14	12.29	1%
	Closing Rate	12.84	12.60	(2)%
Indonesia	Average Rate	16,376.89	14,842.01	(10)%
	Closing Rate	20,156.57	15,665.76	(29)%
Malaysia	Average Rate	4.93	4.89	(1)%
	Closing Rate	5.43	4.97	(9)%
Singapore	Average Rate	1.96	1.98	1%
	Closing Rate	2.09	1.99	(5)%
India	Average Rate	91.75	84.70	(8)%
	Closing Rate	102.45	89.06	(15)%
Vietnam	Average Rate	32,904.71	33,083.59	1%
	Closing Rate	34,938.60	33,875.42	(3)%
Thailand	Average Rate	48.11	49.26	2%
	Closing Rate	54.42	49.72	(9)%
US	Average Rate	1.56	1.58	1%
	Closing Rate	1.66	1.63	(2)%

* Average rate is for the 12 months to 31 December

(1a) Insurance and investment 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 2012 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 2012 and 2013.

(2) Annual Equivalents, calculated as regular new business contributions plus 10 per cent of single new business contributions, are subject to roundings. 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 Eastspring Money Market Funds (MMF) gross inflows of £62,536 million (2012: £51,462 million) and net inflows of £522 million (2012 net outflows: £226 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 £4,297 million at 31 December 2013 (31 December 2012: £4,003 million).

Schedule A(i) – New Business Insurance Operations (Actual Exchange Rates)

	Single			Regular			Annual Equivalents[2]			PVNBP		
	2013 YTD £m	2012 YTD £m	+/- (%)	2013 YTD £m	2012 YTD £m	+/- (%)	2013 YTD £m	2012 YTD £m	+/- (%)	2013 YTD £m	2012 YTD £m	+/- (%)
Group Insurance Operations												
Asia [1a]	**2,136**	1,568	36%	**1,911**	1,740	10%	**2,125**	1,897	12%	**11,375**	10,544	8%
US[1a]	**15,712**	14,504	8%	**2**	12	(83)%	**1,573**	1,462	8%	**15,723**	14,600	8%
UK	**5,128**	6,286	(18)%	**212**	207	2%	**725**	836	(13)%	**5,978**	7,311	(18)%
Group Total	**22,976**	22,358	3%	**2,125**	1,959	8%	**4,423**	4,195	5%	**33,076**	32,455	2%
Asia Insurance Operations[1a]												
Cambodia	**-**	-	N/A	**1**	-	N/A	**1**	-	N/A	**3**	-	N/A
Hong Kong	**326**	157	108%	**455**	380	20%	**487**	396	23%	**2,795**	2,316	21%
Indonesia	**303**	359	(16)%	**445**	410	9%	**477**	446	7%	**1,943**	2,097	(7)%
Malaysia	**114**	98	16%	**197**	208	(5)%	**208**	218	(5)%	**1,352**	1,388	(3)%
Philippines	**193**	172	12%	**34**	28	21%	**53**	45	18%	**299**	254	18%
Singapore	**571**	399	43%	**304**	261	16%	**361**	301	20%	**2,588**	2,314	12%
Thailand	**66**	12	450%	**61**	36	69%	**68**	37	84%	**289**	140	106%
Vietnam	**2**	1	100%	**54**	44	23%	**54**	45	20%	**204**	159	28%
SE Asia Operations inc. Hong Kong	**1,575**	1,198	31%	**1,551**	1,367	13%	**1,709**	1,488	15%	**9,473**	8,668	9%
China[6]	**114**	37	208%	**71**	53	34%	**83**	56	48%	**409**	277	48%
Korea	**311**	94	231%	**82**	86	(5)%	**113**	95	19%	**641**	438	46%
Taiwan	**102**	172	(41)%	**107**	138	(22)%	**117**	156	(25)%	**491**	723	(32)%
India[4]	**34**	67	(49)%	**100**	96	4%	**103**	102	1%	**361**	438	(18)%
Total Asia Operations	**2,136**	1,568	36%	**1,911**	1,740	10%	**2,125**	1,897	12%	**11,375**	10,544	8%
US Insurance Operations[1a]												
Variable Annuities	**10,795**	11,596	(7)%	**-**	-	N/A	**1,079**	1,160	(7)%	**10,795**	11,596	(7)%
Elite Access (Variable Annuity)	**2,585**	849	204%	**-**	-	N/A	**259**	85	205%	**2,585**	849	204%
Fixed Annuities	**555**	581	(4)%	**-**	-	N/A	**55**	58	(5)%	**555**	581	(4)%
Fixed Index Annuities	**907**	1,094	(17)%	**-**	-	N/A	**91**	109	(17)%	**907**	1,094	(17)%
Life	**1**	6	(83)%	**2**	12	(83%)	**2**	12	(83)%	**12**	102	(88)%
Wholesale	**869**	378	130%	**-**	-	N/A	**87**	38	129%	**869**	378	130%
Total US Insurance Operations	**15,712**	14,504	8%	**2**	12	(83)%	**1,573**	1,462	8%	**15,723**	14,600	8%
UK & Europe Insurance Operations												
Direct and Partnership Annuities	**284**	297	(4)%	**-**	-	N/A	**28**	30	(7)%	**284**	297	(4)%
Intermediated Annuities	**488**	653	(25)%	**-**	-	N/A	**49**	65	(25)%	**488**	653	(25)%
Internal Vesting Annuities	**1,305**	1,456	(10)%	**-**	-	N/A	**131**	146	(10)%	**1,305**	1,456	(10)%
Total Individual Annuities	**2,077**	2,406	(14)%	**-**	-	N/A	**208**	241	(14)%	**2,077**	2,406	(14)%
Corporate Pensions	**120**	303	(60)%	**161**	159	1%	**173**	189	(8)%	**686**	1,045	(34)%
On-shore Bonds	**1,754**	2,275	(23)%	**-**	-	N/A	**176**	228	(23)%	**1,756**	2,277	(23)%
Other Products	**901**	894	1%	**51**	48	6%	**140**	137	2%	**1,183**	1,175	1%
Wholesale	**276**	408	(32)%	**-**	-	N/A	**28**	41	(32)%	**276**	408	(32)%
Total UK & Europe Insurance Operations	**5,128**	6,286	(18)%	**212**	207	2%	**725**	836	(13)%	**5,978**	7,311	(18)%
Group Total	**22,976**	22,358	3%	**2,125**	1,959	8%	**4,423**	4,195	5%	**33,076**	32,455	2%

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 all periods in 2012.

	Single			Regular			Annual Equivalents[2]			PVNBP		
	2013 YTD £m	2012 YTD £m	+/- (%)	2013 YTD £m	2012 YTD £m	+/- (%)	2013 YTD £m	2012 YTD £m	+/- (%)	2013 YTD £m	2012 YTD £m	+/- (%)
Group Insurance Operations												
Asia [1a] [1b]	**2,136**	1,545	38%	**1,911**	1,709	12%	**2,125**	1,864	14%	**11,375**	10,405	9%
US[1a] [1b]	**15,712**	14,692	7%	**2**	12	(83)%	**1,573**	1,481	6%	**15,723**	14,789	6%
UK	**5,128**	6,286	(18)%	**212**	207	2%	**725**	836	(13)%	**5,978**	7,311	(18)%
Group Total	**22,976**	22,523	2%	**2,125**	1,928	10%	**4,423**	4,181	6%	**33,076**	32,505	2%
Asia Insurance Operations[1a] [1b]												
Cambodia	**-**	-	N/A	**1**	-	N/A	**1**	-	N/A	**3**	-	N/A
Hong Kong	**326**	159	105%	**455**	385	18%	**487**	402	21%	**2,795**	2,346	19%
Indonesia	**303**	325	(7)%	**445**	372	20%	**477**	404	18%	**1,943**	1,900	2%
Malaysia	**114**	98	16%	**197**	206	(4)%	**208**	216	(4)%	**1,352**	1,378	(2)%
Philippines	**193**	173	12%	**34**	28	21%	**53**	45	18%	**299**	256	17%
Singapore	**571**	403	42%	**304**	264	15%	**361**	305	18%	**2,588**	2,341	11%
Thailand	**66**	13	408%	**61**	37	65%	**68**	38	79%	**289**	144	101%
Vietnam	**2**	1	100%	**54**	45	20%	**54**	45	20%	**204**	160	28%
SE Asia Operations inc. Hong Kong	**1,575**	1,172	34%	**1,551**	1,337	16%	**1,709**	1,455	17%	**9,473**	8,525	11%
China[6]	**114**	39	192%	**71**	55	29%	**83**	59	41%	**409**	288	42%
Korea	**311**	98	217%	**82**	89	(8)%	**113**	99	14%	**641**	457	40%
Taiwan	**102**	174	(41)%	**107**	140	(24)%	**117**	157	(25)%	**491**	730	(33)%
India[4]	**34**	62	(45)%	**100**	88	14%	**103**	94	10%	**361**	405	(11)%
Total Asia Operations	**2,136**	1,545	38%	**1,911**	1,709	12%	**2,125**	1,864	14%	**11,375**	10,405	9%
US Insurance Operations[1a] [1b]												
Variable Annuities	**10,795**	11,746	(8)%	**-**	-	N/A	**1,079**	1,175	(8)%	**10,795**	11,746	(8)%
Elite Access (Variable Annuity)	**2,585**	860	201%	**-**	-	N/A	**259**	86	201%	**2,585**	860	201%
Fixed Annuities	**555**	589	(6)%	**-**	-	N/A	**55**	59	(7)%	**555**	589	(6)%
Fixed Index Annuities	**907**	1,108	(18)%	**-**	-	N/A	**91**	111	(18)%	**907**	1,108	(18)%
Life	**1**	6	(83)%	**2**	12	(83)%	**2**	12	(83)%	**12**	103	(88)%
Wholesale	**869**	383	127%	**-**	-	N/A	**87**	38	129%	**869**	383	127%
Total US Insurance Operations	**15,712**	14,692	7%	**2**	12	(83)%	**1,573**	1,481	6%	**15,723**	14,789	6%
UK & Europe Insurance Operations												
Direct and Partnership Annuities	**284**	297	(4)%	**-**	-	N/A	**28**	30	(7)%	**284**	297	(4)%
Intermediated Annuities	**488**	653	(25)%	**-**	-	N/A	**49**	65	(25)%	**488**	653	(25)%
Internal Vesting Annuities	**1,305**	1,456	(10)%	**-**	-	N/A	**131**	146	(10)%	**1,305**	1,456	(10)%
Total Individual Annuities	**2,077**	2,406	(14)%	**-**	-	N/A	**208**	241	(14)%	**2,077**	2,406	(14)%
Corporate Pensions	**120**	300	(60)%	**161**	159	1%	**173**	189	(8)%	**686**	1,042	(34)%
On-shore Bonds	**1,754**	2,275	(23)%	**-**	-	N/A	**176**	228	(23)%	**1,756**	2,277	(23)%
Other Products	**901**	897	0%	**51**	48	6%	**140**	137	2%	**1,183**	1,178	0%
Wholesale	**276**	408	(32)%	**-**	-	N/A	**28**	41	(32)%	**276**	408	(32)%
Total UK & Europe Insurance Operations	**5,128**	6,286	(18)%	**212**	207	2%	**725**	836	(13)%	**5,978**	7,311	(18)%
Group Total	**22,976**	22,523	2%	**2,125**	1,928	10%	**4,423**	4,181	6%	**33,076**	32,505	2%

Schedule A(iii) – Total Insurance New Business APE – By Quarter (Actual Exchange Rates)

	2012 Q1 £m	2012 Q2 £m	2012 Q3 £m	2012 Q4 £m	2013 Q1 £m	2013 Q2 £m	2013 Q3 £m	2013 Q4 £m
Group Insurance Operations								
Asia [1a]	443	456	429	569	495	515	513	**602**
US[1a]	332	387	414	329	358	439	405	**371**
UK	189	223	205	219	185	170	185	**185**
Group Total	**964**	**1,066**	**1,048**	**1,117**	**1,038**	**1,124**	**1,103**	**1,158**
Asia Insurance Operations[1a]								
Cambodia	-	-	-	-	-	-	-	**1**
Hong Kong	85	92	96	123	107	107	121	**152**
Indonesia	97	109	97	143	112	128	108	**129**
Malaysia	45	53	47	73	46	53	52	**57**
Philippines	10	11	12	12	14	15	12	**12**
Singapore	72	69	76	84	80	90	87	**104**
Thailand	11	8	9	9	11	14	22	**21**
Vietnam	7	11	11	16	10	13	14	**17**
SE Asia Operations inc. Hong Kong	**327**	**353**	**348**	**460**	**380**	**420**	**416**	**493**
China[6]	17	16	13	10	27	20	21	**15**
Korea	21	24	22	28	30	32	23	**28**
Taiwan	43	45	24	44	19	26	28	**44**
India[4]	35	18	22	27	39	17	25	**22**
Total Asia Insurance Operations	**443**	**456**	**429**	**569**	**495**	**515**	**513**	**602**
US Insurance Operations[1a]								
Variable Annuities	279	318	333	230	240	298	271	**270**
Elite Access (Variable Annuity)	-	14	26	45	54	73	64	**68**
Fixed Annuities	16	15	14	13	14	16	14	**11**
Fixed Index Annuities	25	25	29	30	34	28	22	**7**
Life	4	4	3	1	1	-	-	**1**
Wholesale	8	11	9	10	15	24	34	**14**
Total US Insurance Operations	**332**	**387**	**414**	**329**	**358**	**439**	**405**	**371**
UK & Europe Insurance Operations								
Direct and Partnership Annuities	7	7	7	9	8	7	7	**6**
Intermediated Annuities	10	15	16	24	15	14	12	**8**
Internal Vesting annuities	31	35	38	42	32	35	31	**33**
Total Individual Annuities	**48**	**57**	**61**	**75**	**55**	**56**	**50**	**47**
Corporate Pensions	49	55	44	41	53	40	45	**35**
On-shore Bonds	55	51	55	67	45	38	43	**50**
Other Products	37	33	31	36	32	36	32	**40**
Wholesale	-	27	14	-	-	-	15	**13**
Total UK & Europe Insurance Operations	**189**	**223**	**205**	**219**	**185**	**170**	**185**	**185**
Group Total	**964**	**1,066**	**1,048**	**1,117**	**1,038**	**1,124**	**1,103**	**1,158**

Schedule A(iv) – Total Insurance New Business APE – By Quarter (2012 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 2012. Discrete quarters in 2013 are presented on actual exchange rates.

	2012				2013			
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m	Q3 £m	Q4 £m
Group Insurance Operations								
Asia[1b]	428	450	423	563	495	515	513	**602**
US[1b]	334	392	417	338	358	439	405	**371**
UK	189	223	205	219	185	170	185	**185**
Group Total	**951**	**1,065**	**1,045**	**1,120**	**1,038**	**1,124**	**1,103**	**1,158**
Asia Insurance Operations[1b]								
Cambodia	-	-	-	-	-	-	-	**1**
Hong Kong	85	93	97	127	107	107	121	**152**
Indonesia	84	98	89	133	112	128	108	**129**
Malaysia	44	53	47	72	46	53	52	**57**
Philippines	10	11	12	12	14	15	12	**12**
Singapore	73	71	76	85	80	90	87	**104**
Thailand	11	8	10	9	11	14	22	**21**
Vietnam	7	10	11	17	10	13	14	**17**
SE Asia Operations inc. Hong Kong	**314**	**344**	**342**	**455**	**380**	**420**	**416**	**493**
China[6]	18	17	13	11	27	20	21	**15**
Korea	22	26	22	29	30	32	23	**28**
Taiwan	43	46	24	44	19	26	28	**44**
India[4]	31	17	22	24	39	17	25	**22**
Total Asia Insurance Operations	**428**	**450**	**423**	**563**	**495**	**515**	**513**	**602**
US Insurance Operations[1b]								
Variable Annuities	280	322	336	237	240	298	271	**270**
Elite Access (Variable Annuity)	-	14	26	46	54	73	64	**68**
Fixed Annuities	17	15	14	13	14	16	14	**11**
Fixed Index Annuities	25	26	29	31	34	28	22	**7**
Life	4	4	3	1	1	-	-	**1**
Wholesale	8	11	9	10	15	24	34	**14**
Total US Insurance Operations	**334**	**392**	**417**	**338**	**358**	**439**	**405**	**371**
UK & Europe Insurance Operations								
Direct and Partnership Annuities	7	7	7	9	8	7	7	**6**
Intermediated Annuities	10	15	16	24	15	14	12	**8**
Internal Vesting annuities	31	35	38	42	32	35	31	**33**
Total Individual Annuities	**48**	**57**	**61**	**75**	**55**	**56**	**50**	**47**
Corporate Pensions	49	55	44	41	53	40	45	**35**
On-shore Bonds	55	51	55	67	45	38	43	**50**
Other Products	37	33	31	36	32	36	32	**40**
Wholesale	-	27	14	-	-	-	15	**13**
Total UK & Europe Insurance Operations	**189**	**223**	**205**	**219**	**185**	**170**	**185**	**185**
Group Total	**951**	**1,065**	**1,045**	**1,120**	**1,038**	**1,124**	**1,103**	**1,158**

Schedule A(v) – Total Insurance New Business APE – By Quarter (2013 and 2012 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 2012 and 2013 i.e the average exchange rate for the year ended 31 December 2013 is applied to each discrete quarter for 2012 and 2013.

	2012				2013			
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m	Q3 £m	Q4 £m
Group Insurance Operations								
Asia[1c]	428	450	423	563	476	496	517	**636**
US[1c]	334	392	417	338	356	430	401	**386**
UK	189	223	205	219	185	170	185	**185**
Group Total	**951**	**1,065**	**1,045**	**1,120**	**1,017**	**1,096**	**1,103**	**1,207**
Asia Insurance Operations[1c]								
Cambodia	-	-	-	-	-	-	-	**1**
Hong Kong	85	93	97	127	106	106	121	**154**
Indonesia	84	98	89	133	104	118	109	**146**
Malaysia	44	53	47	72	44	51	53	**60**
Philippines	10	11	12	12	13	14	12	**14**
Singapore	73	71	76	85	78	88	88	**107**
Thailand	11	8	10	9	11	14	21	**22**
Vietnam	7	10	11	17	9	13	14	**18**
SE Asia Operations inc. Hong Kong	**314**	**344**	**342**	**455**	**365**	**404**	**418**	**522**
China[6]	18	17	13	11	27	19	21	**16**
Korea	22	26	22	29	29	32	23	**29**
Taiwan	43	46	24	44	19	26	28	**44**
India[4]	31	17	22	24	36	15	27	**25**
Total Asia Insurance Operations	**428**	**450**	**423**	**563**	**476**	**496**	**517**	**636**
US Insurance Operations[1c]								
Variable Annuities	280	322	336	237	238	293	268	**280**
Elite Access (Variable Annuity)	-	14	26	46	54	72	63	**70**
Fixed Annuities	17	15	14	13	14	15	14	**12**
Fixed Index Annuities	25	26	29	31	34	27	22	**8**
Life	4	4	3	1	1	-	-	**1**
Wholesale	8	11	9	10	15	23	34	**15**
Total US Insurance Operations	**334**	**392**	**417**	**338**	**356**	**430**	**401**	**386**
UK & Europe Insurance Operations								
Direct and Partnership Annuities	7	7	7	9	8	7	7	**6**
Intermediated Annuities	10	15	16	24	15	14	12	**8**
Internal Vesting annuities	31	35	38	42	32	35	31	**33**
Total Individual Annuities	**48**	**57**	**61**	**75**	**55**	**56**	**50**	**47**
Corporate Pensions	49	55	44	41	53	40	45	**35**
On-shore Bonds	55	51	55	67	45	38	43	**50**
Other Products	37	33	31	36	32	36	32	**40**
Wholesale	-	27	14	-	-	-	15	**13**
Total UK & Europe Insurance Operations	**189**	**223**	**205**	**219**	**185**	**170**	**185**	**185**
Group Total	**951**	**1,065**	**1,045**	**1,120**	**1,017**	**1,096**	**1,103**	**1,207**

Schedule A(vi) – Investment Operations – By Quarter (Actual Exchange Rates)

	2012				2013			
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m	Q3 £m	Q4 £m
Group Investment Operations								
Opening FUM	106,984	109,507	110,204	120,709	129,498	138,926	137,407	**142,820**
Net Flows:[8]	2,116	3,251	6,975	6,165	3,502	2,344	5,093	**126**
- Gross Inflows	9,183	9,305	13,228	13,783	13,409	14,561	13,528	**11,006**
- Redemptions	(7,067)	(6,054)	(6,253)	(7,618)	(9,907)	(12,217)	(8,435)	**(10,880)**
Other Movements	407	(2,554)	3,530	2,624	5,926	(3,863)	320	**970**
Total Group Investment Operations[10]	**109,507**	**110,204**	**120,709**	**129,498**	**138,926**	**137,407**	**142,820**	**143,916**
M&G								
Retail								
Opening FUM	44,228	47,972	48,352	51,951	54,879	61,427	62,655	**64,504**
Net Flows:	2,398	1,876	1,863	1,705	2,446	2,308	1,132	**1,456**
- Gross Inflows	6,055	4,995	4,903	5,528	7,213	8,138	5,919	**6,789**
- Redemptions	(3,657)	(3,119)	(3,040)	(3,823)	(4,767)	(5,830)	(4,787)	**(5,333)**
Other Movements	1,346	(1,496)	1,736	1,223	4,102	(1,080)	717	**1,242**
Closing FUM	**47,972**	**48,352**	**51,951**	**54,879**	**61,427**	**62,655**	**64,504**	**67,202**
Comprising amounts for:								
UK	36,411	36,801	38,667	39,142	41,194	39,953	40,955	**42,016**
Europe (excluding UK)	10,434	10,547	12,254	14,446	18,696	21,198	22,064	**23,699**
South Africa	1,127	1,004	1,030	1,291	1,537	1,504	1,485	**1,487**
	47,972	**48,352**	**51,951**	**54,879**	**61,427**	**62,655**	**64,504**	**67,202**
Institutional[3]								
Opening FUM	47,720	45,371	46,291	52,215	56,989	57,745	55,484	**59,810**
Net Flows:	(631)	1,298	4,505	3,867	(15)	(899)	3,928	**(866)**
- Gross Inflows	954	2,697	5,643	5,688	2,656	2,591	5,364	**2,163**
- Redemptions	(1,585)	(1,399)	(1,138)	(1,821)	(2,671)	(3,490)	(1,436)	**(3,029)**
Other Movements	(1,718)	(378)	1,419	907	771	(1,362)	398	**(157)**
Closing FUM	**45,371**	**46,291**	**52,215**	**56,989**	**57,745**	**55,484**	**59,810**	**58,787**
Total M&G Investment Operations	**93,343**	**94,643**	**104,166**	**111,868**	**119,172**	**118,139**	**124,314**	**125,989**
PPM South Africa FUM included in Total M&G	**3,757**	**3,584**	**3,848**	**4,391**	**4,701**	**4,509**	**4,633**	**4,513**
Eastspring - excluding MMF[8]								
Equity/Bond/Other[7]								
Opening FUM	13,007	13,970	13,423	14,508	15,457	17,206	16,756	**16,133**
Net Flows:	333	50	838	521	795	838	65	**118**
- Gross Inflows	2,120	1,552	2,407	2,446	3,122	3,596	2,214	**1,982**
- Redemptions	(1,787)	(1,502)	(1,569)	(1,925)	(2,327)	(2,758)	(2,149)	**(1,864)**
Other Movements	630	(597)	247	428	954	(1,288)	(688)	**(142)**
Closing FUM[5]	**13,970**	**13,423**	**14,508**	**15,457**	**17,206**	**16,756**	**16,133**	**16,109**
Third Party Institutional Mandates								
Opening FUM	2,029	2,194	2,138	2,035	2,173	2,548	2,512	**2,373**
Net Flows:	16	27	(231)	72	276	97	(32)	**(582)**
- Gross Inflows	54	61	275	121	418	236	31	**72**
- Redemptions	(38)	(34)	(506)	(49)	(142)	(139)	(63)	**(654)**
Other Movements	149	(83)	128	66	99	(133)	(107)	**27**
Closing FUM[5]	**2,194**	**2,138**	**2,035**	**2,173**	**2,548**	**2,512**	**2,373**	**1,818**
Total Eastspring Investment Operations	**16,164**	**15,561**	**16,543**	**17,630**	**19,754**	**19,268**	**18,506**	**17,927**
US								
Curian - FUM[5] [9]	**5,064**	**5,193**	**5,332**	**5,473**	**6,315**	**6,466**	**6,371**	**6,601**

Schedule A(vii) – Total Insurance New Business Profit (Actual Exchange Rates)

	2012				2013			
	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m
Pre-tax analysis								
Pre-tax new business profit(1a)								
Total Asia Insurance Operations	260	547	828	1,266	308	659	990	**1,460**
Total US Insurance Operations	214	442	683	873	192	479	756	**1,086**
Total UK & Europe Insurance Operations	62	152	227	313	63	130	204	**297**
Group Total	**536**	**1,141**	**1,738**	**2,452**	**563**	**1,268**	**1,950**	**2,843**
Annual Equivalent(1a) (2)								
Total Asia Insurance Operations	443	899	1,328	1,897	495	1,010	1,523	**2,125**
Total US Insurance Operations	332	719	1,133	1,462	358	797	1,202	**1,573**
Total UK & Europe Insurance Operations	189	412	617	836	185	355	540	**725**
Group Total	**964**	**2,030**	**3,078**	**4,195**	**1,038**	**2,162**	**3,265**	**4,423**
Pre-tax new business margin (NBP as % of APE)								
Total Asia Insurance Operations	59%	61%	62%	67%	62%	65%	65%	**69%**
Total US Insurance Operations	64%	61%	60%	60%	54%	60%	63%	**69%**
Total UK & Europe Insurance Operations	33%	37%	37%	37%	34%	37%	38%	**41%**
Group Total	**56%**	**56%**	**56%**	**58%**	**54%**	**59%**	**60%**	**64%**
PVNBP(1a) (2)								
Total Asia Insurance Operations	2,303	4,725	7,074	10,544	2,734	5,524	8,206	**11,375**
Total US Insurance Operations	3,307	7,180	11,308	14,600	3,581	7,957	12,006	**15,723**
Total UK & Europe Insurance Operations	1,580	3,495	5,264	7,311	1,540	2,943	4,398	**5,978**
Group Total	**7,190**	**15,400**	**23,646**	**32,455**	**7,855**	**16,424**	**24,610**	**33,076**
Pre-tax new business margin (NBP as % of PVNBP)								
Total Asia Insurance Operations	11.3%	11.6%	11.7%	12.0%	11.3%	11.9%	12.1%	**12.8%**
Total US Insurance Operations	6.5%	6.2%	6.0%	6.0%	5.4%	6.0%	6.3%	**6.9%**
Total UK & Europe Insurance Operations	3.9%	4.3%	4.3%	4.3%	4.1%	4.4%	4.6%	**5.0%**
Group Total	**7.5%**	**7.4%**	**7.4%**	**7.6%**	**7.2%**	**7.7%**	**7.9%**	**8.6%**
Post-tax analysis								
Post-tax new business profit(1a)								
Total Asia Insurance Operations	197	414	627	982	237	502	767	**1,139**
Total US Insurance Operations	139	288	444	568	125	311	492	**706**
Total UK & Europe Insurance Operations	47	116	173	241	48	100	163	**237**
Group Total	**383**	**818**	**1,244**	**1,791**	**410**	**913**	**1,422**	**2,082**
Post-tax new business margin (NBP as % of APE)								
Total Asia Insurance Operations	44%	46%	47%	52%	48%	50%	50%	**54%**
Total US Insurance Operations	42%	40%	39%	39%	35%	39%	41%	**45%**
Total UK & Europe Insurance Operations	25%	28%	28%	29%	26%	28%	30%	**33%**
Group Total	**40%**	**40%**	**40%**	**43%**	**39%**	**42%**	**44%**	**47%**
Post-tax new business margin (NBP as % of PVNBP)								
Total Asia Insurance Operations	8.6%	8.8%	8.9%	9.3%	8.7%	9.1%	9.3%	**10.0%**
Total US Insurance Operations	4.2%	4.0%	3.9%	3.9%	3.5%	3.9%	4.1%	**4.5%**
Total UK & Europe Insurance Operations	3.0%	3.3%	3.3%	3.3%	3.1%	3.4%	3.7%	**4.0%**
Group Total	**5.3%**	**5.3%**	**5.3%**	**5.5%**	**5.2%**	**5.6%**	**5.8%**	**6.3%**

Schedule A(viii) – Total Insurance New Business Profit (2012 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 2012. The year-to-date amounts for 2013 are presented on actual exchange rates.

	2012				2013			
	Q1 YTD £m	**Q2 YTD £m**	**Q3 YTD £m**	**Q4 YTD £m**	**Q1 YTD £m**	**Q2 YTD £m**	**Q3 YTD £m**	**Q4 YTD £m**
Pre-tax analysis								
Pre-tax new business profit[1b]								
Total Asia Insurance Operations	249	528	803	1,227	308	659	990	**1,460**
Total US Insurance Operations	215	445	689	884	192	479	756	**1,086**
Total UK & Europe Insurance Operations	62	152	227	313	63	130	204	**297**
Group Total	**526**	**1,125**	**1,719**	**2,424**	**563**	**1,268**	**1,950**	**2,843**
Annual Equivalent[1b] [2]								
Total Asia Insurance Operations	428	878	1,301	1,864	495	1,010	1,523	**2,125**
Total US Insurance Operations	334	726	1,143	1,481	358	797	1,202	**1,573**
Total UK & Europe Insurance Operations	189	412	617	836	185	355	540	**725**
Group Total	**951**	**2,016**	**3,061**	**4,181**	**1,038**	**2,162**	**3,265**	**4,423**
Pre-tax new business margin (NBP as % of APE)								
Total Asia Insurance Operations	58%	60%	62%	66%	62%	65%	65%	**69%**
Total US Insurance Operations	64%	61%	60%	60%	54%	60%	63%	**69%**
Total UK & Europe Insurance Operations	33%	37%	37%	37%	34%	37%	38%	**41%**
Group Total	**55%**	**56%**	**56%**	**58%**	**54%**	**59%**	**60%**	**64%**
PVNBP[1b] [2]								
Total Asia Insurance Operations	2,242	4,648	6,979	10,405	2,734	5,524	8,206	**11,375**
Total US Insurance Operations	3,321	7,236	11,403	14,789	3,581	7,957	12,006	**15,723**
Total UK & Europe Insurance Operations	1,580	3,495	5,264	7,311	1,540	2,943	4,398	**5,978**
Group Total	**7,143**	**15,379**	**23,646**	**32,505**	**7,855**	**16,424**	**24,610**	**33,076**
Pre-tax New business margin (NBP as % of PVNBP)								
Total Asia Insurance Operations	11.1%	11.4%	11.5%	11.8%	11.3%	11.9%	12.1%	**12.8%**
Total US Insurance Operations	6.5%	6.2%	6.0%	6.0%	5.4%	6.0%	6.3%	**6.9%**
Total UK & Europe Insurance Operations	3.9%	4.3%	4.3%	4.3%	4.1%	4.4%	4.6%	**5.0%**
Group Total	**7.4%**	**7.3%**	**7.3%**	**7.5%**	**7.2%**	**7.7%**	**7.9%**	**8.6%**
Post-tax analysis								
Post-tax new business profit[1b]								
Total Asia Insurance Operations	189	400	609	953	237	502	767	**1,139**
Total US Insurance Operations	140	290	448	575	125	311	492	**706**
Total UK & Europe Insurance Operations	47	116	173	241	48	100	163	**237**
Group Total	**376**	**806**	**1,230**	**1,769**	**410**	**913**	**1,422**	**2,082**
Post-tax new business margin (NBP as % of APE)								
Total Asia Insurance Operations	44%	46%	47%	51%	48%	50%	50%	**54%**
Total US Insurance Operations	42%	40%	39%	39%	35%	39%	41%	**45%**
Total UK & Europe Insurance Operations	25%	28%	28%	29%	26%	28%	30%	**33%**
Group Total	**40%**	**40%**	**40%**	**42%**	**39%**	**42%**	**44%**	**47%**
Post-tax new business margin (NBP as % of PVNBP)								
Total Asia Insurance Operations	8.4%	8.6%	8.7%	9.2%	8.7%	9.1%	9.3%	**10.0%**
Total US Insurance Operations	4.2%	4.0%	3.9%	3.9%	3.5%	3.9%	4.1%	**4.5%**
Total UK & Europe Insurance Operations	3.0%	3.3%	3.3%	3.3%	3.1%	3.4%	3.7%	**4.0%**
Group Total	**5.3%**	**5.2%**	**5.2%**	**5.4%**	**5.2%**	**5.6%**	**5.8%**	**6.3%**

Schedule A(ix) – Total Insurance New Business Profit (2013 and 2012 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 2012 and 2013, i.e the average exchange rate for the year ended 31 December 2013 is applied to each period for 2012 and 2013.

	2012				2013			
	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m
Pre-tax analysis								
Pre-tax new business profit[1c]								
Total Asia Insurance Operations	249	528	803	1,227	295	631	964	**1,460**
Total US Insurance Operations	215	445	689	884	191	472	747	**1,086**
Total UK & Europe Insurance Operations	62	152	227	313	63	130	204	**297**
Group Total	**526**	**1,125**	**1,719**	**2,424**	**549**	**1,233**	**1,915**	**2,843**
Annual Equivalent[1c] [2]								
Total Asia Insurance Operations	428	878	1,301	1,864	476	972	1,489	**2,125**
Total US Insurance Operations	334	726	1,143	1,481	356	786	1,187	**1,573**
Total UK & Europe Insurance Operations	189	412	617	836	185	355	540	**725**
Group Total	**951**	**2,016**	**3,061**	**4,181**	**1,017**	**2,113**	**3,216**	**4,423**
Pre-tax new business margin (NBP as % of APE)								
Total Asia Insurance Operations	58%	60%	62%	66%	62%	65%	65%	**69%**
Total US Insurance Operations	64%	61%	60%	60%	54%	60%	63%	**69%**
Total UK & Europe Insurance Operations	33%	37%	37%	37%	34%	37%	38%	**41%**
Group Total	**55%**	**56%**	**56%**	**58%**	**54%**	**58%**	**60%**	**64%**
PVNBP[1c] [2]								
Total Asia Insurance Operations	2,242	4,648	6,979	10,405	2,643	5,336	8,042	**11,375**
Total US Insurance Operations	3,321	7,236	11,403	14,789	3,553	7,852	11,865	**15,723**
Total UK & Europe Insurance Operations	1,580	3,495	5,264	7,311	1,540	2,943	4,398	**5,978**
Group Total	**7,143**	**15,379**	**23,646**	**32,505**	**7,736**	**16,131**	**24,305**	**33,076**
Pre-tax new business margin (NBP as % of PVNBP)								
Total Asia Insurance Operations	11.1%	11.4%	11.5%	11.8%	11.2%	11.8%	12.0%	**12.8%**
Total US Insurance Operations	6.5%	6.2%	6.0%	6.0%	5.4%	6.0%	6.3%	**6.9%**
Total UK & Europe Insurance Operations	3.9%	4.3%	4.3%	4.3%	4.1%	4.4%	4.6%	**5.0%**
Group Total	**7.4%**	**7.3%**	**7.3%**	**7.5%**	**7.1%**	**7.6%**	**7.9%**	**8.6%**
Post-tax analysis								
Post-tax new business profit[1c]								
Total Asia Insurance Operations	189	400	609	953	226	480	748	**1,139**
Total US Insurance Operations	140	290	448	575	124	307	486	**706**
Total UK & Europe Insurance Operations	47	116	173	241	48	100	163	**237**
Group Total	**376**	**806**	**1,230**	**1,769**	**398**	**887**	**1,397**	**2,082**
Post-tax new business margin (NBP as % of APE)								
Total Asia Insurance Operations	44%	46%	47%	51%	47%	49%	50%	**54%**
Total US Insurance Operations	42%	40%	39%	39%	35%	39%	41%	**45%**
Total UK & Europe Insurance Operations	25%	28%	28%	29%	26%	28%	30%	**33%**
Group Total	**40%**	**40%**	**40%**	**42%**	**39%**	**42%**	**43%**	**47%**
Post-tax new business margin (NBP as % of PVNBP)								
Total Asia Insurance Operations	8.4%	8.6%	8.7%	9.2%	8.6%	9.0%	9.3%	**10.0%**
Total US Insurance Operations	4.2%	4.0%	3.9%	3.9%	3.5%	3.9%	4.1%	**4.5%**
Total UK & Europe Insurance Operations	3.0%	3.3%	3.3%	3.3%	3.1%	3.4%	3.7%	**4.0%**
Group Total	**5.3%**	**5.2%**	**5.2%**	**5.4%**	**5.1%**	**5.5%**	**5.7%**	**6.3%**

B. Reconciliation of expected transfer of value of in-force (VIF) and required capital business 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 2013, the tables also present the expected future free surplus to be generated from the investment made in new business during 2013 over the same 40 year period.

Expected transfer of value of in-force (VIF) and required capital business to free surplus

	2013 £m							
	Undiscounted expected generation from all in-force business at 31 December*				Undiscounted expected generation from 2013 long-term new business written*			
Expected period of emergence	Asia	US	UK	Total	Asia	US	UK	Total
2014	801	902	462	**2,165**	116	260	24	**400**
2015	821	817	471	**2,109**	140	113	21	**274**
2016	798	760	467	**2,025**	142	114	21	**277**
2017	735	709	467	**1,911**	111	40	19	**170**
2018	705	700	479	**1,884**	107	108	21	**236**
2019	682	666	466	**1,814**	93	92	20	**205**
2020	672	670	462	**1,804**	96	85	20	**201**
2021	665	623	455	**1,743**	99	127	20	**246**
2022	654	540	451	**1,645**	93	105	20	**218**
2023	650	469	461	**1,580**	105	88	21	**214**
2024	635	386	449	**1,470**	89	70	19	**178**
2025	633	313	440	**1,386**	93	58	18	**169**
2026	637	265	429	**1,331**	88	50	18	**156**
2027	637	228	423	**1,288**	89	43	18	**150**
2028	624	206	408	**1,238**	109	38	18	**165**
2029	596	174	401	**1,171**	84	29	18	**131**
2030	590	162	389	**1,141**	85	24	18	**127**
2031	570	146	377	**1,093**	84	20	18	**122**
2032	561	158	368	**1,087**	82	17	18	**117**
2033	544	85	363	**992**	90	15	19	**124**
2034-2038	2,586	305	1,400	**4,291**	399	32	82	**513**
2039-2043	2,334	104	1,152	**3,590**	357	(13)	96	**440**
2044-2048	2,075	-	569	**2,644**	313	-	54	**367**
2049-2053	1,808	-	336	**2,144**	276	-	37	**313**
Total free surplus expected to emerge in the next 40 years	22,013	9,388	12,145	**43,546**	3,340	1,515	658	**5,513**

* The analysis excludes amounts incorporated into VIF at 31 December 2013 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 2053. Following its classification as held for sale, the Asia cashflows exclude any cashflows in respect of Japan.

The above amounts can be reconciled to the new business amounts as follows:

New business	2013 £m			
	Asia	US	UK	Total
Undiscounted expected free surplus generation for years 2014-2053	3,340	1,515	658	**5,513**
Less: discount effect	(2,098)	(516)	(397)	**(3,011)**
Discounted expected free surplus generation for years 2014-2053	1,242	999	261	**2,502**
Discounted expected free surplus generation for years 2053+	52	-	2	**54**
Less: Free surplus investment in new business	(310)	(298)	(29)	**(637)**
Other items**	155	5	3	**163**
Post-tax EEV new business profit	1,139	706	237	**2,082**
Tax	321	380	60	**761**
Pre-tax EEV new business profit	**1,460**	**1,086**	**297**	**2,843**

** 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 2013 shown below can be reconciled to the amount that was expected to be generated as at 31 December 2012 as follows:

Group	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	Other £m	Total £m
2012 expected free surplus generation for years 2013-2052	1,950	1,816	1,788	1,687	1,671	1,594	24,646	**35,152**
Less: Amounts expected to be realised in the current year	(1,950)	-	-	-	-	-	-	**(1,950)**
Add: Expected free surplus to be generated in year 2053 *	-	-	-	-	-	-	179	**179**
Foreign exchange differences	-	(90)	(84)	(75)	(72)	(68)	(1,204)	**(1,593)**
New business	-	400	274	277	170	236	4,156	**5,513**
Acquisition of Thanachart Life	-	17	13	11	8	5	20	**74**
Operating movements	-	(45)	1	1	16	26		
Non-operating and other movements **	-	67	117	124	118	91	5,655	**6,171**
2013 expected free surplus generation for years 2014-2053	-	2,165	2,109	2,025	1,911	1,884	33,452	**43,546**

Asia	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	Other £m	Total £m
2012 expected free surplus generation for years 2013-2052	719	761	724	686	654	628	13,069	**17,241**
Less: Amounts expected to be realised in the current year	(719)	-	-	-	-	-	-	**(719)**
Add: Expected free surplus to be generated in year 2053 *	-	-	-	-	-	-	135	**135**
Foreign exchange differences	-	(79)	(73)	(65)	(61)	(58)	(1,132)	**(1,468)**
New business	-	116	140	142	111	107	2,724	**3,340**
Acquisition of Thanachart Life	-	17	13	11	8	5	20	**74**
Operating movements	-	(21)	(5)	-	3	6		
Non-operating and other movements**	-	7	22	24	20	17	3,337	**3,410**
2013 expected free surplus generation for years 2014-2053	-	801	821	798	735	705	18,153	**22,013**

US	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	Other £m	Total £m
2012 expected free surplus generation for years 2013-2052	785	572	600	557	587	551	3,897	**7,549**
Less: Amounts expected the current year	(785)	-	-	-	-	-	-	**(785)**
Add: Expected free surplus to be generated in year 2053 *	-	-	-	-	-	-	-	**-**
Foreign exchange differences	-	(11)	(11)	(10)	(11)	(10)	(72)	**(125)**
New business	-	260	113	114	40	108	880	**1,515**
Operating movements	-	(6)	3	6	18	21		
Non-operating and other movements	-	87	112	93	75	30	795	**1,234**
2013 expected free surplus generation for years 2014-2053	-	902	817	760	709	700	5,500	**9,388**

UK	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	Other £m	Total £m
2012 expected free surplus generation for years 2013-2052	446	483	464	444	430	415	7,680	**10,362**
Less: Amounts expected to be realised in the current year	(446)	-	-	-	-	-	-	**(446)**
Add: Expected free surplus to be generated in year 2053*	-	-	-	-	-	-	44	**44**
New business	-	24	21	21	19	21	552	**658**
Operating movements	-	(18)	3	(5)	(5)	(1)		
Non-operating and other movements***	-	(27)	(17)	7	23	44	1,523	**1,527**
2013 expected free surplus generation for years 2014-2053	-	462	471	467	467	479	9,799	**12,145**

* Excluding 2013 new business.

** Includes the removal of Japan Life business following its reclassification as held for sale.

*** The amounts shown above for non-operating and other movements include the effects of a partial hedge of the future shareholder transfers expected to emerge from the UK's with-profits sub-fund that was transacted in 2013. This hedge reduces the risk arising from equity market declines for the years 2014-2018. However, in rising equity markets as assumed in preparing the EEV results, the hedge reduces the projected free surplus benefit of those higher returns. Consistent with this feature, for 2014 the expected free surplus generation compared to that expected at 31 December 2012 is reduced by £(58) million as a result of this hedge.

At 31 December 2013 the total free surplus expected to be generated over the next five years (years 2014-2018 inclusive), using the same assumptions and methodology as underpin our embedded value reporting was £10.1 billion, an increase of £1.5 billion from the £8.6 billion expected over the same period at the end of 2012.

This increase primarily reflects the new business written in 2013, which is expected to generate £1,357 million of free surplus over the next five years. Operating, non-operating and other items are expected to increase free surplus generation by £570 million over the next five years, but this has been offset by adverse foreign exchange movements of £389 million.

At 31 December 2013 the total free surplus expected to be generated on an undiscounted basis in the next forty years is £43.5 billion, up from the £35 billion expected at end of 2012 reflecting the effect of new business written and the positive market movements in Asia, following increases in bond yields principally in Hong Kong, Indonesia and Singapore, together with higher projected separate account fees following increase in US equities values. The foreign exchange translation effect arising across US and Asia operations is a reduction of £1.6 billion. The overall growth in the undiscounted value of free surplus, reflects both our ability to write new business on attractive economics and to manage the in-force book for value, as well as the positive gearing of our cash flows to rising long-term yields and equity markets.

Actual underlying free surplus generated in 2013 from life business in-force at the end of 2012 was £2.6 billion inclusive of £0.5 billion of changes in operating assumptions and experience variances. This compares with the expected 2013 realisation at the end of 2012 of £2.0 billion. This can be analysed further as follows:

	Asia £m	US £m	UK £m	Total £m
Transfer to free surplus in 2013	713	796	508	**2,017**
Expected return on free assets	74	41	18	**133**
Changes in operating assumptions and experience variances	32	292	154	**478**
Underlying free surplus generated from in-force life business in 2013	**819**	**1,129**	**680**	**2,628**
2013 free surplus expected to be generated at 31/12/2012	719	785	446	**1,950**

The equivalent discounted amounts of the undiscounted totals shown previously are outlined below:

	2013 £m							
	Discounted expected generation from all in-force business at 31 December				Discounted expected generation from long-term 2013 new business written			
Expected period of emergence	Asia	US	UK	Total	Asia	US	UK	Total
2014	759	866	431	**2,056**	110	250	22	**382**
2015	717	737	410	**1,864**	119	101	18	**238**
2016	646	642	381	**1,669**	111	95	17	**223**
2017	553	562	354	**1,469**	80	32	15	**127**
2018	493	519	339	**1,351**	71	79	15	**165**
2019	443	463	308	**1,214**	57	63	14	**134**
2020	406	436	285	**1,127**	54	54	13	**121**
2021	375	380	261	**1,016**	52	76	12	**140**
2022	343	311	242	**896**	44	58	11	**113**
2023	316	255	230	**801**	47	45	11	**103**
2024	291	197	208	**696**	37	33	10	**80**
2025	271	150	190	**611**	36	25	8	**69**
2026	254	121	172	**547**	31	20	8	**59**
2027	238	99	158	**495**	30	16	8	**54**
2028	221	86	142	**449**	35	13	7	**55**
2029	199	69	130	**398**	25	10	6	**41**
2030	185	63	117	**365**	24	8	6	**38**
2031	170	55	105	**330**	22	6	6	**34**
2032	157	57	96	**310**	21	5	5	**31**
2033	144	27	88	**259**	22	4	5	**31**
2034-2038	587	98	269	**954**	85	7	19	**111**
2039-2043	405	41	151	**597**	59	(1)	15	**73**
2044-2048	281	-	47	**328**	41	-	6	**47**
2049-2053	192	-	20	**212**	29	-	4	**33**
Total discounted free surplus expected to emerge in the next 40 years	8,646	6,234	5,134	**20,014**	1,242	999	261	**2,502**

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 2014-2053	**20,014**
Discounted expected generation from all in-force business for years after 2053	**393**
Discounted expected generation from all in-force business (excluding Japan) at 31 December 2013 note 13	**20,407**
Add: Free surplus of life operations held at 31 December 2013 note 12	**3,220**
Less: Time value of guarantees note 13	**(196)**
Expected cashflow from the sale of Japan Life business**	**25**
Other non-modelled items* note 13	**1,157**
Total EEV for life operations	**24,613**

* 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 2013. In particular it excludes the value of the shareholders' interest in the estate.

** Upon completion of the sale of the Japan Life business £25 million of free surplus will be released. See note 4 of the EEV basis results section for further details.

C Additional information on pre and post-tax EEV basis results

The Group intends to alter its basis of presentation of EEV results for 2014 and subsequent reporting periods to a post-tax basis, in line with the approach adopted by a number of international insurance groups. The following tables provide an analysis of the Group's profit and loss account and key accompanying notes on a pre-tax and post-tax basis for the most recent reporting periods.

Pre and post-tax operating profit based on longer-term investment returns

	Pre-tax			Post-tax note (i)		
	Full year 2013 £m	Full year 2012 £m	Half year 2013 £m	Full year 2013 £m	Full year 2012 £m	Half year 2013 £m
Asia operations						
New business notes (ii), (iii)	**1,460**	1,266	659	**1,139**	982	502
Business in force*:						
Unwind of discount and other expected returns	**846**	595	400	**668**	465	315
Effect of changes in operating assumptions	**17**	22	(13)	**5**	13	(6)
Experience variances and other items	**64**	75	33	**80**	76	18
	927	692	420	**753**	554	327
Long-term business	**2,387**	1,958	1,079	**1,892**	1,536	829
Eastspring investments*	**74**	69	38	**64**	58	32
Development expenses	**(2)**	(7)	(2)	**(1)**	(5)	(2)
Total*	**2,459**	2,020	1,115	**1,955**	1,589	859
US operations						
New business note (ii)	**1,086**	873	479	**706**	568	311
Business in force:						
Unwind of discount and other expected returns	**608**	412	287	**395**	268	187
Effect of changes in operating assumptions	**116**	35	70	**76**	23	45
Experience variances and other items	**411**	290	180	**349**	238	164
	1,135	737	537	**820**	529	396
Long-term business	**2,221**	1,610	1,016	**1,526**	1,097	707
Broker-deal and asset management	**59**	39	34	**39**	18	21
Total	**2,280**	1,649	1,050	**1,565**	1,115	728
UK operations						
New business note (ii)	**297**	313	130	**237**	241	100
Business in force:						
Unwind of discount and other expected returns	**547**	482	267	**437**	373	204
Effect of changes in operating assumptions	**122**	87	-	**98**	67	-
Experience variances and other items	**67**	(16)	7	**60**	10	-
	736	553	274	**595**	450	204
Long-term business	**1,033**	866	404	**832**	691	304
General insurance commission	**29**	33	15	**22**	25	11
Total UK insurance operations	**1,062**	899	419	**854**	716	315
M&G (including Prudential Capital)	**441**	371	225	**346**	285	175
Total	**1,503**	1,270	644	**1,200**	1,001	490
Other income and expenditure	**(619)**	(554)	(304)	**(482)**	(476)	(235)
Solvency II and restructuring costs	**(43)**	(72)	(26)	**(34)**	(55)	(21)
Operating profit based on longer-term investment returns	**5,580**	4,313	2,479	**4,204**	3,174	1,821
Analysed as profits (losses) from:						
New business notes (ii), (iii)	**2,843**	2,452	1,268	**2,082**	1,791	913
Business in force*:	**2,798**	1,982	1,231	**2,168**	1,533	927
Long-term business*	**5,641**	4,434	2,499	**4,250**	3,324	1,840
Asset management*	**574**	479	297	**449**	361	228
Other results	**(635)**	(600)	(317)	**(495)**	(511)	(247)
Total*	**5,580**	4,313	2,479	**4,204**	3,174	1,821

* The 2012 comparative results have been adjusted retrospectively from those previously published for the adoption of IFRS 11 and for the reclassification of the result attributable to the held for sale Japan Life business – see note 18 of the EEV basis results section.

Summary of consolidated income statement

	Pre-tax Full year 2013 £m	Pre-tax Full year 2012 £m	Pre-tax Half year 2013 £m	Post-tax[note (i)] Full year 2013 £m	Post-tax[note (i)] Full year 2012 £m	Post-tax[note (i)] Half year 2013 £m
Operating profit based on longer-term investment returns*	**5,580**	4,313	2,479	4,204	3,174	1,821
Non-operating profit:						
Short-term fluctuations in investment returns:						
Asia operations*	**(405)**	362	(282)	**(308)**	302	(223)
US operations	**(422)**	(254)	(404)	**(280)**	(163)	(271)
UK insurance operations	**35**	315	(92)	**28**	243	(70)
Other operations*	**(27)**	87	(30)	**(4)**	83	(23)
	(819)	510	(808)	**(564)**	465	(587)
Effect of changes in economic assumptions:						
Asia operations	**283**	(135)	333	**255**	(99)	272
US operations	**372**	85	62	**242**	56	40
UK insurance operations	**166**	48	289	**132**	37	222
	821	(2)	684	**629**	(6)	534
Other non-operating profit	**82**	136	156	**89**	136	156
Total non-operating profit*	**84**	644	32	**154**	595	103
Profit attributable to Shareholders*	**5,664**	4,957	2,511	**4,358**	3,769	1,924

* The 2012 comparative results have been adjusted retrospectively from those previously published for the revised IAS 19 and for the reclassification of the result attributable to the held for sale Japan Life business – see note 18 of the EEV basis results section.

Notes

(i) The tax rates include 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 substantively enacted by the end of the reporting period.

(ii) New business contribution

	Pre-tax new business contribution £m Asia operations	Pre-tax US operations	Pre-tax UK insurance operations	Pre-tax Total	Post-tax new business contribution £m Asia operations	Post-tax US operations	Post-tax UK insurance operations	Post-tax Total
Full year 2013	1,460	1,086	297	2,843	1,139	706	237	2,082
Q3 2013	990	756	204	1,950	767	492	163	1,422
Half year 2013	659	479	130	1,268	502	311	100	913
Q1 2013	308	192	63	563	237	125	48	410
Full year 2012	1,266	873	313	2,452	982	568	241	1,791
Q3 2012	828	683	227	1,738	627	444	173	1,244
Half year 2012	547	442	152	1,141	414	288	116	818
Q1 2012	260	214	62	536	197	139	47	383
Full year 2011	1,076	815	260	2,151	811	530	195	1,536

(iii) New business contribution by Asia territory

	Pre-tax Full year 2013 £m	Pre-tax Full year 2012 £m	Pre-tax Half year 2013 £m	Post-tax Full year 2013 £m	Post-tax Full year 2012 £m	Post-tax Half year 2013 £m
Asia operations:						
China	**37**	26	17	**28**	20	13
Hong Kong	**354**	210	162	**283**	162	125
India	**18**	19	10	**15**	15	8
Indonesia	**480**	476	228	**359**	365	174
Korea	**33**	26	19	**25**	20	14
Taiwan	**37**	48	16	**31**	40	13
Other	**501**	461	207	**398**	360	155
Total Asia operations	**1,460**	1,266	659	**1,139**	982	502

D 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 full year 2013 results

	Underlying free surplus generated[2]	Pre-tax Operating profit[2,3,4]	Shareholders' funds[2,3,4]
	%	%	%
US$ linked[1]	**14**	**19**	**14**
Other Asia currencies	**9**	**17**	**18**
Total Asia	**23**	**36**	**32**
UK sterling[3,4]	**42**	**20**	**53**
US$[4]	**35**	**44**	**15**
Total	**100**	**100**	**100**

EEV full year 2013 results

	Pre-tax New Business profits	Pre-tax Operating Profit[2,3,4]	Shareholders' Funds[2,3,4]
	%	%	%
US$ linked[1]	**29**	**26**	**28**
Other Asia currencies	**22**	**18**	**15**
Total Asia	**51**	**44**	**43**
UK sterling[3,4]	**11**	**15**	**37**
US$[4]	**38**	**41**	**20**
Total	**100**	**100**	**100**

[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.

Risk Factors

A number of factors (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, is not updated, 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 and liquidity, and widespread economic uncertainty. Government interest rates also 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 impair Prudential's ability to write significant volumes of new business and would 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 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 from subdued or slowdown in demand and the timing and scale of quantitative easing programmes of central banks. 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. 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 profitability. 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 interest rates used to calculate surrender values over a sustained period, this could have an adverse impact 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 including interest rates, equity levels, bond spreads and volatility. 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).

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, 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. 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 transaction structure 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 approach is based on the concept of three pillars. Pillar 1 consists of the quantitative requirements, for example, the amount of capital an insurer should hold. Pillar 2 sets out requirements for the governance and risk management of insurers, as well as for the effective supervision of insurers. Pillar 3 focuses on disclosure and transparency requirements.

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 economic 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 although its implementation was delayed pending agreement on a directive known as Omnibus II which, once adopted, will amend certain aspects of the Solvency II Directive. In November 2013, representatives from the European Parliament, the European Commission and the Council of the European Union reached an agreement on the Omnibus II Directive, which is currently expected to be adopted in early 2014. As a result, Solvency II is now 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 that will complement the high-level principles of the Solvency II and Omnibus II Directives, which are not

currently expected to be finalised until mid-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 expected to be 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 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. This list included Prudential as well as a number of its competitors. The designation as a G-SII is likely to lead to additional policy measures being applied to the designated group. Based on a policy framework released by the IAIS concurrently with the initial list, these additional policy measures will include enhanced group- wide supervision. This enhanced supervision is intended to commence immediately and will include the development by July 2014 of a Systemic Risk Management Plan (SRMP) under supervisory oversight and implementation thereafter and, by the end of 2014, a group Recovery and Resolution Plan (RRP) and Liquidity Risk Management Plan (LRMP). 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 for conducting non-traditional insurance and non-insurance activities. The IAIS released a consultation paper on the BCR in December 2013 and Prudential will participate in the field testing of the proposals (expected in the first half of 2014). Prudential is monitoring the development of, and the potential impact of, the framework of policy measures and engaging with the PRA on the implications of this designation. The IAIS currently expects to finalise the BCR and HLA proposals by November 2014 and the end of 2015 respectively. Implementation of the regime is likely to be phased in over a period of years with the BCR expected to be introduced between 2015 and 2019. 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 develop common principles and standards for group supervision and so may increase the focus of regulators in some jurisdictions. It is also expected to include some prescriptive requirements, including an Insurance Capital Standard (ICS). A revised draft ComFrame proposal was released for consultation in October 2013. The IAIS will undertake a field testing exercise from 2014 to 2018 to assess the impacts of the quantitative and qualitative requirements proposed under ComFrame. ComFrame 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. It remains uncertain whether the proposals in the Exposure Draft

will become the final IASB standard. The timing of the changes taking effect is uncertain but not expected to be before 2018.

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 are increasingly interested in 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, federal and state regulators have focused on, and continue to devote substantial attention to, the mutual fund, fixed index annuity and insurance product industries. This focus includes new regulations in respect of the suitability of sales of certain products such as alternative investments. As a result of publicity relating to widespread perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms.

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 on 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 or claims-paying ratios. 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., Hartford Life Inc., Prudential Financial, Lincoln National, MetLife and TIAA-CREF.

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'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'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 by Moody's, AA by Standard & Poor's and AA by Fitch. These ratings have a stable outlook.

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.

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 could have a negative impact on its results of operations

Operational risks are present in all of Prudential's businesses, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events. Prudential's business is dependent on processing a large number of 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 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. For example, although Prudential has not experienced 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. 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 the administration systems or actuarial reserving processes could have an impact on its results of operations during the effective period.

Prudential has not experienced or identified any operational risks in its systems or processes during 2013, which have subsequently caused, or are expected to cause, a significant negative impact on its results of operations.

Adverse experience relative to the assumptions used in pricing products and reporting business results could significantly affect Prudential's results of operations

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. 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. Prudential's persistency assumptions reflect recent past experience for each relevant line of business. Any expected deterioration in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly lower than assumed (that is, policy termination rates are significantly higher than assumed), the Group's results of operations could be adversely affected.

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.

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 surrender rates, investment performance and impairments, unit cost of administration and new business acquisition expense.

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 the payment of dividends, which in some circumstances could limit the 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 regulation or international standards such as those for 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 or material failure in controls (such as those for 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

12 March 2014, 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, John William Foley, 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, Philip John Remnant CBE ACA, Alice Davey Schroeder and Lord Andrew Turnbull KCB CVO

* *For identification purposes*