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 2012

NEWS RELEASE

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PRUDENTIAL PLC 2012 FULL YEAR RESULTS

PRUDENTIAL CONTINUES TO DELIVER GROWTH AND CASH AND REBASES DIVIDEND UPWARDS

IFRS[1]:
- Operating profit of £2,533 million, up 25 per cent
- Asia operating profit[2] of £988 million, up 26 per cent
- Total profit before tax[3] of £2,810 million, up 54 per cent
- Shareholders' funds of £10.4 billion, up 21 per cent

New Business:
- EEV new business profit of £2,452 million, up 14 per cent
- Asia EEV new business profit of £1,266 million, up 18 per cent

Embedded Value:
- Operating profit of £4,321 million, up 9 per cent
- Asia life insurance business operating profit of £1,960 million, up 11 per cent
- Shareholders' funds of £22.4 billion, up 14 per cent, equivalent to 878 pence per share

Capital & Dividend:
- Underlying free surplus generation of £2.7 billion (before investment in new business), up 6 per cent from 2011
- Net remittances from business operations up 9 per cent to £1,200 million
- Asia net cash remittance of £341 million[4], up 66 per cent, and for the first time, the largest contributor of cash to the Group
- Insurance Groups Directive (IGD) capital surplus estimated at £5.1 billion[5]; solvency requirements covered 3 times
- 2012 full year dividend increased by 15.9 per cent to 29.19 pence per share

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

"Prudential has produced a strong performance in 2012. Globally, we have around 24 million insurance customers and have continued to provide each of them with products and services that they value highly, delivering on our promise to offer quality savings and protection products. In 2012, we added more than one million new customers in Asia, while in the US we sold more than 200,000 new policies. In the UK, where we have 7 million customers, we are one of the largest providers of annuities and in 2012 we paid £2.9 billion in income to our annuitants. We are widely recognised as the UK's leading with-profits manager and, during the year, the with-profits fund increased the value of customer policies by more than £2 billion. In total in 2012, our customers around the world have entrusted us with an additional £26 billion[6] of their assets to manage.

"The quality of our products, the strength of our multi-channel distribution platform, and our ability to innovate and develop creative solutions to meet our customers' needs, translate over time into profitable and sustainable growth for the company. Our focus on capital and risk management has allowed us to deliver both growth and cash to shareholders, despite a challenging macroeconomic environment. Our business in Asia has continued to demonstrate the benefits of both its scale and its diversification, by growing strongly on each of our three key performance metrics: new business profit, IFRS operating profit and cash. This performance has been largely driven by our 'sweet-spot' markets including Indonesia, Singapore, Malaysia, the Philippines and Thailand. Asia's net

[1] Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note 3 of 'Notes to Editors'
[2] Including Eastspring Investments, and after development costs
[3] Attributable to shareholders
[4] Remittances from Asia in 2012 include net remittance of £27 million, representing cash from sale of Group's holding in China Life Insurance Company in Taiwan offset by repayment of funding contingent on future profits of the Hong Kong life insurance operations
[5] From March 2013 the basis of calculating Jackson's contribution to the Group's IGD surplus will change, further detail can be found in the 'Capital position, financing and liquidity' section of the Chief Financial Officer's Overview
[6] Calculated as net flows into policyholder liabilities plus net inflows received by our asset management business in 2012

cash remittance of £341 million, an increase of 66 per cent on the prior year, made it, for the first time, the largest contributor of cash to the Group. To put this into context, in 2009 Asia's net cash remittance was £40 million.

"In 2012, we have exceeded two of our 2013 'Growth and Cash' objectives for Asia. In 2010, I said we would more than double Asia's 2009 IFRS operating profit from £465 million to £930 million by full year 2013. In fact we have delivered £988 million in 2012. We have also exceeded Asia's 2013 cash target of £300 million. This highlights the effectiveness of our strategy and the strength of our franchise in the region. We are on track to deliver our remaining four objectives notwithstanding the uncertain global economic environment.

"Across the Group, our key financial metrics have seen good growth – IFRS operating profit is up 25 per cent, new business profit is up 14 per cent and net cash remittances are 9 per cent higher. We have delivered this thanks to our discipline and focus on value over volume. During the year, we have continued to take proactive management action including to make sure that we concentrate our business on products and markets that offer the best returns with the shortest payback periods. For instance, during the third quarter we deliberately slowed down our growth in Korea and Taiwan, and in the US, in the fourth quarter, we took steps to limit sales of guaranteed variable annuities. To ensure we can manage the Group with a focus on value creation, we avoid committing to minimum sales or volume growth targets.

"The US continued to deliver profitable growth with total IFRS operating profit exceeding £1 billion for the first time in 2012. The UK business produced a strong performance in a difficult market helped by increased sales of annuities and with-profits products, ahead of the implementation of the conclusions of the Retail Distribution Review. In asset management, M&G has seen record net investment inflows, allowing it to reach record funds under management and to deliver a record level of IFRS operating profit.

"Although the outlook for global growth has seen some modest improvement in recent months, a high level of uncertainty remains. Like other insurance companies we face the challenge of persistently low long-term interest rates. Our emphasis in recent years on growing our income from activities and products that are less sensitive to interest rates has been beneficial for us. Our balance sheet is strong and remains defensively positioned. In Asia, we have high-quality franchises and market-leading distribution in some of the fastest growing and most profitable markets in the world. We also have market-leading positions in the US and the UK, with a strong asset management proposition. Together, these factors should allow us to continue to deliver relative outperformance.

"We have increased our dividend by 15.9 per cent to 29.19 pence per share. This is the second time in three years we have rebased it upwards. Our approach to growing the dividend demonstrates our confidence in our ability to continue to deliver long-term value for our shareholders."

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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. Year-on-year percentage increases are stated on an actual exchange rate basis.

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, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes and gain on dilution of Group holdings. In addition, for EEV basis results, operating profit based on longer-term investment returns excludes the effect of changes in economic assumptions, the mark to market value movement on core borrowings and the gain arising on the acquisition of Reassure America Life Insurance Company (REALIC). Separately on the IFRS basis, operating profit also excludes amortisation of accounting adjustments on the acquisition of REALIC. In 2012 the Group as an accounting policy change adopted altered US GAAP requirements for deferred acquisition costs for certain businesses in our Group IFRS results. Accordingly, the 2011 comparative results have been adjusted from those previously published for the retrospective application of the change as if the new accounting policy had always applied.

4. Total number of Prudential plc shares in issue as at 31 December 2012 was 2,557,242,352.

5. There will be a conference call today for media at 9.30am (UK) / 5.30pm (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 / 800 903 645 (Freephone). Passcode: 43171627#.

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://www.prudential.co.uk/prudential-plc/investors/resultspresentations/resultsday/

   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)208 817 9301 / 0800 634 5205 (Freephone UK). Confirmation number (this must be quoted to the operator to gain access to the call): 10183847. Playback: +44 (0)20 7769 6425/+35 3143 64267, Pin: 10183847#. This will be available from approximately 2.45pm (UK) 10.45pm (Hong Kong) on 13 March 2013 until 11.59pm (UK) on 20 March 2013 and until 7.59am (Hong Kong) on 21 March 2013.

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

8. **2012 Full Year Dividend**

Ex-dividend date	27 March 2013 (UK and Ireland shareholders) 28 March 2013 (Hong Kong and Singapore shareholders)
Record date	2 April 2013
Payment of dividend	23 May 2013 (UK, Ireland and Hong Kong shareholders) On or about 30 May 2013 (Singapore shareholders) On or about 3 June 2013 (ADR holders)

9. **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 165 years and has £405 billion in assets under management (as at 31 December 2012). 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.

10. **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 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.

Group Chief Executive's Report

Overview

I am pleased to report a strong performance in 2012. Our focus on our customers in each of our geographies combined with the strength of our distribution, franchise and brands, has allowed us to continue to provide distinctive value to our customers. Thanks to this, the Group has continued to deliver on the three key financial metrics we have focused on since 2009: IFRS operating profit, new business profit and net cash remittances. In 2012 in Asia, we have achieved two of the 2013 'Growth and Cash' objectives and have continued to make progress towards achieving the others, despite a global macroeconomic environment which remains challenging and historically low long-term interest rates.

Our strategy has remained consistent: to accelerate growth in Asia; to build on the strength of our US operations; to focus the UK business and optimise asset management. We have remained focused on executing that strategy with discipline and on producing strong results across our geographies.

Asia has delivered excellent results in 2012. Our business, Prudential Corporation Asia, which is already one of the largest in the region, has nevertheless been able to more than double its IFRS operating profit in three years to almost £1 billion, delivering £988 million in 2012. That growth in IFRS operating profit was not achieved at the expense of cash generation or by slowing down sales growth. Asia reported record new business profit in 2012. It also delivered a net cash remittance of £341 million, exceeding its 2013 objective of £300 million. For the first time in our history, Asia was the largest contributor of cash to the Group, an exceptional performance when you consider that in 2009 Asia's net cash remittance was £40 million. This performance was largely driven by the clear progress we have made in some of our 'sweet-spot' markets particularly Indonesia, Singapore, Malaysia, the Philippines and Thailand.

There was strong growth in the US, with total IFRS operating profit exceeding £1 billion for the first time, demonstrating the strength of Jackson's operations in a competitive marketplace. The UK remains focused on with-profits products and individual annuities, seeing strong sales of both in a difficult market. M&G has seen record net flows – at £16.9 billion – IFRS operating profit and funds under management, all driven by its investment performance and customer proposition.

In a turbulent environment, we have continued to take proactive and decisive management action to deliver on our strategy. In our industry, distribution is absolutely key. Therefore we have continued to strengthen our ability to reach our chosen customers in our chosen markets. For instance, we have strengthened our distribution in Thailand by establishing an exclusive partnership with Thanachart Bank, a leading bank in this market, and through the acquisition of its life business, Thanachart Life. In the US, we have continued to invest in our distribution as well, strengthening our relationship with our partners. We have throughout the year, ensured that we put value ahead of volume, ensuring that we reached our return on capital and payback targets. To mention a few examples, in Malaysia we refocused the business on higher-value, lower-volume protection business. In Korea and in Taiwan, at times during the year, we refused to write poor value business, sacrificing some sales growth in the process.

We have maintained our bias in favour of insurance income and fee income, which have grown as a proportion of our profits, ahead of spread income. True to that logic, in the US we acquired Reassure America Life Insurance Company (REALIC), which increased our insurance income. We also continue to drive our product mix to achieve the optimal balance between growth in sales, profit growth, cash generation and capital strength. Therefore, we have continued to emphasise and to grow protection products in Asia, which also provide excellent value to our customers. In the US, we have seen growing demand for Elite Access, a variable annuity without guarantees, launched in March 2012. Elite Access allows us to meet the needs of a key customer segment and to grow profitably while staying within our quantitative risk appetite in the year. We believe Elite Access has excellent prospects in the US market. More generally, we have continually and proactively re-priced our products and modified their features to ensure they continued to generate adequate returns in the new interest rate environment.

Having looked at the strength and sustainability of the results we have generated, the Board has decided to rebase our dividend upwards for the second time in three years. This decision reflects the Board's confidence in the Group's ability to continue to deliver strong, sustainable financial performance.

Group performance

The Group's strategy is supported by three key Group-wide operating principles.

First, we take a balanced approach to performance management across the key measures of IFRS, EEV and cash, with a particular focus on IFRS and cash. The Group has today reported a strong performance across all business units on these measures. Our IFRS operating profit based on longer-term investment returns increased by 25 per cent in 2012 to £2,533 million (2011: £2,027 million[1]) led by Asia and the US. IFRS shareholders' funds increased by 21 per cent to £10.4 billion, compared to £8.6 billion[1] as at 31 December 2011. EEV operating profit grew by 9 per cent to £4,321 million (2011: £3,978 million). Net cash remittances to the Group from our businesses increased by 9 per cent to £1,200 million (2011: £1,105 million), with Asia now the largest contributor.

Second, we focus on allocating capital to the highest return and shortest payback opportunities across the Group taking strong action where necessary, such as deliberately reducing sales in geographies, products or channels where our return and payback criteria are not met. Our insurance businesses in Asia, the US, and the UK, have delivered a 14 per cent increase in new business

[1] Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B of IFRS financial statements

profit to £2,452 million (2011: £2,151 million) with a distinctive 18 per cent increase in Asia. APE sales for the Group have increased by 14 per cent to £4,195 million (2011: £3,681 million) in 2012 and included the Group's best ever fourth quarter. M&G has attracted strong net inflows of £16.9 billion (2011: £4.4 billion), a record performance led by the return of investors' risk appetite in Continental Europe, where M&G has built a strong position over the last few years, and market-leading sales in the UK retail market.

Third, we are proactive in managing risk across the cycle. Our balance sheet continues to be defensively positioned and at the end of the period our IGD surplus was £5.1 billion[1] (31 December 2011: £4.0 billion). Our surplus increased due to strong net capital generation through operating earnings offset, as usual, by external dividend payments and other costs.

We continue to focus on promoting transparency by providing shareholders with relevant disclosures about our business and how we run it, to ensure that both our strategy and our operating principles are well understood. In addition to the disclosures that are provided with our quarterly financial results, since 2010 we have organised an annual seminar to provide investors and analysts with a further opportunity to discuss the business in detail with the Group's senior management.

We have organised three investor seminars in London (on 1 December 2010), Kuala Lumpur (on 15 November 2011), and New York (on 29 November 2012). These seminars consisted of presentations on different aspects of our business including: Group strategy; our operating principles; the 2013 'Growth and Cash' objectives; our Asian business, including country-by-country presentations; and Jackson, with further insights into its hedging strategy, capital position and sensitivity to market shocks. We intend to hold a fourth annual seminar in the last quarter of 2013 in London.

2013 'Growth and Cash' objectives

2012 has made a strong contribution to our progress towards delivering our challenging 2013 'Growth and Cash' objectives that I set out at our 2010 investor conference. Asia has achieved two of its three 2013 objectives in 2012 and the Group remains on track to meet the remaining objectives.

Turning first to our Asia objectives, I said in 2010 that we would aim to double our 2009 IFRS operating profit to £930 million by 2013, or in other words, that we would double our IFRS operating profit in four years. In 2012, we have achieved IFRS operating profit of £988 million (2011: £784 million[2]). We have therefore more than doubled profits in three years rather than four. Asia has also exceeded its 2013 cash objective, remitting a total of £341 million to the Group against a 2013 objective of £300 million. Looking at the remaining Asia objective, by the end of 2013 we aim to double 2009 new business profit to £1,426 million and we remain on target to reach this, with the business producing £1,266 million in 2012 (2011: £1,076 million). These results were achieved despite an unfavourable and volatile macroeconomic environment.

Beyond Asia, there has been continued progress towards our other cash objectives. The US remitted £249 million in 2012 (2011: £322 million including exceptional release of surplus), on track to meet its 2013 cash objective raised from £200 million to £260 million earlier this year. The UK made remittances to the Group of £313 million in 2012, on track to meet its 2013 objective of £350 million.

Looking at the cumulative cash target of £3.8 billion over the four-year period from 2010 to end-2013, we have so far achieved 85 per cent of the total objective with one year remaining.

	Actual 2012 £m	Objective 2013 £m
Asia profitability		
Value of new business	**1,266**	**1,426**
IFRS operating profit[3]	**988**	**930**
Business unit net remittance objectives		
Asia[4]	**341**	**300**
Jackson	**249**	**260** [5]
UK	**313**	**350**
Cumulative net cash remittances from 2010 onwards	**3,240**	**3,800**

[1] From March 2013 the basis of calculating Jackson's contribution to the Group's IGD surplus will change, further detail can be found in the 'Capital position, financing and liquidity' section of the Chief Financial Officer's Overview
[2] Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B of IFRS financial statements
[3] Total Asia operating profit from long-term business and Eastspring Investments after development costs. 2012 operating profit includes a one-off gain of £51 million arising on sale of the Group's interest in China Life Insurance Company of Taiwan
[4] Remittances from Asia in 2012 include a non-recurring net remittance of £27 million, representing cash from sale of Group's holding in China Life Insurance Company in Taiwan offset by repayment of funding contingent on future profits of the Hong Kong life insurance operations
[5] The net remittance objective for Jackson was increased from £200 million to £260 million to reflect the positive impact of the acquisition of REALIC

Our operating performance by business unit

Prudential Corporation Asia

Our strategy in Asia is focused on meeting the needs of the emerging middle class in the region for savings and protection. The region's positive demographics, strong economic growth, sound public finances and favourable public policy environment with a clear preference for private provision of protection, have all led to a rapidly expanding middle class, with a strong and growing demand for our savings and protection products.

Geographically, Asia is a vast and diverse region. Our primary area of focus is on what we call our 'sweet-spot' – Indonesia, Hong Kong, Singapore, Malaysia, the Philippines, Thailand and Vietnam – all these markets have attractive long term characteristics. We are in a strong position to capture profitably the growing demand for our products and services in these selected markets. We continuously invest in these markets to grow our distribution and to ensure we are well positioned in terms of people, systems and capabilities. We will continue to innovate to meet the evolving needs of our customers and maintain our focus on regular premium savings and protection products.

Our primary growth metric is new business profit rather than sales. This focus on new business profit, has ensured we have delivered healthy and sustainable quality growth. In 2012, new business profit was up 18 per cent in the region led by Indonesia, Singapore and Malaysia, up 27 per cent collectively. While under-penetration of insurance in markets across the region offers significant long-term growth opportunities, we retain our focus on value not volume. New business profit grew more quickly than sales as we refocused our businesses in Taiwan, Korea and Malaysia, deliberately reducing sales of lower margin products to ensure a consistent focus on higher value lines. We are determined to continue taking management action across the region where and when required, to maintain our internal rates of return of more than 20 per cent across all businesses, with a payback period in Asia of three years, despite the low interest rate environment.

Our life business in Asia, with its focus on capital-efficient products and fast payback periods, continues to deliver profitable, cash generative growth. IFRS long-term operating profit in Asia increased by 30 per cent in the period to £920 million (2011: £709 million[1]) and net cash remittances increased by 66 per cent to £341 million (2011: £206 million).

Our multi-channel distribution model is at the heart of our success and we have continued to grow and strengthen our distribution further in 2012. In both the agency and the bank channels – bancassurance – the returns comfortably cover the cost of capital, so we have a strong appetite for growth in both. These channels grew their respective contribution to new business profit at similar rates in 2012. Agency is the largest channel and we continue to increase both the scale and, importantly the quality and productivity of our agency force. In the bank channel, where we are the regional leader, our partnerships with Standard Chartered Bank (SCB) and United Overseas Bank (UOB), have seen considerable sales growth, up 42 per cent and 65 per cent respectively. Regular premium products make up the bulk of our new business – in excess of 90 per cent of total APE sales – with higher-margin protection products making up almost one-third of new business APE.

Our four largest markets – Indonesia, Hong Kong, Singapore and Malaysia – have made the most material contribution to the region's growth in recent years. In addition to our well known strength in these four markets, we are building our presence and distribution in other markets that have the potential to become material drivers of growth over the medium and long term. Two such markets are Thailand and the Philippines, which in aggregate grew new business profit by 93 per cent in 2012. In Thailand, a market with considerable and attractive growth potential, where we were historically underweight, our recently announced exclusive long-term bancassurance partnership with Thanachart, and the acquisition of Thanachart Life, fulfils our longstanding ambition to significantly increase our footprint in that country. In the Philippines, where we are a market leader, our business is now making good progress delivering strong and profitable growth. We believe this market has promising prospects due to its large population and the improved quality of its macroeconomic management, with its renewed emphasis on attracting foreign direct investment as well as the upgrading of the country's infrastructure. In January 2013, we started life insurance operations in Cambodia, our thirteenth market and entered into a partnership with ACLEDA Bank PLC, the largest retail and commercial bank in the country. This is the first deal of its kind in Cambodia, where we believe there are significant opportunities for growth as the market develops.

Overall, our geographic footprint, combined with the exceptional quality of our distribution and of our products, has enabled us to deliver another year of very strong performance in Asia. Our 13 million insurance customers, whom we serve well and profitably, represent only a small proportion of the long-term potential of this part of the world for our company.

Jackson National Life Insurance Company (Jackson)

The US is the world's largest retirement savings market, with large cohorts of the 78 million baby-boomers[2] reaching retirement age each year, creating significant demand for retirement income products. Our strategy in the US is to take advantage of this profitable growth opportunity. We approach this with a long-term perspective, proactively managing sales through the economic cycle as our experience has shown us how important it is to put value ahead of volume in the variable annuity market. We take at all times a conservative approach to pricing, even when that means losing market share to other players, while hedging our financial risks and managing our balance sheet.

[1] Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B of IFRS financial statements
[2] Source: US Census Bureau

In 2012, Jackson delivered IFRS long-term operating profit of £964 million, up 48 per cent on the prior year (2011: £651 million[1]). This increase in profits is in part due to increased fee income from the significant net flows captured in the last few years, and in part due to the non-recurring in 2012 of an accelerated deferred acquisition cost amortisation charge of £190 million in 2011. In 2012, new business profit grew 7 per cent, with APE sales up 15 per cent as historically low interest rates continued to weigh on profits. The pricing actions taken during the year allowed Jackson to mitigate the negative impact of these interest rates.

There is always a degree of tactical management in the variable annuity market as sales are impacted by a number of factors, including but not limited to, equity market levels, interest rates and the actions of Jackson's competitors. During the second half of 2012, as equity markets recovered, we saw stronger sales growth in variable annuities despite pricing actions taken earlier in the year to mitigate the impact of lower investment returns as bond yields remained low. Therefore, in November and December, Jackson worked closely with distributors to proactively manage volumes and to ensure that the level of sales for 2012 would remain within the Group's quantitative risk appetite. We will continue to proactively balance value, volume, capital and balance sheet strength in this market.

In March 2012 we launched Elite Access, a variable annuity without guarantees, which offers access to alternative investments. It taps into an unmet demand from customers and has been particularly well received by distributors. The launch of Elite Access helps Jackson to continue growing within the Group's risk appetite for products with guarantees. The acquisition of REALIC, a traditional US life business, has helped to diversify Jackson's earnings and make the business more resilient.

In the context of industry debates about the advantages and disadvantages of various accounting methods, we believe that cash generation is ultimately a very tangible metric of the quality and value of a strategy. Therefore we set Jackson a net cash remittance objective for 2013 which, following the acquisition of REALIC, was increased from £200 million to £260 million. In 2012, Jackson delivered net cash remittances of £249 million in the year (2011: £322 million including an exceptional release of surplus) and is on track to meet this objective.

Prudential UK & Europe

In the UK, Prudential has adopted a focused strategy and competes selectively to help Britain's ageing population convert their accumulated wealth into retirement income. We have a clear focus on writing profitable new business while generating cash sustainably and preserving our capital. We concentrate on areas in which we have a clear competitive advantage, namely individual annuities and with-profits products, where we continue to be market leaders.

Over the last decade, Prudential has been widely recognised as the UK's leading with-profits manager. Our long-term approach to the management of the with-profits fund has continued to benefit customers during 2012 as it helps to provide protection from the full impact of volatile market conditions. The fund has consistently out performed the FTSE All-Share Index. Over the last 15 years, the fund has delivered a cumulative investment return of 184.3 per cent on investments covering policyholder liabilities. This compares favourably with the FTSE All-Share Index total return of 106.5 per cent over the same period. Total bonus payments are expected to top £2 billion in 2013 and our policyholders will typically see year-on-year increases of between 3.5 per cent and 6.5 per cent in accumulating with-profits policy values. Since 2003 an estimated £22 billion has been added to policy values. Our UK business is also one of the largest providers of annuities in the UK and in 2012 paid out £2.9 billion in income to UK annuitants.

Our performance in 2012 has been strong in a difficult market, which has been impacted by significant UK and EU regulatory change. This includes the implementation of the Retail Distribution Review (RDR), auto-enrolment for company pension schemes and Gender Neutral Pricing.

Our UK business has demonstrated resilience as it continues to benefit from its focus on its core products, with-profits and individual annuities, with sales of both increasing by more than 30 per cent. We achieve internal rates of return that are commensurate with other parts of the business. New business profit increased 20 per cent to £313 million (2011: £260 million) and IFRS long-term operating profit grew 3 per cent to £703 million (2011: £683 million). We completed two selective bulk annuity deals that contributed to this figure.

Where we see opportunities for future profitable growth we will seek to capitalise on them but only if they meet our payback criteria. In 2013 we have commenced sales operations in Poland, one of Europe's fastest-growing economies, which has an expanding middle class and high savings rates.

We continue to assess the impact of the RDR, which was implemented on 31 December 2012 and the resulting changes to distributors' business models. This is likely to lead to some short-term dislocation in the market as consumers and distributors adjust to the new sales environment. We expect this transition phase to dampen our sales of investment bonds in 2013, compared to the high sales in 2012. We are confident that the strength of our brand combined with our investment capabilities, financial strength and experience will ensure that we remain well placed to provide customers with dependable retirement income. We believe that with-profits products will continue to be popular with customers seeking competitive long-term real investment returns.

Net cash remittances were £313 million, up 5 per cent (2011: £297 million). Our inherited estate, which is estimated at £7.0 billion (31 December 2011: £6.1 billion), is a key source of capital strength.

[1] Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B of IFRS financial statements

Asset management
Our asset management business, M&G, has continued to focus on delivering superior investment performance for our customers while maximising the strength of its distribution capabilities. It has pursued business diversification across both geographies and asset classes. Its retail funds are now registered for sale in 20 jurisdictions, with offices in 15 countries. During 2012, the business has seen record net sales, funds under management and IFRS operating profit. The growth in sales has been driven by M&G's business in Continental Europe as investor risk appetite returned.

M&G continued to attract significant new asset flows during the recent years of global market volatility, testament to the strength of its reputation and focus on investment performance. It has seen record total retail and institutional net inflows of £16.9 billion in 2012, significantly higher than 2011 and the previous high of £13.5 billion in 2009.

Total net sales in the UK were lower than 2011, reflecting the maturity of the UK business and management decisions to slow the inflow of new money into two market-leading UK corporate bond funds to safeguard investment performance. We expect these trends to persist in 2013. Despite the deliberate slowing of sales in the UK, M&G was the UK's top-selling investment management house in 2012 and has ranked number one for both net and gross fund sales for an unprecedented four consecutive calendar years. Net fund sales in Continental Europe have increased, generating a record £5.2 billion of net sales in 2012. Assets sourced from outside the UK account for 29 per cent of total retail funds under management, up from 25 per cent in 2011.

Underlying profits for the full year rose by 14 per cent to a new record level of £298 million. Following the addition of performance-related fees and profit from our associate investment in South Africa, total operating profit for 2012 was £320 million. M&G's funds under management also grew to a record £228 billion (2011: £201 billion).

Looking ahead, the diversification of our business by asset class and geography positions us well to manage the expected shifts in consumer asset allocation going forward.

Eastspring Investments, our rebranded Asia asset management business, increased funds under management to £58.1 billion, up 16 per cent (2011: £50.3 billion). IFRS operating profit was marginally lower, reflecting a change in product mix towards bond funds that attract lower fees. Also costs were higher as we continued to invest in people and infrastructure, as we build out our offshore capabilities following the launch of the new brand. This included opening a US distribution office, starting an operation in Indonesia and launching new funds in Taiwan, China and India.

Capital and risk management
We take a disciplined approach to capital management and continue to take action to ensure our capital works efficiently and effectively for the Group. Using the regulatory measure of the Insurance Groups Directive, our Group capital surplus position at 31 December 2012 was estimated at £5.1 billion (31 December 2011: £4.0 billion), before allowing for the final dividend. The Group's required capital cover was 3 times. 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.

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 may provide such a framework but we now know that it will not be implemented before 31 December 2015. In common with other insurers we have been working with regulators to ensure that the current capital regime remains robust while we wait for the implementation of Solvency II.

In early March 2013, we agreed with the FSA to revise the calculation of the contribution Jackson makes to the Group's IGD surplus. We consider the revised basis to be an improvement as it is more closely aligned to the one we use to assess and report free surplus. 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. On this revised basis, the IGD surplus at 28 February 2013 is estimated at £4.4 billion[1], before allowing for the final dividend, equivalent to a capital cover of 2.5 times.

Uncertainty about the final Solvency II outcome remains. We will continue to evaluate our options, including consideration of the Group's domicile, in the event that the final outcome is negative and potentially impacts our ability to deliver value to our customers and shareholders. We welcome the decision by the UK Financial Services Authority to strengthen the existing Individual Capital Adequacy Standards (ICAS) regime in the absence of the implementation of Solvency II.

[1] The estimated position at 28 February 2013 allows for economic conditions and surplus generation since 31 December 2012. It is stated before the final dividend and the effect of the Thanachart acquisition and after allowing for a reduction in Jackson's contribution to IGD surplus of £1.3 billion

Dividend

The Board has decided to rebase the full year dividend upwards by 4 pence, reflecting the strong progress made in both the earnings and free surplus generation of the business and in the delivery of our financial objectives. In line with this, the directors recommend a final dividend of 20.79 pence per share (2011: 17.24 pence), which brings the total dividend for the year to 29.19 pence (2011: 25.19 pence), representing an increase of 15.9 per cent over 2011.

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 2012, we have delivered a strong performance. In spite of tough macroeconomic conditions and the negative effect of persistently low long-term interest rates, our Group has achieved significant and profitable growth and produced increased levels of cash, which allowed us to provide our shareholders with a growing dividend.

Our strategy and operating principles remain clear and unchanged. Asia is the key driver of sustainable and profitable growth, building on the significant opportunity that the emergence of the growing and increasingly wealthy middle class in this region represents. Our best opportunities lie in South-east Asia, where the depth and breadth of Prudential's franchise is a source of strength. Our business units in the US and in the UK will continue to focus on delivering strong earnings and cash. We will achieve this by continuing to execute with discipline, by maintaining a robust balance sheet and with proactive risk management.

Our Group is set to continue to provide a distinctive combination of profitable growth and cash by meeting the needs of our customers across the world. Our confidence is reflected in the decision to rebase the dividend upwards, the second time in three years, as we remain focused on creating long-term, sustainable value for our shareholders.

Financial highlights

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

	2012			2011			Change		
	Sales (APE) £m	NBP(i) £m	Free surplus invested in new business £m	Sales (APE) £m	NBP(i) £m	Free surplus invested in new business £m	Sales (APE) change %	NBP change %	Free surplus investment change %
Asia	**1,897**	**1,266**	**292**	1,660	1,076	297	14	18	(2)
US	**1,462**	**873**	**281**	1,275	815	202	15	7	39
UK	**836**	**313**	**45**	746	260	54	12	20	(17)
Total Group	**4,195**	**2,452**	**618**	3,681	2,151	553	14	14	12

(i) New Business Profit (NBP)

IRRs and payback periods

	2012			2011		
	NBP margin %	IRR(ii) %	Payback period (years)	NBP margin %	IRR(ii) %	Payback period (years)
Asia	**67**	**>20**	**3**	65	>20	3
US	**60**	**>20**	**2**	64	>20	1
UK	**37**	**>20**	**3**	35	>20	4
Total Group	**58**	**>20**	**2**	58	>20	2

(ii) IRR = Internal Rate of Return

Shareholder-backed policyholder liabilities and net liability flows

	2012 Shareholder-backed		2011 Shareholder-backed		Change Shareholder-backed	
	Policyholder liabilities £m	Net liability flows(iii) £m	Policyholder liabilities £m	Net liability flows(iii) £m	Policyholder liabilities %	Net liability flows %
Asia	**21,213**	**1,982**	18,269	1,839	16	8
US	**92,261**	**9,597**	69,189	7,824	33	23
UK	**49,505**	**(1,129)**	46,048	(657)	8	(72)
Total Group	**162,979**	**10,450**	133,506	9,006	22	16

(iii) Defined as movements in shareholder-backed policyholder liabilities arising from premiums (net of charges), surrenders, maturities and deaths.

Asset management net inflows, profitability and external funds under management

	Net in-flows			IFRS operating profit			External funds under management		
	2012 £m	2011 £m	Change %	2012 £m	2011 £m	Change %	2012 £m	2011 £m	Change %
M&G(iv)	**16,881**	4,385	285	**371**	357	4	**111,868**	91,948	22
Total asset management	**18,281**	4,506	306	**485**	461	5	**133,502**	111,169	20
Total asset management (ex MMF)(v)	**18,507**	5,018	269						

(iv) 2012 includes M&G's 49.99 per cent proportionate share in the metrics above of PPM South Africa after the divestment transaction. 100 per cent of these metrics were included in 2011.
(v) Excludes Asia Money Market Fund (MMF) net out flows of £226 million (2011: net outflows £512 million).

Operating profit based on longer-term investment returns - IFRS(vi)

	2012		2011		Change	
	Long-term £m	Total £m	Long-term £m	Total £m	Long-term %	Total %
Asia (vii)	**920**	**995**	709	789	30	26
US(viii)	**964**	**1,003**	651	675	48	49
UK	**703**	**1,107**	683	1,080	3	3
Other income and expenditure	**(7)**	**(572)**	(5)	(517)	(40)	(11)
Total Group	**2,580**	**2,533**	2,038	2,027	27	25

(vi) Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B of IFRS financial statements.
(vii) 2012 operating profit includes one-off gain of £51 million arising on sale of Group's interest in China Life Insurance Company of Taiwan.
(viii) 2011 included accelerated deferred acquisition costs (DAC) amortisation of £190 million which has not recurred.

Operating profit based on longer-term investment returns - EEV

	2012		2011		Change	
	Long-term	**Total**	**Long-term**	**Total**	**Long-term**	**Total**
	£m	**£m**	**£m**	**£m**	**%**	**%**
Asia	**1,960**	**2,035**	1,764	1,844	11	10
US	**1,610**	**1,649**	1,431	1,455	13	13
UK	**866**	**1,270**	853	1,250	2	2
Other income and expenditure	**(7)**	**(633)**	(5)	(571)	(40)	(11)
Total Group	**4,429**	**4,321**	4,043	3,978	10	9

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

	2012	2011	Change%
IFRS(ix)	**76.8 p**	62.8 p	22
EEV	**125.0 p**	115.7 p	8

(ix) Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B of IFRS financial statements.

Underlying free surplus generated (x)

	2012		2011		Change	
	Long-term	**Total**	**Long-term**	**Total**	**Long-term**	**Total**
	£m	**£m**	**£m**	**£m**	**%**	**%**
Asia	**479**	**537**	410	472	17	14
US	**755**	**773**	748	764	1	1
UK	**462**	**772**	449	747	3	3
Total Group	**1,696**	**2,082**	1,607	1,983	6	5

(x) 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.

Cash remitted by the business units to the Group

	2012		2011		Change	
	Long-term	**Total**	**Long-term**	**Total**	**Long-term**	**Total**
	£m	**£m**	**£m**	**£m**	**%**	**%**
Asia (xi)	**384**	**341**	239	206	61	66
US	**249**	**249**	322	322	(23)	(23)
UK	**288**	**610**	268	577	7	6
Total Group	**921**	**1,200**	829	1,105	11	9

(xi) Remittances from Asia in 2012 include net remittance of £27 million, representing cash from sale of Group's holding in China Life Insurance Company in Taiwan offset by repayment of funding contingent on future profits of the Hong Kong life insurance operations.

Cash and capital

	2012	2011	Change%
Dividend per share relating to the reporting period	**29.19 p**	25.19 p	15.9
Holding company cash and short-term investments	**£1,380m**	£1,200m	15
IGD capital surplus before final dividend(xii) (xiii)	**£5.1bn**	£4.0bn	28

(xii) Estimated.
(xiii) From March 2013 the basis of calculating Jackson's contribution to the Group's IGD surplus will change, further detail can be found in the 'Capital position, financing and liquidity' section of the Chief Financial Officer's Overview.

Group shareholders' funds (including goodwill attributable to shareholders)

	2012	2011	Change
	£	**£**	**%**
IFRS(xiv)	**10.4 bn**	8.6 bn	21
EEV	**22.4 bn**	19.6 bn	14

(xiv) Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B of IFRS financial statements.

	2012	2011
	%	**%**
Return on IFRS shareholders' funds(xv)	**23**	21
Return on embedded value (xvi)	**16**	16

(xv) IFRS operating profit after tax and non-controlling interests as percentage of opening IFRS shareholders' funds. Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B of IFRS financial statements.
(xvi) EEV operating profit after tax and non-controlling interests as percentage of opening EEV shareholders' funds.

	2012	2011	Change%
EEV shareholders' funds per share (including goodwill attributable to shareholders)	**878 p**	771 p	14
EEV shareholders' funds per share (excluding goodwill attributable to shareholders)	**820 p**	713 p	15

Chief Financial Officer's Overview

Our guiding operating principle is simple – drive the creation of sustainable shareholder value while operating within a conservative risk management framework. Over the last four years, through a combination of disciplined execution and prudent management of our balance sheet risks, Prudential has delivered profitable growth and enhanced its capital flexibility, despite the challenging market environment. 2012 has seen Prudential continue to build on the positive momentum of recent years, with a strong financial performance that included two of our 2013 'Growth and Cash' financial objectives being exceeded and continued progress towards the rest. This performance reflects good contributions across our key financial measures from each of our business operations, despite the challenge of low long-term interest rates and weak growth in the global economy. It is particularly pleasing to note that Asia became the largest contributor of cash to the Group in 2012, remitting over £300 million for the first time in its history and exceeding its 2013 cash objective. With IFRS operating profit, after development expenses, of £988 million in 2012, Asia has also exceeded its 2013 IFRS operating profit objective.

EEV new business profit ('new business profit'), our primary growth measure, increased by 14 per cent to £2,452 million (2011: £2,151 million), IFRS operating profit based on longer-term investment returns ('IFRS operating profit') increased by 25 per cent to £2,533 million (2011: £2,027 million)[1] and net cash remitted from the business units to the Group increased by 9 per cent to £1,200 million (2011: £1,105 million). As these results demonstrate, the quality of our businesses across Asia, the US and the UK, combined with the strength of our balance sheet and financial discipline, underpins the Group's ability to deliver both growth and cash in the face of continued macroeconomic headwinds.

Profitability

Over the last few years, our success has been founded on attracting new customers and on retaining those who have chosen Prudential for their saving and protection needs. We operate in markets where consumer demand for the products that we provide is strong and we have achieved success by providing both value and service to our customers while generating attractive returns for shareholders. In 2012 this approach produced £10.5 billion of life business net inflows on shareholder-backed business, which together with investment related and other movements, drove an increase in the overall size of our life insurance book of business by 22 per cent to £163 billion (2011: £133.5 billion). At the same time, our combined asset management operations attracted £18.3 billion of retail and institutional net flows, surpassing the previous highs in 2009 and 2010, driving an increase in the third party managed funds by 20 per cent to £133 billion (2011: £111 billion). By attracting, retaining and growing our customers' savings and our obligations towards them, we are able to generate higher revenues, which in 2012 have once again increased at a faster rate than our expenses, culminating in greater overall profits.

Group IFRS operating profit increased by 25 per cent in 2012 to £2,533 million (2011: £2,027 million)[1], driven by strong growth in total contributions[2] from Asia and the US, which were up 26 per cent and 49 per cent respectively. Group EEV operating profit based on longer-term investment returns ('EEV operating profit') increased by 9 per cent to £4,321 million (2011: £3,978 million), with growth in all regions. Non-UK operations now account for a larger proportion of both total IFRS and EEV operating profit than ever before, while the contribution to these metrics from each business operation and each earnings source remains well balanced, preserving both the quality and the resilience of the Group's earnings.

Our Asia long-term business has continued to build on the progress of recent years, with IFRS operating profit of £920 million (2011: £709 million)[1] up 30 per cent. This strong performance has been driven by the increase in the size of the in-force portfolio including the growth of our health and protection business. Our largest markets of Indonesia, Hong Kong, Singapore and Malaysia continue to generate good levels of growth, with IFRS operating profit up 22 per cent collectively. Asia's long-term EEV operating profit grew by 11 per cent in 2012 to £1,960 million (2011: £1,764 million), with progress on this measure impacted by lower expected returns as a result of the fall in interest rates during the year.

In the US, long-term business IFRS operating profit was up 48 per cent in 2012 to £964 million (2011: £651 million)[1], which includes a contribution of £67 million from REALIC, following its acquisition in September 2012. The remaining increase primarily reflects higher fee income generated by growth in the separate account assets, as well as the expected non-recurring impact of accelerated deferred acquisition cost (DAC) amortisation of £190 million in 2011. This has been partially offset by the adverse effect on spread income of lower bond yields. Fee income increased by 29 per cent to £875 million in 2012 (2011: £680 million), as a result of growth in separate account asset balances which stood at £49 billion at 31 December 2012 (31 December 2011: £38 billion), together with higher average fee levels. Spread income (including the expected return on shareholders' assets) was £757 million in 2012 (2011: £813 million), with lower yields reducing the average spread margin that we earned on general account liabilities from 258 basis points in 2011 to 239 basis points in 2012 as expected. Jackson's long-term EEV operating profit increased by 13 per cent to £1,610 million (2011: £1,431 million) primarily due to improved new business profits and higher opening value of in-force business following recent growth in the portfolio. We are pleased with the acquisition of REALIC as it presents a financially attractive deal, generating seasoned insurance income, immediate earnings accretion and a gain on EEV shareholders' funds of £453 million.

UK long-term business IFRS operating profit was 3 per cent higher at £703 million (2011: £683 million) including £431 million from the shareholder-backed business. The strength of the with-profits fund, which currently has a surplus estate of £7.0 billion, offers strong policyholder protection and assists in generating positive returns for both policyholders and shareholders. EEV long-term operating earnings increased by 2 per cent in 2012 to £866 million (2011: £853 million), representing higher new business profits offset by the impact of lower interest rates on the recognition of in-force profits.

[1] Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B of IFRS financial statements

[2] Operating profit from long-term and asset management business

Our asset management businesses generated IFRS operating profit of £485 million in 2012 (2011: £461 million), with M&G's contribution higher at £371 million (including Prudential Capital). M&G continues to benefit from the delivery of strong inflows, with underlying profits (excluding performance related payments and earnings from associates) up 14 per cent in 2012. This progress reflects higher revenues, up 10 per cent in 2012, as the scale and proportion of external funds continues to grow, and improvements in the cost-income ratio, to 59 per cent in 2012 (2011: 61 per cent). IFRS operating profit from Eastspring Investments of £75 million (2011: £80 million) was impacted by lower average margins on funds under management following a consumer-led shift in business mix away from equities to fixed income funds, as well as increased costs as the business continues to invest in growth opportunities. This included the opening of its first US office, in Chicago, in June 2012 and starting operations in Indonesia.

Capital generation

We continue to promote disciplined use of our capital resources across the Group, and focus on allocating capital to the growth opportunities that offer the most attractive returns with the shortest payback periods. We have taken several important steps over the last few years to improve the efficiency and effectiveness of the capital allocation process, which has improved not only our returns on capital invested but also our overall financial flexibility. In 2012 we have continued to produce significant amounts of free capital, which we measure as free surplus generated.

In 2012, we generated £2,700 million of underlying free surplus (before reinvestment in new business) from our life in-force and asset management businesses. This is 6 per cent higher than the £2,536 million generated in 2011, reflecting increases from Asia and the US. We reinvested £618 million of the free surplus generated in the period into writing new business (2011: £553 million).

Asia continues to be our preferred destination for new capital and accounted for £292 million of this reinvestment (2011: £297 million), falling despite the growth in new business as we continue to focus on more capital efficient products. We have not sought to invest in spread-based products in the region that carry more onerous capital charges and produce insufficient returns. In the US, new business investment has increased to £281 million from £202 million in 2011, which primarily reflects the higher level of new business written, changes in business mix, and the impact on regulatory reserving requirements for new business from the low interest rate environment. In the UK, our capital efficient product focus on annuities and with-profits bonds means we invested just £45 million, yet delivered more new business profit. The IRRs on invested capital were more than 20 per cent in Asia, the US, and the UK; with payback periods of three years, two years and three years respectively.

Of the remaining free surplus generated after reinvestment in new business, £1,200 million was remitted from the business units to Group. This cash was used to meet central costs of £205 million, service net interest payments of £278 million and meet dividend payments of £655 million. The total free surplus balance deployed across our life and asset management operations at the end of the year was £3,689 million (2011: £3,421 million).

'Growth and Cash' financial objectives

The following discussion contains forward-looking statements that involve inherent risks and uncertainties. Prudential's actual future financial condition or performance or other indicated results may differ materially from those indicated in any such forward-looking statement due to a number of important factors (including those discussed under the heading 'Risk factors' in this document). See the discussion under the heading 'Forward-looking statements' at the front of this document.

At our 2010 investor conference entitled 'Growth and Cash' we announced new financial objectives demonstrating our confidence in continued rapid growth in Asia, and increasing levels of cash remittances from all of our businesses. These objectives have been defined as follows:

(i) Asia growth and profitability objectives[1]:
To double the 2009 value of IFRS life and asset management pre-tax operating profit in 2013 (2009: £465 million); and
To double the 2009 value of new business profits in 2013 (2009: £713 million).

(ii) Business unit cash remittance objectives[1]:
Asia to deliver £300 million of net cash remittance to the Group in 2013 (2009: £40 million);
Jackson to deliver £260 million[2] of net cash remittance to the Group in 2013 (2009: £39 million); and
UK to deliver £350 million of net cash remittance to the Group in 2013 (2009: £284 million[3]).

(iii) Cumulative net cash remittances[1]:
All business units in aggregate to deliver cumulative net cash remittances of at least £3.8 billion over the period 2010 to end-2013. These net remittances are to be underpinned by a targeted level of cumulative underlying free surplus generation of £6.5 billion over the same period.

As mentioned in the Group Chief Executive's Report we remain focused on these objectives and have continued to make progress towards them. In 2012 we have exceeded our 2013 IFRS operating profit and net remittance objectives for Asia and we are on track to achieve the rest. We set out below in more detail our progress towards these objectives based on our results for 2012.

Asia profitability objectives

	Actual (as originally reported)						Objective
	2009	2010	2011	2012	Change (over 2011)	Change (since 2009)	2013
	£m	£m	£m	£m	%	%	£m
Value of new business	713	901	1,076	**1,266**	18	78	**1,426**
IFRS operating profit[4]	465	604	784	**988**	26	112	**930**

Business unit net cash remittance objectives

	Actual				Objective
	2009	2010	2011	2012	2013
	£m	£m	£m	£m	£m
Asia[5]	40	233	206	**341**	**300**
Jackson[6]	39	80	322	**249**	**260** [2]
UK[7]	434	420	297	**313**	**350**
M&G[8]	175	202	280	**297**	
	688	935	1,105	**1,200**	

Objectives for cumulative period 1 January 2010 to 31 December 2013

	Actual	Objective	Percentage achieved
	1 Jan 2010 to 31 Dec 2012	1 Jan 2010 to 31 Dec 2013	At 31 Dec 2012
	£m	£m	%
Cumulative net cash remittances from 2010 onwards	**3,240**	**3,800**	**85%**
Cumulative underlying group free surplus generation (which is net of investment in new business)	**5,779**	**6,500**	**89%**

[1] The objectives assume current exchange rates and a normalised economic environment consistent with the economic assumptions made by Prudential in calculating the EEV basis supplementary information for the half-year ended 30 June 2010. They have been prepared using current solvency rules and do not pre-judge the outcome of Solvency II, which remains uncertain.
[2] The net remittance objective for Jackson was increased from £200 million to £260 million to reflect the positive impact of the acquisition of REALIC.
[3] Representing the underlying remittances excluding the £150 million impact of proactive financing techniques used to bring forward cash emergence of the in-force book during the financial crisis.
[4] Total Asia operating profit from long-term business and Eastspring Investments after development costs. 2012 operating profit includes a one-off gain of £51 million arising on sale of Group's interest in China Life Insurance Company of Taiwan. The comparatives represent results as reported in the respective periods and excludes adjustment for altered US GAAP requirements for deferred acquisition costs as described in note B to the IFRS financial statements.
[5] Remittances from Asia in 2012 include net remittance of £27 million, representing cash from sale of Group's holding in China Life Insurance Company in Taiwan offset by repayment of funding contingent on future profits of the Hong Kong life insurance operations. 2010 remittances included a one-off remittance of £130 million, representing the accumulation of historic distributable reserves.
[6] Net remittances from Jackson in 2011 include releases of excess surplus to Group.
[7] In 2009, the net remittances from the UK included the £150 million arising from the pro-active financing techniques used to bring forward cash emergence of the in-force book during the financial crisis. The 2010 net remittances included an amount of £120 million representing the releases of surplus and net financing payments.
[8] Including Prudential Capital.

In 2012 cash remitted to the Group increased by 9 per cent to £1,200 million (2011: £1,105 million), with considerable amounts of cash remitted from all our business operations highlighting the improved balance of contributions from across the Group. Asia's remittances increased 66 per cent to £341 million (2011: £206 million), demonstrating its transition into a highly cash generative business as a result of significant growth and its focus on health and protection products. Asia's 2012 cash remittance is ahead of its 2013 financial objective of £300 million. We remain confident of further positive progress underpinned by strong cash generation from the in-force portfolio and continued growth in capital efficient new business. The quality of Jackson's post-financial crisis expansion in variable annuities is evidenced by its cash remittance of £249 million while continuing to grow the business, and financing the acquisition of REALIC through its internal resources. The positive impact of this financially attractive acquisition will enable Jackson to increase its net remittance objective for Group from £200 million to £260 million in 2013 and beyond. The UK life operations have continued to make sizeable remittances at £313 million (2011: £297 million), supported by shareholder transfers from the with-profits fund and cash positive new annuity business. M&G (including Prudential Capital) delivered net remittances of £297 million (2011: £280 million), reflecting its relatively capital-light business model that facilitates a high dividend payout ratio from earnings.

Against the cumulative 2010 to 2013 net remittance objective of £3.8 billion, by 31 December 2012 over £3.2 billion has been remitted by business operations. We remain confident of achieving this target. Our confidence is underpinned by the strong underlying free surplus generation of our businesses which, by 31 December 2012, had generated a total of £5.8 billion against our 2010 to 2013 cumulative objective of £6.5 billion.

Capital position, financing and liquidity

Despite the challenging macroeconomic conditions, we continue to operate with a strong solvency position, while maintaining high levels of liquidity and capital generation. This is testament to our capital discipline, the effectiveness of our hedging activities, our low direct Eurozone exposure, the minimal level of credit impairments and our comparatively low interest rate sensitivity.

The Group has maintained a strong capital position. At 31 December 2012, our IGD surplus before final dividend is estimated at £5.1 billion (31 December 2011: £4.0 billion), generating very strong coverage of 3 times the requirement.

All of our subsidiaries continue to hold strong capital positions on a local regulatory basis. In particular, at 31 December 2012, the value of the estate of our UK with-profit funds is estimated at £7.0 billion (31 December 2011: £6.1 billion), while Jackson's Risk-Based Capital (RBC)[1] ratio was 423 per cent at 31 December 2012, excluding the gains on interest rate swaps under permitted practice, which if included would increase the RBC ratio to 478 per cent.

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 2012 we have maintained our credit default reserves at £2.1 billion, representing 40 per cent of the portfolio spread over swaps, compared with 33 per cent at 31 December 2011.

The delays in finalising the implementation measures for Solvency II prolongs the uncertainty of the effective date of the capital adequacy regime, a major overhaul for European insurers. We are supportive in principle of the development of a more risk-based approach to capital, but we have concerns as to the potential consequences of some aspects of the Solvency II regime under consideration. With the continued delays to policy development, the final outcome of Solvency II remains uncertain. Despite this uncertainty we remain focused on preparing for implementation of the new regime.

In March 2013, we have agreed with the FSA to revise the calculation of the contribution Jackson makes to the Group's IGD surplus. Until now the contribution of Jackson to the reported IGD surplus was based on an intervention level set at 75 per cent of US Risk Based Capital Company Action Level (CAL). Going forward the contribution of Jackson to IGD surplus will equal the surplus in excess of 250 per cent of CAL. This is more in line with the level at which we currently report free surplus, which we have set at 235 per cent of CAL. 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 change has no impact on the way that the US business is managed or regulated locally. For consistency we also intend to align our free surplus calibration to 250 per cent of CAL going forward.

On the new basis, the IGD surplus at 28 February 2013 is estimated at £4.4 billion[2] (equivalent to a capital cover of 2.5 times), which includes the proceeds of £0.4 billion of subordinated debt, raised in January 2013 and is after deducting £1.3 billion in respect of the Jackson change from 75 per cent to 250 per cent of CAL. The intended change to free surplus will have a negligible effect on EEV and is estimated to reduce total free surplus by around £100 million.

Our financing and liquidity position remained strong throughout the period. The issue of US$700 million (£0.4 billion) of subordinated debt (perpetual tier 1 notes) in January 2013 further supports the financial flexibility of the Group, while taking advantage of very favourable market conditions. Our central cash resources amounted to £1.4 billion at 31 December 2012, up from £1.2 billion at 31 December 2011, and we retain a further £2.1 billion of untapped committed liquidity facilities.

[1] The National Association of Insurance Commissioners designed the Risk-Based Capital (RBC) formula as an early warning tool for State regulators to identify potentially inadequately capitalised companies for purposes of initiating regulatory action. The RBC ratio, being the ratio of available capital to regulatory capital, is based on the highest level of capital requirement at which remedial action may be initiated, the Company Action Level (CAL).

[2] The estimated position at 28 February 2013 allows for economic conditions and surplus generation since 31 December 2012 and is stated before the final dividend and the effect of the Thanachart acquisition, and after allowing for a reduction in Jackson's contribution to IGD surplus of £1.3 billion.

Shareholders' funds
During 2012, investment markets continued to experience considerable volatility with positive movements in global equity market indices only towards the end of the year and further falls in long-term interest rates in the US, the UK and a number of Asian countries, most notably Hong Kong and Singapore. Despite these effects, the Group's EEV shareholders' funds increased by 14 per cent during 2012 to £22.4 billion (31 December 2011: £19.6 billion). On a per share basis EEV at the end of 31 December 2012 stood at 878 pence, up from 771 pence at 31 December 2011. IFRS shareholders' funds were 21 per cent higher at £10.4 billion (31 December 2011: £8.6 billion)[1].

The increases in shareholders' funds on both reporting bases are the result of the Group's strong operating performance, while our balance sheet continues to benefit from both the quality of the asset portfolio and the effectiveness of our proactive approach to risk management.

Summary
The financial progress we have reported in 2012 demonstrates the Group's resilience to the challenges faced by the global economy. By maintaining our bias in favour of less volatile types of income, such as insurance and fee and by diversifying our products set and distribution platforms, we have continued to improve both the quality and the balance of our earnings. Our disciplined approach to value creation and focus on cash generation, combined with a robust capital position and a conservative risk management stance, provides us with a strong foundation for the future.

[1] Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B of IFRS financial statements

Business Unit Review

Insurance operations

Asia operations

	AER			CER	
	2012	**2011**	**Change**	**2011**	**Change**
	£m	**£m**	**%**	**£m**	**%**
APE sales	**1,897**	1,660	14	1,642	16
New Business Profit	**1,266**	1,076	18	1,065	19
Total IFRS operating profit[notes (i)(ii)]	**920**	709	30	697	32
Total EEV operating profit[note (i)]	**1,960**	1,764	11	1,747	12

Notes
(i) Operating profit from long-term operations excluding Eastspring Investments, development costs and Asia regional head office costs.
(ii) Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B of IFRS financial statements.

Market overview
Asia's rapidly growing middle classes remain a key growth driver for the retail financial services sector, particularly life insurance with an emphasis on protection. Research has shown that as the middle class becomes more established the proportion of income they allocate to financial planning increases from 5 per cent to around 12 per cent[1]. The manifestation of this demand varies significantly across the region, reflecting the various stages of development in each individual market, together with their distinct regulatory and competitive environments, cultural differences and customer preferences. However, across all markets there is increasing recognition among governments and regulators of the social utility of a vibrant private sector life insurance market that provides financial security to families, efficiently channels long-term savings into financial markets and generates employment opportunities within the industry.

During 2012 Asia's average economic growth rates, although they remained well above the global average, continued to moderate following the post crisis high seen in 2010. This is to some degree a consequence of the weakness of the economies of North America and Europe. While domestic factors were a significant influence in India and China as policymakers grapple with sensitive political situations and economic imbalances, the resilience of many other economies in the region, particularly in South-east Asia, was highlighted by upward revisions to IMF growth forecasts in the second half of the year. Hong Kong's economic growth accelerated during the fourth quarter last year and looks set to have an improved year in 2013 and the Singaporean Government has said that the outlook for its economy is cautiously positive as it also had a better than expected fourth quarter. However, the strongest performing regional economies were led by Indonesia, Malaysia, the Philippines and Thailand where growth is increasingly driven by the expansion of domestic demand and is less reliant on exports.

Face to face sales, typically through an agent, remains the dominant distribution channel throughout the Asia region and the expertise needed to build and manage agency represents a significant barrier for new entrants. Bancassurance has been growing at a faster rate than agency in recent years from a lower base.

As the life insurance industry continues to grow, so the regulatory environment continues to evolve. Regulators are encouraging insurers to strengthen their risk and solvency management processes and to improve their sales processes to ensure that customers receive good quality advice and buy products suitable to their needs. Most international insurers operating in the region are supportive of these trends and generally aim to operate above current local regulatory standards. The recent recommendations of the Monetary Authority of Singapore's FAIR Panel are indicative of the kind of regulatory efforts under way in the region to improve the overall standard of agency distribution in insurance.

We believe the Asian life insurance markets remain a highly compelling opportunity for delivering profitable growth over the long-term with South-east Asia, including Hong Kong, currently offering the most attractive market dynamics for insurance providers, with increasing opportunities to provide financial security to the new middle class whose expectations now go beyond basic subsistence to protecting and improving their personal finances over the long-term.

Business performance
Prudential's strategy in Asia is well established and continues to be highly effective. The customer is at the heart of our strategy and Asian customers find our offering of regular premium savings and protection products distributed principally through high quality face to face distribution channels particularly attractive. The quality of our brand, our products, and of our distribution allows us to translate our sales in to strong returns to our shareholders.

Building and strengthening Prudential's multichannel distribution capabilities is a constant objective for us. Tied-agency remains a highly effective and efficient distribution channel in Asia and Prudential has one of the region's largest agency forces. We focus both on the size and the productivity of our agency force. Agency activity is a key indicator of quality and performance; during 2012 Prudential's average active agency manpower rate increased by 14 per cent (excluding India). In our sweet-spot of South-east Asia,

[1] HSBC Global Research

the increase in active agency manpower of 15 per cent contributed significantly to a 19 per cent increase in new business profit in the agency channel.

Bancassurance has been growing rapidly in the region in recent years and Prudential remains a regional leader in this channel with APE growth of 29 per cent, led by highly productive relationships including SCB, where APE sales were up 42 per cent this year and UOB, where APE sales grew at an even faster rate of 65 per cent year on year. In November Prudential announced a new and strategically significant, exclusive long-term partnership with Thailand's Thanachart Bank as part of a deal that will see Thanachart Life merged with our existing life operation in the country immediately doubling our market share. The deal is expected to complete during the first half of 2013.

It is part of our strategy to focus on regular premium products which allow our customers to invest over the long term and smooth the impact of timing on their investment returns. We aim to make most of our sales as regular premiums and in 2012, the proportion of regular premium in our APE sales was in excess of 90 per cent, which ensures the profitability and resilience of our growing in-force book. Although single premium products can provide appropriate opportunities for customers with lump sums, we believe that regular premium policies with protection riders best meet the majority of our customers' needs. In 2012, 32 per cent of our new business APE was related to protection, up 2 percentage points over prior year. Given the recent volatility in the financial markets, we have seen a shift towards non linked products; the proportion of linked products in the new business APE mix declined to 29 per cent compared to 32 per cent for 2011.

Managing the in-force book is always a high priority as this ensures that the shareholder value that we expect to capture over the life of the product, does emerge over time as distributable shareholder profits. For 2012 we reported small net positive experience and assumptions change of £95 million up from £75 million in 2011.

On 2 July we announced that Prudential has received in-principle approval from Cambodia's Ministry of Economy and Finance to establish a wholly foreign-owned life insurance operation in the country. Although the Cambodian economy is relatively small at present, it has delivered strong GDP growth over the past 10 years and we believe this presents excellent opportunities to develop the life insurance industry in the coming years. The business sold its first policies in January 2013.

In addition to providing value directly to our customers through our products and services, we aim to provide wider benefits to the community where we operate. Therefore, Prudential supports a range of corporate social responsibility activities across Asia, with a focus on providing disaster relief, promoting financial literacy and benefiting children. During 2012, Prudential extended its highly successful children's financial literacy programme, 'Cha-Ching', for example this has now been adopted in the Philippines as part of the school curriculum.

Financial performance
Prudential Asia has delivered in 2012 IFRS operating profit and cash remittance ahead of the 2013 objectives with strong operational performances enhanced by some non-recurring items. We remain on track to meet our third objective in the region of doubling the 2009 new business profit by 2013.

New business APE was £1,897 million, an increase of 14 per cent over prior year. During the second half of 2012 the reported growth rates did moderate as the economic climate became generally more challenging and specifically in Malaysia, Korea and Taiwan we deliberately and proactively slowed sales of lower margin products.

New business profit of £1,266 million grew at a faster rate than APE at 18 per cent. This reflects the positive impacts of product participation decisions as outlined above, proactive pricing actions to mitigate the adverse effects of low interest rates and a shift in country mix. Our agency and bank channels grew their respective contribution to new business profit at similar rates in 2012.

EEV operating profit from our in-force business of £694 million is in line with prior year as the impact of the significant increase in the unwind that comes from a larger in-force book and the net positive movement in the contribution to profits from assumption changes and experience variances was offset by the drag from lower discount rates.

Operating profit on an IFRS basis from Asia's life businesses, continues to grow strongly at £920 million, 30 per cent higher than in 2011. This includes £51 million of one-off profit from the sale of the Group's interest in China Life Insurance Company of Taiwan. Excluding this amount, IFRS operating profit was £869 million, 23 per cent higher than last year. This is principally driven by improved in-force profits, which grew by 18 per cent in the year, reflecting the increasing scale of the business.

During 2012, shareholder-backed business policyholder liabilities have increased by 16 per cent to £21.2 billion (31 December 2011: £18.3 billion), due to strong business flows of £2.0 billion (up 8 per cent on last year's equivalent amount of £1.8 billion) and higher bond and equity values.

Underlying free surplus generated by the in-force life business was 9 per cent higher at £771 million (2011: £707 million) reflecting the increasing scale of the business. Of this total, £292 million (2011: £297 million) was reinvested in new business at internal rates of return of over 20 per cent and average payback periods of three years. The overall cash generating capacity of the life business is clearly demonstrated by net remittances of £384 million to the Group during 2012.

Looking at individual countries:

China

	AER			CER	
	2012 **£m**	**2011** **£m**	**Change** **%**	**2011** **£m**	**Change** **%**
APE sales (Prudential's 50 per cent share)	**56**	59	(5)	61	(8)

Market conditions in China during 2012 have been challenging as economic growth slowed and the country continued to adjust to a changing political environment.

CITIC-Prudential remains one of the leading foreign joint ventures in a market that remains dominated by domestic players. We do anticipate the market liberalising at some point in the future, however the timing of such an opening remains uncertain. In the meantime, we are focused on continuing to build a high quality, multichannel distribution organisation.

Prudential's 50 per cent share of sales for 2012 was £56 million, broadly in line with the prior year. During this year we continued to focus on agent recruitment and on promoting sales of regular premium business. Bancassurance, which accounts for nearly half of our total sales in China, has seen lower productivity from bank branches following the tightening of regulations that came into effect last year.

Hong Kong

	AER			CER	
	2012 **£m**	**2011** **£m**	**Change** **%**	**2011** **£m**	**Change** **%**
APE sales	**396**	331	20	336	18

The Hong Kong economy continues to benefit from its close ties with mainland China and it remains a financial and logistics hub for the region beyond China, which ensures a continued and strong demand for our products.

Prudential Hong Kong delivered strong new business APE growth with an increase of 20 per cent over the prior year to £396 million. Prudential remains the only leading player in Hong Kong to have a material presence in both agency and bank distribution, enabling it to reach the widest range of customers. Both channels performed well in 2012.

India

	AER			CER	
	2012 **£m**	**2011** **£m**	**Change** **%**	**2011** **£m**	**Change** **%**
APE sales (Prudential's 26 per cent share)	**102**	101	1	90	13

The Indian life insurance market has been going through a significant period of change, however there are signs it has begun to grow again following the regulator-driven refocus on savings and protection products, which came into effect in 2010. During the second half the economy faltered, impacted by domestic imbalances and a challenging political environment. Although we remain optimistic about the long-term potential of the market, we expect it will be sometime before private sector sales volumes return to pre-2010 levels.

Prudential's joint venture with ICICI continues to be the leader in the private sector.

Indonesia

	AER			CER	
	2012 **£m**	**2011** **£m**	**Change** **%**	**2011** **£m**	**Change** **%**
APE sales	**446**	363	23	343	30

The Indonesian economy continues to outperform and this is underpinned by the scale and resilience of its domestic demand. Indonesia has one of the region's largest populations and lowest rates of insurance penetration.

Prudential has a strong market leading position with over 60 per cent of the industry's registered tied-agents and has successfully been building its business outside of Jakarta; now around 45 per cent of APE is from outside the capital. New business APE growth of 23 per cent to £446 million has been primarily driven by the continued expansion of the agency force. Growth in the agency force is now being supplemented by the smaller but fast growing bancassurance channel which includes partnerships with UOB, BII, Citibank and Permata .

Korea

	AER			CER	
	2012 £m	**2011 £m**	**Change %**	**2011 £m**	**Change %**
APE sales	**95**	101	(6)	101	(6)

In Korea the weak economic climate has resulted in a decline in demand for unit-linked products, with consumers opting instead for interest sensitive products. Against this backdrop, we have chosen to relinquish volume rather than compete for the low margin, capital-intensive guaranteed return segment of the market. Consequently, we have deliberately let our sales via banks and brokers decline. Our business has continued to focus on developing a high-quality proprietary distribution channel which saw active agents increase by 9 per cent in 2012.

Malaysia

	AER			CER	
	2012 £m	**2011 £m**	**Change %**	**2011 £m**	**Change %**
APE sales	**218**	223	(2)	224	(3)

The latest statistics released by the Malaysian Life Insurance Association show that the industry grew by 2.2 per cent during 2012 in terms of weighted premiums relative to 2011 reflecting general concerns about the economic outlook. Prudential remains the market leader in Malaysia with a highly productive agency force and growing bank distribution.

Our focus in 2012 on health and protection rather than lower margin, higher premium volume savings related top ups has boosted the mix of these products to around 60 per cent and improved our profitability, at the expense of top line growth. We have continued to expand in the Takaful sector where we remain market leader.

Singapore

	AER			CER	
	2012 £m	**2011 £m**	**Change %**	**2011 £m**	**Change %**
APE sales	**301**	235	28	239	26

The Singapore market continues to perform strongly with the Life Insurance Association having announced that industry APE grew by 8 per cent during 2012 with regular premiums growing even more strongly at 18 per cent.

Prudential's APE was £301 million up 28 per cent on prior year. Bancassurance was an important driver of growth where we now have a number of partners including UOB, SCB, Maybank and Singpost, enabling us to access a broad range of customers. Our agency channel continues to be one of Singapore's most productive and according to the latest available market statistics, we lead the market in terms of regular premium new business generated per agent[1].

Taiwan

	AER			CER	
	2012 £m	**2011 £m**	**Change %**	**2011 £m**	**Change %**
APE sales	**156**	148	5	149	5

Taiwan is mainly focused on bank distribution through our partnership with E.Sun Commercial Bank and SCB, supplemented by direct marketing and worksite marketing activities which are growing fast. APE was depressed by our decision not to compete in the market with products we consider to be uneconomic.

Others – Philippines, Thailand and Vietnam

	AER			CER	
	2012 £m	**2011 £m**	**Change %**	**2011 £m**	**Change %**
APE sales	**127**	99	28	99	28

In Vietnam, we saw a very strong recovery during the fourth quarter with new business APE up 23 per cent over prior year, to deliver an overall 7 per cent increase for the year. In Thailand, we saw growth of 37 per cent driven by our bancassurance capabilities. The Philippines delivered growth of 50 per cent reflecting increased agency activity and the success of partnership distribution.

[1] Source: Life Insurance Association of Singapore

US operations

	AER			CER	
	2012	**2011**	**Change**	**2011**	**Change**
	£m	**£m**	**%**	**£m**	**%**
APE sales	**1,462**	1,275	15	1,290	13
New Business Profit	**873**	815	7	825	6
Total IFRS operating profit[note (i)]	**964**	651	48	659	46
Total EEV operating profit	**1,610**	1,431	13	1,448	11

Note

(i) Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B of IFRS financial statements.

Market overview

The United States is the world's largest retirement savings market. Each year, many of the 78 million 'baby boomers' reach retirement age, which will trigger a shift from savings accumulation to retirement income generation for more than US$10 trillion of accumulated wealth over the next decade[1]. This demographic transition constitutes a significant opportunity for those companies that are able to provide the 'baby-boomers' with long-term retirement solutions. Jackson takes a selective approach to this opportunity by leveraging its distinctive distribution capabilities and asset liability management expertise to offer prudently priced annuity products.

Despite the challenges faced by the global economy, US equity markets delivered strong gains in 2012. The S&P 500 index increased by 13.4 per cent over the course of the year and market volatility declined notably from the levels experienced in 2011. Interest rates remained historically low with the 10-year treasury rate ending below 180 basis points at year end, while corporate spreads tightened considerably from 2011 year end levels.

The competitive environment continues to favour companies with good financial strength ratings and a track record of financial discipline. Companies that were hardest hit by the market disruptions over the last few years still have to work to regain market share as customers and distributors seek product providers that offer consistency, stability and financial strength. Jackson continues to benefit from this flight to quality and heightened risk aversion.

Business performance

Jackson's strategy remains focused on providing value to its customers and driving shareholder value while operating within a conservative risk management framework. This approach has enabled us to successfully navigate the significant macroeconomic and financial market challenges of the last five years and ensured a continuation of our strong performance in 2012.

In 2012, Jackson delivered APE retail sales of £1,424 million, an increase of 14 per cent over 2011. With the addition of a modest level of institutional sales, total APE sales increased by 15 per cent to £1,462 million. These strong sales levels helped to drive annuity net flows higher to £8.8 billion during 2012, a 19 per cent increase over 2011. Although we do not target volume or market share, our ranking climbed to second in variable annuity sales in the US through the third quarter of 2012 (latest information available), while market share increased to 14.0 per cent from 11.4 per cent for the full year 2011[2].

In March 2012, we launched a new variable annuity product, Elite Access, which has no guaranteed benefits and provides tax efficient access to alternative investments. The rollout of this new product has received a positive reaction from distributors, with close to 100 per cent of them signing up to distribute this product. Single premium sales in the period since launch were £849 million. We are optimistic about the future of Elite Access and will continue to drive product innovation as a way of both meeting the needs of our customers and driving shareholder value.

Jackson continues to be one of the most efficient operators within the US life insurance market. The ratio of statutory general expenses to average assets improved slightly to 41 basis points in 2012 versus 42 basis points in 2011. This efficiency has been delivered while maintaining world class standards of customer service for our customers. In 2012, Jackson was rated as a 'World Class' service provider by the Service Quality Measurement Group for the seventh consecutive year.

On 4 September 2012, Jackson completed the acquisition of SRLC America Holding Corp (SRLC) from Swiss Re for a consideration of £370 million which is subject to finalisation of completion procedures. SRLC was the US holding company of REALIC. The acquisition helps diversify Jackson's sources of earnings by increasing the amount of income generated from underwriting activities. The transaction is expected to add an additional £100 million to Jackson's IFRS pre-tax profits in the first year, representing stand-alone earnings from REALIC of approximately £115 million, less £15 million of income foregone on the assets sold to finance the transaction. In the four month period since completion, REALIC contributed £67 million to Jackson's IFRS operating profit while having only a modest impact on statutory capital.

[1] Source: US Census Bureau

[2] Sources: Morningstar Annuity Research Center (MARC) Third Quarter 2012 Sales Report© and Fourth Quarter 2011 Sales Report©. © Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

Financial performance

Jackson's IFRS pre-tax operating profit in 2012 was 48 per cent higher at £964 million (2011: £651 million)[1]. This result reflects the strong underlying growth in fee income, and lower deferred acquisition cost (DAC) amortisation. The result also includes four months of REALIC operating profit.

At 31 December 2012, Jackson held £49 billion in separate account assets, compared to £38 billion in 2011. The increase in separate account assets primarily reflects the impact of positive net flows. This resulted in variable annuity separate account fee income of £875 million in 2012, up 29 per cent over the £680 million achieved in 2011.

With corporate spreads tightening during 2012 and continued low levels of absolute interest rates, total spread income, including the expected return on shareholders' assets, was lower at £757 million, compared to £813 million in the previous year.

Product acquisition costs during 2012 increased slightly compared to 2011, despite the growth in sales as a greater proportion of distributors are opting for asset based commission. Following the introduction of new DAC guidance in 2012, which was applied retrospectively, acquisition costs are no longer fully deferrable, resulting in IFRS new business strain of £174 million in 2012, compared to £156 million in 2011.

DAC amortisation of £356 million decreased in 2012, compared to £506 million in 2011. This decrease is primarily a result of the negative prior year impact of the reversal of the benefit received in 2008 from the mean reversion formula. Partially offsetting this decrease was higher amortisation due to the higher earnings base in 2012.

Administration expenses increased to £537 million in 2012 compared to £412 million in 2011, with the increase due primarily to higher asset based commissions paid on the larger 2012 separate account balance, which is classified as an administration expense. This increase was also attributable to larger home office staff due to the growing in-force book, the acquisition of REALIC, and certain non-recurring expenditures.

Jackson continues to actively manage its investment portfolio to mitigate investment risk. Net realised gains on debt securities amounted to £47 million in 2012 compared to gains of £106 million in 2011. This includes a realised loss net of recoveries of £10 million (2011: gains of £10 million) on credit-related sales of impaired bonds. Write-downs on debt securities were £37 million (2011: £62 million). Interest related gains during the period totalled £94 million (2011: £158 million), primarily due to sales of corporate debt.

The net unrealised gain position has improved from £2,057 million at 31 December 2011 to £2,807 million at 31 December 2012 due to the decline in the US Treasury rates and tighter spreads. Gross unrealised losses improved from £246 million at 31 December 2011 to £178 million at 31 December 2012.

Jackson delivered total APE sales of £1,462 million, a 15 per cent increase over 2011. Jackson has achieved these sales levels, while maintaining its pricing discipline, as it continued to write new business at aggregate internal rates of return in excess of 20 per cent.

Variable annuity APE sales of £1,245 million were 14 per cent higher than in 2011. Expressed in local currency most of the increase was accounted for by APE sales of Elite Access, which totalled US $135 million. Excluding the contribution of Elite Access variable annuity APE sales of US $1,837 million were 5 per cent higher than those achieved in 2011 of US $1,749 million. In the course of the year and particularly in the second half of 2012, Jackson implemented various product initiatives to continue to balance value, volume, capital and balance sheet strength.

Fixed annuity APE sales of £58 million were 23 per cent higher than the level of sales in 2011. Jackson ranked seventh in sales of traditional deferred fixed annuities through the third quarter of 2012, with a market share of 3.6 per cent, compared to thirteenth with a 2.1 per cent market share for the full year 2011[2].

Fixed index annuity APE sales of £109 million in 2012 increased 17 per cent from 2011. Jackson ranked eighth in sales of fixed index annuities through the third quarter of 2012, with a market share of 4.9 per cent, up from a market share of 4.6 per cent in the full year 2011[3].

Total EEV basis operating profit for the long-term business in 2012 was £1,610 million, compared to £1,431 million in 2011 reflecting increases in both new and in-force business profits. Jackson's new business profit increased by 7 per cent to £873 million, reflecting active management of sales volumes and mix, higher charges and lower levels of guarantees offered. These actions counteracted the adverse effect of lower long-term yields and tighter spreads. Higher in-force profit was driven largely by higher unwind of discount, due to growth in the underlying book, and larger positive contributions from operating experience variances and assumption changes.

In 2012, Jackson's life in-force book generated £755 million of underlying free surplus (2011: £748 million) reflecting an increase due to the growth in the business and higher operating variances offset by the impact of low interest rates. Some £281 million was reinvested to write new business (2011: £202 million). The increase in capital consumption was driven by the significant decrease in interest rates which in turn caused a large drop in the valuation rate used to set reserves, resulting in higher strain compared to 2011. Notwithstanding this effect, the fast payback nature of the products, which in 2012 averaged two years across the portfolio (2011: one year) means that returns remain extremely attractive.

[1] Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B of IFRS financial statements

[2] Sources: LIMRA U.S. Individual Annuities Sales Survey. Third Quarter 2012 and Fourth Quarter 2011.

[3] Sources: AnnuitySpecs.com's Indexed Sales & Market Report, Third Quarter 2012 and Fourth Quarter 2011: Copyright © 2012, AnnuitySpecs.com. All rights reserved.

Jackson's RBC level at the end of 2012 was 423 per cent which compares to 429 per cent at the end of 2011. In 2012, capital formation was strong reflecting both the good operating performance, the modest level of impairments and other market value related net gains. This strong capital formation enabled Jackson to remit £249 million to Group and complete the acquisition of REALIC, while supporting its balance sheet growth and growing total adjusted capital from year-end 2011 levels.

UK operations

	AER			CER	
	2012 £m	2011 £m	Change %	2011 £m	Change %
APE sales	**836**	746	12	746	12
New Business Profit	**313**	260	20	260	20
Total IFRS operating profit	**736**	723	2	723	2
Total EEV operating profit	**899**	893	1	893	1

Market Overview
The life and pensions market in the UK is mature and highly regulated. Significant regulatory change occurred in 2012 with the implementation of the conclusions of the Retail Distribution Review (RDR), auto-enrolment for company pension schemes and Gender Neutral Pricing. These new regulations represent major changes to the way business is conducted in a number of areas of the markets in which we operate in the UK, and impact not only insurance and investments providers, but also distributors and consumers. It is inevitable that regulatory change of this scale and scope creates a period of uncertainty before the shape of the new long-term competitive landscape becomes evident.

The UK market is also characterised by an ageing population and a concentration of wealth in the 50+ age group, many of whom have built up substantial pension funds in employer-sponsored schemes. These customers require help to convert their wealth into sustainable lifetime income. For the next generation of savers, the responsibility for retirement provision has shifted substantially away from Government and employers towards the individual. These customers are typically under-funded for retirement and helping them accumulate saving constitutes a significant opportunity for long-term savings and retirement income providers, at a time when the ability of the state to intervene is significantly diminished.

Prudential UK's longevity experience, multi-asset investment capabilities, long-standing trusted brand and financial strength mean that we are favourably positioned to help consumers translate their accumulated wealth into dependable retirement income through our range of market leading with-profits and annuity products.

We do so by focusing on those areas of the market where we are able to bring superior value to our customers and where we enjoy a competitive advantage. The performance of our with-profits fund in 2012 has allowed us to declare bonuses which mean that our policyholders should see year-on-year increases of between 3.5 per cent and 6.5 per cent in accumulating with-profits policy values and our total bonus payments are expected to top £2.0 billion in 2013.

Our ability to deliver value to our customers and the resulting market franchise allowed us to achieve higher new business profitability in 2012, as well as increasing cash generation and preserving our strong capital position, despite the challenging economic environment and competitive conditions that prevailed in the UK marketplace.

Business performance
Prudential UK has a well-established individual annuity business, built on a robust pipeline of internal vestings from maturing pension policy customers. The internal vestings pipeline is supplemented by sales through intermediaries and strategic partnerships with third parties where Prudential is the offered annuity provider for customers vesting their pensions at retirement.

Total APE sales for 2012 were £836 million (2011: £746 million) of which sales of individual annuities of APE £241 million were 35 per cent higher than in 2011.

Annuity sales from internal vestings of £146 million were 20 per cent higher than 2011, due to a combination of several factors – a higher number of customers retiring, higher average fund values and increased client contact activity. Sales of external annuities of APE £95 million were 67 per cent higher in 2012 reflecting an increase in demand for our with-profits Income Choice Annuity which offers customers income security with the potential for income growth.

Onshore bonds sales of APE £228 million were up 28 per cent on 2011, including with-profits bond sales of APE £214 million, which increased by 34 per cent. Our PruFund range made up 75 per cent of with-profits bond sales, with 35 per cent higher sales than in 2011. PruFund continues to be popular with consumers, providing smoothed returns and a range of optional guarantees, which offer a degree of security against potential market falls in a post-crisis environment where investors have become much more risk-averse. Although the demand for guarantees remains high, the increase in PruFund sales is based entirely on the non-guaranteed version of the product, which is attractive to those customers who are prepared to accept some risk to their capital but still want to benefit from the smoothing offered by a with-profit product.

The RDR, one of a number of current reforms to the UK regulatory framework, was implemented on 31 December 2012. It means that financial advisers can no longer be paid commissions for recommending investment products. This is likely to lead to some short-term disruption in the market as consumers adjust to paying fees for advice and adviser firms adapt their business models for the new rules. We have seen an increase in sales of with-profit bonds in 2012 and, while we have prepared our business for the post-RDR regulatory environment, we expect this transition phase to have a negative impact on our sales of investment bonds in 2013.

Corporate pensions sales of APE £189 million were 19 per cent lower than the previous year. Sales in 2011 were particularly high due to new defined contribution members joining our schemes following closure of a number of defined benefit schemes operated by existing clients. We continue to focus on securing new members and incremental business from our current portfolio of corporate pensions customers rather than acquiring new corporate pensions schemes where market pricing is currently unattractive. Prudential UK remains the largest provider of additional voluntary contribution plans within the public sector where we now provide schemes for 68 of the 99 public sector authorities in the UK.

Sales of other products, principally individual pensions, PruProtect, PruHealth and offshore bonds of £137 million were 12 per cent higher than in 2011. Individual pensions APE sales (including income drawdown) of £80 million were 11 per cent higher, reflecting increased demand for our Flexible Retirement Plan among advisers and their clients.

In the wholesale market, we aim to continue our selective participation approach to bulk and back-book buyouts using our financial strength, superior investment track record, annuitant mortality risk assessment and servicing capabilities. In line with this opportunistic approach, two bulk annuity buy-in insurance agreements were signed in 2012 totalling APE £41 million (2011: single deal APE £33 million). We will continue to maintain our focus on value and only participate in transactions that meet our return on capital and payback requirements.

Our direct advice service, Prudential Financial Planning (PFP), was launched in December 2011 and grew to 129 advisers in 2012, generating APE sales of £21 million. PFP offers a complete financial planning service, focused primarily on our existing direct customer base. The response from our customers has been very encouraging and we intend to continue to grow this channel to 200 advisers by the end of 2013.

The combined financial strength and investment performance track record of Prudential's UK With-Profits Fund continues to provide a key source of non-price differentiation in a competitive market. Our with-profits customers benefit from the security of Prudential's large inherited estate, which was valued at £7 billion at the year-end, and provides a high degree of protection against adverse market movements. The Fund continues to provide customers with solid returns and to out-perform the FTSE All-Share Index over medium to long-term horizons. Over the last 15 years, the Fund has delivered a cumulative investment return of 184.3 per cent on investments covering policyholder liabilities. This compares favourably with other with-profits funds and the FTSE All-Share Index total return of 106.5 per cent over the same period, and, by offering customers a smoothed return, helps provide protection from the full impact of volatile market conditions. This performance shows that investing in a strong with-profits fund can produce good returns for cautious investors, in spite of the combined pressures of volatile market conditions and UK interest rates remaining at historically low levels.

Retention and management of our customer base of approximately 7 million remains a key focus for the business. We aim to maintain loyalty by continuing to improve our service year on year for both customers and intermediaries. Prudential UK's focus on continuing to deliver excellent customer service was recognised at the 2012 Financial Adviser Service Awards, where we retained our two 5-Star ratings in the Life & Pensions and Investment categories.

Financial performance

Total APE sales of £836 million were 12 per cent higher than 2011, principally due to increased sales of individual annuities and with-profits bonds, partly offset by lower sales of corporate pensions. Retail APE sales of £795 million were up 12 per cent on the previous year (2011: £712 million). Although the lower level of interest rates in 2012 had a negative impact on retail new business profitability, this was more than offset by the positive mix effect from growth in higher margin products such as individual annuities and with-profits bonds.

New business profit increased by 20 per cent to £313 million (2011: £260 million), including bulk annuity transactions. Retail new business profit at £274 million was 19 per cent above 2011 (2011: £231 million), primarily driven by increased volumes in higher margin product areas.

IFRS life operating profit was higher than in 2011 at £736 million (2011: £723 million), with £272 million (2011: £293 million) from with-profits and the balance from shareholder-backed business. Commission received on Prudential-branded General Insurance products contributed £33 million to IFRS operating profit in 2012, £7 million lower than in 2011 as the book of business originally transferred to Churchill in 2002 is, as expected, decreasing in size.

At half year 2010 we announced that the business had achieved its cost savings target of £195 million per annum. At the end of 2010, an additional series of initiatives to reduce costs by a further £75 million per annum by the end of 2013 was announced. By 31 December 2012 these additional annual cost savings of £75 million per annum had also been achieved, one year earlier than planned.

EEV total operating profit of £899 million was 1 per cent higher than in 2011, reflecting higher new business profits, partly offset by lower in-force profits which were impacted by the lower level of interest rates in the period. EEV profit also included a contribution of £87 million from a change in the long-term tax rate assumption (including future tax rate changes which take effect in April 2013) from 25 per cent to 23 per cent, compared with £79 million from the 2 per cent tax rate reduction in 2011.

Prudential UK writes with-profits annuity, with-profits bond and with-profits corporate and individual pensions business in its Life Fund, with other products backed by shareholder capital. For shareholder-backed business written in 2012, the weighted average post-tax internal rate of return (IRR) on the shareholder capital allocated to new business was in excess of 20 per cent and the undiscounted payback period on that new business was three years.

Operating free surplus generated from the long-term in-force business in the UK amounted to £507 million (2011: £503 million). Of this total, £45 million (2011: £54 million) was reinvested in writing shareholder-backed business at attractive average IRRs.

During 2012 Prudential UK remitted cash of £313 million to the Group (2011: £297 million), comprising £216 million (2011: £223 million) from the annual with-profits transfer to shareholders and £97 million (2011: £74 million) from the shareholder-backed business. The business expects to generate £350 million per annum of sustainable cash remittances by 2013, supported by the strength of the with-profits business and surpluses arising from the large book of shareholder-backed annuities, maintained into the future by the pipeline of maturing individual and corporate pensions.

Asset management

UK Asset management

M&G

	AER 2012 £m	AER 2011 £m	AER Change %	CER 2011 £m	CER Change %
Gross investment inflows	**36,464**	25,981	40	25,981	40
Net investment inflows:					
Retail business	**7,842**	3,895	101	3,895	101
Institutional business	**9,039**	490	1,745	490	1,745
Total	**16,881**	4,385	285	4,385	285
Revenue	**728**	662	10	662	10
Other income	**6**	4	50	4	50
Staff costs	**(289)**	(270)	(7)	(270)	(7)
Other costs	**(147)**	(134)	(10)	(134)	(10)
Underlying profit before performance-related fees	**298**	262	14	262	14
Share of associate's results note (i)	**13**	26	(50)	26	(50)
Performance-related fees	**9**	13	(31)	13	(31)
Operating profit from asset management operations	**320**	301	6	301	6
Operating profit from Prudential Capital	**51**	56	(9)	56	(9)
Total IFRS operating profit	**371**	357	4	357	4
Funds under management note (ii)	**£228bn**	£201bn	13	£201bn	13

Notes

(i) The 2012 figure represents M&G's 49.99 per cent proportionate share in the operating profit (including performance related fees) of PPM South Africa following the divestment transaction in 2012. 100 per cent of operating profits were included in 2011.

(ii) Funds under management includes M&G's share of the assets managed by PPM South Africa at 49.99 per cent and 100 per cent for 2012 (£4.4 billion) and 2011 (£7.9 billion) respectively.

Market overview

M&G is the UK and European fund manager of the Prudential Group with responsibility for investments on behalf of both internal and external clients. It is an investment-led business with a clear focus on generating superior long-term returns for investors, whether they are third-party clients or the funds of Prudential's insurance operations. This is achieved by creating an environment that is attractive to talented investment professionals.

Against a backdrop of continued political and macroeconomic uncertainty, M&G continues to deliver strong investment performance. Over the three years to 31 December 2012, 20 funds representing approximately 61 per cent of retail funds under management (FUM) produced first or second quartile investment returns. The performance of funds managed on behalf of institutional fixed income clients also remains extremely strong with all actively-managed mandates meeting or outperforming their benchmarks over this period.

Business performance

M&G has had a record-breaking year in terms of net sales, funds under management and profits.

Total net sales for the 12 months to the end of December 2012 were £16.9 billion, 25 per cent higher than the previous full year peak of £13.5 billion in 2009 and 285 per cent higher than net sales of £4.4 billion in 2011.

The strength of net flows, together with increases in equities and bond values in the year, have led to an increase of 13 per cent in total funds under management, to an all-time high of £228 billion. The FTSE All Share Index has increased by 8 per cent over the year and the sterling corporate bond index has increased by 15 per cent. Building on the strength of the net flows generated by the business over recent years, M&G was the largest retail fund manager in the UK[1], measured by funds under management. M&G's total UK retail FUM is £41.2 billion as noted by the Investment Management Association at the end of December 2012.

Underlying operating profit for the year was £298 million, 14 per cent higher than the previous best of £262 million in 2011. Total operating profits for 2012 was £320 million.

This caps a decade of extremely strong growth for M&G. Since 2003 net fund sales have increased at an annual compound rate of 32 per cent and external client assets have grown at an annual compound rate of 19 per cent. Over this period underlying profit has grown at an annual rate of 22 per cent.

Retail

In the retail market, M&G operates a single fund range from the UK which it distributes both locally and internationally through increasingly diverse channels. Assets sourced from investors outside the UK now account for 29 per cent of M&G's total retail FUM.

[1] Source: Investment Management Association, data as at end-December 2012

Its reputation for delivering superior long-term investment returns and a high standard of client service enabled M&G to attract a record level of net fund sales in the retail market in 2012. Excluding the results of our South African associate company, where our shareholding reduced from 75 per cent to 49.99 per cent during 2012, total net sales were £8.2 billion. This is 15 per cent higher than their previous high of £7.2 billion in 2010.

In the UK, M&G's core market, net sales totalled £3.0 billion, 30 per cent lower than the previous year but still sufficiently high to rank M&G as the top selling house for the year. M&G has ranked first for both net and gross fund sales in the UK for four consecutive calendar years, an unprecedented achievement. Fund sales slowed in the second half as a direct consequence of a decision in July to limit flows of new money into two of our best-selling sterling corporate bond funds to ensure continued flexibility in the management of the funds. We expect UK net sales to continue to slow in 2013.

By contrast, net fund sales in mainland Europe increased sharply. Following a minor net outflow in 2011, the business generated a record £5.2 billion of net sales representing 67 per cent of total retail net sales in 2012. Over the year M&G saw retail assets sourced from European clients grow by 75 per cent to £14.4 billion (2011: £8.2 billion). Today M&G has offices in 15 different countries and its retail funds are registered for sale in 20 jurisdictions.

A core pillar of M&G's retail business is to offer a diversified range of investment funds and so be well-placed for changes in investor trends. The demand for conservatively managed portfolios for most of 2012 saw strong inflows into the M&G Optimal Income Fund, a highly flexible international fixed income fund, and into the M&G Global Dividend Fund. In Europe, Optimal Income was the fourth best selling fund, while Global Dividend ranked ninth over the year to end-December 2012 and was the top selling cross border Equity fund in 2012[1].

No fewer than 10 of M&G's retail funds, across the major asset classes of fixed income, equities and real estate, each attracted net sales of at least £100 million during the 12 month period.

The £8.2 billion of net retail inflows in the UK and Europe were partially off-set by a £0.4 billion net outflow from funds managed by M&G's associate entity in South Africa. These redemptions were entirely from the PPM South Africa Dividend Income Fund which was closed on 31 March 2012 ahead of the implementation of new tax legislation on 1 April 2012 which would have had a materially adverse impact on the treatment of the distribution made by the fund to its investors. Fund flows into other retail funds of the South African business have been positive.

Institutional

In the institutional marketplace, M&G's approach is to leverage investment strategies developed primarily for Prudential's internal funds to create higher margin external business opportunities. M&G offers third-party clients such as pension funds and sovereign wealth funds an innovative range of specialist fixed income and real estate strategies, including private debt opportunities and infrastructure investment.

The institutional business attracted a record level of net funds in 2012, predominantly into fixed income strategies on the strength of its outstanding record of outperformance. At £9.0 billion, net inflows were 50 per cent higher than the previous best of £6.0 billion in 2009. The 2012 inflows include a single £7.6 billion mandate which is expected to be partially or wholly redeemed within the next 24 months.

M&G continues to grow its business with external institutional clients, including the provision of alternatives to bank lending. The M&G UK Companies Financing Fund, a loan facility for medium-sized companies launched in the wake of the 2008 credit crisis, has increased its total commitments to £930 million across 11 individual loans. During the year, loans were made to three new clients, while a fourth advance went to an existing borrower.

Other innovations for third-party clients include a series of investment strategies to manage long-term inflation-linked liabilities. The business successfully launched the M&G Inflation Opportunities Fund and the M&G Debt Opportunities Fund, which complement the existing M&G Secured Property Income Fund, a portfolio of long-lease properties with inbuilt inflation-linked increases. This last fund, which has total investor commitments of £1.3 billion, has delivered an annualised return of 7 per cent above RPI over the past three years.

In infrastructure, Infracapital, M&G's unlisted infrastructure equity division, led a consortium (comprising Infracapital and other parties independent of Prudential) in the acquisition of a 90 per cent interest in Veolia Environnement S.A.'s ("Veolia") UK regulated water business (now renamed Affinity Water). Affinity Water is the largest regulated water-only company in the UK by turnover. The acquisition is the first investment for Infracapital Partners II LP, which has current commitments of £358 million.

[1] Source: SimFund Global. Data as at December 2012 in EUR. Based on estimated net sales of funds classed as fund market 'International' (registered for sale in more than 5 countries). Excludes Money Market and Alternative funds.

Financial performance
M&G continues to execute against its strategy and deliver strong performance for both clients and its shareholder, the Prudential Group. M&G's 2012 financial performance continues the momentum from the strong full year results recorded in both 2011 and 2010 with further growth in profits and improvement in operating margins.

Total revenues, including other income, were £734 million, an increase of 10 per cent on the 2011 position. The increased scale of the business following the strong growth in FUM over recent periods has generated operational efficiencies. Combined with a focus on cost discipline across the business, this has resulted in the cost / income ratio[1] improving from 61 per cent in 2011 to 59 per cent for 2012. Underlying profit for the full year rose by 14 per cent to a new record level of £298 million. Following the addition of performance-related fees and profit from our associate investment in South Africa, total operating profit for 2012 was at a record level of £320 million. Although affected by the reduction in our holding in our South African business, this is an increase of 6 per cent on the 2011 position of £301 million which had been the previous record year.

The profit from the South Africa entity represents our proportionate share of its operating profit, which following the divestment transaction in the first quarter of 2012, reduced our ownership to 49.99 per cent. For 2011 and prior periods, the results of the South Africa entity were fully consolidated within our operating profit.

Given the ongoing strength of its financial performance, M&G continues to provide capital-efficient profits and cash generation for the Prudential Group. This is in addition to the strong investment returns generated on the internally managed funds. M&G remits a substantial proportion of its post-tax profits to the shareholder. During 2012 cash totalling £206 million (2011: £213 million) was remitted to Group.

Prudential Capital

Prudential Capital manages the Group's balance sheet for profit by leveraging Prudential's market position. This business has three strategic objectives: (i) to provide professional treasury services to the Prudential Group; (ii) to operate a first-class wholesale and capital markets interface; and (iii) to realise profitable opportunities within a tightly controlled risk framework. Prudential Capital generates revenue by providing bridging finance, managing investments and operating a securities lending and cash management business for the Prudential Group and its clients.

Markets have remained difficult and volatile in 2012, and as a result the business remains focused on liquidity across the Prudential Group, management of the existing asset portfolio and conservative levels of new investment. Prudential Capital has continued to invest in developing its capabilities, by seeking to maintain the dynamism and flexibility necessary to ensure that the treasury and wholesale services remain robust in a period of increased regulatory change, and to identify and realise opportunities for profit within acceptable risk parameters. Prudential Capital is committed to working closely with other business units across the Prudential Group to exploit opportunities and increase value creation for Prudential as a whole.

Prudential Capital has a diversified earnings base derived from its portfolio of secured loans, debt investments and the provision of wholesale markets services. IFRS operating profit was £51 million in 2012 (2011: £56 million). In 2012 a total of £91 million (2011: £67 million) cash was remitted to the Group.

[1] Excluding performance-related fees, carried interest on private equity investment and profit from the PPM South Africa entity.

Asia asset management

Eastspring Investments

	AER			CER	
	Current Year £m	Prior Year £m	Change %	Prior Year £m	Change %
Gross investment inflows note	**9,036**	7,824	15	7,707	17
Net investment flows note	**1,626**	633	157	599	171
Total IFRS operating profit	**75**	80	(6)	79	(5)
Funds under management	**£58.1bn**	£50.3bn	16	£49.8bn	17

Note
Gross and net investment flows exclude Eastspring Money Market Funds, that had net out-flows of £226 million in 2012 (2011: net out-flows £512 million).

Market overview
Prudential's asset management business in Asia manages investments for Asia's third-party retail and institutional clients in addition to investments of Prudential's Asia, UK and US life companies. It has operations in 11 markets, including Indonesia which was successfully opened during 2012, increasing our asset management footprint in the region.

Markets remained challenging in 2012. Equity funds struggled to gain traction due to poor investor sentiment in the face of weak macroeconomic signals. Fixed income and regular yield products remained in favour.

In November 2011, Prudential announced that its Asia Asset Management operations would be rebranded Eastspring Investments. The new brand, which was officially launched in February 2012, is enabling the business to establish a cohesive regional presence thereby penetrating the offshore segment more effectively. It also supports distribution to new markets outside Asia and we have recently opened a distribution office in the US.

Eastspring Investment's leading presence in Asia was acknowledged, when it was ranked the largest retail asset manager in Asia (based on assets sourced from Asia ex-Japan) as at 30 June 2012, in a survey conducted by Asia Asset Management magazine. Eastspring Investments also received multiple accolades for its investment capabilities, including four fund managers from Singapore, Malaysia and Indonesia being named '2012 Most Astute Investors in Asian currency bonds' by The Asset Benchmark Research and the joint venture business in India being recognised as the 'Best Debt Fund House of the year' in Morningstar Awards 2012.

During 2012 Eastspring Investments delivered excellent investment performance with 65 per cent of funds exceeding their benchmarks or were peer-ranked within the top two quartiles over a three year period.

Business performance
Net third party inflows (excluding MMF) of £1,626 million were driven by net inflows in India, Taiwan and China. Specifically, strong fund raising was seen in India for our fixed maturity plan range and open-ended bond funds, while the Taiwan business saw a successful launch of the Emerging Asian Local Fixed Income Fund in the first half of the year and the Global Aggregate Strategy High Yield Bond Fund in the second half. In addition, Taiwan's existing range of onshore and offshore bond funds also generated significant net inflows in 2012. In China, both the CSI 500 Index Fund and the Tianjin Split Bond Fund launched in second half of the year attracted positive flows. The positive net flows were partially offset by redemptions from an institutional client in Singapore and another in Korea.

Total funds under management (FUM) reached a record £58.1 billion and represent a 16 per cent increase from a year ago on the back of strong net inflows and positive market movements.

Financial performance
Fee income rose by a more modest 3 per cent, reflecting a change in FUM mix, with a higher proportion of internal, institutional and retail bond funds all of which attract lower average annual charges. At the same time costs have increased as we continue to invest in the development of the Eastspring Investments platform and expand into new markets. IFRS operating profit was, therefore, 6 per cent lower than the prior year at £75 million.

US asset management

PPM America

	AER			CER	
	2012	**2011**	**Change**	**2011**	**Change**
	£m	**£m**	**%**	**£m**	**%**
Total IFRS operating profit	**6**	4	50	4	50

Market overview

PPM America (PPMA) manages assets for Prudential's US, UK and Asian affiliates. PPMA also provides other affiliated and unaffiliated institutional clients with investment services including collateralised debt obligations (CDOs), private equity funds, institutional accounts, and mutual funds. PPMA's strategy is focused on managing existing assets effectively, maximising the benefits derived from synergies with our international asset management affiliates, and leveraging investment management capabilities across the Prudential Group. PPMA also pursues third-party mandates on an opportunistic basis.

Financial performance

IFRS operating profit in 2012 was £6 million, compared to £4 million in 2011, principally reflecting the increase in funds under management over the period.

At 31 December 2012, funds under management of £64 billion were as follows:

	AER							
	2012				**2011**			
	US	**UK**	**Asia**	**Total**	**US**	**UK**	**Asia**	**Total**
	£bn	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**
Insurance	**38**	**15**	**1**	**54**	32	15	-	47
Unitised	**2**	**1**	**6**	**9**	1	1	5	7
CDOs	**1**	**-**	**-**	**1**	1	-	-	1
Total funds under management	**41**	**16**	**7**	**64**	34	16	5	55

Curian

	AER			CER	
	2012	**2011**	**Change**	**2011**	**Change**
	£m	**£m**	**%**	**£m**	**%**
Gross investment inflows	**1,550**	1,684	(8)	1,704	(9)
Revenue	**69**	51	35	52	33
Costs	**(54)**	(45)	(20)	(46)	(17)
Total IFRS operating profit	**15**	6	150	6	150
Total funds under management	**£7.1bn**	£4.7bn	51	£4.5bn	58

Market overview

Curian Capital, Jackson's registered investment adviser, provides innovative fee-based managed accounts and investment products to advisers through a sophisticated technology platform. Curian expands Jackson's access to advisers while also complementing Jackson's core annuity product lines with Curian's retail asset management products.

Business performance

At 31 December 2012, Curian had total assets under management of £7.1 billion, compared to £4.7 billion at the end of 2011. Curian generated deposits of £1,550 million in 2012, down 8 per cent from 2011. Curian's asset growth continues to benefit from its prior investment platform expansions and its significant expansion in 2012 of the firm's wholesaling team and new distribution territories.

Financial performance

Curian reported an IFRS basis operating profit of £15 million in 2012 compared to £6 million in 2011. This increase was primarily due to higher net revenue from a larger book of assets under management.

US Broker-dealer

National Planning Holdings, Inc.

	AER			CER	
	2012	**2011**	**Change**	**2011**	**Change**
	£m	**£m**	**%**	**£m**	**%**
Revenue	**528**	491	8	497	6
Costs	**(510)**	(477)	(7)	(483)	(6)
Total IFRS operating profit	**18**	14	29	14	29

Market overview
National Planning Holdings, Inc. (NPH) is Jackson's affiliated independent broker-dealer network. The business is comprised of four broker-dealer firms, including INVEST Financial Corporation, Investment Centers of America, National Planning Corporation, and SII Investments.

NPH continues to grow the average business and revenue per representative. By utilising high-quality, state-of-the-art technology, Jackson provides NPH's advisers with the tools they need to operate their practices more efficiently. At the same time, through its relationship with NPH, Jackson continues to benefit from an important retail distribution outlet, as well as receive valuable insights into the needs of financial advisers and their clients.

Financial performance
NPH generated revenues of £528 million in 2012, up from £491 million in 2011, on gross product sales of £10.5 billion (2011: £8.6 billion). The network continues to achieve profitable results, with 2012 IFRS operating profit of £18 million, a 29 per cent increase from £14 million in 2011. At 31 December 2012, the NPH network had 3,540 registered advisers (2011: 3,636 registered advisers).

Financial Review

Results Summary

International Financial Reporting Standards (IFRS) Basis Results*

Statutory IFRS basis results

	2012	2011 note (i)
Profit after tax attributable to equity holders of the Company	**£2,197m**	£1,415m
Basic earnings per share	**86.5 p**	55.8 p
Shareholders' equity, excluding non-controlling interests	**£10.4bn**	£8.6bn

Supplementary IFRS basis information

	2012 £m	2011 note (i) £m
Operating profit based on longer-term investment returns*	**2,533**	2,027
Short-term fluctuations in investment returns on shareholder-backed business	**204**	(220)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**50**	21
Gain on dilution of Group holdings	**42**	-
Amortisation of acquisition accounting adjustments arising on the purchase of REALIC	**(19)**	-
Profit before tax attributable to shareholders	**2,810**	1,828
Operating earnings per share (reflecting operating profit based on longer-term investment returns after related tax and non-controlling interests)	**76.8 p**	62.8 p

European Embedded Value (EEV) Basis Results*

	2012 £m	2011 £m
Operating profit based on longer-term investment returns*	**4,321**	3,978
Short-term fluctuations in investment returns	**538**	(907)
Mark to market value movements on core borrowings	**(380)**	(14)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**62**	23
Effect of changes in economic assumptions	**(16)**	(158)
Gain on dilution of Group holdings	**42**	-
Gain on acquisition of REALIC	**453**	-
Profit before tax (including actual investment returns)	**5,020**	2,922
Operating earnings per share* (reflecting operating profit based on longer-term investment returns after related tax and non-controlling interests)	**125.0 p**	115.7 p
Shareholders' equity, excluding non-controlling interests	**22.4 bn**	19.6 bn

	2012	2011
Dividends per share declared and paid in reporting period	**25.64 p**	25.19 p
Dividends per share relating to reporting period	**29.19 p**	25.19 p
Funds under management	**£405bn**	£351bn
Insurance Groups Directive capital surplus (as adjusted) notes (ii) and (iii)	**£5.1bn**	£4.0bn

Notes

(i) Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B of IFRS financial statements.

(ii) The surpluses shown for 2012, which is estimated, and 2011 are before allowing for the final dividends for 2012 and 2011 respectively.

(iii) From March 2013 the basis of calculating Jackson's contribution to the Group's IGD surplus will change, further detail can be found in the 'Capital position, financing and liquidity' section of the Chief Financial Officer's review.

* Basis of preparation

Results bases

The IFRS basis results have been prepared in accordance with the accounting policies discussed in note A of IFRS financial statements.

Life insurance products are, by their nature, long-term and the profit on this business is generated over a significant number of years. Accounting under IFRS alone does not, in Prudential's opinion, fully reflect the value of future profit streams. Prudential considers that embedded value reporting provides investors with a measure of the future profit streams of the Group's in-force long-term businesses and is a valuable supplement to statutory accounts. The EEV basis results have been prepared in accordance with the EEV principles discussed in note 1 of EEV basis supplementary information.

Operating profit based on longer-term investment returns

The Group provides supplementary analysis of profit before tax attributable to shareholders so as to distinguish operating profit based on longer-term investment returns from the other elements of total profit shown. Operating profit per share is calculated using operating profits based on longer-term investment returns, after related tax and non-controlling interests.

Exchange translation – Actual Exchange Rate (AER) and Constant Exchange Rate (CER)

The comparative results have been prepared using previously reported exchange rates (AER basis) except where otherwise stated. Results on a CER basis are also shown for the analysis of IFRS and EEV operating profit based on longer-term investment returns.

IFRS Results

IFRS basis operating profit based on longer-term investment returns

	AER			CER	
	2012	**2011** [note (i)]	**Change**	**2011** [note (i)]	**Change**
	£m	**£m**	**%**	**£m**	**%**
Insurance business					
Long-term business:					
Asia	**920**	709	30	697	32
US	**964**	651	48	659	46
UK	**703**	683	3	683	3
Development expenses	**(7)**	(5)	(40)	(5)	(40)
Long-term business profit	**2,580**	2,038	27	2,034	27
UK general insurance commission	**33**	40	(18)	40	(18)
Asset management business:					
M&G (including Prudential Capital)	**371**	357	4	357	4
Eastspring Investments	**75**	80	(6)	79	(5)
Curian	**15**	6	150	6	150
US broker-dealer and asset management	**24**	18	33	18	33
	3,098	2,539	22	2,534	22
Other income and expenditure	**(498)**	(483)	3	(483)	3
RPI to CPI inflation measure change on defined benefit pension schemes[note (ii)]	**-**	42	(100)	42	(100)
Solvency II implementation costs	**(48)**	(55)	13	(55)	13
Restructuring costs	**(19)**	(16)	(19)	(16)	(19)
Total IFRS basis operating profit based on longer-term investment returns	**2,533**	2,027	25	2,022	25

Notes

(i) Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B of IFRS financial statements.

(ii) During 2011 the Group altered its assumptions for future statutory increases to pension payments for its UK defined benefit pension schemes. This reflects the UK Government's decision to change the basis of indexation from RPI to CPI.

In 2012, the Group's IFRS operating profit based on longer-term investment returns was £2,533 million, an increase of 25 per cent from 2011.

In Asia, IFRS operating profit based on longer-term investment returns for long-term business increased by £211 million from £709 million[1] in 2011 to £920 million in 2012. Included with this result is a £51 million one-off profit on sale of the Group's interest in China Life Insurance Company of Taiwan, which was originally acquired in 2008 when Prudential sold its Taiwanese agency business to the company. Excluding this amount, Asia's long-term business operating profit increased by 23 per cent to £869 million, primarily reflecting strong growth in the size of our business in the region, particularly health and protection.

The contribution to profits from Indonesia, Hong Kong, Singapore and Malaysia, Prudential's largest markets in Asia, continues to rise, with operating profits from these businesses[2] up 22 per cent from £552 million in 2011 to £674 million in 2012. High consumer demand for savings and protection in Indonesia continues to drive growth in premiums and earnings, with operating profit[2] up 23 per cent from £212 million to £260 million. Hong Kong's operating profit[2] increased by 28 per cent to £88 million (2011: £69 million), as business mix has shifted towards higher return products. Singapore increased by 23 per cent to £206 million (2011: £167 million)[2] and Malaysia's operating profit[2] at £120 million (2011: £104 million) increased by 15 per cent. Operating profits from our other long-term insurance operations in the region also increased by 24 per cent to £147 million (2011: £119 million), as these businesses increase in size.

The US long-term business operating profit increased by 48 per cent from £651 million[1] in 2011 to £964 million in 2012. The 2011 result included an accelerated deferred acquisition cost (DAC) amortisation of £190 million that did not recur. Excluding this item the underlying increase reflects the continued growth in fee income on the separate account business offset by lower earnings from fixed annuities in line with the compression in corporate spreads experienced in the course of the year. The result also includes a £67 million contribution from REALIC which was acquired in September 2012 and is performing in line with our expectations.

Prudential's UK business has sustained its performance at similar levels to the previous year, with total IFRS operating profit of £736 million (2011: £723 million). Long-term business generated £703 million (2011: £683 million) driven by an increase in profits from individual annuities and bulk annuity transactions, the latter contributing £31 million (2011: £23 million) to the total. Shareholders with-profits business transfers amounted to £272 million, compared with £293 million in 2011, in line with reductions in policy bonus rates. Profit from UK general insurance commission continued to decline as expected to £33 million (2011: £40 million) as the business matures and in-force policy numbers fall.

Total operating profit for 2012 from M&G and Prudential Capital increased by 4 per cent from £357 million in 2011 to £371 million in 2012, primarily reflecting positive net inflows into M&G during 2011 and 2012.

Eastspring Investments reported operating profit of £75 million, down by £5 million from the £80 million recognised in 2011. This reflects a broadly unchanged level of fee income with the effect of higher fund values offset by a shift in business mix towards bond mandates, together with increased costs as the business develops the Eastspring Investments platform and expands into new markets.

[1] Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in Note B of IFRS financial statements

[2] Before non-recurring items.

IFRS basis results - Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver

	AER 2012			AER 2011			CER 2011		
	Operating profit	Average liability note (ii)	Margin note (i)	Operating profit	Average liability note (ii)	Margin note (i)	Operating profit	Average liability note (ii)	Margin note (i)
	£m	£m	bps	£m	£m	bps	£m	£m	bps
Spread income	**1,074**	**62,174**	**173**	1,065	57,417	185	1,072	57,572	186
Fee income	**1,077**	**78,807**	**137**	870	68,298	127	875	68,331	128
With-profits	**311**	**95,681**	**33**	331	93,056	36	331	92,946	36
Insurance margin	**1,032**			736			729		
Margin on revenues	**1,669**			1,425			1,404		
Expenses:									
Acquisition costs[note (iii)]	**(1,997)**	**4,195**	**(48)%**	(1,783)	3,681	(48)%	(1,782)	3,678	(48)%
Administration expenses	**(1,248)**	**143,321**	**(87)**	(1,043)	125,715	(83)	(1,039)	125,903	(82)
DAC adjustments[note (iv)]	**406**			237			243		
Expected return on shareholder assets	**205**			200			201		
Gain on China Life (Taiwan) shares	**51**			-			-		
Operating profit based on longer-term investment returns	**2,580**			2,038			2,034		

Notes

(i) Margin represents the operating return earned in the year as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus.

(ii) For UK and Asia, opening and closing policyholder liabilities have been used to derive an average balance for the year, as this is seen as a good 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. Liabilities held in the general account for variable annuity living and death guaranteed benefits together with other amounts on which no spread income is earned (eg REALIC liabilities), are excluded from the calculation of the average. In addition for REALIC, which are included in the average liability to calculate the administration expense margin, the calculation excludes the liabilities reinsured to (and in essence retained by) Swiss Re immediately prior to the acquisition by Jackson.

(iii) Acquisition cost ratio represents shareholder acquisition costs as a percentage of total APE including with-profits sales. Acquisition costs include only those relating to shareholders.

(iv) DAC adjustments have been adjusted for the retrospective application of the accounting policy change described in the basis of preparation and note B of the IFRS financial statements.

Spread income earned in 2012 was £1,074 million, £9 million higher than the amount received in the prior year of £1,065 million. As expected the margin secured has fallen from 185 basis points in 2011 to 173 basis points in 2012 principally due to spread compression in the US general account business, down from 258 basis points in 2011 to 239 basis points in 2012. Further reductions in this source of income are anticipated in the next few years if the current low interest rate environment persists.

Fee income has increased by 24 per cent to £1,077 million driven by the 15 per cent increase in the Group's average unit-linked liabilities, which principally reflects the £8 billion net inflows into Jackson's separate accounts as well as positive net flows in Asia's linked business in 2012. The fee income margin has increased from 127 basis points in 2011 to 137 basis points in 2012 as Jackson, where the fee margin is higher, contributes a greater proportion to the group total fee income.

With-profits income has fallen from £331 million in 2011 to £311 million in 2012 in line with reductions in annual bonus rates on UK with-profits policies.

Insurance margin has increased by 40 per cent from £736 million in 2011 to £1,032 million in 2012 mainly due to the continued success of the health and protection strategy in Asia and an increase in guarantee fees in the US. 2012 also includes four months of revenue from REALIC amounting to £87 million following its acquisition by Jackson in September 2012.

Margin on revenues principally comprises amounts deducted from premiums to cover acquisition costs and administration expenses. The margin has increased by 17 per cent from £1,425 million in 2011 to £1,669 million in 2012. This increase is driven by Asia and primarily reflects higher premium income levels in the year.

Acquisition costs have increased in absolute terms to £1,997 million, in line with the increased new business sales. Expressed as a percentage of new business APE, 2012 has remained constant with 2011 at 48 per cent.

Administration expenses have increased to £1,248 million, principally reflecting the growth of the business in the year. Expressed as a ratio to average liabilities, acquisition costs have increased from 83 basis points in 2011 to 87 basis points in 2012. This reflects changes in business mix and the increased proportion of commission on new sales being taken by US distributors on an annual as opposed to an initial basis.

DAC adjustments are a net benefit to the result as the deferral of current years acquisition costs exceeds the amortisation of previously deferred costs. This net benefit increased from £237 million in 2011 to £406 million in 2012. This increase arises in the US (where DAC adjustments were £442 million in 2012 compared with £228 million in 2011), reflecting a return to more normal levels of DAC amortisation in 2012. 2011 included a £190 million charge for accelerated DAC amortisation, representing the reversal of the benefit received in 2008 from the use of the mean reversion formula.

IFRS basis results - Margin analysis of asset management pre-tax IFRS operating profit based on longer-term investment returns by driver

	2012				
	M&G note (i)	**Eastspring Investments**	**PruCap**	**US**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Operating income note (i)	**734**	**201**	**120**	**296**	**1,351**
Operating profit based on longer-term investment returns	**320**	**75**	**51**	**39**	**485**
Average funds under management (FUM), including 49.99% proportional share of PPM South Africa	**£209.0bn**				
Average FUM, excluding PPM South Africa	**£205.1bn**	**£55.0bn**			
Margin based on operating income note (ii)	**36 bps**	**37 bps**			
Cost/income ratio note (iii)	**59 %**	**64 %**			

	2011				
	M&G note (i)	**Eastspring Investments**	**PruCap**	**US**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Operating income note (i)	666	196	122	249	1,233
Operating profit based on longer-term investment returns	301	80	56	24	461
Average FUM, including 49.99% share of PPM South Africa	£195.1bn				
Average FUM, excluding PPM South Africa	£190.9bn	£51.4bn			
Margin based on operating income note (ii)	35 bps	38 bps			
Cost/income ratio note (iii)	61 %	62 %			

Notes

(i) Operating income is presented net of commissions and excludes performance related fees, and for M&G carried interest on private equity investments. Following the divestment in 2012 of M&G's holding in PPM South Africa from 75 per cent to 49.99 per cent and its treatment from 2012 as an associate, M&G's operating income and expense shown in the table above, no longer includes any element from PPM South Africa, with the share of associate's results being presented in a separate line. In order to avoid year-on-year distortion, in the table above the 2011 operating income, margin and cost/income ratio reflect the retrospective application of the basis of presentation for 2011 results.

(ii) Margin represents operating income as defined in note (i) above as a proportion of average FUM, being the average of monthly FUM, excluding PPM South Africa. The comparatives have been altered to present 2011 on the same basis.

(iii) Cost/income ratio represents cost as a percentage of operating income as defined in note (i) above. M&G's operating income and expense excludes any contribution from M&G's associate, PPM South Africa.

M&G's recent growth has seen average funds under management, excluding PPM South Africa, increase from £190.9 billion during 2011 to £205.1 billion in 2012. This has led to a 10 per cent increase in operating income to £734 million, equivalent to a margin of 36 basis points, an increase from 35 basis points in 2011. M&G continue to focus on cost control and the efficiencies created as the scale of the business grows. The benefit of this operational leverage is evident in an improvement in the cost to income ratio from 61 per cent in 2011 to 59 per cent in 2012.

At Eastspring Investments strong net inflows and positive market movements have led to an increase in average funds under management from £51.4 billion to £55.0 billion, with operating income rising from £196 million to £201 million. As the growth in funds stemmed principally from internal clients and fixed income mandates, the average fee margin declined from 38 basis points in 2011 to 37 basis points in 2012. Continued investment in developing the Eastspring Investment platform contributed to a higher cost to income ratio of 64 per cent in 2012 (2011: 62 per cent).

IFRS basis profit after tax

	AER 2012 £m	2011 note £m
Operating profit based on longer-term investment returns	**2,533**	2,027
Short-term fluctuations in investment returns:		
Insurance operations	**122**	(100)
Other operations	**82**	(120)
	204	(220)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**50**	21
Gain on dilution of Group holdings	**42**	-
Amortisation of acquisition accounting adjustments arising on the purchase of REALIC	**(19)**	-
Profit before tax attributable to shareholders	**2,810**	1,828
Tax charge attributable to shareholders' profit	**(613)**	(409)
Non-controlling interests	**-**	(4)
Profit for the year attributable to shareholders	**2,197**	1,415

Note

Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B of IFRS financial statements.

The 2012 total profit before tax attributable to shareholders was 54 per cent higher at £2,810 million in 2012 (2011: £1,828 million)[1]. The improvement predominantly reflects the increase in operating profit based on longer-term investment returns, and the positive investment market returns earned in the year.

IFRS operating profit is based on longer-term investment return assumptions rather than actual investment returns arising in the year. The difference between actual investment returns recorded in the income statement and longer-term returns is shown in the analysis of profits as short-term fluctuations in investment returns.

IFRS short-term fluctuations in investment returns

Short-term fluctuations in investment returns for our insurance operations of positive £122 million comprised of positive £76 million for Asia, negative £90 million in the US and positive £136 million in the UK.

The positive short-term fluctuations of £76 million for our Asia operations in 2012 relates to unrealised gains on bond assets held across the region following the fall in long-term yields in the period.

The combination of higher equity markets and lower market volatility in the US has reduced the technical reserves held for the variable annuity guarantees. This favourable effect was more than offset by the net unrealised value movement on derivative instruments held to manage the Group's exposure to these guarantees, producing a net £90 million negative fluctuation in our US operation.

The positive short-term fluctuations of £136 million for our UK operations primarily reflect net valuation gains on fixed income assets supporting the capital of the shareholder-backed annuity business.

Short-term fluctuations for other operations were positive £82 million. This primarily represents appreciation on Prudential Capital's bond portfolio partially offset by net realised and unrealised losses in the year on derivatives held centrally to manage market risks.

Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes

The shareholders' share of actuarial and other gains and losses on defined benefit pension schemes of positive £50 million (2011: positive £21 million) mainly reflects the partial recognition of actuarial surplus in the Prudential Staff Pension Scheme following the results of the triennial valuation, further details of which are given in note V of the IFRS basis results.

Gain on dilution of Group holdings

On 22 February 2012, M&G completed transactions to reduce its majority holding in PPM South Africa from 75 per cent to 49.99 per cent. Under IFRS the transactions give rise to a gain on dilution of £42 million, which has been excluded from the Group's IFRS operating profit.

Amortisation of acquisition accounting adjustments arising on the purchase of REALIC

On 4 September 2012, Jackson completed the acquisition of 100 per cent of the issued share capital of SRLC America Holding Corp. (SRLC), and its primary operating subsidiary, REALIC for a total cash consideration of £370 million. The amortisation primarily comprises the difference between the yield on the acquired investments based on market values at acquisition and historic investment income on book yields recognised in IFRS operating profit. Movement in the fair value acquisition adjustments on the value of business acquired and policyholder liabilities is also included. Further details are given in note Z of IFRS basis results.

Effective tax rates

The effective rate of tax on operating profit based on longer-term investment returns was 23 per cent (2011: 21 per cent). The 2011 effective rate had benefited from utilising carried forward tax losses for which no deferred tax asset had been recognised.

The effective rate of tax on the total IFRS profit was 22 per cent (2011: 22 per cent). In both 2012 and 2011 we have benefitted from reductions in the main UK corporation tax rate – 28 per cent to 26 per cent in 2011 and 26 per cent to 24 per cent in 2012.

[1] Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B of IFRS financial statements

EEV Results

EEV basis operating profit based on longer-term investment returns

		AER		CER	
	2012 £m	2011 £m	Change %	2011 £m	Change %
Insurance business:					
Asia	**1,960**	1,764	11	1,747	12
US	**1,610**	1,431	13	1,448	11
UK	**866**	853	2	853	2
Development expenses	**(7)**	(5)	(40)	(5)	(40)
Long-term business profit	**4,429**	4,043	10	4,043	10
UK general insurance commission	**33**	40	(18)	40	(18)
Asset management business:					
M&G (including Prudential Capital)	**371**	357	4	357	4
Eastspring Investments	**75**	80	(6)	79	(5)
Curian	**15**	6	150	6	150
US broker-dealer and asset management	**24**	18	33	18	33
	4,947	4,544	9	4,543	9
Other income and expenditure	**(554)**	(536)	(3)	(536)	(3)
RPI to CPI inflation measure change on defined benefit pension schemes[note]	**-**	45	-	45	-
Solvency II implementation costs	**(50)**	(56)	11	(56)	11
Restructuring costs	**(22)**	(19)	(16)	(18)	(22)
Total EEV basis operating profit	**4,321**	3,978	9	3,978	9

Note
During 2011 the Group altered its assumptions for future statutory increases to pension payments for its UK defined benefit pension schemes. This reflects the UK Government's decision to change the basis of indexation from RPI to CPI.

Prudential Group's total EEV basis operating profit based on longer-term investment returns was £4,321 million in 2012, 9 per cent higher than the £3,978 million earned in 2011.

Long-term business operating profit generated by the Group was £4,429 million (2011: £4,043 million). This profit comprises:

- New business profit of £2,452 million (2011: £2,151 million);
- In-force profit of £1,984 million (2011: £1,897 million); and
- Negative £7 million for development expenses (2011: negative £5 million).

New business profit at £2,452 million was 14 per cent higher than last year, reflecting an 14 per cent increase in new business APE. The higher sales volumes and pricing actions coupled with favourable business mix mitigated the pressure on margins from the low level of long-term interest rates.

The new business profit for the Asia business increased by 18 per cent to £1,266 million compared to £1,076 million in 2011. The growth in new business profit was driven by Indonesia, Singapore and Malaysia reflecting strong volume growth in Indonesia and Singapore and favourable product mix changes in Malaysia. Jackson in the US delivered new business profit of £873 million, an increase of 7 per cent compared to £815 million. Throughout 2012 Jackson proactively adjusted pricing and product features to respond to both market conditions and the competitive environment, actions which counteracted the adverse effect of lower long-term yields and tighter spreads. UK new business profit increased by 20 per cent to £313 million in 2012 compared to £260 million in 2011 and includes the benefit of two bulk annuity buy-ins in 2012. This increase reflected higher sales volumes, and a favourable change in product mix towards higher margin individual annuities and with-profit bonds.

The contribution to operating profit from life in-force business was £1,984 million (2011: £1,897 million) and comprises £1,493 million (2011: £1,447 million) from the unwind of the discount on the opening embedded value and other expected returns, and £491 million (2011: £450 million) from the effect of operating assumption changes, experience variances and other items. The unwind of discount and other expected returns is £46 million higher than 2011 with the growth in the business more than offsetting the effect on this profit measure of lower interest rates. The economic effects have adversely effected the unwind and other expected returns by an estimated £83 million.

Asia continues to be the highest contributor to the Group's life profit, contributing £1,960 million in 2012 (2011: £1,764 million). Included in Asia's result is £694 million of profit from in-force business (2011: £688 million) which includes an overall positive contribution from operating experience and assumption changes of £95 million (2011: £75 million).

US life in-force profit was higher at £737 million in 2012 compared to £616 million in 2011, with 2012 including £19 million of post-acquisition profit from REALIC. Overall experience and operating assumption changes contributed positive £325 million towards in-force profits compared to £267 million in 2011. 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 £205 million (2011: £152 million).

UK life in-force profit was lower at £553 million (2011: £593 million) and included £482 million (2011: £485 million) from the unwind of the discount rate on the opening embedded value. Other in-force profits totalled £71 million (2011: £108 million) which includes a charge of £52 million for the annuity business reflecting the net impact of strengthening longevity assumptions, gains on portfolio rebalancing, and releases of margins previously held in the balance sheet. Included in both years are the beneficial effects on future profits arising from the reduction in UK corporation taxes enacted in both periods; in 2012 this amounted to £87 million, while in 2011 it amounted to £79 million.

EEV basis profit after tax

	AER 2012 £m	AER 2011 £m
EEV basis operating profit based on longer-term investment returns	**4,321**	3,978
Short-term fluctuations in investment returns:		
- Insurance operations	**456**	(787)
- Other operations	**82**	(120)
	538	(907)
Mark to market value movements on core borrowings	**(380)**	(14)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**62**	23
Effect of changes in economic assumptions	**(16)**	(158)
Gain on dilution of Group holdings	**42**	-
Gain on acquisition of REALIC	**453**	-
Profit before tax attributable to shareholders	**5,020**	2,922
Tax charge attributable to shareholders' profit	**(1,207)**	(776)
Non-controlling interests	**-**	(4)
Profit for the year attributable to shareholders	**3,813**	2,142

The 2012 total profits before tax attributable to shareholders was 72 per cent higher at £5,020 million (2011: £2,922 million). The improvement predominantly reflects the increase in operating profit based on longer-term investment returns, improved markets and the gain posted on this reporting basis on the acquisition of REALIC.

EEV operating profit is based on longer-term investment return assumptions rather than actual investment returns achieved. Short-term fluctuations in investment returns represent the difference between the actual investment return and those assumed in arriving at the reported operating profit.

EEV Short-term fluctuations in investment returns
Short-term fluctuations in investment returns for insurance operations of positive £456 million comprised of positive £395 million for Asia, negative £254 million for our US operations and positive £315 million in the UK.

In Asia, positive short-term fluctuations of £395 million (2011: negative £155 million) principally reflect unrealised bond and equity gains following market movements in the year, principally in Hong Kong, Singapore and Taiwan.

In the US, short-term fluctuations in investment returns were negative £254 million (2011: negative £491 million). This includes the net value movements on derivatives held to manage the Group's equity and interest rate exposures offset by the positive impact of equity market increases on the expected level of future fee income from the variable annuity separate accounts.

For our UK business, the short-term fluctuations in investment returns were positive £315 million (2011: negative £141 million). This arises principally because the actual 2012 investment return of the with-profits fund (covering policyholder liabilities and unallocated surplus) of 9.8 per cent was higher than the longer-term assumed rate of 5.0 per cent.

Mark to market value movement on core borrowings
The mark to market value movement on core borrowings of negative £380 million in 2012 reflects the effect on the market value of Prudential's borrowings from reductions in both interest rates and credit spreads.

Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes
The shareholders' share of actuarial and other gains and losses on defined benefit pension schemes on the EEV basis comprises the IFRS charge attributable to shareholders, and the shareholders' share of movements in the scheme assets and liabilities attributable to the PAC with-profits fund. On the EEV basis there was a gain of £62 million (2011: gain of £23 million) mainly reflecting the partial recognition of actuarial surplus in the Prudential Staff Pension Scheme following the results of the triennial valuation, further details of which are given in note 7 of EEV basis results.

Effect of changes in economic assumptions
The effect of changes in economic assumptions of negative £16 million, comprises negative £149 million for Asia, positive £85 million for the US and positive £48 million for the UK. These reflect the aggregate effects of the reduction in long-term yields and the associated decrease in risk discount rates across these businesses.

The adverse changes in economic assumptions for Asia of negative £149 million primarily reflects the impact of lower interest rates and projected fund earned rates in Hong Kong, partially offset by the impact of a lower discount rate for Indonesia and Malaysia.

In our US business, economic effects totalled positive £85 million, principally reflecting the 50 basis point reduction in the allowance for short-term credit risk for our fixed annuity business, as the market stabilises and credit spreads reduce.

In the UK, the positive £48 million represents the net impact on future profits of reduced bond yields, where the negative impact on with-profits has been more than offset by the positive shareholder annuity impact.

Gain on dilution of Group holdings
On 22 February 2012, M&G completed transactions to reduce its majority holding in PPM South Africa from 75 per cent to 49.99 per cent, giving rise to gain on dilution of £42 million.

Gain on acquisition of REALIC
On 4 September 2012, Jackson completed acquisition of 100 per cent issued share capital of SRLC America Holding Corp., and its primary operating subsidiary, REALIC. The embedded value of the acquired business at that date of £823 million was higher than the consideration of £370 million resulting in a gain on acquisition of £453 million. In line with financial reporting guidelines this gain has been recognised in full as a profit in the year.

Effective tax rates
The 2012 effective rate on operating profit based on longer-term investment returns of 26 per cent was consistent with the equivalent rate in 2011. The 2012 effective rate of tax on total EEV profit of 24 per cent was lower than the equivalent rate in the previous year (2011: 27 per cent), reflecting changes in the composition of non-operating items.

Earnings and Dividends Per Share

Earnings per share (EPS)

	2012 pence	2011 pence
Basic EPS based on operating profit after tax and non-controlling interests		
IFRS[note]	**76.8**	62.8
EEV	**125.0**	115.7
Basic EPS based on total profit after tax and non-controlling interests		
IFRS[note]	**86.5**	55.8
EEV	**150.1**	84.6

Note
Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B of IFRS financial statements.

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 2011 of 17.24 pence per ordinary share was paid to eligible shareholders on 24 May 2012 and the 2012 interim dividend of 8.4 pence per ordinary share was paid to eligible shareholders on 27 September 2012.

The Board has decided to rebase the full year dividend upwards by 4 pence, reflecting the strong progress made in both the earnings and free surplus generation of the business and in the delivery of our financial objectives. In line with this, the directors recommend a final dividend of 20.79 pence per share (2011: 17.24 pence), which brings the total dividend for the year to 29.19 pence (2011: 25.19 pence), representing an increase of 15.9 per cent over 2011.

The 2012 final dividend of 20.79 pence per ordinary share will be paid on 23 May 2013 in sterling to shareholders on the principal register and the Irish branch register at 6.00pm BST on Monday, 2 April 2013 (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 3 June 2013. The final dividend will be paid on or about 30 May 2013 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 12 March 2013. The exchange rate at which the dividend payable to the SG Shareholders will be translated into SG$, will be determined by CDP. The dividend will distribute an estimated £532 million of shareholders' funds.

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

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.

Movement on Shareholders' Funds

	IFRS		EEV	
	2012	**2011** note (a)	**2012**	**2011**
		AER		**AER**
	£m	**£m**	**£m**	**£m**
Operating profit based on longer-term investment returns	**2,533**	2,027	**4,321**	3,978
Items excluded from operating profit	**277**	(199)	**699**	(1,056)
Total profit before tax	**2,810**	1,828	**5,020**	2,922
Tax and non-controlling interests	**(613)**	(413)	**(1,207)**	(780)
Profit for the year	**2,197**	1,415	**3,813**	2,142
Exchange movements, net of related tax	**(216)**	(105)	**(469)**	(158)
Unrealised gains and losses on Jackson securities classified as available for sale note (b)	**387**	349	**-**	-
Dividends	**(655)**	(642)	**(655)**	(642)
New share capital subscribed	**17**	17	**17**	17
Other	**65**	9	**100**	71
Net increase in shareholders' funds	**1,795**	1,043	**2,806**	1,430
Shareholders' funds at beginning of the year	**8,564**	7,521	**19,637**	18,207
Shareholders' funds at end of the year	**10,359**	8,564	**22,443**	19,637
Comprising				
Long-term business:				
Free surplus note (c)			**2,957**	2,839
Required capital			**3,898**	3,447
Net worth			**6,855**	6,286
Value of in-force			**15,411**	13,364
Total			**22,266**	19,650
Other business note (d)			**177**	(13)
Total note (e)			**22,443**	19,637

Notes

(a) Comparatives adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B of IFRS financial statements.

(b) Net of related changes to deferred acquisition costs and tax.

(c) The £1,364 million free surplus generated by the long-term business (net of new business investment and market related movements and investment in REALIC) in the year, has been used to pay £921 million to the holding company.

(d) Shareholders' funds for other than long-term business comprises:

	2012	**2011**
	£m	**£m**
Asset management operations note	**1,937**	1,783
Holding company net borrowings	**(2,282)**	(2,188)
Other, net	**522**	392
Total shareholders' funds for other business	**177**	(13)

Note

Including goodwill of £1,230 million for 31 December 2012 and 31 December 2011.

(e) EEV shareholders' funds excluding goodwill attributable to shareholders at 31 December 2012 is £20,974 million (31 December 2011: £18,172 million).

EEV shareholders' funds

The shareholders' funds at 31 December 2012 relating to long-term business of £22.3 billion comprise £9.5 billion (up 11 per cent from 31 December 2011) for our Asia long-term business operations, £6.0 billion (up 19 per cent from 31 December 2011) for our US long-term business operations and £6.8 billion (up 12 per cent from 31 December 2011) for our UK long-term business operations.

At 31 December 2012, the embedded value for our Asian long-term business operations was £9.5 billion, with £8.0 billion (up £0.9 billion from 2011) being in the South-east Asia countries of Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam together with Hong Kong. For Prudential's other Asian markets, the embedded value was £1.5 billion in aggregate, broadly unchanged from 2011.

Free Surplus and Holding Company Cash Flow

Overview

The Group manages its internal cash flow by focusing on the free surplus generated by the life and asset management businesses. Remittances are, however, made as and when required by the holding company with excess surplus being left in the businesses where it can be redeployed most profitably.

Free surplus generation

Sources and uses of free surplus generation from the Group's insurance and asset management operations

The Group's free surplus at the end of the year comprises free surplus for the insurance businesses, representing the excess of the net worth over the required capital included in the EEV results, and IFRS net assets for the asset management businesses excluding goodwill.

The free surplus generation for the insurance business represents amounts maturing from the in-force operations during the year less the investment in new business. For asset management operations we have defined free surplus generation to be the total post-tax IFRS profit for the year.

The Group's free surplus generated also includes the general insurance commission earned during the year and excludes foreign exchange, capital movements, shareholders' other income and expenditure and centrally arising restructuring and Solvency II implementation costs.

The total movement in free surplus net of tax in the year can be analysed as follows:

	2012 £m	2011 £m
Free surplus generation		
Expected in-force cash flows (including expected return on net assets)	**2,405**	2,335
- Life operations	**2,019**	1,972
- Asset management and other operations	**386**	363
Changes in operating assumptions and experience variances	**295**	168
RPI to CPI inflation measure change on defined benefit pension schemes	**-**	33
Underlying free surplus generated in the year from in-force business	**2,700**	2,536
Investment in new business	**(618)**	(553)
Underlying free surplus generated in the year	**2,082**	1,983
Market-related items	**(79)**	(531)
Gain on dilution of Group holdings	**42**	-
Acquisition of REALIC	**(169)**	-
Free surplus generated in the year	**1,876**	1,452
Net cash remitted by the business units	**(1,200)**	(1,105)
Other movements (including foreign exchange effects) and timing differences	**(408)**	(264)
Total movement during the year	**268**	83
Free surplus at 1 January	**3,421**	3,338
Free surplus at end of year	**3,689**	3,421
Comprised of:		
Free surplus relating to long-term insurance business	**2,957**	2,839
Free surplus of other insurance business	**25**	29
IFRS net assets of asset management businesses excluding goodwill	**707**	553
Total free surplus	**3,689**	3,421

During 2012 Prudential generated underlying free surplus from the in-force book of £2,700 million (2011: £2,536 million) despite lower investment return conditions, reflecting the progress we have made in growing the portfolio of business and our focus on managing the in-force book for value. Changes in operating assumptions and experience variances were £295 million in 2012 compared with £168 million in 2011. These variances included positive £80 million from Asia (2011: positive £52 million), which in 2012 included £51 million from the sale of the Group's share-holding in China Life Insurance Company of Taiwan. The US continued to record strong positive variances of £219 million (2011: positive £154 million), which included a significant level of favourable spread experience. These variances also included a reduced negative £4 million from the UK (2011: negative £38 million). 2011 also benefited from a one-off credit of £33 million arising from a reduction in the liabilities of the Group's defined benefit pension schemes following the UK Government's decision to change the basis of indexation from RPI to CPI, which did not reoccur in 2012.

Underlying free surplus generated from in-force business has been used by our life businesses to invest in new business. Investment in new business has increased by 12 per cent to £618 million in 2012. This compares to a 14 per cent increase in sales and a 14 per cent increase in new business profit.

Market-related movements of negative £79 million in 2012 includes negative £330 million from the US, principally reflecting the valuation movements of derivatives, net of movements in reserves held for variable annuity guarantees reflecting market movements in the year. Offsetting these amounts are positive £114 million in Asia, positive £53 million from the UK and positive £84 million from our asset management business primarily reflecting in part the impact of lower bond yields on bond values in the year.

The acquisition of REALIC consumed £169 million of free surplus.

In contrast free surplus benefited by £42 million as a result of the divestment of M&G's holding in PPM South Africa from 75 per cent to 49.99 per cent.

Value created through investment in new business by life operations

	2012			
	Asia insurance operations £m	**US insurance operations £m**	**UK insurance operations £m**	**Group Total £m**
Free surplus invested in new business	**(292)**	**(281)**	**(45)**	**(618)**
Increase in required capital	**97**	**271**	**86**	**454**
Net worth invested in new business	**(195)**	**(10)**	**41**	**(164)**
Value of in-force created by new business	**1,177**	**578**	**200**	**1,955**
Post-tax new business profit for the year	**982**	**568**	**241**	**1,791**
Tax	**284**	**305**	**72**	**661**
Pre-tax new business profit for the year	**1,266**	**873**	**313**	**2,452**
New business sales (APE)	**1,897**	**1,462**	**836**	
Internal rate of return[note]	**>20%**	**>20%**	**>20%**	

	AER 2011			
	Asia insurance operations £m	**US insurance operations £m**	**UK insurance operations £m**	**Group Total £m**
Free surplus invested in new business	(297)	(202)	(54)	(553)
Increase in required capital	97	232	77	406
Net worth invested in new business	(200)	30	23	(147)
Value of in-force created by new business	1,011	500	172	1,683
Post-tax new business profit for the year	811	530	195	1,536
Tax	265	285	65	615
Pre-tax new business profit for the year	1,076	815	260	2,151
New business sales (APE)	1,660	1,275	746	
Internal rate of return[note]	>20%	>20%	>20%	

	CER 2011			
	Asia insurance operations £m	**US insurance operations £m**	**UK insurance operations £m**	**Group Total £m**
Free surplus invested in new business	(295)	(205)	(54)	(554)
Increase in required capital	96	235	77	408
Net worth invested in new business	(199)	30	23	(146)
Value of in-force created by new business	1,003	506	172	1,681
Post-tax new business profit for the year	804	536	195	1,535
Tax	261	289	65	615
Pre-tax new business profit for the year	1,065	825	260	2,150
New business sales (APE)	1,642	1,290	746	
Internal rate of return[note]	>20%	>20%	>20%	

Note

The internal rate of return (IRR) is equivalent to the discount rate at which the present value of the post-tax cash flows expected to be earned over the lifetime of the business written in shareholder-backed life funds is equal to the total invested capital to support the writing of the business. The capital included in the calculation of the IRR is equal to the amount required to pay acquisition costs and set up statutory reserves less premiums received, plus encumbered capital. The impact of the time value of options and guarantees is included in the calculation.

Overall, the Group wrote £4,195 million of sales on an APE basis in 2012 (2011: £3,681 million) generating a post-tax new business contribution to embedded value of £1,791 million (2011: £1,536 million). To support these sales, we invested £618 million of capital (2011: £553 million) equivalent to 23 per cent (2011: 22 per cent) of underlying free surplus generated by the life in-force and asset management businesses.

In Asia, we generated an 18 per cent increase in new business profit despite investing 2 per cent less capital at £292 million (2011: £297 million). In other words, for each £1 million of free surplus invested we generated £3.4 million of post-tax new business profit (2011: £2.7 million). This improved capital efficiency reflects the benefit of pricing actions and a shift in mix towards those products and geographies with lower strain and higher return characteristics. The average free surplus undiscounted payback period for business written in 2012 was three years (2011: three years).

In the US, investment in new business was £281 million (2011: £202 million), an increase of 39 per cent, and compares to a 7 per cent increase in new business profit in the year. Consequently, for each £1 million of free surplus invested we generated £2.0 million of post-tax new business contribution to embedded value (2011: £2.6 million). The higher capital consumption per unit of profit reflects a more punitive valuation interest rate being used to establish liabilities upon policy inception following recent falls in interest rates. Notwithstanding this effect, the internal rates of return achieved in the US remain attractive at above 20 per cent, and the fast payback nature of the business written means that the initial capital outlay is recouped quickly. The average free surplus undiscounted payback period for business written in 2012 was two years (2011: one year).

In the UK, we continue to manage capital with discipline and have achieved a 20 per cent increase in new business profit, while investing 17 per cent less capital at £45 million (2011: £54 million). For each £1 million of free surplus invested, therefore, we generated £5.4 million of post-tax new business contribution to embedded value (2011: £3.6 million) benefiting from favourable changes in business mix. These sustained levels of high capital efficiency in the UK reflect our strategy of participating selectively in the UK's retirement savings and income market, focusing on those products and distribution mechanisms which meet our strict high return and short payback characteristics. The average free surplus undiscounted payback period for shareholder-backed business written in 2012 was three years (2011: four years).

Holding company cash flow

We continue to manage cash flows across the Group with a view to achieving a balance between ensuring sufficient net remittances from the businesses to cover the dividend (after corporate costs) and maximising value for shareholders through the retention of the free surplus generated at business unit level, so that it can be reinvested in the profitable opportunities available to the Group. On this basis, the holding company cash flow statement at an operating level should ordinarily balance close to zero before exceptional cash flows, but from time to time additional remittances from business operations will be made to provide the Group with greater financial flexibility at the corporate centre.

	2012 £m	2011 £m
Net cash remitted by business units:		
UK net remittances to the Group		
UK Life fund paid to the Group	**216**	223
Shareholder-backed business:		
Other UK paid to the Group	**101**	116
Group invested in UK	**(4)**	(42)
Total shareholder-backed business	**97**	74
Total UK net remittances to the Group	**313**	297
US remittances to the Group	**249**	322
Asia net remittances to the Group		
Asia paid to the Group:		
Long-term business	**491**	289
Other operations	**60**	55
	551	344
Group invested in Asia:		
Long-term business	**(107)**	(50)
Other operations	**(103)**	(88)
	(210)	(138)
Total Asia net remittances to the Group	**341**	206
M&G remittances to the Group	**206**	213
PruCap remittances to the Group	**91**	67
Net remittances to the Group from Business Units	**1,200**	1,105
Net interest paid	**(278)**	(282)
Tax received	**194**	181
Corporate activities	**(158)**	(139)
Solvency II costs	**(47)**	(56)
Total central outflows	**(289)**	(296)
Operating holding company cash flow before dividend[note]	**911**	809
Dividend paid	**(655)**	(642)
Operating holding company cash flow after dividend[note]	**256**	167
Issue of hybrid debt, net of costs	**-**	340
Repayment of subordinated debt	**-**	(333)
Hedge purchase cost (equity tail risks)	**(32)**	-
Other net cash payments	**(43)**	(205)
Total holding company cash flow	**181**	(31)
Cash and short-term investments at beginning of year	**1,200**	1,232
Foreign exchange movements	**(1)**	(1)
Cash and short-term investments at end of year	**1,380**	1,200

Note
Including central finance subsidiaries.

Operating holding company cash flow for 2012 before the shareholder dividend was £911 million, £102 million higher than 2011. After deducting the shareholder dividend the operating holding company cash flow was £256 million (2011: £167 million).

Cash remittances to the Group from business units

The holding company received £1,200 million of net cash remittances from the business units in 2012, an increase of 9 per cent over the £1,105 million received in 2011.

Asia became the largest contributor of cash, with net cash remittances to the Group in 2012 of £341 million (2011: £206 million) exceeding its 2013 cash objective. This includes non-recurring items of £27 million representing cash received from the sale of the Group's holdings in China Life Insurance Company in Taiwan of £97 million offset by repayments of funding contingent on future profits of the Hong Kong Life insurance operations of £70 million. This financing was taken out in 2009 and 2010 in order to increase the financial flexibility of the Group during the investment market crisis and has now been repaid.

Cash received from Jackson of £249 million for 2012 is lower than the £322 million remitted in 2011 as annual remittances return to a more sustainable level. This follows the exceptional release of excess surplus made in the prior year.

The UK insurance operations remitted £313 million in 2012 (2011: £297 million). Cash from the annual with-profits transfer to shareholders contributed £216 million (2011: £223 million). During 2012, surpluses in the UK's shareholder-backed business were utilised to repay £60 million of funding contingent on future profits that was taken out in 2009 and 2010 and to remit a net £97 million (2011: £74 million) to Group. The UK's objective remains £350 million of net cash remittances in 2013.

M&G and PruCap collectively remitted £297 million in 2012, as the asset management businesses continue to remit significant portions of their annual post-tax earnings to the Group.

Net central outflows and other movements

Net central outflows improved to £289 million in 2012 (2011: £296 million) with higher corporate costs offset by lower net interest payments, lower Solvency II costs, and higher tax receipts.

After central costs, there was a net cash inflow before dividend of £911 million in 2012 compared to £809 million in 2011. The dividend paid was £655 million in 2012 compared to £642 million in the same period in 2011.

Outside of the normal recurring central cash flow items and in light of the heightened risks surrounding the Eurozone, we incurred a net cash flow of £32 million for short dated hedges to provide downside protection against severe equity market falls. We also incurred £43 million of other net cash payments in 2012, representing payments of £68 million to the UK tax authorities following the settlement reached in 2010 on historic tax issues offset by a receipt of £25 million from an increased bank loan in the year. A final instalment on the agreed settlement will be paid in 2013 to the UK tax authorities at a level similar to 2012.

The overall holding company cash and short-term investment balances at 31 December 2012 was £180 million higher than the balance held at the end of 2011 at £1.4 billion. The company seeks to maintain a central cash balance in excess of £1 billion.

EEV Balance Sheet

Summary

	AER 2012 £m	2011 Note £m
Goodwill attributable to shareholders	**1,469**	1,465
Investments	**283,428**	250,605
Holding company cash and short-term investments	**1,380**	1,200
Other	**23,976**	19,475
Total assets	**310,253**	272,745
Less: Liabilities		
Policyholder liabilities	**260,774**	227,075
Unallocated surplus of with-profits funds	**10,589**	9,215
	271,363	236,290
Less: Shareholders' accrued interest in the long-term business	**(12,084)**	(11,073)
	259,279	225,217
Core structural borrowings of shareholders' financed operations (IFRS book value basis)	**3,554**	3,611
Other liabilities including non-controlling interest	**24,977**	24,280
Total liabilities and non-controlling interest	**287,810**	253,108
EEV basis net assets	**22,443**	19,637
Share capital and premium	**2,017**	2,000
IFRS basis shareholders' reserves	**8,342**	6,564
IFRS basis shareholders' equity	**10,359**	8,564
Additional EEV basis retained profit	**12,084**	11,073
EEV basis shareholders' equity (excluding non-controlling interest)	**22,443**	19,637

Note

The 2011 comparative component of EEV shareholders' funds for the IFRS basis shareholders' equity and the additional EEV basis retained profit have been adjusted for the retrospective application of the accounting policy change for deferred acquisition costs as discussed in note B to the IFRS financial statements. Total EEV shareholders' funds for 2011 are not altered by the change of IFRS policy.

Net asset value per share

	2012	2011
EEV	**878 p**	771 p
IFRS	**405 p**	336 p

Investments

The Group is exposed to financial risk through its financial assets, financial liabilities and policyholder liabilities. The key financial risk factors that affect the Group include market risk, credit risk and liquidity risk. Information on the Group's exposure to financial risk factors, and our financial risk management objectives and policies, is provided in the Risk and Capital Management section. Further information on the sensitivity of the Group's financial instruments to market risk and its use of derivatives is also provided in the IFRS financial statements.

The Group's investments are discussed in further detail in the Risk and Capital Management section B.1.b 'Credit risk'.

Policyholder liabilities and unallocated surplus of with-profits funds

	AER				AER
	2012				2011
Shareholder-backed business	**Asia £m**	**US £m**	**UK £m**	**Total £m**	**Total £m**
At 1 January	18,269	69,189	46,048	**133,506**	122,183
Premiums	4,141	14,907	3,801	**22,849**	20,296
Surrenders	(1,933)	(4,356)	(2,585)	**(8,874)**	(7,975)
Maturities/Deaths	(226)	(954)	(2,345)	**(3,525)**	(3,315)
Net cash flows	1,982	9,597	(1,129)	**10,450**	9,006
Investment related items and other movements	1,539	4,241	4,586	**10,366**	1,988
Acquisition of REALIC	-	12,912	-	**12,912**	-
Foreign exchange translation differences	(577)	(3,678)	-	**(4,255)**	329
At 31 December	21,213	92,261	49,505	**162,979**	133,506
With-profits funds					
- Policyholder liabilities				**97,795**	93,569
- Unallocated surplus				**10,589**	9,215
Total at 31 December				**108,384**	102,784
Total policyholder liabilities including unallocated surplus at 31 December				**271,363**	236,290

Policyholder liabilities relating to shareholder-backed business grew by £29.5 billion from £133.5 billion at 31 December 2011 to £163.0 billion at 31 December 2012.

The increase reflects positive net flows (premiums net of upfront charges less surrenders, maturities and deaths) of £10.5 billion in 2012 (2011: £9.0 billion), driven by strong inflows in the US £9.6 billion and Asia £2.0 billion. The negative net flows in UK £1.1 billion are distorted by the fluctuating nature of unit-linked corporate pension scheme transfers. Net flows in Asia have increased by 8 per cent to £2.0 billion in 2012 (2011: £1.8 billion) while the overall rate of surrenders in the region (expressed as a percentage of opening liabilities) was 10.6 per cent in 2012 (2011: 9.8 per cent). Excluding India, where the market has been going through a significant period of change following regulatory changes in 2010, the surrender rate in 2012 was 9.7 per cent (2011: 9.6 per cent).

Other movements include negative foreign exchange effects of £4.3 billion (2011: positive £0.3 billion) together with investment related and other items of £10.4 billion. Investment related and other items increased from £2.0 billion in 2011 to £10.4 billion in 2012 principally following improvements in the bond and equity markets. The acquisition of REALIC reflects the liabilities acquired at the date of acquisition.

During 2012, the unallocated surplus, which represents the excess of assets over policyholder liabilities for the Group's with-profits funds on an IFRS basis, increased by 15 per cent from £9.2 billion at 31 December 2011 to £10.6 billion at 31 December 2012.

Shareholders' net borrowings and ratings

Shareholders' net borrowings at 31 December 2012:

	AER 2012			AER 2011		
	IFRS basis £m	Mark to market value £m	EEV basis £m	IFRS basis £m	Mark to market value £m	EEV basis £m
Perpetual subordinated Capital securities (Innovative Tier 1)	**1,746**	**120**	**1,866**	1,823	(10)	1,813
Subordinated notes (Lower Tier 2)	**831**	**258**	**1,089**	829	120	949
	2,577	**378**	**2,955**	2,652	110	2,762
Senior debt:						
2023	**300**	**94**	**394**	300	56	356
2029	**249**	**64**	**313**	249	21	270
Holding company total	**3,126**	**536**	**3,662**	3,201	187	3,388
Prudential Capital	**275**	**-**	**275**	250	-	250
Jackson surplus notes (Lower Tier 2)	**153**	**43**	**196**	160	17	177
Total	**3,554**	**579**	**4,133**	3,611	204	3,815
Less: Holding company cash and short-term investments	**(1,380)**	**-**	**(1,380)**	(1,200)	-	(1,200)
Net core structural borrowings of shareholder-financed operations	**2,174**	**579**	**2,753**	2,411	204	2,615

On an IFRS basis, the Group's core structural borrowings at 31 December 2012 were broadly unchanged at £3.6 billion.

After adjusting for holding company cash and short-term investments of £1,380 million, net core structural borrowings at 31 December 2012 were £2,174 million compared with £2,411 million at 31 December 2011. The decrease of £237 million represents the net fall in borrowings of £57 million, mainly reflecting the foreign exchange movements in the year, together with a £180 million rise in holding company cash and short-term investments.

In addition to its core structural borrowings set out above, Prudential also has in place an unlimited global commercial paper programme. As at 31 December 2012, commercial paper issued under this programme totalled £183 million, US$1,512 million, €493 million, CHF20 million and AU$12 million. The central treasury function also manages our £5 billion medium-term note (MTN) programme, covering both core and non-core borrowings. In November 2012 Prudential issued a £300 million 3-year senior note to pre-finance a £250 million senior note maturing in January 2013 for operational funding. Also in January 2013 Prudential issued a new US$700 million 5.25 per cent perpetual Innovative Tier 1 hybrid under this programme, primarily to Asian retail investors. Under the MTN programme at 31 December 2012 the outstanding subordinated debt was £835 million, US$1,300 million and €20 million and the senior debt outstanding was £550 million. In addition, 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 2013 and 2017. Apart from small draw downs to test the process, these facilities have never been drawn, and there were no amounts outstanding at 31 December 2012. The commercial paper programme, the MTN 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 2012, the gearing ratio (debt, net of cash and short-term investments, as a proportion of EEV shareholders' funds plus net debt) was 8.8 per cent, compared with 10.9 per cent at 31 December 2011. 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 from Fitch and Moody's are on stable outlook, and all ratings from S&P are on negative 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.

Financial strength of the UK Long-term Fund

On a realistic valuation basis, with liabilities recorded on a market consistent basis, the free assets were valued at approximately £7.0 billion at 31 December 2012 (31 December 2011: £6.1 billion), before a deduction for the risk capital margin. The value of the shareholders' interest in future transfers from the UK with-profits fund is estimated at £2.1 billion (31 December 2011: £2.0 billion).

Despite the continued volatility in financial markets, Prudential UK's With-Profits fund performed relatively strongly achieving a 9.8 per cent pre-tax investment return for policyholder asset shares during 2012.

Risk and Capital Management

As a provider of financial services, including insurance, the management of risk lies at the heart of Prudential's business. As a result, effective risk management capabilities represent a key source of competitive advantage for the Group.

The Group's risk framework includes the Group's appetite for risk exposures as well as its approach to risk management. Under this approach, Prudential continuously assesses the Group's top risks and monitors its risk profile against approved limits. Prudential's main strategies for managing and mitigating risk include asset liability management, using derivatives to hedge relevant market risks, and implementing reinsurance and corporate insurance programmes.

A. Group risk appetite

Prudential defines and monitors aggregate risk limits based on financial and non-financial stresses for its earnings volatility, liquidity and capital requirements.

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 European Embedded Value (EEV) operating profit and International Financial Reporting Standards (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.

Prudential's risk appetite framework forms an integral part of its 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 limits contained within the risk appetite statements.

B. Risk exposures

The Group Risk Framework deploys a common risk language, allowing meaningful comparisons to be made between different business units. Risks are broadly categorised as shown 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.

The key financial and non-financial risks and uncertainties faced by the Group, that have been considered by the Group Risk Committee, and Prudential's approaches to managing them, are described below.

B.1 Financial risks

a Market risk

(i) Equity risk

In the UK business, most of Prudential's equity exposure is incurred in the with-profits fund, which includes a large inherited estate estimated at £7.0 billion as at 31 December 2012 (31 December 2011: £6.1 billion). This can absorb market fluctuations and protect the fund's solvency. The inherited estate itself is partially protected against falls in equity markets through an active hedging policy.

In Asia Prudential's shareholder exposure to equities relates to revenue from unit-linked products and, from a capital perspective, to the effect of falling equity markets on the with-profits businesses.

In the US, where we are a leading provider of variable annuities, there are risks associated with the guarantees embedded in our products. We provide guaranteed minimum death benefits (GMDB) on substantially all policies in this class, guaranteed minimum withdrawal benefits (GMWB) on a significant proportion of the book, and guaranteed minimum income benefits (GMIB) on only 3 per cent. To protect the shareholders against the volatility introduced by these embedded options, we use both a comprehensive hedging programme and reinsurance. The GMIB is no longer offered, with existing coverage being reinsured.

The Jackson IFRS shareholders' equity and US statutory capital are sensitive to the effects of policyholder behaviour on the valuation of GMWB guarantees, but to manageable levels.

In our variable annuity sales activities, we focus on meeting the needs of conservative and risk averse customers who are seeking reliable income in retirement, and who display little tendency to arbitrage their guarantees. These customers generally select conservative investment options. We are able to meet the needs of these customers because of the strength of our operational platform.

It is our philosophy not to compete on price; rather, we seek to sell at a price sufficient to fund the cost we incur to hedge or reinsure our risks and to achieve an acceptable return for our shareholders.

We use a macro approach to hedging that covers the risks inherent across the US business. Within this macro approach we make use of the natural offsets that exist between the variable annuity guarantees and the fixed index annuity book, and then use a combination of over-the-counter (OTC) options and exchange traded derivatives to hedge the remaining risk, considering significant market shocks and limiting the amount of capital we are putting at risk. Internal positions are generally netted before any external hedge positions are considered. The hedging programme also covers the fees on variable annuity guarantees.

Jackson hedges the economics of its products rather than the accounting result. This focus means that we accept a degree of variability in our accounting results in order to ensure we achieve the appropriate economic result. Accordingly, while Jackson's hedges are effective on an economic basis, due to different accounting treatment for the hedges and some of the underlying hedged items on an IFRS basis, the reported income effect is more variable.

(ii) Interest rate risk
Interest rate risk arises from Prudential's investments in long-term debt and fixed income securities, and also exists in policies that carry investment guarantees on early surrender or at maturity, where claim values can become higher than the value of backing assets as a result of rises or falls in interest rates.

In Asia, the 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. 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.

In the US, there is interest rate risk across the portfolio. The majority of Jackson's fixed annuity and life liabilities allow for an annual reset of the crediting rate, which provides for a greater level of discretion in determining the amount of interest rate risk to assume. The primary concerns with these liabilities relate to potential surrenders when rates increase and, in a low interest environment, the minimum guarantees required by state law. For variable annuities, interest rate changes will influence the level of reserves held for certain guaranteed benefits. With its large fixed annuity and fixed index annuity books, Jackson has natural offsets for its variable annuity interest-rate related risks. Jackson manages interest rate exposure through a combination of interest rate swaps and interest rate options.

In the UK, the investment policy for the shareholder-backed annuity business is to match the annuity payments with the cash flows from investments. As a result, assets and liabilities are closely matched by duration. The impact on profit of any residual cash flow mismatching can be adversely affected by changes in interest rates; therefore the mismatching position is regularly monitored. The guarantees of the with-profit business give rise to some interest rate discounting risk as falling rates may result in an increase in the cost of guarantees. Except for severe stress scenarios where shareholders' support may be required, this risk is borne by the with-profits fund.

(iii) Foreign exchange risk
Prudential principally operates in the UK, the US and in Asia. The geographical diversity of its businesses means that Prudential is inevitably subject to the risk of exchange rate fluctuations. Prudential's international operations in the US and Asia, which represent a significant proportion of its 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 Prudential's consolidated financial statements when results are expressed in pounds sterling.

The Group retains revenues locally to support the growth of the Group's 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 shareholders' interest (ie remittances), this exposure is hedged if it is economically optimal to do so. The Group does 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.

b Credit risk
In addition to business unit and Group-wide operational limits on credit risk, Prudential monitors closely its counterparty exposures at Group level, highlighting those that are large or of concern. Where appropriate, Prudential will reduce its exposure, purchase credit protection or make use of collateral arrangements to control its levels of credit risk.

The Group's balance sheet held the following total investments at 31 December 2012.

	2012 £bn				2011 £bn
	Participating funds	Unit-linked and variable annuities	Shareholder-backed	Total Group	Total Group
Debt securities	**62.0**	**9.5**	**68.6**	**140.1**	124.5
Equity	**25.1**	**73.9**	**1.0**	**100.0**	87.3
Property investments	**8.7**	**0.6**	**1.6**	**10.9**	10.8
Mortgage loans	**1.3**	**-**	**4.8**	**6.1**	5.7
Other loans	**1.4**	**-**	**4.3**	**5.7**	4.0
Deposits	**9.5**	**1.4**	**1.8**	**12.7**	10.7
Other investments	**4.7**	**-**	**3.2**	**7.9**	7.6
Total	**112.7**	**85.4**	**85.3**	**283.4**	250.6

The table below presents the balances of investments related to shareholder-backed operations at 31 December 2012.

	2012 £bn	2011 £bn
Shareholder-backed investments:		
Asia life	**8.7**	7.1
UK life	**31.3**	28.5
US life	**42.0**	34.0
Other	**3.3**	3.8
Total	**85.3**	73.4

Shareholders are not directly exposed to value movements on assets backing participating or unit-linked operations, with sensitivity mainly related to shareholder-backed operations.

(i) Debt portfolio
The investments held by the shareholder-backed operations are predominantly debt securities, of which 95 per cent are rated, either externally or internally, as investment grade (31 December 2011: 95 per cent).

The Group's total debt securities portfolio on an IFRS basis comprised the following at 31 December 2012:

	2012 £bn				2011 £bn
	Participating funds	Unit-linked and variable annuities*	Shareholder-backed	Total Group	Total Group
Insurance operations:					
UK	**50.5**	**6.3**	**27.1**	**83.9**	78.0
Jackson National Life	**-**	**-**	**33.0**	**33.0**	27.0
Asia long-term business	**11.5**	**3.2**	**6.7**	**21.4**	17.7
Other operations	**-**	**-**	**1.8**	**1.8**	1.8
Total	**62.0**	**9.5**	**68.6**	**140.1**	124.5

* Jackson's variable annuity separate account assets comprise equity securities and portfolio holdings in unit trusts (including mutual funds), the majority of which are equity based.

UK
The UK's debt portfolio on an IFRS basis is £83.9 billion as at 31 December 2012, including £50.5 billion within the UK with-profits fund. Shareholders' risk exposure to the with-profits fund is limited as the solvency is protected by the large inherited estate. Outside the with-profits fund there is £6.3 billion in unit-linked funds where the shareholders' risk is limited, with the remaining £27.1 billion backing the shareholders' annuity business and other non-linked business (of which 75 per cent is rated AAA to A-, 23 per cent BBB and 2 per cent non-investment grade). The UK shareholder-backed portfolio did not experience any default losses in 2012.

US
At 31 December 2012 Jackson's fixed income debt securities portfolio consisted of:

Summary	2012 £m	2011 £m
Corporate and government security and commercial loans:		
Government	**4,126**	2,163
Publicly traded and SEC Rule 144A securities[note]	**19,699**	16,281
Non-SEC Rule 144A securities	**3,542**	3,198
Total	**27,367**	21,642
Residential mortgage-backed securities (RMBS)	**2,400**	2,591
Commercial mortgage-backed securities (CMBS)	**2,639**	2,169
Other debt securities	**587**	620
Total US debt securities	**32,993**	27,022

Note
A 1990 SEC rule that facilitates the resale of privately placed securities 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.

Of the £23.2 billion of corporate debt, 95 per cent is investment grade. Concentration risk within the corporate debt portfolio is low, with the top ten holdings accounting for approximately 8 per cent of the portfolio. Our largest sector exposures in the investment grade corporate debt portfolio are Energy and Utilities at 15 per cent and 13 per cent, respectively. We actively manage the portfolio and will sell exposures as events dictate.

Within the RMBS portfolio of £2.4 billion, the portion guaranteed by the US government sponsored agencies is 57 per cent. The CMBS portfolio of £2.6 billion is performing strongly, with 40 per cent of the portfolio rated AAA and less than 2 per cent rated below investment grade. The entire portfolio has an average credit enhancement level of 31 per cent. This level provides significant protection, since it means the underlying collateral has to incur a 31 per cent loss, net of recoveries, before our holding is at risk.

Jackson's debt securities experienced total credit-related losses in 2012 of £47 million (2011: £52 million). This includes a loss net of recoveries of £10 million (2011: gains of £10 million) on credit-related sales of impaired bonds. IFRS write-downs on debt securities were £37 million (2011: £62 million). Of this amount of write-downs, £8 million (2011: £21 million) was in respect to RMBS securities. In addition to the amounts for debt securities, there were £5 million (2011: £28 million) of write-downs on Jackson's commercial mortgage loan portfolio. In 2012 and 2011, Jackson did not experience any defaults on its debt securities.

The impairment process reflects a review of every bond and security in our portfolio. Our accounting policy requires us to book full mark to market losses on impaired securities through our balance sheet. However, we would expect only a proportion of these losses eventually to turn into defaults, and some of the impaired securities to recover in price over time.

Unrealised gains and losses on debt securities in the US

Jackson's net unrealised gains from debt securities were £2,807 million at 31 December 2012, compared to £2,057 million at 31 December 2011. The gross unrealised loss position was £178 million at 31 December 2012 (31 December 2011: £246 million). Gross unrealised losses on securities priced at less than 80 per cent of face value totalled £53 million at 31 December 2012 compared to £158 million at 31 December 2011.

Asia

Asia's debt portfolio totalled £21.4 billion at 31 December 2012. Of this, approximately 69 per cent was in unit-linked and with-profits funds with minimal shareholders' risk. The remaining 31 per cent is shareholder exposure and is invested predominantly (65 per cent) in investment grade bonds. The Asian portfolio has performed very well, and did not experience any default losses in 2012.

Asset management

The debt portfolio of the Group's asset management operations of £1.8 billion as at 31 December 2012 is principally related to Prudential Capital operations. Of this amount £1.5 billion were rated AAA to A- by S&P or Aaa by Moody's.

(ii) Group sovereign debt exposure

Sovereign debt represented 15 per cent or £10.4 billion of the debt portfolio backing shareholder business (excluding unit-linked business) at 31 December 2012 (2011: 16 per cent and £9.2 billion respectively). 38 per cent of this was rated AAA and 92 per cent investment grade (2011: 43 per cent and 94 per cent respectively). Of the Group's holdings in Continental Europe of £564 million, 79 per cent was AAA rated (2011: £690 million and 87 per cent respectively). Shareholder exposure to the Eurozone sovereigns of Portugal, Italy, Ireland, Greece and Spain (PIIGS) is £52 million (2011:£44 million). The Group does not have any sovereign debt exposure to Greece, Portugal or Ireland.

The exposure of the Group's shareholder and with-profits funds to sovereign debt (including credit default swaps that are referenced to sovereign debt) at 31 December 2012 is as follows.

	31 December 2012 £m		31 December 2011 £m	
	Shareholder sovereign debt	**With-profits sovereign debt**	Shareholder sovereign debt	With-profits sovereign debt
Continental Europe				
Italy	**51**	**59**	43	52
Spain	**1**	**31**	1	33
	52	**90**	44	85
Germany	**444**	**469**	598	602
Other Europe (principally Belgium and Isle of Man)	**68**	**41**	48	62
	564	**600**	690	749
United Kingdom	**3,432**	**2,306**	3,254	2,801
United States	**3,585**	**1,169**	2,448	2,615
Other, predominantly Asia	**2,867**	**271**	2,850	332
Total	**10,448**	**4,346**	9,242	6,497

Holdings of UK government debt accounted for £3.4 billion of the shareholder sovereign debt portfolio at 31 December 2012. Post year end, the United Kingdom no longer has a unanimous AAA rating, as Moody's on 22 February 2013 lowered its rating to Aa1. However, given that the vast majority of the debt backs sterling liabilities, the downgrade has not resulted in large price fluctuations in the Gilt market and that the rating remains very strong, the downgrade is not expected to significantly impact the Group's balance sheet and earnings.

(iii) Exposure to bank debt securities

Prudential expects that any second order sovereign credit exposures would most likely be concentrated in the banking sector. The Group's bank exposure is a function of its core investment business, as well as of the hedging and other activity undertaken to manage its various financial risks. Prudential relies on public information and credit research sources to identify banks with large concentrations of indirect exposure.

Prudential has a range of controls and processes to manage credit exposure. In addition to the control frameworks that cover shareholder and policyholder credit risk within each business unit, the Group Credit Risk Committee oversees shareholder credit risk across the Group. The Committee receives comprehensive management information, including details of counterparty and invested credit exposure (including structured credit and loans), secured and unsecured cash balances, top 30 credit exposures, and an analysis of shareholder exposure by industry/country and rating. The business units and the Group Risk function also continually monitor the portfolio for emerging credit risks through various tools and processes.

Prudential actively mitigates the level of Group-wide credit risk (invested credit and counterparty) through a comprehensive system of hard limits, collateralisation agreements and centrally managed 'watch lists'.

Of the £68.6 billion of debt securities backing shareholder business, excluding holdings attributable to external holders of consolidated unit trusts, 3 per cent or £2.2 billion was in Tier 1 and Tier 2 hybrid bank debt. A further £3.2 billion was in the form of senior debt.

In terms of shareholder exposures to the bank debt of PIIGS, Prudential held £260 million at 31 December 2012 (31 December 2011: £328 million). This comprised £130 million of covered bonds, £93 million senior debt, £3 million Tier 1 debt and £34 million Tier 2 debt. There was no direct exposure to Greek banks.

The Group held the following direct exposures to banks' debt securities of shareholder-backed business at 31 December 2012.

Bank debt securities - shareholder-backed business £m

	Senior debt			Subordinated debt				
	Covered	**Senior**	**Total senior debt**	**Tier 2**	**Tier 1**	**Total subordinated debt**	**31 Dec 2012 Total**	31 Dec 2011 Total
Portugal	**-**	**37**	**37**	**-**	**-**	**-**	**37**	24
Ireland	**-**	**16**	**16**	**-**	**-**	**-**	**16**	13
Italy	**-**	**29**	**29**	**10**	**-**	**10**	**39**	81
Greece	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-
Spain	**130**	**11**	**141**	**24**	**3**	**27**	**168**	210
	130	**93**	**223**	**34**	**3**	**37**	**260**	328
Austria	**-**	**-**	**-**	**11**	**-**	**11**	**11**	9
France	**18**	**62**	**80**	**72**	**43**	**115**	**195**	149
Germany	**-**	**33**	**33**	**18**	**-**	**18**	**51**	29
Luxembourg	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-
Netherlands	**-**	**16**	**16**	**86**	**80**	**166**	**182**	152
United Kingdom	**486**	**181**	**667**	**700**	**99**	**799**	**1,466**	1,083
Total Europe	**634**	**385**	**1,019**	**921**	**225**	**1,146**	**2,165**	1,750
United States	**-**	**1,770**	**1,770**	**467**	**6**	**473**	**2,243**	1,716
Other, predominantly Asia	**30**	**334**	**364**	**352**	**220**	**572**	**936**	841
Total	**664**	**2,489**	**3,153**	**1,740**	**451**	**2,191**	**5,344**	4,307

In addition to the exposures held by the shareholder-backed business, the Group held the following banks' securities at 31 December 2012 within its with-profits funds.

Bank debt securities - participating funds £m

	Senior debt			Subordinated debt				
	Covered	**Senior**	**Total senior debt**	**Tier 2**	**Tier 1**	**Total subordinated debt**	**31 Dec 2012 Total**	31 Dec 2011 Total
Portugal	**-**	**6**	**6**	**-**	**-**	**-**	**6**	7
Ireland	**6**	**-**	**6**	**-**	**-**	**-**	**6**	-
Italy	**-**	**71**	**71**	**4**	**-**	**4**	**75**	96
Greece	**-**	**-**	**-**	**-**	**-**	**-**	**-**	5
Spain	**173**	**12**	**185**	**-**	**1**	**1**	**186**	138
	179	**89**	**268**	**4**	**1**	**5**	**273**	246
Austria	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-
France	**16**	**78**	**94**	**56**	**7**	**63**	**157**	144
Germany	**-**	**-**	**-**	**-**	**-**	**-**	**-**	7
Luxembourg	**-**	**-**	**-**	**-**	**-**	**-**	**-**	7
Netherlands	**-**	**136**	**136**	**2**	**-**	**2**	**138**	122
United Kingdom	**725**	**423**	**1,148**	**749**	**7**	**756**	**1,904**	1,550
Total Europe	**920**	**726**	**1,646**	**811**	**15**	**826**	**2,472**	2,076
United States	**-**	**1,837**	**1,837**	**240**	**6**	**246**	**2,083**	2,052
Other, predominantly Asia	**48**	**340**	**388**	**206**	**61**	**267**	**655**	746
Total	**968**	**2,903**	**3,871**	**1,257**	**82**	**1,339**	**5,210**	4,874

(iv) Other possible impacts of a Eurozone crisis
Other knock on impacts of a Eurozone crisis may represent some risk to the Group, both in terms of financial market impact and potential operational issues. These third order exposures are intrinsically more difficult to quantify. However, as well as the monitoring routines noted above, Prudential has also developed tools to identify the Group's exposure to counterparties at risk (including contingent credit exposures), and has in place Group-wide processes to facilitate the management of such risks should they materialise.

In respect of operational risks, we believe we have strong investment operations, counterparty risk and change management capabilities that enable us to manage the transition to a new Eurozone regime if events require it to do so.

(v) Loans
Of the total Group loans of £11.8 billion at 31 December 2012, the following are held by shareholder-backed operations.

	2012 £bn			**2011 £bn**		
	Mortgage loans	**Other loans**	**Total**	**Mortgage loans**	**Other loans**	**Total**
Asia insurance operations[(i)]	**-**	**0.4**	**0.4**	-	0.4	0.4
US insurance operations[(ii)]	**3.5**	**2.7**	**6.2**	3.6	0.6	4.2
UK insurance operations[(iii)]	**1.3**	**-**	**1.3**	1.1	-	1.1
Asset management operations[(iv)]	**-**	**1.2**	**1.2**	-	1.3	1.3
Total loans held by shareholder-backed operations	**4.8**	**4.3**	**9.1**	4.7	2.3	7.0

Notes
(i) The majority of Asia insurance operations loans are commercial loans held by the Malaysian operation that are rated investment grade by two local rating agencies.
(ii) The US insurance operations held £6.2 billion of loans, comprising £3.5 billion of commercial mortgage loans and £2.7 billion of policy loans. Approximately £1.8 billion of the policy loans are held as collateral related to the three reinsurance treaties with Swiss Re, which are offset by a funds withheld liability. These loans are carried at fair value. All other loans are accounted for at amortised cost, less any impairment. All commercial mortgage loans held by US insurance operations are collateralised by properties. The US commercial mortgage loan portfolio does not include any single-family residential mortgage loans and therefore is not exposed to the risk of defaults associated with residential sub-prime mortgage loans. Jackson incurred write downs of £5 million on its commercial mortgage book (2011: write downs of £28 million).
(iii) The majority of mortgage loans held by UK insurance operations are mortgage loans collateralised by properties.
(iv) Relates to bridging loan finance managed by Prudential Capital.

(vi) Counterparty credit risk
The Group enters 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, 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 ISDA (International Swaps and Derivatives Association Inc) master agreements and the Group has collateral agreements between the individual Group entities and relevant counterparties in place under each of these market master agreements.

The Group's exposure to derivative counterparty and reinsurance counterparty credit risk is subject to the same framework of Group-wide operational limits and monitoring as its invested credit risk. Where appropriate, Prudential will reduce its exposure, purchase credit protection or make use of additional collateral arrangements to control its levels of counterparty credit risk.

c Insurance risk
The processes of determining the price of Prudential's products and reporting the results of its long-term business operations require Prudential to make a number of assumptions. In common with other industry players, the profitability of Prudential's 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.

Prudential continues to conduct research into longevity risk using data from its substantial annuity portfolio. The assumptions that Prudential makes about future expected levels of mortality are particularly relevant in its 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.
Prudential's morbidity risk is mitigated by appropriate underwriting and use of reinsurance and the morbidity assumptions reflect recent experience and expectation of future trends for each relevant line of business.

Prudential's 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.

d Liquidity risk
The 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 2013 and 2017. In addition, the Group has access to liquidity via the debt capital markets. Prudential also has in place an unlimited commercial paper programme and has 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 have been assessed to be sufficient under both sets of assumptions.

B.2 Non-financial risk

Prudential is exposed to operational, business environment and strategic risk in the course of running its businesses.

Prudential is exposed to operational risk through the course of running its business. It is dependent on the successful processing of a large and complex number of transactions, utilising various IT applications and platforms, across numerous and diverse products. It also operates 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.

Prudential's systems and processes incorporate controls that are designed to manage and mitigate the operational risks associated with its activities. The Prudential Group Governance Manual was developed to make a key contribution to the sound system of internal control that the Group is 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 Manual.

Prudential has 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 Prudential's corporate insurance programme.

With regard to business environment risk, including the impacts of regulatory developments, the Group has a wide-ranging programme of active and constructive engagement with governments, policymakers and regulators in its key markets and with relevant international institutions. Such engagement is undertaken both directly and indirectly via trade associations. The Group has procedures in place to monitor and track political and regulatory developments and assess their potential impact on the Group. Where appropriate, the Group provides submissions and technical input to officials and others, either via submissions to formal consultations or through interactions with officials.

With regard to strategic risk, both business units and the Group Head Office are required to adopt a forward-looking approach to risk management by performing risk assessments as part of the annual strategic planning process. This supports the identification of potential threats and the initiatives needed to address them, as well as competitive opportunities. The impact on the underlying businesses and/or Group-wide risk profile is also considered to ensure that strategic initiatives are within risk appetite.

Solvency II represents a regulatory risk due to the uncertainty of what the rules will be when finalised, their potential impacts, and the timing of their introduction. The risks are that the Group may not be able to respond sufficiently quickly to the strategic implication of the change given levels of uncertainty around the content and timing; operational risk in terms of the scale and complexity of the delivery and uncertainty over timelines; and the additional capital that the Group may be required to hold. Solvency II is covered in more detail in the Capital Management section below.

B.3 Risk factors

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

C. Capital management

C.1 Regulatory capital (IGD)

Prudential is subject to the capital adequacy requirements of the European Union Insurance Groups Directive (IGD) as implemented by the Financial Services Authority (FSA) in the UK. The IGD capital adequacy requirements involve aggregating surplus capital calculated on a FSA consistent basis for regulated subsidiaries, from which Group borrowings, except those subordinated debt issues that qualify as capital, are deducted. No credit for the benefit of diversification is permitted under this approach.

Prudential's capital position remains strong. Prudential has 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. Prudential estimates that its IGD capital surplus is £5.1 billion at 31 December 2012 (before taking into account the 2012 final dividend), with available capital covering its capital requirements 3.0 times. This compares to a capital surplus of £4.0 billion at the end of 2011 (before taking into account the 2011 final dividend).

The movements in 2012 mainly comprise:

- Net capital generation mainly through operating earnings (in-force releases less investment in new business, net of tax) of £2.5 billion;

Offset by:

- Negative impact arising from market movements estimated at £0.2 billion;
- Final 2011 dividend of £0.5 billion and interim 2012 dividend of £0.2 billion;
- External financing costs and other central costs, net of tax, of £0.4 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 continues to evolve over time into a more meaningful economic measure.

There is broad agreement that ultimately it would be beneficial to replace the IGD regime with a regime that would be more risk based. Solvency II was supposed to provide such a framework but we now know that it will not be implemented before 31 December 2015. 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.

In March 2013, we have agreed with the FSA to amend the calculation of the contribution Jackson makes to the Group's IGD surplus. Until now, 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 (CAL). Going forward, the contribution of Jackson to IGD surplus will equal the surplus in excess of 250 per cent of CAL. This is more in line with the level at which we currently report free surplus, which we have set at 235 per cent of CAL. 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.

On this revised basis, the IGD surplus at 28 February 2013 is estimated at £4.4 billion[1] (equivalent to a capital cover of 2.5 times) which includes the £0.4 billion of subordinated debt raised in January 2013 and is after deducting £1.3 billion in respect of the Jackson change from 75 per cent to 250 per cent of CAL.

Prudential continues 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 shareholder's interest in future transfers from the UK's with-profits business and this remained in place, contributing £0.36 billion to the IGD at 31 December 2012. We will phase this out in two equal steps, reducing the credit taken to £0.18 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 2012 was £2.1 billion. This credit risk allowance represents 40 per cent of the bond portfolio spread over swap rates, compared to 33 per cent as at 31 December 2011.

Stress testing
As at 31 December 2012, 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 2012 levels would reduce the IGD surplus by £450 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 £950 million;
- A 100 basis points reduction (subject to a floor of zero) in interest rates would reduce the IGD surplus by £850 million*; and
- Credit defaults of ten times the expected level would reduce IGD surplus by £700 million.

* The impact of the 100 basis points reduction in interest rates is exacerbated by the current regulatory permitted practice used by Jackson, which values all interest rate swaps at book value rather than fair value for regulatory purposes. At 31 December 2012, removing the permitted practice would have increased reported IGD surplus by £0.3 billion. As at 31 December 2012, it is estimated that a 100 basis point reduction in interest rates (subject to a floor of zero) would have resulted in an IGD surplus of £4.9 billion, excluding the permitted practice. The effect of the revised calculation of Jackson's contribution to IGD surplus as at 31 December 2012 would have been to increase the sensitivity to equity market falls by approximately £50 million.

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

Prudential also uses an economic capital assessment to monitor its capital requirements across the Group, allowing for realistic diversification benefits and continues to maintain a strong position. This assessment provides valuable insights into its risk profile.

C.2 Solvency II and other global regulatory developments
The European Union (EU) is developing a new solvency framework for insurance companies, referred to as 'Solvency II'. The

[1] The estimated position at 28 February 2013 allows for economic conditions and surplus generation since 31 December 2012 and is stated before the final dividend and the effect of the Thanachart acquisition and after allowing for a reduction in Jackson's contribution to IGD surplus of £1.3 billion.

Solvency II Directive, which sets out the new framework, was formally approved by the Economic and Financial Affairs Council in November 2009. 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 Prudential to make use of internal economic capital models if approved by the relevant supervisory authority.

Representatives from the European Parliament, the European Commission and the Council of the European Union are currently discussing the Omnibus II Directive which, once approved, will amend certain aspects of the original Solvency II Directive. In addition the European Commission is continuing to develop, in consultation with stakeholders including industry, the detailed rules that will complement the high-level principles of the Directive, referred to as 'implementing measures'. The Omnibus II Directive is not currently scheduled to be finalised until late 2013, while the implementing measures cannot be finalised until after Omnibus II.

There is a significant uncertainty regarding the final outcome from this process. In particular, the Solvency II rules relating to the determination of the liability discount rate and to the treatment of US business remain unclear and Prudential's capital position is sensitive to these outcomes. With reference to the liability discount rate, solutions to remove artificial volatility from the balance sheet have been suggested by policymakers as the regulations continue to evolve. These solutions, along with transitional arrangements for the treatment of the US business, are continuing to be considered by policymakers as part of the process to reach agreement on the Omnibus II Directive. There is a risk that the effect of the measures finally adopted could be adverse for Prudential, including potentially that a significant increase in capital may be required to support its business and that Prudential may be placed at a competitive disadvantage to other European and non-European financial services groups. Prudential is 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 (formerly known as the Comité Européen des Assurances).

The delays in finalising the Omnibus II Directive and implementing measures are expected to result in a deferral of the Solvency II implementation date for firms beyond the previously anticipated date of 1 January 2014. At this stage, it remains unclear exactly when Solvency II will come into force, although a deferral until 1 January 2016 or beyond appears likely.

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 being coordinated centrally to achieve consistency in the understanding and application of the requirements. Prudential is continuing its preparations to adopt the regime when it eventually comes into force and is undertaking in parallel an evaluation of the possible actions to mitigate its effects. Prudential regularly reviews its range of options to maximise the strategic flexibility of the Group. This includes consideration of optimising the Group's domicile as a possible response to an adverse outcome on Solvency II.

Over the coming months Prudential will remain in regular contact with the FSA as it continues to engage in the 'pre-application' stage of the approval process for the internal model. In addition, Prudential also expects to engage in the initial stage of the FSA's proposed 'Individual Capital Adequacy Standards Plus (ICAS+)' regime, which will ultimately enable its UK insurance entities to leverage the developments made in relation to the Solvency II internal model for the purpose of meeting existing ICAS regime.

Currently there are also a number of other prospective 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 Globally Systemically Important Financial Institutions (G-SIFIs) 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, however, as many of its provisions have a delayed effectiveness and/or require rulemaking or other actions by various US regulators over the coming years.

As part of a global initiative to identify G-SIFIs, in May 2012, the IAIS published proposed assessment methodology for designating Globally Systemically Important Insurers (G-SIIs). For those groups that are designated by the FSB as G-SII then additional policy measures including enhanced supervision, introduction of recovery and resolution plans and higher loss absorbency requirements could be proposed. Further detail of the proposals is expected during 2013 and implementation is likely to be over a period of years. Furthermore, the FSA is considering the designation of Domestically Systemically Important Insurer (DSII) for those UK insurers that are significant in UK terms. It is not yet clear what the impact of this designation may be.

ComFrame is also being developed by the IAIS to provide common global requirements for 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 possible that some prescriptive requirements, including group capital, could be proposed. Further clarity on ComFrame is expected during the second half of 2013.

C.3 Capital allocation

Prudential's 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, Prudential measures the use of, and the return on, capital.

Prudential uses 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.

C.4 Risk mitigation and hedging

Prudential manages its actual risk profile against its tolerance of risk. To do this, Prudential maintains risk registers that include details of the risks Prudential has identified and of the controls and mitigating actions it employs 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.

Prudential uses 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.

Corporate governance

The directors confirm that Prudential has complied with the provisions of the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules throughout the period other than in respect of the Terms of Reference of the Remuneration Committee as regards making recommendations to the Board in respect of the remuneration of the non-executive directors. It would be inconsistent with the principles of the UK Code for the Remuneration Committee to be involved in setting the fees of non-executive directors.

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

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 directors' 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.

IFRS Disclosure and Additional Unaudited Financial Information

PRUDENTIAL PLC 2012 RESULTS

International Financial Reporting Standards (IFRS) basis results

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STATUTORY BASIS RESULTS

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED INCOME STATEMENT

Year ended 31 December	**Note**	**2012 £m**	**2011* £m**
Gross premiums earned		**29,910**	25,706
Outward reinsurance premiums		**(506)**	(429)
Earned premiums, net of reinsurance		**29,404**	25,277
Investment return		**24,051**	9,360
Other income		**2,021**	1,869
Total revenue, net of reinsurance		**55,476**	36,506
Benefits and claims		**(44,831)**	(31,060)
Outward reinsurers' share of benefit and claims		**259**	746
Movement in unallocated surplus of with-profits funds		**(1,381)**	1,025
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		**(45,953)**	(29,289)
Acquisition costs and other expenditure	H	**(6,055)**	(5,120)
Finance costs: interest on core structural borrowings of shareholder-financed operations		**(280)**	(286)
Total charges, net of reinsurance		**(52,288)**	(34,695)
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)***		**3,188**	1,811
(Less) add tax (charge) credit attributable to policyholders' returns		**(378)**	17
Profit before tax attributable to shareholders	C	**2,810**	1,828
Total tax (charge) attributable to policyholders and shareholders	I	**(991)**	(392)
Adjustment to remove tax credit (charge) attributable to policyholders' returns		**378**	(17)
Tax charge attributable to shareholders' returns	I	**(613)**	(409)
Profit for the year		**2,197**	1,419
Attributable to:			
Equity holders of the Company		**2,197**	1,415
Non-controlling interests		**-**	4
Profit for the year		**2,197**	1,419

Earnings per share (in pence)		**2012**	**2011***
Based on profit attributable to the equity holders of the Company:	J		
Basic		**86.5 p**	55.8 p
Diluted		**86.4 p**	55.7 p

Dividends per share (in pence)		**2012**	**2011**
Dividends relating to reporting year:	K		
Interim dividend		**8.40 p**	7.95 p
Final dividend		**20.79 p**	17.24 p
Total		**29.19 p**	25.19 p
Dividends declared and paid in reporting year:	K		
Current year interim dividend		**8.40 p**	7.95 p
Final dividend for prior year		**17.24 p**	17.24 p
Total		**25.64 p**	25.19 p

* The Group has adopted updated US GAAP requirements for deferred acquisition costs as an improvement to its accounting policy under IFRS 4 for those operations of the Group which measure insurance assets and liabilities substantially by reference to US GAAP principles. Accordingly, the 2011 comparative results and related notes have been adjusted from those previously published for the retrospective application of the change as if the new accounting policy had always applied, as described in note B.

** 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	2012 £m	2011* £m
Profit for the year		**2,197**	1,419
Other comprehensive income:			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the year		**(214)**	(37)
Related tax		**(2)**	(68)
		(216)	(105)
Unrealised valuation movements on securities of US insurance operations classified as available-for-sale:			
Unrealised holding gains arising during the year		**930**	912
Deduct net gains included in the income statement on disposal and impairment		**(68)**	(101)
Total	S	**862**	811
Related change in amortisation of deferred acquisition costs		**(270)**	(275)
Related tax		**(205)**	(187)
		387	349
Other comprehensive income for the year, net of related tax		**171**	244
Total comprehensive income for the year		**2,368**	1,663
Attributable to:			
Equity holders of the Company		**2,368**	1,659
Non-controlling interests		**-**	4
Total comprehensive income for the year		**2,368**	1,663

* The Group has adopted updated US GAAP requirements for deferred acquisition costs as an improvement to its accounting policy under IFRS 4 for those operations of the Group which measure insurance assets and liabilities substantially by reference to US GAAP principles. Accordingly, the 2011 comparative results and related notes have been adjusted from those previously published for the retrospective application of the change as if the new accounting policy had always applied, as described in note B.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Year ended 31 December 2012 £m							
	Note	Share capital	Share premium	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity
Reserves									
Profit for the year		-	-	2,197	-	-	2,197	-	2,197
Other comprehensive income									
Exchange movements on foreign operations and net investment hedges, net of related tax		-	-	-	(216)	-	(216)	-	(216)
Unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax		-	-	-	-	387	387	-	387
Total other comprehensive income		-	-	-	(216)	387	171	-	171
Total comprehensive income for the year		-	-	2,197	(216)	387	2,368	-	2,368
Dividends		-	-	(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		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:									
As previously reported		127	1,873	5,839	354	924	9,117	43	9,160
Effect of change in accounting policy for deferred acquisition costs	B	-	-	(595)	(72)	114	(553)	-	(553)
After effect of change		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

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Year ended 31 December 2011* £m							
	Note	**Share capital**	**Share premium**	**Retained earnings**	**Translation reserve**	**Available -for-sale securities reserve**	**Shareholders' equity**	**Non-controlling interests**	**Total equity**
Reserves									
Profit for the year		-	-	1,415	-	-	1,415	4	1,419
Other comprehensive income									
Exchange movements on foreign operations and net investment hedges, net of related tax		-	-	-	(105)	-	(105)	-	(105)
Unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax		-	-	-	-	349	349	-	349
Total other comprehensive income		-	-	-	(105)	349	244	-	244
Total comprehensive income for the year		-	-	1,415	(105)	349	1,659	4	1,663
Dividends		-	-	(642)	-	-	(642)	-	(642)
Reserve movements in respect of share-based payments		-	-	44	-	-	44	-	44
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		-	-	-	-	-	-	(5)	(5)
Share capital and share premium									
New share capital subscribed		-	17	-	-	-	17	-	17
Treasury shares									
Movement in own shares in respect of share-based payment plans		-	-	(30)	-	-	(30)	-	(30)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		-	-	(5)	-	-	(5)	-	(5)
Net increase (decrease) in equity		-	17	782	(105)	349	1,043	(1)	1,042
At beginning of year:									
As previously reported		127	1,856	4,982	454	612	8,031	44	8,075
Effect of change in accounting policy for deferred acquisition costs	B	-	-	(520)	(67)	77	(510)	-	(510)
After effect of change		127	1,856	4,462	387	689	7,521	44	7,565
At end of year		127	1,873	5,244	282	1,038	8,564	43	8,607

* The Group has adopted updated US GAAP requirements for deferred acquisition costs as an improvement to its accounting policy under IFRS 4 for those operations of the Group which measure insurance assets and liabilities substantially by reference to US GAAP principles. Accordingly, the 2011 comparative results and related notes have been adjusted from those previously published for the retrospective application of the change as if the new accounting policy had always applied, as described in note B.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2012

	Note	2012 £m	2011* £m
Assets			
Intangible assets attributable to shareholders:			
Goodwill	N	**1,469**	1,465
Deferred acquisition costs and other intangible assets	O	**4,267**	4,234
Total		**5,736**	5,699
Intangible assets attributable to with-profits funds:			
In respect of acquired subsidiaries for venture fund and other investment purposes		**178**	178
Deferred acquisition costs and other intangible assets		**78**	89
Total		**256**	267
Total		**5,992**	5,966
Other non-investment and non-cash assets:			
Property, plant and equipment		**765**	748
Reinsurers' share of insurance contract liabilities†		**6,859**	1,647
Deferred tax assets	I	**2,314**	2,276
Current tax recoverable		**254**	546
Accrued investment income		**2,798**	2,710
Other debtors		**1,361**	987
Total		**14,351**	8,914
Investments of long-term business and other operations:			
Investment properties		**10,880**	10,757
Associate investments accounted for using the equity method		**113**	70
Financial investments**:			
Loans	Q	**11,821**	9,714
Equity securities and portfolio holdings in unit trusts		**99,958**	87,349
Debt securities	R	**140,103**	124,498
Other investments		**7,900**	7,509
Deposits		**12,653**	10,708
Total		**283,428**	250,605
Properties held for sale		**98**	3
Cash and cash equivalents		**6,384**	7,257
Total assets	L	**310,253**	272,745

* The Group has adopted updated US GAAP requirements for deferred acquisition costs as an improvement to its accounting policy under IFRS 4 for those operations of the Group which measure insurance assets and liabilities substantially by reference to US GAAP principles. Accordingly, the 2011 comparative results and related notes have been adjusted from those previously published for the retrospective application of the change as if the new accounting policy had always applied, as described in note B.

** Included within financial investments are £3,015 million (2011: £7,843 million) of lent securities and £2,012 million of loans and debt securities covering liabilities for funds withheld under reinsurance arrangement of the Group's US operations from the purchase of REALIC, as discussed in note Z.

† The increase in reinsurers' share of insurance contract liabilities and other liabilities from 2011 to 2012 is attributed to amounts due to the reinsurance arrangements attaching to the purchase by Jackson of REALIC in September 2012, as discussed in note Z.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2012

	Note	2012 £m	2011* £m
Equity and liabilities			
Equity			
Shareholders' equity		**10,359**	8,564
Non-controlling interests		**5**	43
Total equity		**10,364**	8,607
Liabilities			
Policyholder liabilities and unallocated surplus of with-profits funds:			
Insurance contract liabilities		**208,584**	180,363
Investment contract liabilities with discretionary participation features		**33,812**	29,745
Investment contract liabilities without discretionary participation features		**18,378**	16,967
Unallocated surplus of with-profits funds		**10,589**	9,215
Total		**271,363**	236,290
Core structural borrowings of shareholder-financed operations:			
Subordinated debt		**2,577**	2,652
Other		**977**	959
Total	T	**3,554**	3,611
Other borrowings:			
Operational borrowings attributable to shareholder-financed operations	U	**2,245**	3,340
Borrowings attributable to with-profits operations	U	**1,033**	972
Other non-insurance liabilities:			
Obligations under funding, securities lending and sale and repurchase agreements		**2,436**	3,114
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		**4,345**	3,840
Deferred tax liabilities	I	**3,970**	3,929
Current tax liabilities		**445**	930
Accruals and deferred income		**833**	736
Other creditors		**2,781**	2,544
Provisions		**601**	529
Derivative liabilities		**2,829**	3,054
Other liabilities†		**3,454**	1,249
Total		**21,694**	19,925
Total liabilities		**299,889**	264,138
Total equity and liabilities	L	**310,253**	272,745

* The Group has adopted updated US GAAP requirements for deferred acquisition costs as an improvement to its accounting policy under IFRS 4 for those operations of the Group which measure insurance assets and liabilities substantially by reference to US GAAP principles. Accordingly, the 2011 comparative results and related notes have been adjusted from those previously published for the retrospective application of the change as if the new accounting policy had always applied, as described in note B.

† The increase in reinsurers' share of insurance contract liabilities and other liabilities from 2011 to 2012 is attributed to amounts due to the reinsurance arrangements attaching to the purchase by Jackson of REALIC in September 2012, as discussed in note Z.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December	Note	2012 £m	2011* £m
Cash flows from operating activities			
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*note (i)		**3,188**	1,811
Non-cash movements in operating assets and liabilities reflected in profit before tax:			
Investments		**(27,126)**	(8,854)
Other non-investment and non-cash assets		**(801)**	(999)
Policyholder liabilities (including unallocated surplus)		**26,710**	10,874
Other liabilities (including operational borrowings)		**(969)**	(859)
Interest income and expense and dividend income included in result before tax		**(7,772)**	(7,449)
Other non-cash itemsnote (ii)		**128**	108
Operating cash items:			
Interest receipts		**6,483**	6,365
Dividend receipts		**1,530**	1,302
Tax paid		**(925)**	(561)
Net cash flows from operating activities		**446**	1,738
Cash flows from investing activities			
Purchases of property, plant and equipment		**(139)**	(124)
Proceeds from disposal of property, plant and equipment		**14**	10
Acquisition of subsidiaries, net of cash balancenote (iii)	Z	**(224)**	(53)
Change to Group's holdings, net of cash balance	G	**23**	-
Net cash flows from investing activities		**(326)**	(167)
Cash flows from financing activities			
Structural borrowings of the Group:			
Shareholder-financed operations:note (iv)	T		
Issue of subordinated debt, net of costs		**-**	340
Redemption of senior debt		**-**	(333)
Bank loan		**25**	-
Interest paid		**(270)**	(286)
With-profits operations:note (v)	U		
Interest paid		**(9)**	(9)
Equity capital:			
Issues of ordinary share capital		**17**	17
Dividends paid		**(655)**	(642)
Net cash flows from financing activities		**(892)**	(913)
Net (decrease) increase in cash and cash equivalents		**(772)**	658
Cash and cash equivalents at beginning of year		**7,257**	6,631
Effect of exchange rate changes on cash and cash equivalents		**(101)**	(32)
Cash and cash equivalents at end of year		**6,384**	7,257

* The Group has adopted updated US GAAP requirements for deferred acquisition costs as an improvement to its accounting policy under IFRS4, for those operations of the Group which measure insurance assets and liabilities substantially by reference to US GAAP principles. Accordingly, the 2011 comparative results and related notes have been adjusted from those previously published for the retrospective application of the change as if the new accounting policy had always applied, as described in note B.

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 REALIC in 2012, as explained further in note Z, resulted in a net cash outflow of £224 million. The acquisition of subsidiaries in 2011 related to the PAC with-profits fund's purchase of Earth and Wind, and Alticom venture investments with an outflow of £53 million.

(iv) Structural borrowings of shareholder-financed operations comprise the core debt of the parent company, a PruCap bank loan and Jackson surplus notes. Core debt excludes 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 ON THE IFRS BASIS RESULTS

A Basis of preparation and audit status

The statutory basis results included in this announcement have been extracted from the audited financial statements of the Group for the year ended 31 December 2012. 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 IFRSs may differ from IFRSs issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2012, there were no unendorsed standards effective for the two years ended 31 December 2012 affecting the consolidated financial information of the Group and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Group. The auditors have reported on the 2012 statutory accounts. The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2012 or 2011 but is derived from those accounts.

Statutory accounts for 2011 have been delivered to the registrar of companies, and those for 2012 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts. 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.

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 2011, except for the adoption of the altered US GAAP reporting requirements for Group IFRS reporting as described in note B below.

Certain new accounting pronouncements which become effective for the Group in 2013 are described in note AD.

B Adoption of updated US GAAP reporting requirements for Group IFRS reporting in 2012

Background
In October 2010, the Emerging Issues Task Force of the US Financial Accounting Standards Board issued update No 2010-26 on 'Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts' (the 'Update'). The Update was issued to address perceived diversity in practices by companies preparing financial statements in accordance with US GAAP as regards the types of acquisition costs being deferred. Under US GAAP, costs that can be deferred and amortised are those that 'vary with and are primarily related to the acquisition of insurance contracts'. The Update requires insurers to capitalise only those incremental costs directly relating to acquiring a contract for financial statements for reporting periods beginning after 15 December 2011. All other indirect acquisition expenses are required to be charged to the income statements as incurred expenses. Accordingly, the main impact of the Update is to disallow insurers from deferring costs that are not directly related to successful sales.

The Group's IFRS accounting policies include that under IFRS 4, 'Insurance Contracts', insurance assets and liabilities other than those for UK regulated with-profits funds, are measured using the GAAP basis applied prior to IFRS adoption in 2005. On this basis insurance assets and liabilities are measured under the UK Modified Statutory Basis (MSB) which was codified by the Statement of Recommended Practice (SORP) on accounting for insurance business issued by the Association of British Insurers (ABI) in 2003. The SORP also permits the use of local GAAP subject to the requirement for adjustments to be made to ensure sufficient consistency of measurement under the UK GAAP framework under which the SORP was developed.

In applying this overarching basis, the Group has chosen to apply US GAAP for measuring the insurance assets and liabilities of Jackson. In addition, for the Group's operations in India, Japan, Taiwan and until 2012 Vietnam*, where the local GAAP basis would not be appropriate as the start point for deriving MSB insurance asset and liabilities, the measurement has been determined substantially by reference to US GAAP requirements.

* Separately from the DAC change noted above, in Vietnam, the Company has improved its estimation basis for liabilities in 2012 from one determined substantially by reference to US GAAP requirements. After making this change, the estimation basis for Vietnam is aligned substantially with that used in Singapore, Malaysia and some other Asia operations.

For 2012, the Group had the option to either continue with its current basis of measurement or improve its accounting policy under IFRS4 to acknowledge the issuance of the Update. Prudential has chosen to improve its accounting policy in 2012 to apply the US GAAP update, on a retrospective basis, to the results of Jackson and the affected Asia operations.

The 2011 comparatives in these consolidated financial statements have been adjusted accordingly for the retrospective application of this Update.

Effect of change in accounting policy

(a) The effect of the change in accounting policy for deferred acquisition costs (DAC) on the income statement, earnings per share, comprehensive income, changes in equity and statement of financial position is shown in the tables below.

Consolidated Income Statement

	Year ended 31 December					
	2012 £m			2011 £m		
	Under previous policy	Effect of change	Under new policy	As reported under previous policy	Effect of change	Under new policy
Total revenue, net of reinsurance	**55,476**	**-**	**55,476**	36,506	-	36,506
Acquisition costs and other expenditure	**(5,908)**	**(147)**	**(6,055)**	(5,005)	(115)	(5,120)
Total other charges, net of reinsurance	**(46,233)**		**(46,233)**	(29,575)	-	(29,575)
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*	**3,335**	**(147)**	**3,188**	1,926	(115)	1,811
(Less) Add tax (charge) credit attributable to policyholders' returns	**(378)**	**-**	**(378)**	17	-	17
Profit before tax attributable to shareholders	**2,957**	**(147)**	**2,810**	1,943	(115)	1,828
Total tax charge attributable to policyholders and shareholders	**(1,039)**	**48**	**(991)**	(432)	40	(392)
Adjustment to remove tax charge (credit) attributable to policyholders' returns	**378**	**-**	**378**	(17)	-	(17)
Tax charge attributable to shareholders' returns	**(661)**	**48**	**(613)**	(449)	40	(409)
Profit for the year	**2,296**	**(99)**	**2,197**	1,494	(75)	1,419
Profit for the year attributable to equity holders of the Company	**2,296**	**(99)**	**2,197**	1,490	(75)	1,415
Earnings per share (in pence)						
Based on profit attributable to the equity holders of the Company:						
Basic	**90.4p**	**(3.9)p**	**86.5p**	58.8p	(3.0)p	55.8p
Diluted	**90.3p**	**(3.9)p**	**86.4p**	58.7p	(3.0)p	55.7p

Consolidated Statement of Comprehensive Income and Statement of Changes in Equity

	Year ended 31 December					
	2012 £m			2011 £m		
	Under previous policy	Effect of change	Under new policy	As reported under previous policy	Effect of change	Under new policy
Profit for the year	**2,296**	**(99)**	**2,197**	1,494	(75)	1,419
Exchange movements on foreign operations and net investment hedges, net of related tax	**(236)**	**20**	**(216)**	(100)	(5)	(105)
Unrealised valuation movements on securities of US insurance operations classified as available-for-sale	**862**	**-**	**862**	811	-	811
Related change in amortisation of deferred income and acquisition costs	**(314)**	**44**	**(270)**	(331)	56	(275)
Related tax	**(190)**	**(15)**	**(205)**	(168)	(19)	(187)
Net unrealised gains	**358**	**29**	**387**	312	37	349
Total comprehensive income for the year	**2,418**	**(50)**	**2,368**	1,706	(43)	1,663
Total comprehensive income for the year attributable to equity holders of the Company	**2,418**	**(50)**	**2,368**	1,702	(43)	1,659
Shareholders' equity:						
Net increase in shareholders' equity	**1,845**	**(50)**	**1,795**	1,086	(43)	1,043
At beginning of year	**9,117**	**(553)**	**8,564**	8,031	(510)	7,521
At end of year	**10,962**	**(603)**	**10,359**	9,117	(553)	8,564

Consolidated Statement of Financial Position

	31 Dec 2012 £m			31 Dec 2011 £m		
	Under previous policy	Effect of change	Under new policy	As reported under previous policy	Effect of change	Under new policy
Assets						
Deferred acquisition costs and other intangible assets	**5,173**	**(906)**	**4,267**	5,069	(835)	4,234
Total other assets	**305,986**	**-**	**305,986**	268,511	-	268,511
Total assets	**311,159**	**(906)**	**310,253**	273,580	(835)	272,745
Liabilities						
Deferred tax liabilities	**4,273**	**(303)**	**3,970**	4,211	(282)	3,929
Total other liabilities	**295,919**	**-**	**295,919**	260,209	-	260,209
Total liabilities	**300,192**	**(303)**	**299,889**	264,420	(282)	264,138
Equity						
Shareholders' equity	**10,962**	**(603)**	**10,359**	9,117	(553)	8,564
Non-controlling interests	**5**	**-**	**5**	43	-	43
Total equity	**10,967**	**(603)**	**10,364**	9,160	(553)	8,607

(b) The effect of the change in accounting policy for deferred acquisition costs on the Group's supplementary analysis of profit is shown in the table below.

Segment disclosure – profit before tax

	Year ended 31 December					
	2012 £m			2011 £m		
	Under previous basis	Effect of change	Under new policy	As reported under previous basis	Effect of change	Under new policy
Operating profit based on longer-term investment returns						
Asia insurance operations[note (i)]	**922**	**(9)**	**913**	704	-	704
US insurance operations[note (ii)]	**1,081**	**(117)**	**964**	694	(43)	651
Other operations	**656**	**-**	**656**	672	-	672
Total	**2,659**	**(126)**	**2,533**	2,070	(43)	2,027
Short-term fluctuations in investment returns on shareholder-backed business	**225**	**(21)**	**204**	(148)	(72)	(220)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**50**	**-**	**50**	21	-	21
Gain on dilution of Group's holdings	**42**	**-**	**42**	-	-	-
Amortisation of Acquisition accounting adjustments arising on the purchase of REALIC	**(19)**	**-**	**(19)**	-	-	-
Profit before tax attributable to shareholders	**2,957**	**(147)**	**2,810**	1,943	(115)	1,828
Basic EPS from operating profit based on longer-term investment returns after tax and non-controlling interests	**80.2 p**	**(3.4)**	**76.8 p**	63.9p	(1.1)p	62.8p
Basic EPS based on total profit after tax and non-controlling interests	**90.4 p**	**(3.9)**	**86.5 p**	58.8p	(3.0)p	55.8p

Notes on the effect of the change in the accounting policy on operating profit based on longer-term investment returns

(i) Asia insurance operations

	2012 £m	2011 £m
	Effect of change	Effect of change
New business		
Acquisition costs on new contracts not deferred under the new policy	**(14)**	(16)
Business in force at beginning of period		
Reduction in amortisation on reduced DAC balance under the new policy	**5**	16
Total	**(9)**	-

(ii) US insurance operations

	2012 £m	2011 £m
	Effect of change	Effect of change
New business		
Acquisition costs on new contracts not deferred under the new policy	**(174)**	(156)
Business in force at beginning of period		
Reduction in amortisation on reduced DAC balance under the new policy	**57**	113
Total	**(117)**	(43)

C Segment disclosure – profit before tax

	Note	2012 £m	2011* £m
Asia operations			
Insurance operations	**Ei**		
Operating result before gain on sale of stake in China Life of Taiwan		**869**	709
Gain on sale of stake in China Life of Taiwan	**Fii**	**51**	-
Total Asia insurance operations		**920**	709
Development expenses		**(7)**	(5)
Total Asia insurance operations after development expenses		**913**	704
Eastspring Investments		**75**	80
Total Asia operations		**988**	784
US operations			
Jackson (US insurance operations)	**Eii**	**964**	651
Broker-dealer and asset management		**39**	24
Total US operations		**1,003**	675
UK operations			
UK insurance operations:	**E iii**		
Long-term business		**703**	683
General insurance commission note (i)		**33**	40
Total UK insurance operations		**736**	723
M&G		**371**	357
Total UK operations		**1,107**	1,080
Total segment profit		**3,098**	2,539
Other income and expenditure			
Investment return and other income		**13**	22
Interest payable on core structural borrowings		**(280)**	(286)
Corporate expenditure	**H**	**(231)**	(219)
Total		**(498)**	(483)
RPI to CPI inflation measure change on defined benefit pension schemes	**V**	**-**	42
Solvency II implementation costs		**(48)**	(55)
Restructuring costs note (ii)		**(19)**	(16)
Operating profit based on longer-term investment returns		**2,533**	2,027
Short-term fluctuations in investment returns on shareholder-backed business	**F**	**204**	(220)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**V**	**50**	21
Gain on dilution of Group's holdings	**G**	**42**	-
Amortisation of acquisition accounting adjustments arising on the purchase of REALIC	**Z**	**(19)**	-
Profit before tax attributable to shareholders		**2,810**	1,828

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

Notes

(i) UK operations transferred its general insurance business to Churchill in 2002. General insurance commission represents the net commission receivable net of expenses for Prudential-branded general insurance products as part of this arrangement.

(ii) ***Restructuring costs*** are incurred in the UK and represent one-off expenses incurred in securing expense savings.

Determining operating segments and performance measure of 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 with the exception of Prudential Capital (PruCap) which has been incorporated into the M&G operating segment for the purposes of segment reporting.

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 measure excludes the recurrent items of short-term fluctuations in investment returns and the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes. In addition for 2012 this measure excluded a gain arising upon the dilution of the Group's holding in PPM South Africa and the amortisation of the acquisition accounting adjustments arising on the purchase of REALIC as described further in note Z. Operating earnings per share is based on operating profit based on longer-term investment returns, after tax and non-controlling interests.

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 the assets backing the UK annuity business, 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:

- Assets backing UK annuity business liabilities. For UK annuity 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.

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

In principle, for debt securities and loans, the longer-term capital returns comprise two elements. The first element is a risk margin reserve (RMR) 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 RMR charge to the operating result is reflected in short-term fluctuations in investment returns. The second element is for 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 RMR 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 RMR charge. Further details of the RMR charge, as well as the amortisation of interest-related realised gains and losses, for Jackson are shown in note F(iii).

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 RMR charge.

At 31 December 2012, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £498 million (31 December 2011: £462 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 2012, the equity-type securities for US insurance non-separate account operations amounted to £1,004 million (31 December 2011: £902 million). For these operations, the longer-term rates of return for income and capital applied in 2012 reflects the combination of risk free rates and appropriate risk premium are as follows:

	2012	**2011**
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	**5.5% to 6.2%**	5.9% to 7.5%
Other equity-type securities such as investments in limited partnerships and private equity funds	**7.5% to 8.2%**	7.9% to 9.5%

For Asia insurance operations, investments in equity securities held for non-linked shareholder-financed operations amounted to £659 million as at 31 December 2012 (31 December 2011: £590 million). The rates of return applied in the years 2012 and 2011 ranged from 1.0 per cent to 13.8 per cent with the rates applied varying by territory. The investment amounts for 2011 of £590 million included the Group's investment in China Life Insurance Company of Taiwan (China Life (Taiwan)) of £88 million which was sold in 2012, as described in note F(ii).

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.

(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 (GMWB) 'not for life' and fixed index annuity business, and Guaranteed Minimum Income Benefit (GMIB) reinsurance (see note);
- Movements in accounts carrying value of Guaranteed Minimum Death Benefit (GMDB) and GMWB '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 changes to amortisation of deferred acquisition costs for each of the above items.

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

The GMIB liability, which is fully reinsured, subject to a deductible and annual claim limits, is accounted for in accordance with FASB 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 GMIB 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:

<u>Asia</u>
i 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 (which is applied for IFRS balance sheet purposes) 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.

ii Japan Guaranteed Minimum Death Benefit (GMDB) product features
For unhedged GMDB liabilities accounted for under IFRS using 'grandfathered' US GAAP, such as in the Japanese business, the change in carrying value is determined under FASB ASC subtopic 944-80, Financial Services – Insurance – Separate Accounts (formerly SOP 03-1), which partially reflects changes in market conditions. Under the company's segmental basis of reporting the operating profit reflects the change in liability based on longer-term market conditions with the difference between the charge to the operating result and the movement reflected in the total result included in short-term fluctuations in investment returns.

<u>UK shareholder-backed annuity business</u>
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' in the Group's supplementary analysis of profit:

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

Credit experience reflects the impact of defaults and other similar experience, such as asset exchanges arising from debt restructuring by issuers that include effectively an element of permanent impairment of the security held. 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.

D 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:

	M&G £m	US £m	Eastspring Investments note (iv) £m	Total 2012 £m	Total 2011 £m
Revenue (excluding revenue of consolidated investment funds and NPH broker-dealer fees)	**1,234**	**296**	**282**	**1,812**	1,583
Revenue of consolidated investment funds note (i)	**(11)**	**-**	**-**	**(11)**	9
NPH broker-dealer fees note (i)	**-**	**435**	**-**	**435**	405
Gross revenue*	**1,223**	**731**	**282**	**2,236**	1,997
Charges (excluding charges of consolidated investment funds and NPH broker-dealer fees)	**(713)**	**(257)**	**(207)**	**(1,177)**	(1,147)
Charges of consolidated investment funds note (i)	**11**	**-**	**-**	**11**	(9)
NPH broker-dealer fees note (i)	**-**	**(435)**	**-**	**(435)**	(405)
Gross charges	**(702)**	**(692)**	**(207)**	**(1,601)**	(1,561)
Profit before tax	**521**	**39**	**75**	**635**	436
Comprising:					
Operating profit based on longer-term investment returns note (ii)	**371**	**39**	**75**	**485**	461
Short-term fluctuations in investment returns note (iii)	**93**	**-**	**-**	**93**	(29)
Shareholder's share of actuarial gains and losses on defined benefit pension schemes	**15**	**-**	**-**	**15**	4
Gain on dilution of Group's holdings	**42**	**-**	**-**	**42**	-
Profit before tax	**521**	**39**	**75**	**635**	436

* For 2012, gross revenue includes the Group's share of results from the associate PPM South Africa. In prior years, PPM South Africa was treated as a subsidiary and accounted for accordingly.

Notes

(i) Under IFRS, disclosure details of segment revenue are required. The segment revenue of the Group's asset management operations are required to include two items that are for amounts which, reflecting their commercial nature, are also wholly reflected as charges within the income statement. After allowing for these charges, there is no effect on profit from these two items which are:

(a) Investment funds which are managed on behalf of third parties and are consolidated under IFRS in recognition of the control arrangements for the funds. The gains and losses of these funds are non-recourse to M&G and the Group, and
(b) NPH broker-dealer fees which represent commissions received, that are then paid on to the writing brokers on sales of investment products.

The presentation in the table above shows the amounts attributable to these two items so that the underlying revenue and charges can be seen.

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

	2012 £m	2011** £m
Asset management fee income	**728**	662
Other income	**6**	4
Staff costs	**(289)**	(270)
Other costs	**(147)**	(134)
Underlying profit before performance-related fees	**298**	262
Share of associate results	**13**	26
Performance-related fees	**9**	13
Operating profit from asset management operations	**320**	301
Operating profit from Prudential Capital	**51**	56
Total M&G operating profit based on longer-term investment returns	**371**	357

** Following the divestment in the first half of 2012 of M&G's holding in PPM South Africa from 75 per cent to 49.99 per cent and its treatment from 2012 as an associate, M&G's operating income and expense no longer include any element from PPM South Africa, with the share of associates results being presented in a separate line. The table above reflects the retrospective application of this basis of presentation for the 2011 results. Total profit remains the same.

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 £218 million (2011: £96 million) and commissions which have been netted off in arriving at the fee income of £728 million (2011: £662 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.

(iv) Included within Eastspring Investments revenue and charges are £42 million of commissions (2011: £44 million).

E Insurance assets and liabilities – key results features

In addition to the effect of the accounting policy change for deferred acquisition costs as disclosed in note B, the following features are of particular relevance to the determination of the 2012 results in respect of the measurement of insurance assets and liabilities.

i Asia insurance operations

In 2012, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net £48 million credit (2011: £38 million) representing a small number of non-recurring items that are not anticipated to re-occur in subsequent periods.

Separately, the IFRS policyholder liabilities of the shareholder-backed non-linked business of the Group's Hong Kong operation are measured on a prospective net premium valuation approach with zero allowance for lapses. In 2012, the basis of determining the valuation rate of interest has been 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.

ii US insurance operations

Amortisation of deferred acquisition costs

Under the Group's basis of applying IFRS 4, the insurance assets and liabilities of Jackson's life and annuity business are accounted for under US GAAP. In line with industry practice, Jackson applies the mean reversion technique method 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 2012, reflecting the positive market returns in the period, there was a credit for decelerated amortisation of £56 million (2011: charge for accelerated amortisation of £190 million) as explained in note O.

iii 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. Since mid-2007 there has been a significant increase in the actual and perceived credit risk associated with corporate bonds as reflected in the significant widening that has occurred in corporate bond spreads. Although bond spreads over swap rates have narrowed from their peak in March 2009, they are still high compared with the levels seen in the years immediately preceding the start of the dislocated markets in 2007. The allowance that should therefore be made for credit risk remains a particular area of judgement.

The additional yield received on corporate bonds relative to swaps can be broken into the following constituent parts:

(a) the expected level of future defaults,
(b) the credit risk premium that is required to compensate for the potential volatility in default levels,
(c) the liquidity premium that is required to compensate for the lower liquidity of corporate bonds relative to swaps, and
(d) the mark to market risk premium that is required to compensate for the potential volatility in corporate bond spreads (and hence market values) at the time of sale.

The sum of (c) and (d) is often referred to as 'liquidity premium'.

The allowance for credit risk comprises (i) an amount for long-term best estimate defaults, and (ii) additional provisions for credit risk premium, downgrade resilience and short-term defaults.

The weighted components of the bond spread over swap rates for shareholder-backed fixed and linked annuity business for PRIL at 31 December 2012 and 31 December 2011, based on the asset mix at the relevant balance sheet date are shown below.

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

31 December 2011	Pillar 1 regulatory basis (bps)	Adjustment from regulatory to IFRS basis (bps)	IFRS (bps)
Bond spread over swap rates note (i)	201	-	201
Credit risk allowance			
Long-term expected defaults note (ii)	15	-	15
Additional provisions note (iii)	51	(24)	27
Total credit risk allowance	66	(24)	42
Liquidity premium	135	24	159

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 and Poor's and Fitch.

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

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

Movement in the credit risk allowance for PRIL for the year ended 31 December 2012

The movement during 2012 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 2011	**66**	**42**
Credit rating changes	**3**	**2**
Asset trading	**1**	**1**
New business and other	**(5)**	**(3)**
Total allowance for credit risk at 31 December 2012	**65**	**42**

For periods prior to full year 2011, favourable credit experience was retained in short-term allowances for credit risk on both the Pillar 1 and IFRS bases. From full year 2011 onwards the methodology applied is to continue to retain such surplus experience in the IFRS credit provisions but not for Pillar 1.

Overall the movement has led to the credit allowance for Pillar 1 purposes to be 40 per cent (2011: 33 per cent) of the bond spread over swap rates. For IFRS purposes it represents 26 per cent (2011: 20 per cent) of the bond spread over swap rates.

The reserves for credit risk allowance at 31 December 2012 for the UK shareholder annuity fund were as follows:

	Pillar 1 Regulatory basis	IFRS
	Total £bn	**Total £bn**
PRIL	**1.9**	**1.2**
PAC non-profit sub-fund	**0.2**	**0.1**
Total -31 December 2012	**2.1**	**1.3**
Total -31 December 2011	2.0	1.3

Mortality and other assumption changes

2012

In 2012, for the shareholder-backed business, the net effect of assumption changes other than the allowance for credit risk described above was a charge to shareholder results of £17 million. This comprises the aggregate effect of strengthening of mortality assumptions for the annuity business, offsetting releases of margins and altered expenses and other assumptions.

The mortality assumptions for 2012 and 2011 are as follows:

	PRIL	
2012	**Males**	**Females**
In payment	92% – 96% PCMA00 with future improvements in line with Prudential's own calibration of the CMI 2011 mortality model, with a long-term improvement rate of 2.25%.	84% – 97% PCFA00 with future improvements in line with Prudential's own calibration of the CMI 2011 mortality model, with a long-term improvement rate of 1.50%.
In deferment	AM92 minus 4 years	AF92 minus 4 years

	PRIL	
2011	**Males**	**Females**
In payment	93% – 94% PCMA00 with future improvements in line with Prudential's own calibration of the CMI 2009 mortality model, with a long term improvement rate of 2.25%.	84% – 96% PCFA00 with future improvements in line with Prudential's own calibration of the CMI 2009 mortality model, with a long term improvement rate of 1.25%.
In deferment	AM92 minus 4 years	AF92 minus 4 years

2011

In 2011, for the shareholder-backed business, the aggregate effect of assumption changes other than the allowance for credit risk described above was a net charge to the shareholder results of £(9) million, comprising a number of individually small assumption changes.

F Short-term fluctuations in investment returns on shareholder-backed business

	2012 £m	2011* £m
Insurance operations:		
Asia note (ii)	**76**	(92)
US note (iii)	**(90)**	(167)
UK note (iv)	**136**	159
Other operations:		
– Economic hedge value movement note (v)	**(32)**	-
– Other note (vi)	**114**	(120)
Total note (i)	**204**	(220)

* The Group has adopted updated US GAAP requirements for deferred acquisition costs as an improvement to its accounting policy under IFRS 4 for those operations of the Group which measure insurance assets and liabilities substantially by reference to US GAAP principles. Accordingly, the 2011 comparative results and related notes have been adjusted from those previously published for the retrospective application of the change as if the new accounting policy had always applied, as described in note B.

Notes

(i) *General overview of defaults*

The Group did not experience any defaults on its shareholder-backed debt securities portfolio in 2012 or 2011.

(ii) *Asia insurance operations*

The positive short-term fluctuations of £76 million in 2012 reflects unrealised gains on bond assets following a fall in yields in the period. These gains more than offset the impact of falling interest rates in Hong Kong and the transfer to operating profit of previously booked unrealised gains on the sale of the Group's stake in China Life of Taiwan. The realised gain on the sale of the Group's stake in China Life of Taiwan of £51 million is included in the Group's operating profit based on longer-term investment returns disclosed in note C.

The fluctuations of negative £(92) million in 2011 in part reflected equity market falls in Taiwan and negative unrealised value movement on the Group's stake in China Life of Taiwan.

(iii) *US insurance operations*

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

	2012 £m	2011* £m
Short-term fluctuations relating to debt securities		
Charges in the year:		
Defaults	**-**	-
Losses on sales of impaired and deteriorating bonds	**(23)**	(32)
Bond write downs	**(37)**	(62)
Recoveries / reversals	**13**	42
Total charges in the year note (a)	**(47)**	(52)
Less: Risk margin charge included in operating profit based on longer-term investment returns note (b)	**79**	70
	32	18
Interest-related realised gains:		
Arising in the year	**94**	158
Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns	**(91)**	(84)
	3	74
Related change to amortisation of deferred acquisition costs	**(3)**	(3)
Total short-term fluctuations related to debt securities	**32**	89
Derivatives (other than equity-related): market value movements (net of related change to amortisation of deferred acquisition costs) note (c)	**135**	554
Net equity hedge results (principally guarantees and derivatives, net of related change to amortisation of deferred acquisition costs) note (d)	**(302)**	(788)
Equity-type investments: actual less longer-term return (net of related change to amortisation of deferred acquisition costs) C	**23**	-
Other items (net of related change to amortisation of deferred acquisition costs)	**22**	(22)
Total	**(90)**	(167)

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

The short-term fluctuations shown in the table above are stated net of the related change to amortisation of deferred acquisition costs of £76 million (2011: £287 million). See note O.

Notes

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

	2012 Total £m	2011 Total £m
Residential mortgage-backed securities:		
Prime (including agency)	**(4)**	(25)
Alt-A	**(1)**	(1)
Sub-prime	**(3)**	-
Total residential mortgage-backed securities	**(8)**	(26)
Corporate debt securities	**(14)**	(14)
Other	**(25)**	(12)
Total	**(47)**	(52)

(b) The risk margin reserve (RMR) charge for longer-term credit-related losses included in operating profit based on longer-term investment returns of Jackson for 2012 is based on an average annual RMR of 26 basis points (2011: 25 basis points) on average book values of US$47.6 billion (2011: $44.4 billion) as shown below:

	2012				2011			
Moody's rating category (or equivalent under NAIC ratings of MBS)	Average book value US$m	RMR %	Annual expected loss US$m	£m	Average book value US$m	RMR %	US$m	Annual expected loss £m
A3 or higher	**23,129**	**0.11**	**(26)**	**(16)**	21,255	0.08	(17)	(11)
Baa1, 2 or 3	**21,892**	**0.26**	**(56)**	**(36)**	20,688	0.26	(54)	(34)
Ba1, 2 or 3	**1,604**	**1.12**	**(18)**	**(11)**	1,788	1.04	(19)	(11)
B1, 2 or 3	**597**	**2.82**	**(17)**	**(11)**	474	3.01	(14)	(9)
Below B3	**342**	**2.44**	**(8)**	**(5)**	211	3.88	(8)	(5)
Total	**47,564**	**0.26**	**(125)**	**(79)**	44,416	0.25	(112)	(70)
Related change to amortisation of deferred acquisition costs (see below)			**21**	**13**			22	14
Risk margin reserve charge to operating profit for longer-term credit related losses			**(104)**	**(66)**			(90)	(56)

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 changes to amortisation of deferred acquisition costs.

(c) The gain of £135 million (2011: gain of £554 million) is principally for the value movement of non-equity freestanding derivatives held to manage interest rate exposures, and for the GMIB reinsurance asset that is considered to be a derivative under IAS 39.

Under IAS 39, unless hedge accounting is applied value movements on derivatives are recognised in the income statement. For the derivatives programme attaching to the general account business, the Group has continued its approach of not seeking to apply hedge accounting under IAS 39. This decision reflects the inherent constraints of IAS 39 for hedge accounting investments and life assurance assets and liabilities under 'grandfathered' US GAAP under IFRS 4.

(d) The amount of £(302) million (2011: £(788) million) relates to the net equity hedge accounting effect of the equity-based derivatives and associated guarantee liabilities of Jackson's variable and fixed index annuity business. The details of the value movements excluded from operating profit based on longer-term investment returns are as described in note C. The principal movements are for (i) value for free standing and GMWB 'not for life' embedded derivatives, (ii) accounting values for GMDB and GMWB 'for life' guarantees (iii) fee assessments and claim payments in respect of guarantee liabilities and (iv) related changes to DAC amortisation. In 2012, the charge of (£302) million principally reflects fair value movements on free standing futures contracts and short-dated options. The movements included within the net equity hedge result include the effect of lower interest rates for which the movement was particularly significant in 2011. The value movements on derivatives held to manage this and any other interest rate exposure are included in the £135 million (2011: £554 million) described above in note (c).

In addition to the items discussed above, for US insurance operations, included within the statement of comprehensive income is an increase in net unrealised gains on debt securities classified as available-for-sale of £862 million (2011: increase in net unrealised gains of £811 million). Temporary market value movements do not reflect defaults or impairments. Additional details on the movement in the value of the Jackson portfolio are included in note S.

(iv) *UK insurance operations*

The short-term fluctuations gain for UK insurance operations of £136 million (2011: £159 million) principally reflect net investment gains arising in the year on fixed income assets backing the capital of the shareholder-backed annuity business.

(v) *Economic hedge value movement*
This item represents the costs 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 of other operations in 2012 of £114 million primarily represent unrealised fair value movements on Prudential Capital's bond portfolio. Short-term fluctuations of other operations in 2011 of £(120) million represent unrealised value movements on investments, including centrally held swaps to manage foreign exchange and certain macro-economic exposures of the Group.

G Changes to Group's holdings

PPM South Africa
On 22 February 2012, M&G completed transactions to (i) exchange bonus share rights for equity holdings with the employees of PPM South Africa and (ii) the sale of a 10 per cent holding in the majority of the business to Thesele Group, a minority shareholder, for cash. Following these transactions M&G's majority holding in the business reduced from 75 per cent to 49.99 per cent. Under IFRS requirements, the divestment is accounted for as the disposal of the 75 per cent holding and an acquisition of a 49.99 per cent holding at fair value resulting in a reclassification of PPM South Africa from a subsidiary to an associate. As a consequence of the IFRS application, the transactions gave rise to a gain on dilution of £42 million. This amount is shown separately and in the Group's 2012 supplementary analysis of profit excluded from the Group's IFRS operating profit based on longer-term investment returns. The net cash outflow arising from this change to the Group's holdings, as shown in the consolidated statement of cash flows, of £23 million, comprised the net effect of cash and cash equivalents no longer consolidated and the cash proceeds received.

H Acquisition costs and other expenditure

	2012 £m	**2011* £m**
Acquisition costs incurred for insurance policies	**(2,649)**	(2,264)
Acquisition costs deferred less amortisation of acquisition costs for insurance policies	**480**	520
Administration costs and other expenditure	**(3,728)**	(3,524)
Movements in amounts attributable to external unit holders	**(158)**	148
Total acquisition costs and other expenditure	**(6,055)**	(5,120)

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy as described in note B.

Included within total acquisition costs and other expenditure is depreciation of property, plant and equipment of £(90) million (2011: £(95) million).

The total amounts for acquisition costs and other expenditure shown above includes corporate expenditure shown in note C (Segment disclosure – income statement). The charge for corporate expenditure comprises:

	2012 £m	**2011 £m**
Group head office	**(168)**	(168)
Asia regional office:		
Gross costs	**(99)**	(86)
Recharges to Asia operations	**36**	35
	(63)	(51)
Total	**(231)**	(219)

I Tax

i Tax charge
The total tax charge comprises:

Tax charge	2012 £m Current tax	Deferred tax	Total	2011* £m Total
UK tax	**(393)**	**(45)**	**(438)**	(20)
Overseas tax	**(414)**	**(139)**	**(553)**	(372)
Total tax charge	**(807)**	**(184)**	**(991)**	(392)

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

The current tax charge of £807 million includes £18 million (2011: charge of £16 million) in respect of the tax charge for Hong Kong. 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 will be calculated using accounting profit or loss as a starting point. As the 2012 Finance Act had been enacted at the balance sheet date, the effects of these changes are reflected in the financial statements for the year ended 31 December 2012 but with no material impact on the Group's net assets.

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	2012 £m Current tax	Deferred tax	Total	2011* £m Total
Tax (charge) credit to policyholders' returns	**(488)**	**110**	**(378)**	17
Tax charge attributable to shareholders	**(319)**	**(294)**	**(613)**	(409)
Total tax charge	**(807)**	**(184)**	**(991)**	(392)

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

The principal reason for the increase in the tax charge attributable to policyholders' returns is an increase in deferred tax on unrealised gains and losses on investments.

An explanation of the movement in tax charge attributable to shareholders is shown in note (iii) below.

ii Deferred tax
The statement of financial position contains the following deferred tax assets and liabilities:

	2012 £m Deferred tax assets	Deferred tax liabilities	2011 £m Deferred tax assets	Deferred tax liabilities*
Unrealised gains and losses on investments	**102**	**(1,814)**	297	(1,566)
Balances relating to investment and insurance contracts	**1**	**(432)**	13	(667)
Short-term timing differences	**2,097**	**(1,715)**	1,513	(1,687)
Capital allowances	**15**	**(9)**	15	(9)
Unused tax losses	**99**	-	438	–
Total	**2,314**	**(3,970)**	2,276	(3,929)

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

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 2012 results and financial position at 31 December 2012 the possible tax benefit of approximately £158 million (31 December 2011: £158 million), which may arise from capital losses valued at approximately £0.8 billion (31 December 2011: £0.7 billion), is sufficiently uncertain that it has not been recognised. In addition, a potential deferred tax asset of £122 million (31 December 2011: £147 million), which may arise from trading tax losses and other potential temporary differences totalling £0.5 billion (31 December 2011: £0.6 billion) is sufficiently uncertain that it has not been recognised. Of these, losses of £105 million will expire within the next 7 years. The remaining losses have no expiry date.

The two tables that follow provide a breakdown of the recognised deferred tax assets set out in the table at (ii) 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	**2012 £m**	**Expected period of recoverability**
Asia	**42**	**1 to 3 years**
JNL	**1,800**	**With run-off of in-force book**
UK long-term business	**151**	**1 to 10 years**
Other	**104**	**1 to 10 years**
Total	**2,097**	

Unused tax losses	**2012 £m**	**Expected period of recoverability**
Asia	**36**	**3 to 5 years**
UK long-term business	**18**	**1 to 3 years**
Other	**45**	**1 to 3 years**
Total	**99**	

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 UK government's tax rate change to 23 per cent (from the 24 per cent effective from 1 April 2012) has had the effect of reducing the UK with-profits and shareholder-backed business element of the net deferred tax balances as at 31 December 2012 by £52 million. The tax change to 23 per cent is effective from 1 April 2013 but has been enacted at 31 December 2012.

The subsequent proposed phased rate changes to 21 per cent are expected to have the effect of reducing the UK with-profits and shareholder-backed business elements of the net deferred tax balances at 31 December 2012 by £52 million.

iii Reconciliation of tax charge on profit attributable to shareholders for continuing operations

	2012 £m (Except for tax rates)				
2012	**Asia insurance operations**	**US insurance operations**	**UK insurance operations**	**Other operations**	**Total**
Operating profit (loss) based on longer-term investment returns	**913**	**964**	**736**	**(80)**	**2,533**
Non-operating profit (loss)	**76**	**(109)**	**122**	**188**	**277**
Profit before tax attributable to shareholders	**989**	**855**	**858**	**108**	**2,810**
Expected tax rate:*	**23%**	**35%**	**25%**	**25%**	**27%**
Tax at the expected tax rate	**227**	**300**	**210**	**26**	**763**
Effects of:					
Adjustment to tax charge in relation to prior years	**(11)**	**10**	**(26)**	**(10)**	**(37)**
Movements in provisions for open tax matters	**-**	**(3)**	**-**	**32**	**29**
Income not taxable or taxable at concessionary rates	**(87)**	**-**	**-**	**(2)**	**(89)**
Deductions not allowable for tax purposes	**30**	**-**	**-**	**3**	**33**
Different local basis of tax on overseas profits	**-**	**(68)**	**-**	**-**	**(68)**
Impact of changes in local statutory tax rates	**-**	**-**	**(39)**	**9**	**(30)**
Deferred tax adjustments	**(6)**	**-**	**8**	**(1)**	**1**
Irrecoverable withholding taxes	**-**	**-**	**-**	**14**	**14**
Other	**5**	**(5)**	**8**	**(11)**	**(3)**
Total actual tax charge	**158**	**234**	**161**	**60**	**613**
Analysed into:					
Tax on operating profit based on longer-term investment returns	**142**	**272**	**126**	**42**	**582**
Tax on non-operating profit	**16**	**(38)**	**35**	**18**	**31**
Actual tax rate:					
Operating profit based on longer-term investment returns	**16%**	**28%**	**17%**	**(53%)**	**23%**
Total profit	**16%**	**27%**	**19%**	**56%**	**22%**

	2011** £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	704	651	723	(51)	2,027
Non-operating profit	(92)	(167)	177	(117)	(199)
Profit (loss) before tax attributable to shareholders	612	484	900	(168)	1,828
Expected tax rate:*	25%	35%	27%	27%	28%
Tax at the expected tax rate	151	170	243	(45)	519
Effects of:					
Adjustment to tax charge in relation to prior years	(7)	-	33	(19)	7
Movements in provisions for open tax matters	-	-	-	(44)	(44)
Income not taxable or taxable at concessionary rates	(36)	-	(1)	-	(37)
Deductions not allowable for tax purposes	12	-	-	4	16
Different local basis of tax on overseas profits	-	(37)	-	-	(37)
Impact of changes in local statutory tax rates	-	-	(32)	1	(31)
Deferred tax adjustments	7	-	-	-	7
Irrecoverable withholding taxes	-	-	-	13	13
Other	(3)	(6)	(14)	19	(4)
Total actual tax charge (credit)	124	127	229	(71)	409
Analysed into:					
Tax on operating profit based on longer-term investment returns	122	185	190	(64)	433
Tax on non-operating profit	2	(58)	39	(7)	(24)
Actual tax rate:					
Operating profit based on longer-term investment returns	17%	28%	26%	125%	21%
Total profit	20%	26%	25%	42%	22%

* 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 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

J Supplementary analysis of earnings per share

	Note	2012 Before tax note C £m	Tax note I £m	Non-controlling interests £m	Net of tax and non-controlling interests £m	Basic earnings per share Pence	Diluted earnings per share Pence
Based on operating profit based on longer-term investment returns		**2,533**	**(582)**	-	**1,951**	**76.8 p**	**76.7 p**
Short-term fluctuations in investment returns on shareholder-backed business	F	**204**	**(26)**	-	**178**	**7.0 p**	**7.0 p**
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	V	**50**	**(12)**	-	**38**	**1.5 p**	**1.5 p**
Gain on dilution of Group's holdings	G	**42**	**-**	-	**42**	**1.7 p**	**1.7 p**
Amortisation of acquisition accounting adjustments arising on the purchase of REALIC	Z	**(19)**	**7**	-	**(12)**	**(0.5)p**	**(0.5)p**
Based on profit for the year		**2,810**	**(613)**	-	**2,197**	**86.5 p**	**86.4 p**

	Note	2011* Before tax note C £m	Tax note I £m	Non-controlling interests £m	Net of tax and non-controlling interests £m	Basic earnings per share Pence	Diluted earnings per share Pence
Based on operating profit based on longer-term investment returns		2,027	(433)	(4)	1,590	62.8 p	62.7 p
Short-term fluctuations in investment returns on shareholder-backed business	F	(220)	29	-	(191)	(7.6)p	(7.6)p
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	V	21	(5)	-	16	0.6 p	0.6 p
Based on profit for the year		1,828	(409)	(4)	1,415	55.8 p	55.7 p

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

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:

	2012 (in millions)	2011 (in millions)
Weighted average number of shares for calculation of:		
Basic earnings per share	**2,541**	2,533
Diluted earnings per share	**2,544**	2,538

K Dividend

Dividends per share (in pence)	2012	2011
Dividends relating to reporting year:		
Interim dividend	**8.40 p**	7.95 p
Final dividend	**20.79 p**	17.24 p
Total	**29.19 p**	25.19 p
Dividends declared and paid in reporting year:		
Current year interim dividend	**8.40 p**	7.95 p
Final dividend for prior year	**17.24 p**	17.24 p
Total	**25.64 p**	25.19 p

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 2011 of 17.24 pence per ordinary share was paid to eligible shareholders on 24 May 2012 and the 2012 interim dividend of 8.4 pence per ordinary share was paid to eligible shareholders on 27 September 2012.

The Board has decided to rebase the full year dividend upwards by 4 pence, reflecting the strong progress made in both the earnings and free surplus generation of the business and in the delivery of our financial objectives. In line with this, the directors recommend a final dividend of 20.79 pence per share (2011: 17.24 pence), which brings the total dividend for the year to 29.19 pence (2011: 25.19 pence), representing an increase of 15.9 per cent over 2011.

The 2012 final dividend of 20.79 pence per ordinary share will be paid on 23 May 2013 in sterling to shareholders on the principal register and the Irish branch register at 6.00pm BST on Monday, 2 April 2013 (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 3 June 2013. The final dividend will be paid on or about 30 May 2013 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 12 March 2013. The exchange rate at which the dividend payable to the SG Shareholders will be translated into SG$, will be determined by CDP. The dividend will distribute an estimated £532 million of shareholders' funds.

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

L Statement of financial position – analysis of Group position by segment and business type

i Group statement of financial position analysis

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.

	Insurance operations								
By operating segment	UK £m	US £m	Asia £m	Total insurance operations £m	Asset management operations £m	Unallocated to a segment (central operations) £m	Intra -group eliminations £m	31 Dec 2012 Group total £m	31 Dec 2011* Group total £m
Assets									
Intangible assets attributable to shareholders:									
Goodwill note N	-	-	239	239	1,230	-	-	1,469	1,465
Deferred acquisition costs and other intangible assets note O	105	3,222	908	4,235	14	18	-	4,267	4,234
Total	105	3,222	1,147	4,474	1,244	18	-	5,736	5,699
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes	178	-	-	178	-	-	-	178	178
Deferred acquisition costs and other intangible assets	6	-	72	78	-	-	-	78	89
Total	184	-	72	256	-	-	-	256	267
Total	289	3,222	1,219	4,730	1,244	18	-	5,992	5,966
Deferred tax assets note I	183	1,889	83	2,155	107	52	-	2,314	2,276
Other non-investment and non-cash assets note (i)	5,424	6,792	1,117	13,333	1,051	3,766	(6,113)	12,037	6,638
Investments of long-term business and other operations:									
Investment properties	10,852	24	4	10,880	-	-	-	10,880	10,757
Associate investments accounted for using the equity method	72	-	-	72	41	-	-	113	70
Financial investments:									
Loans note Q	3,373	6,235	1,014	10,622	1,199	-	-	11,821	9,714
Equity securities and portfolio holdings in unit trusts	36,027	49,551	14,310	99,888	70	-	-	99,958	87,349
Debt securities note R	83,862	32,993	21,402	138,257	1,846	-	-	140,103	124,498
Other investments	4,576	2,296	957	7,829	44	27	-	7,900	7,509
Deposits	11,131	211	1,227	12,569	84	-	-	12,653	10,708
Total investments	149,893	91,310	38,914	280,117	3,284	27	-	283,428	250,605
Properties held for sale	98	-	-	98	-	-	-	98	3
Cash and cash equivalents	2,638	513	1,668	4,819	1,083	482	-	6,384	7,257
Total assets	158,525	103,726	43,001	305,252	6,769	4,345	(6,113)	310,253	272,745

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

	Insurance operations								
	UK	US	Asia	Total insurance operations	Asset management operations	Unallocated to a segment (central operations)	Intra -group eliminations	31 Dec 2012 Group total	31 Dec 2011* Group total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
By operating segment									
Equity and liabilities									
Equity									
Shareholders' equity	**3,033**	**4,343**	**2,529**	**9,905**	**1,937**	**(1,483)**	**-**	**10,359**	8,564
Non-controlling interests	**1**	**-**	**4**	**5**	**-**	**-**	**-**	**5**	43
Total equity	**3,034**	**4,343**	**2,533**	**9,910**	**1,937**	**(1,483)**	**-**	**10,364**	8,607
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Insurance contract liabilities	**84,266**	**90,192**	**34,126**	**208,584**	**-**	**-**	**-**	**208,584**	180,363
Investment contract liabilities with discretionary participation features	**33,464**	**-**	**348**	**33,812**	**-**	**-**	**-**	**33,812**	29,745
Investment contract liabilities without discretionary participation features	**16,182**	**2,069**	**127**	**18,378**	**-**	**-**	**-**	**18,378**	16,967
Unallocated surplus of with-profits funds	**10,526**	**-**	**63**	**10,589**	**-**	**-**	**-**	**10,589**	9,215
Total policyholder liabilities and unallocated surplus of with-profits funds	**144,438**	**92,261**	**34,664**	**271,363**	**-**	**-**	**-**	**271,363**	236,290
Core structural borrowings of shareholder-financed operations:									
Subordinated debt	**-**	**-**	**-**	**-**	**-**	**2,577**	**-**	**2,577**	2,652
Other	**-**	**153**	**-**	**153**	**275**	**549**	**-**	**977**	959
Total note T	**-**	**153**	**-**	**153**	**275**	**3,126**	**-**	**3,554**	3,611
Operational borrowings attributable to shareholder-financed operations note U	**127**	**26**	**7**	**160**	**1**	**2,084**	**-**	**2,245**	3,340
Borrowings attributable to with-profits operations note U	**1,033**	**-**	**-**	**1,033**	**-**	**-**	**-**	**1,033**	972
Other non-insurance liabilities:									
Obligations under funding, securities lending and sale and repurchase agreements	**1,461**	**920**	**55**	**2,436**	**-**	**-**	**-**	**2,436**	3,114
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**2,307**	**25**	**1,851**	**4,183**	**162**	**-**	**-**	**4,345**	3,840
Deferred tax liabilities note I	**1,185**	**2,168**	**588**	**3,941**	**13**	**16**	**-**	**3,970**	3,929
Current tax liabilities	**237**	**-**	**49**	**286**	**8**	**151**	**-**	**445**	930
Accruals and deferred income	**429**	**-**	**110**	**539**	**266**	**28**	**-**	**833**	736
Other creditors note (ii)	**2,766**	**611**	**1,601**	**4,978**	**3,771**	**145**	**(6,113)**	**2,781**	2,544
Provisions	**291**	**20**	**66**	**377**	**149**	**75**	**-**	**601**	529
Derivative liabilities	**1,007**	**645**	**837**	**2,489**	**150**	**190**	**-**	**2,829**	3,054
Other liabilities	**210**	**2,554**	**640**	**3,404**	**37**	**13**	**-**	**3,454**	1,249
Total	**9,893**	**6,943**	**5,797**	**22,633**	**4,556**	**618**	**(6,113)**	**21,694**	19,925
Total liabilities	**155,491**	**99,383**	**40,468**	**295,342**	**4,832**	**5,828**	**(6,113)**	**299,889**	264,138
Total equity and liabilities	**158,525**	**103,726**	**43,001**	**305,252**	**6,769**	**4,345**	**(6,113)**	**310,253**	272,745

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

Notes

(i) Within other non-investment and non-cash assets are premiums receivable of £321 million (2011: £265 million) of which approximately two thirds are due within one year. The remaining one-third, due after one year relates to products where charges are levied against premiums in future years.

(ii) Within other non-insurance liabilities are other creditors of £2,781 million (31 December 2011: £2,544 million) of which £2,527 million (31 December 2011: £2,268 million) are due within one year.

Further segmental analysis:

The non-current assets of the Group comprise goodwill, intangible assets other than DAC and present value of acquired in-force business and property, plant and equipment included within 'other non-investment and non-cash assets'. Items defined as financial instruments or related to insurance contracts are excluded. The Group's total non-current assets at 31 December comprise:

	2012 £m	2011 £m
UK including insurance operations, M&G and central operations	**1,927**	1,906
US	**152**	144
Asia*	**640**	681
Total	**2,719**	2,731

*No individual country in Asia held non-current assets at the end of the year which exceeds 10 per cent of the Group total.

ii Group statement of financial position - additional analysis by business type

	Participating funds £m	Shareholder-backed business: Unit-linked and variable annuity £m	Shareholder-backed business: Non-linked business £m	Shareholder-backed business: Asset management operations £m	Shareholder-backed business: Unallocated to a segment (central operations) £m	Intra-group eliminations £m	31 Dec 2012 Group total £m	31 Dec 2011* Group total £m
Assets								
Intangible assets attributable to shareholders:								
Goodwill note N	-	-	**239**	**1,230**	-	-	**1,469**	1,465
Deferred acquisition costs and other intangible assets note O	-	-	**4,235**	**14**	**18**	-	**4,267**	4,234
Total	-	-	**4,474**	**1,244**	**18**	-	**5,736**	5,699
Intangible assets attributable to with-profits funds:								
In respect of acquired subsidiaries for venture fund and other investment purposes	**178**	-	-	-	-	-	**178**	178
Deferred acquisition costs and other intangible assets	**78**	-	-	-	-	-	**78**	89
Total	**256**	-	-	-	-	-	**256**	267
Total	**256**	-	**4,474**	**1,244**	**18**	-	**5,992**	5,966
Deferred tax assets note I	**114**	-	**2,041**	**107**	**52**	-	**2,314**	2,276
Other non-investment and non-cash assets	**3,133**	**508**	**9,692**	**1,051**	**3,766**	**(6,113)**	**12,037**	6,638
Investments of long-term business and other operations:								
Investment properties	**8,659**	**622**	**1,599**	-	-	-	**10,880**	10,757
Associate investments accounted for using the equity method	-	-	**72**	**41**	-	-	**113**	70
Financial investments:								
Loans note Q	**2,709**	-	**7,913**	**1,199**	-	-	**11,821**	9,714
Equity securities and portfolio holdings in unit trusts	**25,105**	**73,860**	**923**	**70**	-	-	**99,958**	87,349
Debt securities note R	**62,002**	**9,504**	**66,751**	**1,846**	-	-	**140,103**	124,498
Other investments	**4,745**	**57**	**3,027**	**44**	**27**	-	**7,900**	7,509
Deposits	**9,470**	**1,396**	**1,703**	**84**	-	-	**12,653**	10,708
Total investments	**112,690**	**85,439**	**81,988**	**3,284**	**27**	-	**283,428**	250,605
Properties held for sale	**98**	-	-	-	-	-	**98**	3
Cash and cash equivalents	**1,721**	**1,310**	**1,788**	**1,083**	**482**	-	**6,384**	7,257
Total assets	**118,012**	**87,257**	**99,983**	**6,769**	**4,345**	**(6,113)**	**310,253**	272,745

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

		Shareholder-backed business						
	Participating funds £m	Unit-linked and variable annuity £m	Non-linked business £m	Asset management operations £m	Unallocated to a segment (central operations) £m	Intra-group eliminations £m	31 Dec 2012 Group total £m	31 Dec 2011* Group total £m
Equity and liabilities								
Equity								
Shareholders' equity	**-**	**-**	**9,905**	**1,937**	**(1,483)**	**-**	**10,359**	8,564
Non-controlling interests	**1**	**-**	**4**	**-**	**-**	**-**	**5**	43
Total equity	**1**	**-**	**9,909**	**1,937**	**(1,483)**	**-**	**10,364**	8,607
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)	**97,795**	**85,523**	**77,456**	**-**	**-**	**-**	**260,774**	227,075
Unallocated surplus of with-profits funds	**10,589**	**-**	**-**	**-**	**-**	**-**	**10,589**	9,215
Total policyholder liabilities and unallocated surplus of with-profits funds	**108,384**	**85,523**	**77,456**	**-**	**-**	**-**	**271,363**	236,290
Core structural borrowings of shareholder-financed operations: note T								
Subordinated debt	**-**	**-**	**-**	**-**	**2,577**	**-**	**2,577**	2,652
Other	**-**	**-**	**153**	**275**	**549**	**-**	**977**	959
Total	**-**	**-**	**153**	**275**	**3,126**	**-**	**3,554**	3,611
Operational borrowings attributable to shareholder-financed operations note U	**-**	**1**	**159**	**1**	**2,084**	**-**	**2,245**	3,340
Borrowings attributable to with-profits operations note U	**1,033**	**-**	**-**	**-**	**-**	**-**	**1,033**	972
Deferred tax liabilities Note I	**1,086**	**46**	**2,809**	**13**	**16**	**-**	**3,970**	3,929
Other non-insurance liabilities	**7,508**	**1,687**	**9,497**	**4,543**	**602**	**(6,113)**	**17,724**	15,996
Total liabilities	**118,011**	**87,257**	**90,074**	**4,832**	**5,828**	**(6,113)**	**299,889**	264,138
Total equity and liabilities	**118,012**	**87,257**	**99,983**	**6,769**	**4,345**	**(6,113)**	**310,253**	272,745

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

M Statement of financial position – analysis of segment by business type

i UK insurance operations

Overview

- In order to show the statement of financial position by reference to the differing degrees of policyholder and shareholder economic interest of the different types of fund and business, the analysis below is structured to show separately assets and liabilities of the Scottish Amicable Insurance Fund (SAIF), the PAC with-profits sub-fund (WPSF), unit-linked assets and liabilities and annuity (principally PRIL) and other long-term business.

- £97 billion of the £150 billion of investments are held by SAIF and the PAC WPSF. Shareholders are exposed only indirectly to value movements on these assets.

			Other funds and subsidiaries				
	Scottish Amicable Insurance Fund	**PAC with-profits fund**	**Unit-linked assets and liabilities**	**Annuity and other long-term business**	**Total**	**31 Dec 2012 Total**	**31 Dec 2011 Total**
	note (iii)	notes (i), (ii)					
By operating segment	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Assets							
Intangible assets attributable to shareholders:							
Deferred acquisition costs and other intangible assets	-	-	-	**105**	**105**	**105**	113
Total	-	-	-	**105**	**105**	**105**	113
Intangible assets attributable to with-profits funds:							
In respect of acquired subsidiaries for venture fund and other investment purposes	-	**178**	-	-	-	**178**	178
Deferred acquisition costs	-	**6**	-	-	-	**6**	6
Total	-	**184**	-	-	-	**184**	184
Total	-	**184**	-	**105**	**105**	**289**	297
Deferred tax assets	**1**	**113**	-	**69**	**69**	**183**	231
Other non-investment and non-cash assets	**369**	**2,440**	**385**	**2,230**	**2,615**	**5,424**	4,771
Investments of long-term business and other operations:							
Investment properties	**500**	**8,159**	**622**	**1,571**	**2,193**	**10,852**	10,712
Associate investments accounted for using the equity method	-	-	-	**72**	**72**	**72**	70
Financial investments:							
Loans note Q	**116**	**1,993**	-	**1,264**	**1,264**	**3,373**	3,115
Equity securities and portfolio holdings in unit trusts	**2,070**	**19,875**	**14,071**	**11**	**14,082**	**36,027**	36,722
Debt securities note R	**3,864**	**46,643**	**6,310**	**27,045**	**33,355**	**83,862**	77,953
Other investments note (iv)	**283**	**3,958**	**10**	**325**	**335**	**4,576**	4,568
Deposits	**910**	**8,395**	**822**	**1,004**	**1,826**	**11,131**	9,287
Total investments	**7,743**	**89,023**	**21,835**	**31,292**	**53,127**	**149,893**	142,427
Properties held for sale	-	**98**	-	-	-	**98**	-
Cash and cash equivalents	**120**	**1,077**	**889**	**552**	**1,441**	**2,638**	2,965
Total assets	**8,233**	**92,935**	**23,109**	**34,248**	**57,357**	**158,525**	150,691

	Scottish Amicable Insurance Fund note (iii) £m	PAC with-profits fund notes (i), (ii) £m	Other funds and subsidiaries: Unit-linked assets and liabilities £m	Other funds and subsidiaries: Annuity and other long-term business £m	Other funds and subsidiaries: Total £m	31 Dec 2012 Total £m	31 Dec 2011 Total £m
Equity and liabilities							
Equity							
Shareholders' equity	**-**	**-**	**-**	**3,033**	**3,033**	**3,033**	2,581
Non-controlling interests	**-**	**1**	**-**	**-**	**-**	**1**	33
Total equity	**-**	**1**	**-**	**3,033**	**3,033**	**3,034**	2,614
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)[note W]	**7,878**	**76,529**	**22,197**	**27,308**	**49,505**	**133,912**	127,024
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds) [note W]	**-**	**10,526**	**-**	**-**	**-**	**10,526**	9,165
Total	**7,878**	**87,055**	**22,197**	**27,308**	**49,505**	**144,438**	136,189
Operational borrowings attributable to shareholder-financed operations	**-**	**-**	**1**	**126**	**127**	**127**	103
Borrowings attributable to with-profits funds	**17**	**1,016**	**-**	**-**	**-**	**1,033**	972
Deferred tax liabilities	**39**	**663**	**-**	**483**	**483**	**1,185**	1,349
Other non-insurance liabilities	**299**	**4,200**	**911**	**3,298**	**4,209**	**8,708**	9,464
Total liabilities	**8,233**	**92,934**	**23,109**	**31,215**	**54,324**	**155,491**	148,077
Total equity and liabilities	**8,233**	**92,935**	**23,109**	**34,248**	**57,357**	**158,525**	150,691

Notes

(i) The WPSF mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). 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 3.3 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.

Included in the PAC with-profits fund is £13.3 billion (2011: £12.6 billion) of non-profits annuities liabilities.

(ii) Excluding 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:

	2012 £m	2011 £m
Derivative assets*	**1,349**	1,461
Partnerships in investment pools and other**	**3,227**	3,107
	4,576	4,568

* After including derivative liabilities of £1,007 million (2011: £1,298 million), which are also included in the statement of financial position, the overall derivative position was a net asset of £342 million (2011: £163 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.

ii US insurance operations

	31 Dec 2012 £m			31 Dec 2011* £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	-	**3,222**	**3,222**	3,115
Total	-	**3,222**	**3,222**	3,115
Deferred tax assets	-	**1,889**	**1,889**	1,392
Other non-investment and non-cash assets[note (v)]	-	**6,792**	**6,792**	1,542
Investments of long-term business and other operations:				
Investment properties	-	**24**	**24**	35
Financial investments:				
Loans[note Q]	-	**6,235**	**6,235**	4,110
Equity securities and portfolio holdings in unit trusts[note (iv)]	**49,298**	**253**	**49,551**	38,036
Debt securities[notes R and S]	-	**32,993**	**32,993**	27,022
Other investments[note (ii)]	-	**2,296**	**2,296**	2,376
Deposits	-	**211**	**211**	167
Total investments	**49,298**	**42,012**	**91,310**	71,746
Properties held for sale	-	-	-	3
Cash and cash equivalents	-	**513**	**513**	271
Total assets	**49,298**	**54,428**	**103,726**	78,069
Equity and liabilities				
Equity				
Shareholders' equity[note (iii)]	-	**4,343**	**4,343**	3,761
Total equity	-	**4,343**	**4,343**	3,761
Liabilities				
Policyholder:				
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) [note W]	**49,298**	**42,963**	**92,261**	69,189
Total	**49,298**	**42,963**	**92,261**	69,189
Core structural borrowings of shareholder-financed operations	-	**153**	**153**	160
Operational borrowings attributable to shareholder-financed operations	-	**26**	**26**	127
Deferred tax liabilities	-	**2,168**	**2,168**	1,818
Other non-insurance liabilities[note (v)]	-	**4,775**	**4,775**	3,014
Total liabilities	**49,298**	**50,085**	**99,383**	74,308
Total equity and liabilities	**49,298**	**54,428**	**103,726**	78,069

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

** The statement of financial position at 31 December 2012 includes the assets and liabilities of the acquired REALIC business. Details of the acquisition are described in note Z.

Notes

(i) Assets and liabilities attaching to variable annuity business that are not held in the separate account are shown within other business.

(ii) Other investments comprise:

	2012 £m	2011 £m
Derivative assets*	**1,546**	1,677
Partnerships in investment pools and other**	**750**	699
	2,296	2,376

* In the US, Prudential uses derivatives:

- to reduce interest rate risk;
- to facilitate efficient portfolio management to match liabilities under annuity policies, and
- for certain equity-based product management activities.

After taking account of the derivative liabilities of £645 million (2011: £887 million), which are also included in Other non-insurance liabilities, the derivative position for US operations is a net asset of £901 million (2011: £790 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 167 (2011: 167) other partnerships by independent money managers that generally invest in various equities and fixed income loans and securities.

(iii) Changes in shareholders' equity

	2012 £m	2011* £m
Operating profit based on longer-term investment returns note C	**964**	651
Short-term fluctuations in investment returns note F	**(90)**	(167)
Amortisation of acquisition accounting adjustments arising on the purchase of REALIC	**(19)**	-
Profit before shareholder tax	**855**	484
Tax note I	**(234)**	(127)
Profit for the year	**621**	357

	2012 £m	2011* £m
Profit for the year (as above)	**621**	357
Items recognised in other comprehensive income:		
Exchange movements	**(181)**	35
Unrealised valuation movements on securities classified as available-for sale:		
Unrealised holding gains arising during the year	**930**	912
Deduct net gains included in the income statement	**(68)**	(101)
Total unrealised valuation movements	**862**	811
Related change in amortisation of deferred acquisition costs note O	**(270)**	(275)
Related tax	**(205)**	(187)
Total other comprehensive income	**206**	384
Total comprehensive income for the year	**827**	741
Dividends, interest payments to central companies and other movements	**(245)**	(330)
Net increase in equity	**582**	411
Shareholders' equity at beginning of year:		
As previously reported	**4,271**	3,815
Effect of change in accounting policy for deferred acquisition costs*	**(510)**	(465)
After effect of change	**3,761**	3,350
Shareholders' equity at end of year	**4,343**	3,761

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

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

(v) Reinsurance balances relating to REALIC
Included within other non-investment and non-cash assets of £6,792 million (2011: £1,542 million) were balances of £6,076 million (2011: £907 million) for reinsurers' share of insurance contract liabilities. Of the £6,076 million as at 31 December 2012, £5,234 million related to the reinsurance ceded by the newly acquired REALIC business. REALIC holds collateral for certain of these reinsurance arrangements with a corresponding funds withheld liability. As of 31 December 2012, the funds withheld liability of £2,021 million was recorded within other non-insurance liabilities.

iii Asia insurance operations

	31 Dec 2012 £m				31 Dec 2011* £m
	With-profits business note (i)	Unit-linked assets and liabilities	Other business	Total	Total
Assets					
Intangible assets attributable to shareholders:					
Goodwill	**-**	**-**	**239**	**239**	235
Deferred acquisition costs and other intangible assets	**-**	**-**	**908**	**908**	977
Total	**-**	**-**	**1,147**	**1,147**	1,212
Intangible assets attributable to with-profits funds:					
Deferred acquisition costs and other intangible assets	**72**	**-**	**-**	**72**	83
Deferred tax assets	**-**	**-**	**83**	**83**	115
Other non-investment and non-cash assets	**324**	**123**	**670**	**1,117**	1,024
Investments of long-term business and other operations:					
Investment properties	**-**	**-**	**4**	**4**	10
Financial investments:					
Loans note Q	**600**	**-**	**414**	**1,014**	1,233
Equity securities and portfolio holdings in unit trusts	**3,160**	**10,491**	**659**	**14,310**	11,997
Debt securities note R	**11,495**	**3,194**	**6,713**	**21,402**	17,681
Other investments	**504**	**47**	**406**	**957**	470
Deposits	**165**	**574**	**488**	**1,227**	1,165
Total investments	**15,924**	**14,306**	**8,684**	**38,914**	32,556
Cash and cash equivalents	**524**	**421**	**723**	**1,668**	1,977
Total assets	**16,844**	**14,850**	**11,307**	**43,001**	36,967
Equity and liabilities					
Equity					
Shareholders' equity	**-**	**-**	**2,529**	**2,529**	2,306
Non-controlling interests	**-**	**-**	**4**	**4**	5
Total equity	**-**	**-**	**2,533**	**2,533**	2,311
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) note W	**13,388**	**14,028**	**7,185**	**34,601**	30,862
Unallocated surplus of with-profits funds note (ii) W	**63**	**-**	**-**	**63**	50
Total	**13,451**	**14,028**	**7,185**	**34,664**	30,912
Operational borrowings attributable to shareholder-financed operations	**-**	**-**	**7**	**7**	141
Deferred tax liabilities	**384**	**46**	**158**	**588**	506
Other non-insurance liabilities	**3,009**	**776**	**1,424**	**5,209**	3,097
Total liabilities	**16,844**	**14,850**	**8,774**	**40,468**	34,656
Total equity and liabilities	**16,844**	**14,850**	**11,307**	**43,001**	36,967

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

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.

iv Asset management operations

	M&G	US	Eastspring Investments	Total 31 Dec 2012	Total 31 Dec 2011
	note (i)				
	£m	£m	£m	£m	£m
Assets					
Intangible assets:					
Goodwill note N	**1,153**	**16**	**61**	**1,230**	1,230
Deferred acquisition costs and other intangibles assets	**10**	**2**	**2**	**14**	16
Total	**1,163**	**18**	**63**	**1,244**	1,246
Other non-investment and non-cash assets	**901**	**174**	**83**	**1,158**	1,129
Associate investments accounted for using the equity method	**41**	**-**	**-**	**41**	-
Financial investments:					
Loans note Q	**1,199**	**-**	**-**	**1,199**	1,256
Equity securities and portfolio holdings in unit trusts	**50**	**-**	**20**	**70**	594
Debt securities note R	**1,839**	**-**	**7**	**1,846**	1,842
Other investments	**38**	**6**	**-**	**44**	78
Deposits	**3**	**33**	**48**	**84**	89
Total investments	**3,170**	**39**	**75**	**3,284**	3,859
Cash and cash equivalents	**909**	**48**	**126**	**1,083**	1,735
Total assets	**6,143**	**279**	**347**	**6,769**	7,969
Equity and liabilities					
Equity					
Shareholders' equity	**1,545**	**124**	**268**	**1,937**	1,783
Non-controlling interests	**-**	**-**	**-**	**-**	5
Total equity	**1,545**	**124**	**268**	**1,937**	1,788
Liabilities					
Core structural borrowing of shareholder-financed operations	**275**	**-**	**-**	**275**	250
Intra-group debt represented by operational borrowings at Group level note (ii)	**2,084**	**-**	**-**	**2,084**	2,956
Net asset value attributable to external holders of consolidated unit trusts and similar funds	**162**	**-**	**-**	**162**	678
Other non-insurance liabilities note (iii)	**2,077**	**155**	**79**	**2,311**	2,297
Total liabilities	**4,598**	**155**	**79**	**4,832**	6,181
Total equity and liabilities	**6,143**	**279**	**347**	**6,769**	7,969

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:

	2012 £m	2011 £m
Commercial paper	**1,535**	2,706
Medium-Term Notes	**549**	250
Total intra-group debt represented by operational borrowings at Group level	**2,084**	2,956

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

N Goodwill attributable to shareholders

	2012 £m	2011 £m
Cost		
At beginning of year	**1,585**	1,586
Additional consideration paid on previously acquired business	**2**	-
Exchange differences	**2**	(1)
At end of year	**1,589**	1,585
Aggregate impairment	**(120)**	(120)
Net book amount at end of year	**1,469**	1,465

Goodwill attributable to shareholders comprises:

	2012 £m	2011 £m
M&G	**1,153**	1,153
Other	**316**	312
	1,469	1,465

Other represents goodwill amounts allocated to entities in Asia and the US operations in respect of acquisitions made in prior periods. As discussed in note Z there was no goodwill attached to the purchase of REALIC. Other goodwill amounts are not individually material.

O Deferred acquisition costs and other intangible assets attributable to shareholders

Except for acquisition costs of with-profits contracts of the UK regulated with-profits funds, which are accounted for under the realistic FSA regime, costs of acquiring new insurance business are accounted for in a way that is consistent with the principles of the ABI SORP with deferral and amortisation against margins in future revenues on the related insurance policies. Costs of acquiring new insurance business, principally commissions, marketing and advertising and certain other costs associated with policy insurance and underwriting that are not reimbursed by policy charges, are specifically identified and capitalised as part of deferred acquisition costs (DAC). In general, this deferral is presentationally shown by an explicit carrying value for DAC in the balance sheet. However, in some Asia operations the deferral is implicit through the reserving methodology. The recoverability of the explicitly and implicitly deferred acquisition costs is measured and are deemed impaired if the projected margins are less than the carrying value. To the extent that the future margins differ from those anticipated, then an adjustment to the carrying value will be necessary.

For UK regulated with-profits funds where the realistic FSA regime is applied, the basis of setting liabilities is such that it would be inappropriate for acquisition costs to be deferred, therefore these costs are expensed as incurred. The majority of the UK shareholder-backed business is individual and group annuity business where the incidence of acquisition costs is negligible.

The deferral and amortisation of acquisition costs is of most relevance to the Group's results for Jackson and Asia operations. The DAC for Jackson and some Asia operations is determined with reference to US GAAP principles.

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

	2012 £m	2011 £m*
Deferred acquisition costs related to insurance contracts as classified under IFRS 4	**3,866**	3,805
Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	**100**	107
	3,966	3,912
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF)	**64**	64
Other intangibles	**237**	258
	301	322
Total of deferred acquisition costs and other intangible assets	**4,267**	4,234

	Deferred acquisition costs						
	UK	US note (i)	Asia	Asset management	PVIF and other intangibles	Total 2012	Total 2011 *
	£m	£m	£m	£m	£m	£m	£m
Balance at 1 Jan							
As previously reported	**111**	**3,880**	**744**	**12**	**322**	**5,069**	4,667
Effect of change in accounting policy note B	**-**	**(785)**	**(50)**	**-**	**-**	**(835)**	(766)
After effect of change	**111**	**3,095**	**694**	**12**	**322**	**4,234**	3,901
Additions	**12**	**798**	**249**	**3**	**31**	**1,093**	1,117
Acquisition of REALIC	**-**	**-**	**-**	**-**	**5**	**5**	-
Amortisation to the income statement:							
Operating profit	**(20)**	**(356)**	**(277)**	**(5)**	**(51)**	**(709)**	(792)
Amortisation related to short-term fluctuations in investment returns	**-**	**76**	**-**	**-**	**-**	**76**	287
	(20)	**(280)**	**(277)**	**(5)**	**(51)**	**(633)**	(505)
Exchange differences	**-**	**(144)**	**(12)**	**-**	**(6)**	**(162)**	(2)
Change in shadow DAC related to movement in unrealised appreciation of Jackson's securities classified as available-for-sale	**-**	**(270)**	**-**	**-**	**-**	**(270)**	(275)
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	(2)
Dilution of Group's holdings	**-**	**-**	**-**	**-**	**-**	**-**	-
Balance at 31 December	**103**	**3,199**	**654**	**10**	**301**	**4,267**	4,234

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

US operations DAC

Summary balances

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

	2012 £m	2011* £m
Variable annuity business	**3,330**	2,960
Other business	**821**	855
Cumulative shadow DAC (for unrealised gains/losses booked in other comprehensive income)	**(952)**	(720)
Total DAC for US operations	**3,199**	3,095

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

Overview of the deferral and amortisation of acquisition costs for Jackson

Under IFRS 4, the Group applies grandfathered US GAAP for measuring the insurance assets and liabilities of Jackson. In the case of Jackson term business, acquisition costs are deferred and amortised in line with expected premiums. For annuity and interest-sensitive life business, acquisition costs are deferred and amortised in line with a combination of historical and future expected gross profits on the relevant contracts. For fixed and indexed 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 indexed 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.

Change of accounting policy

As explained in note B, the Company has adopted the US Financial Accounting Standards Board requirements in the Emerging Issues Task Force (EITF) Update No. 2010-26 on 'Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts' from 1 January 2012 into Prudential's Group IFRS reporting for the results of Jackson and those Asia operations whose IFRS insurance assets and liabilities are measured principally by reference to US GAAP principles. Under the Update, insurers are required to capitalise only those incremental costs directly relating to successfully acquiring a contract from 1 January 2012. For Group IFRS reporting, the Company has chosen to apply this new basis retrospectively for the results of these operations.

On application of the new policy for Jackson, the deferred costs balance for business in force at 31 December 2011 was retrospectively reduced from £3,880 million to £3,095 million.

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 equity return which, for Jackson, is 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 year, the 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 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. The capping feature was relevant in late 2008, 2009 and 2010 due to the very sharp market falls in 2008. Notwithstanding this capping feature, the mean reversion technique gave rise to a benefit in 2008 of £110 million. This benefit was effectively 'paid back' under the mean reversion technique through charges for accelerated amortisation in 2011, as discussed below.

At 31 December 2012, the projected rate of return for the next five years is materially the same as the long-term assumption of 8.4 per cent, and so the mean reversion technique had little effect at that date.

Sensitivity of amortisation charge
The amortisation charge to the income statement is reflected in 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 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.

2011
In 2011, the DAC amortisation charge to operating profit included £190 million of accelerated amortisation. This amount reflected the combined effect of:

(a) the separate account performance in the year of negative 4 per cent, net of all fees as it compared with the assumed level for the year; and

(b) the reduction in the previously assumed future rates of return for the upcoming five years from 15 per cent, to a level nearer the middle of the corridor (of 0 per cent and 15 per cent), so that in combination with the historical returns, the 8-year average in the mean reversion calculation was the 8.4 per cent assumption.

The reduction in assumed future rates reflected in large part, the elimination from the calculation in 2011 of the 2008 negative returns. Setting aside other complications and the growth in the book, the 2011 accelerated amortisation can be broadly equated as 'paying back' the benefit experienced in 2008.

2012
In 2012, the DAC amortisation charge to operating profit of £356 million was determined after taking credit for decelerated amortisation of £56 million. This amount primarily reflects the separate account performance of 11 per cent, net of all fees, over the assumed level for the year.

2013
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 very significant movement in equity markets in 2013 (outside the range of negative 20 per cent to positive 50 per cent) for the mean reversion assumption to move outside the corridor.

P Valuation bases for Group assets

The accounting carrying values of the Group's assets 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. The basis applied for the assets section of the statement of financial position at 31 December 2012 is summarised below:

	2012 £m			2011* £m		
	At fair value	**Cost / Amortised cost** note (i)	**Total**	**At fair value**	**Cost / Amortised cost** note (i)	**Total**
Intangible assets attributable to shareholders:						
Goodwill note N	-	**1,469**	**1,469**	-	1,465	1,465
Deferred acquisition costs and other intangible assets note O	-	**4,267**	**4,267**	-	4,234	4,234
Total	-	**5,736**	**5,736**	-	5,699	5,699
Intangible assets attributable to with-profits funds:						
In respect of acquired subsidiaries for venture fund and other investment purposes	-	**178**	**178**	-	178	178
Deferred acquisition costs and other intangible assets	-	**78**	**78**	-	89	89
Total	-	**256**	**256**	-	267	267
Total	-	**5,992**	**5,992**	-	5,966	5,966
Other non-investment and non-cash assets:						
Property, plant and equipment	-	**765**	**765**	-	748	748
Reinsurers' share of insurance contract liabilities	-	**6,859**	**6,859**	-	1,647	1,647
Deferred tax assets note I	-	**2,314**	**2,314**	-	2,276	2,276
Current tax recoverable	-	**254**	**254**	-	546	546
Accrued investment income	-	**2,798**	**2,798**	-	2,710	2,710
Other debtors	-	**1,361**	**1,361**	-	987	987
Total	-	**14,351**	**14,351**	-	8,914	8,914
Investments of long-term business and other operations: note (ii)						
Investment properties	**10,880**	-	**10,880**	10,757	-	10,757
Associate investments accounted for using the equity method	-	**113**	**113**	-	70	70
Financial investments:						
Loans note Q	**2,068**	**9,753**	**11,821**	279	9,435	9,714
Equity securities and portfolio holdings in unit trusts	**99,958**	-	**99,958**	87,349	-	87,349
Debt securities note R	**140,103**	-	**140,103**	124,498	-	124,498
Other investments	**7,900**	-	**7,900**	7,509	-	7,509
Deposits	-	**12,653**	**12,653**	-	10,708	10,708
Total	**260,909**	**22,519**	**283,428**	230,392	20,213	250,605
Properties held for sale	**98**	-	**98**	3	-	3
Cash and cash equivalents	-	**6,384**	**6,384**	-	7,257	7,257
Total assets	**261,007**	**49,246**	**310,253**	230,395	42,350	272,745
Percentage of Group total assets	**84%**	**16%**	**100%**	84%	16%	100%

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

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 2012 amounted to a net gain of £6.8 billion (2011: £4.3 billion)

Determination of fair value

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. 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.

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.

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. In accordance with the Group's risk management framework, all internally generated valuations are subject to assessment against external counterparties' valuations.

For investment contracts in the US with fixed and guaranteed terms the fair value is determined based on the present value of future cash flows discounted at current interest rates.

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

Level 1, 2 and 3 fair value measurement hierarchy of Group financial instruments

The table below includes financial instruments carried at fair value analysed by level of the IFRS 7 'Financial Instruments: Disclosures' 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.

The classification criteria and its application to Prudential can be summarised as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 1 includes financial instruments where there is clear evidence that the valuation is based on a quoted publicly traded price in an active market (eg exchange listed equities, mutual funds with quoted prices and exchange traded derivatives.)

Level 2 – inputs other than quoted prices included within level 1 that are observable either directly (ie as prices) or indirectly (ie derived from prices)

Level 2 includes investments where a direct link to an actively traded price is not readily apparent, but which are valued using inputs which are largely observable either directly (ie as prices) or indirectly (ie derived from prices). 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 and 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 measures 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 £105,839 million at 31 December 2012 (31 December 2011: £94,378 million), £8,248 million are valued internally (31 December 2011: £6,847 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.

Level 3 – Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Level 3 includes investments which are internally valued or subject to a significant number of unobservable assumptions (eg private equity funds and certain derivatives which are bespoke or long-dated).

At 31 December 2012 the Group held £6,660 million (2011: £4,565 million), 3 per cent of the fair valued financial investments, net of derivative liabilities (2011: 2 per cent), within level 3.

Of these amounts £3,916 million (2011: £3,732 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. At 31 December 2012, the £3,916 million (2011: £3,732 million) represented 4.3 per cent (2011: 4.3 per cent) of the total fair valued financial instruments, net of derivative liabilities of the participating funds.

Included within the £2,703 million level 3 fair valued financial investments, net of derivative liabilities at 31 December 2012 (2011: £800 million) held to support non-linked shareholder-backed business were loans of £1,842 million, attaching to the purchase of REALIC in 2012 held to back the liabilities for funds withheld under reinsurance arrangement. The funds withheld liability, which was also accounted for on a fair value basis and classified as level 3, amounted to £2,021 million at 31 December 2012. This liability is included within Other financial liabilities held at fair value in the table below.

Excluding the financial investments of £1,842 million held to back the funds withheld liability under REALIC's reinsurance arrangement, the level 3 fair valued financial investments, net of derivative liabilities, supporting non-linked shareholder-backed business at 31 December 2012 were £861 million (2011: £800 million) (representing 1.2 per cent of the total fair valued financial investments net of derivative liabilities backing this business (2011: 1.3 per cent)). Of this amount, £837 million of net assets are externally valued and £24 million of net liabilities are internally valued (2011: net assets of £757 million and £43 million respectively). Internal valuations, which represent 0.03 per cent of the total fair valued financial investments net of derivative liabilities supporting non-linked shareholder-backed business at 31 December 2012 (2011: 0.1 per cent), are inherently more subjective than external valuations.

	31 Dec 2012 £m			
	Level 1	**Level 2**	**Level 3**	**Total**
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Equity securities and portfolio holdings in unit trusts	**22,129**	**2,496**	**480**	**25,105**
Debt securities	**15,910**	**45,550**	**542**	**62,002**
Other investments (including derivative assets)	**108**	**1,743**	**2,894**	**4,745**
Derivative liabilities	**(61)**	**(1,072)**	**-**	**(1,133)**
Total financial investments, net of derivative liabilities	**38,086**	**48,717**	**3,916**	**90,719**
Percentage of total	**42%**	**54%**	**4%**	**100%**
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	**73,632**	**189**	**39**	**73,860**
Debt securities	**3,843**	**5,659**	**2**	**9,504**
Other investments (including derivative assets)	**47**	**10**	**-**	**57**
Derivative liabilities	**-**	**(1)**	**-**	**(1)**
Total financial investments, net of derivative liabilities	**77,522**	**5,857**	**41**	**83,420**
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	**937**	**7**	**49**	**993**
Debt securities	**13,721**	**54,630**	**246**	**68,597**
Other investments (including derivative assets)	**31**	**2,306**	**761**	**3,098**
Derivative liabilities	**(16)**	**(1,484)**	**(195)**	**(1,695)**
Total financial investments, net of derivative liabilities	**14,673**	**55,685**	**2,703**	**73,061**
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	**96,698**	**2,692**	**568**	**99,958**
Debt securities	**33,474**	**105,839**	**790**	**140,103**
Other investments (including derivative assets)	**186**	**4,059**	**3,655**	**7,900**
Derivative liabilities	**(77)**	**(2,557)**	**(195)**	**(2,829)**
Total financial investments, net of derivative liabilities	**130,281**	**110,259**	**6,660**	**247,200**
Borrowings attributable to the with-profits fund held at fair value	**-**	**(40)**	**-**	**(40)**
Investment contracts liabilities without discretionary participation features held at fair value	**-**	**(16,309)**	**-**	**(16,309)**
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**(3,309)**	**(430)**	**(606)**	**(4,345)**
Other financial liabilities held at fair value	**-**	**(259)**	**(2,021)***	**(2,280)**
Total financial instruments at fair value	**126,972**	**93,221**	**4,033**	**224,226**
Percentage of total	**57%**	**41%**	**2%**	**100%**

* The level 3 loans and other financial liabilities held by the non-linked shareholder-backed business include amounts of £1,842 million and £(2,021) million, respectively relating to the reinsurance arrangements attaching to the purchase of REALIC as described in note Z.

	31 Dec 2011 £m			
	Level 1	Level 2	Level 3	Total
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Equity securities and portfolio holdings in unit trusts	24,001	1,762	284	26,047
Debt securities	13,298	43,279	655	57,232
Other investments (including derivative assets)	252	1,378	2,793	4,423
Derivative liabilities	(214)	(1,127)	-	(1,341)
Total financial investments, net of derivative liabilities	37,337	45,292	3,732	86,361
Percentage of total	43%	53%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	59,662	198	30	59,890
Debt securities	4,160	4,698	3	8,861
Other investments (including derivative assets)	18	95	-	113
Derivative liabilities	(2)	(7)	-	(9)
Total financial investments, net of derivative liabilities	63,838	4,984	33	68,855
Percentage of total	93%	7%	0%	100%
Non-linked shareholder-backed				
Loans	-	279	-	279
Equity securities and portfolio holdings in unit trusts	1,175	176	61	1,412
Debt securities	11,753	46,401	251	58,405
Other investments (including derivative assets)	30	2,237	706	2,973
Derivative liabilities	(78)	(1,408)	(218)	(1,704)
Total financial investments, net of derivative liabilities	12,880	47,685	800	61,365
Percentage of total	21%	78%	1%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	-	279	-	279
Equity securities and portfolio holdings in unit trusts	84,838	2,136	375	87,349
Debt securities	29,211	94,378	909	124,498
Other investments (including derivative assets)	300	3,710	3,499	7,509
Derivative liabilities	(294)	(2,542)	(218)	(3,054)
Total financial investments, net of derivative liabilities	114,055	97,961	4,565	216,581
Borrowings attributable to the with-profits fund held at fair value	-	(39)	-	(39)
Investment contracts liabilities without discretionary participation features held at fair value	-	(15,056)	-	(15,056)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(2,586)	(805)	(449)	(3,840)
Other financial liabilities held at fair value	-	(281)	-	(281)
Total financial instruments at fair value	111,469	81,780	4,116	197,365
Percentage of total	57%	41%	2%	100%

Q 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:

	Fair value through profit and loss £m	**Amortised cost £m**	**2012 £m**	**2011 £m**
Insurance operations				
UK[note(i)]	**226**	**3,147**	**3,373**	3,115
US[note (ii)]	**1,842**	**4,393**	**6,235**	4,110
Asia[note (iii)]	**-**	**1,014**	**1,014**	1,233
Asset management operations				
M&G[note (iv)]	**-**	**1,199**	**1,199**	1,256
Total	**2,068**	**9,753**	**11,821**	9,714

Notes

(i) *UK insurance operations*
The loans of the Group's UK insurance operations comprise:

	2012 £m	**2011 £m**
SAIF and PAC WPSF		
Mortgage loans*	**1,311**	1,036
Policy loans	**16**	20
Other loans**	**782**	917
Total SAIF and PAC WPSF loans	**2,109**	1,973
Shareholder-backed		
Mortgage loans*	**1,259**	1,137
Other loans	**5**	5
Total shareholder-backed loans	**1,264**	1,142
Total UK insurance operations loans	**3,373**	3,115

* The mortgage loans are collateralised by properties. By carrying value, 86 per cent of the £1,259 million held for shareholder-backed business relates to lifetime (equity release) mortgage business which has an average loan to property value of 29 per cent.

** Other loans held by the PAC with-profits fund are all commercial loans and comprise mainly syndicated loans.

(ii) *US insurance operations*
The loans of the Group's US insurance operations comprise:

	2012 £m	**2011 £m**
Mortgage loans[+]	**3,543**	3,559
Policy loans[++]	**2,692**	551
Total US insurance operations loans	**6,235**	4,110

[†] 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:

	2012 %	**2011 %**
Industrial	**29**	28
Multi-family residential	**25**	23
Office	**19**	19
Retail	**17**	19
Hotels	**10**	11
	100	100

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 £6.3 million (2011: £6.6 million). The portfolio has a current estimated average loan to value of 65 per cent (2011: 68 per cent) which provides significant cushion to withstand substantial declines in value.

At 31 December 2012, Jackson had mortgage loans with a carrying value of £78 million where the contractual terms of the agreements had been restructured. In addition to the regular impairment review afforded all loans in the portfolio, restructured loans are also reviewed for impairment. An impairment will be recorded if the expected cash flows under the newly restructured terms discounted at the original yield (the pre-structured interest rate) are below the carrying value of the loan.

††The policy loans are fully secured by individual life insurance policies or annuity policies. The increase in 2012 reflects the purchase of REALIC as explained in note Z. The policy loans from the purchase of REALIC amounted to £1,842 million at 31 December 2012 and are accounted for at fair value through profit and loss as described above. All other policy loans are accounted for at amortised cost, less any impairment.

(iii) *Asia insurance operations*

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

	2012 £m	2011 £m
Mortgage loans‡	**43**	31
Policy loans‡	**610**	572
Other loans‡‡	**361**	630
Total Asia insurance operations loans	**1,014**	1,233

‡ 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.

(iv) *M&G*

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:

	2012 £m	2011 £m
Loans and receivables internal ratings:		
A+ to A-	**-**	129
BBB+ to BBB-	**836**	1,000
BB+ to BB-	**339**	89
B+ to B-	**24**	38
Total M&G loans	**1,199**	1,256

R Debt securities portfolio

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 2012 provided in the notes below.

	2012 £m	2011 £m
Insurance operations		
UK note (i)	**83,862**	77,953
US note (ii)	**32,993**	27,022
Asia note (iii)	**21,402**	17,681
Asset management operations note (iv)	**1,846**	1,842
Total notes (v) and (vi)	**140,103**	124,498

In the table below, with the exception of some mortgage-backed securities, 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.

(i) UK insurance operations

			Other funds and subsidiaries			UK insurance operations	
	Scottish Amicable Insurance Fund £m	PAC with-profits fund £m	Unit-linked assets £m	PRIL £m	Other annuity and long-term business £m	2012 Total £m	2011 Total £m
S&P – AAA	**441**	**4,716**	**582**	**3,023**	**438**	**9,200**	9,928
S&P – AA+ to AA-	**527**	**4,908**	**829**	**3,041**	**318**	**9,623**	8,647
S&P – A+ to A-	**1,031**	**12,345**	**1,805**	**6,934**	**885**	**23,000**	21,474
S&P – BBB+ to BBB-	**911**	**10,614**	**1,340**	**4,210**	**645**	**17,720**	15,746
S&P – Other	**224**	**2,358**	**115**	**307**	**39**	**3,043**	3,175
	3,134	**34,941**	**4,671**	**17,515**	**2,325**	**62,586**	58,970
Moody's – Aaa	**241**	**3,780**	**1,239**	**2,557**	**629**	**8,446**	7,945
Moody's – Aa1 to Aa3	**41**	**538**	**106**	**622**	**113**	**1,420**	651
Moody's – A1 to A3	**32**	**505**	**26**	**321**	**43**	**927**	1,008
Moody's – Baa1 to Baa3	**54**	**818**	**113**	**370**	**30**	**1,385**	1,030
Moody's – Other	**15**	**224**	**30**	**30**	**8**	**307**	242
	383	**5,865**	**1,514**	**3,900**	**823**	**12,485**	10,876
Fitch	**20**	**295**	**26**	**165**	**21**	**527**	492
Other	**327**	**5,542**	**99**	**2,157**	**139**	**8,264**	7,615
Total debt securities	**3,864**	**46,643**	**6,310**	**23,737**	**3,308**	**83,862**	77,953

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 £8,264 million total debt securities held at 31 December 2012 (2011: £7,615 million) which are not externally rated are either internally rated or unrated. These are analysed as follows:

	2012 £m	2011 £m
Internal ratings or unrated:		
AAA to A-	**3,150**	2,726
BBB to B-	**3,752**	3,773
Below B- or unrated	**1,362**	1,116
Total	**8,264**	7,615

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. Of the £2,296 million PRIL and other annuity and long-term business investments which are not externally rated, £6 million were internally rated AAA, £429 million AA, £737 million A, £895 million BBB, £115 million BB and £114 million were internally rated B+ and below or unrated.

(ii) US insurance operations

US insurance operations held total debt securities with a carrying value of £32,993 million at 31 December 2012 (2011: £27,022 million) comprising £32,825 million of available-for-sale securities and £168 million of securities at fair value through profit and loss. The table below provides information relating to the credit risk of the aforementioned debt securities.

Summary	2012 £m	2011 £m
Corporate and government security and commercial loans:		
Government	**4,126**	2,163
Publicly traded and SEC Rule 144A* securities	**19,699**	16,281
Non-SEC Rule 144A* securities	**3,542**	3,198
Total	**27,367**	21,642
Residential mortgage-backed securities	**2,400**	2,591
Commercial mortgage-backed securities	**2,639**	2,169
Other debt securities	**587**	620
Total US debt securities	**32,993**	27,022

* A 1990 SEC rule that facilitates the resale of privately placed securities 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.

The following table summarises the securities detailed above by rating as at 31 December 2012 using Standard and Poor's (S&P), Moody's, Fitch and implicit ratings of mortgage-backed securities (MBS) based on NAIC valuations:

	2012 £m	2011 £m
S&P – AAA	**187**	133
S&P – AA+ to AA-	**6,343**	4,476
S&P – A+ to A-	**7,728**	6,382
S&P – BBB+ to BBB-	**10,230**	8,446
S&P – Other	**1,173**	999
	25,661	20,436
Moody's – Aaa	**55**	62
Moody's – Aa1 to Aa3	**18**	15
Moody's – A1 to A3	**21**	29
Moody's – Baa1 to Baa3	**56**	67
Moody's – Other	**13**	17
	163	190
Implicit ratings of MBS based on NAIC* valuations (see below)		
NAIC 1	**2,934**	2,577
NAIC 2	**207**	147
NAIC 3-6	**321**	368
	3,462	3,092
Fitch	**184**	184
Other **	**3,523**	3,120
Total debt securities	**32,993**	27,022

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) based on Jackson's carrying value.

* The Securities Valuation Office of the National Association of Insurance Commissioners (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 nor Fitch, nor are MBS securities using the revised regulatory ratings, have the following NAIC classifications:

	2012 £m	2011 £m
NAIC 1	**1,453**	1,258
NAIC 2	**2,022**	1,792
NAIC 3-6	**48**	70
	3,523	3,120

(iii) Asia insurance operations

	With-profits business £m	Unit-linked assets £m	Other business £m	2012 Total £m	2011 Total £m
S&P – AAA	**675**	**19**	**91**	**785**	1,423
S&P – AA+ to AA-	**2,960**	**466**	**2,097**	**5,523**	3,843
S&P – A+ to A-	**2,059**	**279**	**944**	**3,282**	3,055
S&P – BBB+ to BBB-	**1,377**	**112**	**417**	**1,906**	1,451
S&P – Other	**1,443**	**815**	**874**	**3,132**	2,137
	8,514	**1,691**	**4,423**	**14,628**	11,909
Moody's – Aaa	**700**	**215**	**474**	**1,389**	1,489
Moody's – Aa1 to Aa3	**139**	**34**	**98**	**271**	128
Moody's – A1 to A3	**93**	**14**	**62**	**169**	304
Moody's – Baa1 to Baa3	**196**	**122**	**57**	**375**	131
Moody's – Other	**98**	**12**	**2**	**112**	59
	1,226	**397**	**693**	**2,316**	2,111
Fitch	**322**	**93**	**118**	**533**	351
Other	**1,433**	**1,013**	**1,479**	**3,925**	3,310
Total Asia debt securities	**11,495**	**3,194**	**6,713**	**21,402**	17,681

The following table analyses debt securities of 'Other business' which are not externally rated:

	2012 £m	2011 £m
Government bonds	**287**	244
Corporate bonds rated as investment grade by local external ratings agencies	**1,069**	776
Other	**123**	45
	1,479	1,065

(iv) Asset management operations

Of the £1,846 million total debt securities at 31 December 2012 (2011: £1,842 million) for asset management operations, the following amounts were held by M&G.

	2012 £m	2011 £m
M&G		
AAA to A- by Standard and Poor's or Aaa rated by Moody's	**1,493**	1,547
Other	**346**	287
Total M&G debt securities	**1,839**	1,834

(v) Group's exposure to holdings in asset-backed securities

The Group's exposure to 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 2012 is as follows:

	2012 £m	2011 £m
Shareholder-backed operations:		
UK insurance operations (2012: 34% AAA, 17% AA) [note (a)]	**1,408**	1,358
US insurance operations [note (b)]	**5,626**	5,380
Asia insurance operations	**144**	176
Asset management operations [note (d)]	**566**	594
	7,744	7,508
With-profits operations:		
UK insurance operations (2012: 60% AAA, 9% AA) [note (a)]	**5,850**	5,351
Asia insurance operations [note (c)]	**241**	454
	6,091	5,805
Total	**13,835**	13,313

Notes

(a) UK insurance operations
All of the exposure of the shareholder-backed business relates to the UK market and primarily relates to investments held by PRIL.
Of the £5,850 million (2011: £5,351 million) relating to with-profit business, £1,697 million (2011: £1,314 million) relates to exposure to the US and with the remaining exposure being primarily to the UK market.

(b) US insurance operations
US insurance operations' exposure to asset-backed securities at 31 December 2012 comprises:

	2012 £m	2011 £m
RMBS		
Sub-prime (2012: 15% AAA, 6% AA)	**261**	207
Alt-A (2012: 4% AAA, 1% AA)	**323**	310
Prime including agency (2012: 0% AAA, 75% AA)	**1,816**	2,074
CMBS (2012: 40% AAA, 24% AA)	**2,639**	2,169
CDO funds (2012: 0% AAA, 27% AA)* , including £nil exposure to sub-prime	**44**	44
Other ABS (2012: 24% AAA, 15% AA), including £nil exposure to sub-prime	**543**	576
Total	**5,626**	5,380

* Including the Group's economic interest in Piedmont and other consolidated CDO funds.

(c) Asia insurance operations
The Asia insurance operations' exposure to asset-backed securities is primarily held by the with-profits operations. Of the £241 million, 63 per cent (2011: £454 million, 75 per cent) are investment grade.

(d) Asset management operations
Asset management operations' exposure to asset-backed securities is held by Prudential Capital with no sub-prime exposure. Of the £566 million, 77 per cent (2011: £595 million, 77 per cent) are graded AAA.

(vi) Group sovereign debt exposure

The exposures held by the shareholder-backed business and with-profits funds in sovereign debts and bank debt securities at 31 December 2012 are given within the Risk and Capital Management section of the Business Review under Credit Risk.

S Debt securities of US insurance operations: Valuation basis, accounting presentation of gains and losses and securities in an unrealised loss position

i Valuation basis

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 7 requires classification of the fair values applied by the Group into a three level hierarchy. At 31 December 2012, 0.1 per cent of Jackson's debt securities were classified as level 3 (31 December 2011: 0.1 per cent) comprising of fair values where there are significant inputs which are not based on observable market data.

ii Accounting presentation of gains and losses

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 F of this report.

iii 2012 movements in unrealised gains and losses

In 2012, 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 £2,057 million to a net unrealised gain of £2,807 million. The gross unrealised gain in the statement of financial position increased from £2,303 million at 31 December 2011 to £2,985 million at 31 December 2012, while the gross unrealised loss decreased from £246 million at 31 December 2011 to £178 million at 31 December 2012.
These features are included in the table shown below of the movements in the values of available-for-sale securities.

Available for sale securities

	2012	Changes in unrealised appreciation**	Foreign exchange translation	2011
		Reflected as part of movement in consolidated statement of comprehensive income		
	£m	£m	£m	£m
Assets fair valued at below book value				
Book value*	**4,551**			2,455
Unrealised (loss) gain[note (iv)]	**(178)**	**59**	**9**	(246)
Fair value (as included in statement of financial position)	**4,373**			2,209
Assets fair valued at or above book value				
Book value*	**25,467**			22,504
Unrealised gain (loss)	**2,985**	**803**	**(121)**	2,303
Fair value (as included in statement of financial position)	**28,452**			24,807
Total				
Book value*	**30,018**			24,959
Net unrealised gain (loss)	**2,807**	**862**	**(112)**	2,057
Fair value (as included in statement of financial position)***	**32,825**			27,016

* Book value represents cost/amortised cost of the debt securities.
** Translated at the average rate of $1.5849: £1.
*** Debt securities for US operations included in the statement of financial position at 31 December 2012 and as referred to in note R, comprise:

	2012 £m	2011 £m
Available-for-sale	**32,825**	27,016
Fair value through profit and loss:		
Securities of consolidated investment funds	**-**	6
Securities held to back liabilities for funds withheld under reinsurance arrangement	**168**	-
	32,993	27,022

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

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

	2012		2011	
	Fair value	Unrealised loss	Fair value	Unrealised loss
	£m	£m	£m	£m
Between 90% and 100%	**4,214**	**(112)**	1,829	(60)
Between 80% and 90%	**85**	**(13)**	172	(28)
Below 80% *	**74**	**(53)**	208	(158)
Total	**4,373**	**(178)**	2,209	(246)

* The unrealised losses as at 31 December 2012 include £77 million (2011: £183 million) relating to mortgage-backed and other debt securities. The unrealised losses in the portfolio by reference to the length of time 3 years or more as at 31 December 2012 are £36 million (2011: £105 million) in the investment grade and £31 million (2011: £61 million) in non-investment grade.

T Net core structural borrowings of shareholder-financed operations

	2012 £m	2011 £m
Core structural borrowings of shareholder-financed operations:		
Perpetual subordinated capital securities (Innovative Tier 1)notes (i), (v)	**1,746**	1,823
Subordinated notes (Lower Tier 2)note (i)	**831**	829
Subordinated debt total	**2,577**	2,652
Senior debtnote (ii)		
2023	**300**	300
2029	**249**	249
Holding company total	**3,126**	3,201
PruCap bank loannote (iii)	**275**	250
Jackson surplus notes (Lower Tier 2)	**153**	160
Total (per consolidated statement of financial position)	**3,554**	3,611
Less: Holding company cash and short-term investments (recorded within the consolidated statement of financial position)note (iv)	**(1,380)**	(1,200)
Net core structural borrowings of shareholder-financed operations	**2,174**	2,411

Notes

(i) These debt classifications are consistent with the treatment of capital for regulatory purposes, as defined in the FSA handbook.
The Group has designated US$2.85 billion (2011: 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 PruCap bank loan was increased from £250 million to £275 million on 20 December 2012. The loan has been made in two tranches: a £160 million loan maturing in June 2014, currently drawn at a cost of 12 month £LIBOR plus 0.6 per cent and a £115 million loan maturing on 20 December 2017 and currently drawn at a cost of 12 month £LIBOR plus 0.79 per cent.

(iv) Including central finance subsidiaries.

(v) In January 2013, the Company issued core structural borrowings of US$700 million Tier 1 perpetual subordinated capital securities. The proceeds, net of costs, were US$689 million.

U Other borrowings

	2012 £m	2011 £m
Operational borrowings attributable to shareholder-financed operationsnote (i)		
Borrowings in respect of short-term fixed income securities programmesnote (iii)	**2,084**	2,956
Non-recourse borrowings of US operations	**20**	21
Other borrowings note (ii)	**141**	363
Total	**2,245**	3,340

	2012 £m	2011 £m
Borrowings attributable to with-profits operations		
Non-recourse borrowings of consolidated investment funds	**823**	747
£100m 8.5% undated subordinated guaranteed bonds of Scottish Amicable Finance plc	**100**	100
Other borrowings (predominantly obligations under finance leases)	**110**	125
Total	**1,033**	972

Notes

(i) In addition to the debt listed above, £200 million Floating Rate Notes were issued by Prudential plc in October 2012 which will mature in April 2013. 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) 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.
The Group has chosen to designate as a fair value hedge under IAS 39 certain fixed to floating rate swaps which hedge the fair value exposures to interest rate movements of these borrowings.
In addition, other borrowings include senior debt issued through the Federal Home Loan Bank of Indianapolis (FHLB), secured by collateral posted with the FHLB by Jackson.

(iii) In January 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.

V Defined benefit pension schemes

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

	2012 £m			2011 £m
	PSPS	Other schemes	Total	Total
Underlying economic surplus note (ii)	**1,174**	**(36)**	**1,138**	1,543
Less: unrecognised surplus and adjustment for obligation under IFRIC 14 for deficit funding (2011 only)note (ii)	**(1,010)**	**-**	**(1,010)**	(1,607)
Economic surplus (deficit) (including investment in Prudential insurance policies)note (ii)	**164**	**(36)**	**128**	(64)
Attributable to:				
PAC with-profits fund	**115**	**(37)**	**78**	(41)
Shareholder-backed operations	**49**	**1**	**50**	(23)
Consolidation adjustment against policyholder liabilities for investment in Prudential insurance policies	**-**	**(169)**	**(169)**	(165)
IAS 19 pension asset (liability) on the Group statement of financial position*	**164**	**(205)**	**(41)**	(229)

* At 31 December 2012, the PSPS pension asset of £164 million and the other schemes' pension liabilities of £205 million were included within 'Other debtors' and 'Provisions' respectively on the consolidated statement of financial position. The comparative liabilities of £229 million as at 31 December 2011 were included within 'Provisions'.

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), which PSPS accounts for 86 per cent (2011: 86 per cent) of the underlying scheme liabilities of the Group defined benefit schemes.

The Group also operates two smaller defined benefit schemes for UK employees in respect of Scottish Amicable and M&G. For all three schemes, the projected unit method was used for the most recent full actuarial valuations. There is also a small defined benefit scheme in Taiwan with a negligible deficit.

Triennial actuarial valuations

Defined benefit schemes in the UK are generally required to be subject to full actuarial valuation 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 by CG Singer, Fellow of the Institute of Actuaries, of Towers Watson Limited. This valuation was finalised in the first half of 2012 and 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. As a result of this valuation, future contributions into the scheme have been reduced to the minimum level of contributions required under the scheme rules effective from July 2012.

Excluding expenses, the contributions fell to approximately £6 million per annum from the £50 million per annum paid previously. The new contributions are only for ongoing service of current employees that are active members of the scheme. No deficit type funding is required. Deficit funding for PSPS, where applicable, as applied in 2011, 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. In 2012, total contributions paid in the year including expenses were £36 million (2011: £54 million).

The last completed actuarial valuation of the Scottish Amicable Pension Scheme (SAPS) was as at 31 March 2011 by Jonathan Seed, Fellow of the Institute and Faculty of Actuaries, of Xafinity Consulting. This valuation was finalised in the second half of 2012 and 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 over the next six years, to eliminate the actuarial deficit.

The last completed actuarial valuation of the M&G pension scheme was as at 31 December 2011 by Paul Belok, Fellow of the Institute and Faculty of Actuaries, of AON Hewitt Limited. This valuation was finalised in the second half of 2012 and 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. This compares to the £10.5 million of deficit funding paid by the Group in 2012.

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. Accordingly, prior to the finalisation of the 5 April 2011 triennial valuation, the Group had not recognised the underlying surplus of PSPS (31 December 2011: £1,588 million gross of deferred tax) and had recognised an economic liability for deficit funding (31 December 2011: £19 million gross of deferred tax).

The underlying IAS 19 surplus for PSPS at 31 December 2012 was £1,174 million. The finalisation of the 5 April 2011 triennial valuation was accompanied by an agreement with the Trustees that additional deficit type funding would no longer be necessary and furthermore, the level of contributions for ongoing service of current employees was reduced to the minimum level required by the scheme rules. As a consequence, a portion of the surplus, being £164 million, is now recognised as recoverable. The £164 million represents the present value of the economic benefits available from the reductions to future ongoing contributions to the scheme. Accordingly, a net surplus of £164 million gross of deferred tax was recognised at 31 December 2012. Of this amount, £115 million was allocated to the PAC with-profits fund and £49 million was allocated to the shareholders' fund.

The IAS 19 deficit of the Scottish Amicable Pension Scheme at 31 December 2012 was £74 million (31 December 2011: deficit of £55 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&G pension scheme on an economic basis at 31 December 2012 was £38 million (31 December 2011: surplus of £10 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 2012, the M&G pension scheme has invested £169 million in Prudential insurance policies (31 December 2011: £165 million). After excluding these investments that are offset against liabilities to policyholders, the IAS 19 basis position of the M&G pension scheme is a deficit of £131 million (31 December 2011: deficit of £155 million).

i Assumptions

The actuarial assumptions used in determining benefit obligations and the net periodic benefit costs for the years ended 31 December were as follows:

	2012 %	2011 %
Discount rate*	**4.4**	4.7
Rate of increase in salaries	**2.7**	2.9
Rate of inflation**		
Retail prices index (RPI)	**2.7**	2.9
Consumer prices index (CPI)	**2.0**	1.9
Rate of increase of pensions in payment for inflation:		
Guaranteed (maximum 5%)	**2.5**	2.5
Guaranteed (maximum 2.5%)†	**2.5**	2.5
Discretionary†	**2.5**	2.5
Expected returns on plan assets	**3.1**	5.1

* 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 rates of 2.5 per cent are those for PSPS. Assumed rates of increase of pensions in payments for inflation for all other schemes are 2.7 per cent in 2012 (2011: 2.9 per cent).

The calculations are based on current actuarially calculated mortality estimates with a specific allowance made for future improvements in mortality. The specific allowance for 2012 and 2011 is in line with a custom calibration of the 2009 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 2012 and 2011 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.

The mean term of the current PSPS liabilities is around 17 years.

Using external actuarial advice provided by the scheme actuaries being Towers Watson for the valuation of PSPS, Xafinity Consulting for SAPS and Aon Hewitt Limited for the M&G scheme, the most recent full valuations have been updated to 31 December 2012, applying the principles prescribed by IAS 19.

ii Estimated pension scheme deficit – economic basis

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:

	2012 £m				
		(Charge) credit to income statement note (i)			
	Surplus (deficit) in scheme at 1 January 2012	Operating results (based on longer-term investment returns)	Actuarial and other gains and losses	Contributions paid	Surplus (deficit) in scheme at 31 Dec 2012 note (ii)
All schemes					
Underlying position (without the effect of IFRIC 14)					
Surplus	**1,543**	**(166)**	**(311)**	**72**	**1,138**
Less: amount attributable to PAC with-profits fund	**(1,083)**	**105**	**222**	**(31)**	**(787)**
Shareholders' share:					
Gross of tax surplus	**460**	**(61)**	**(89)**	**41**	**351**
Related tax	**(117)**	**25**	**20**	**(9)**	**(81)**
Net of shareholders' tax	**343**	**(36)**	**(69)**	**32**	**270**
Effect of IFRIC 14					
Derecognition of surplus and set up of additional funding obligation (1 Jan 2012 only)	**(1,607)**	**136**	**461**	**-**	**(1,010)**
Less: amount attributable to PAC with-profits fund	**1,124**	**(93)**	**(322)**	**-**	**709**
Shareholders' share:					
Gross of tax deficit	**(483)**	**43**	**139**	**-**	**(301)**
Related tax	**123**	**(22)**	**(32)**	**-**	**69**
Net of shareholders' tax	**(360)**	**21**	**107**	**-**	**(232)**
With the effect of IFRIC 14					
(Deficit) surplus	**(64)**	**(30)**	**150**	**72**	**128**
Less: amount attributable to PAC with-profits fund	**41**	**12**	**(100)**	**(31)**	**(78)**
Shareholders' share:					
Gross of tax (deficit) surplus	**(23)**	**(18)**	**50**	**41**	**50**
Related tax	**6**	**3**	**(12)**	**(9)**	**(12)**
Net of shareholders' tax	**(17)**	**(15)**	**38**	**32**	**38**

Notes

(i) Credit (charge) to the income statement

The components of the credit (charge) for the net periodic pension cost (comprising amounts attributable to the PAC with-profits fund and shareholder-backed operations) are as follows:

	2012 £m	2011 £m
Pension cost		
Current service cost	**(32)**	(35)
Past service cost:[note (a)]		
RPI to CPI inflation measure change in 2011	**-**	282
Exceptional discretionary pension increase for PSPS in 2012	**(106)**	-
Finance (expense) income:		
Interest cost	**(263)**	(299)
Expected return on assets – economic basis	**235**	308
Total (charge) credit without the effect of IFRC 14	**(166)**	256
Effect of the application of IFRIC 14	**136**	(229)
Pension cost - economic basis[note (b)]	**(30)**	27

	2012 £m	2011 £m
Actuarial and other gains and losses		
Actual less expected return on assets	**(34)**	982
Losses on changes of assumptions for plan liabilities	**(273)**	(414)
Experience (losses) gains on liabilities	**(4)**	314
Total (charge) credit without the effect of IFRC 14	**(311)**	882
Effect of the application of IFRIC 14	**461**	(846)
Actuarial gains and losses – economic basis [note (c)]	**150**	36

Notes

(a) Past service cost

– RPI/CPI inflation measure change in 2011

During 2011 the Group altered its inflation measure basis for future statutory increases to pension payments for certain tranches of its UK defined benefit pension schemes. This reflected the UK Government's decision to replace the basis of indexation from RPI with CPI.

The £282 million credit in 2011 shown above comprised £216 million for PSPS and £66 million for other schemes. As noted earlier, the PSPS scheme surplus was not recognised for accounting purposes due to the application of IFRIC 14. The £66 million for other schemes was allocated as £24 million to PAC with-profits fund and £42 million to shareholders as referred to in note C.

– Exceptional discretionary pension increase for PSPS in 2012

During the first half of 2012, an exceptional discretionary increase to pensions in payment of PSPS was awarded which resulted in a past service cost of £106 million.

As the PSPS scheme surplus is substantially not recognised for accounting purposes, these two items had negligible impact on the Group's results.

(b) Consistent with the derecognition of a substantial portion of the Company's interest in the underlying IAS 19 surplus of PSPS, the charge to operating profit based on longer-term investment returns for PSPS reflects the cash cost of contributions for ongoing service of active members (2012: £17 million; 2011: £20 million). In addition, the charge to the operating results also includes a charge for the unwind of discount on the opening provision for deficit funding for PSPS (2012: £nil; £2 million).

(c) The net credit (charge) for actuarial and other gains and losses is recorded within the income statement. Within the Group's supplementary analysis of profit, the shareholders' share of actuarial and other gains and losses (ie net of allocation of the share to the PAC with-profits funds) of £50 million as shown in note ii above (2011:£21 million) is excluded from operating profit based on longer-term investment returns as shown in note C.

The 2012 actuarial and other gains reflects the positive impact of inflation rate movements in the period, offset by lower discount rates as interest rate falls, and partial recognition of actuarial surplus in PSPS described above.

(ii) *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 plan's net assets at 31 December comprise the following investments and liabilities:

	2012 £m	**2011 £m**
Equities	**364**	483
Bonds	**5,858**	5,954
Properties	**330**	317
Other assets	**645**	409
Total value of assets	**7,197**	7,163
Present value of benefit obligations	**(6,059)**	(5,620)
Net assets	**1,138**	1,543
Effect of the application of IFRIC 14 for pension schemes:		
Derecognition of PSPS surplus	**(1,010)**	(1,588)
Adjust for obligation deficit funding of PSPS	**-**	(19)
Pre-tax surplus (deficit)	**128**	(64)

iii Sensitivity of the pension scheme liabilities to key variables

The total underlying Group pension scheme liabilities of £6,059 million (2011: £5,620 million) comprise £5,226 million (2011: £4,844 million) for PSPS and £833 million (2011: £776 million) for the other schemes. The table below shows the sensitivity of the underlying PSPS and the other scheme liabilities at 31 December 2012 and 2011 to changes in discount rates, inflation rates and mortality rates.

	Assumption applied					
	2012	**2011**	**Sensitivity change in assumption**	**Impact of sensitivity on scheme liabilities on IAS 19 basis**		
					2012	**2011**
Discount rate	**4.4%**	4.7%	**Decrease by 0.2%**	**Increase in scheme liabilities by:**		
				PSPS	**3.3%**	3.3%
				Other schemes	**4.9%**	4.8%
Discount rate	**4.4%**	4.7%	**Increase by 0.2%**	**Decrease in scheme liabilities by:**		
				PSPS	**3.1%**	3.1%
				Other schemes	**4.6%**	4.5%
Rate of inflation	**RPI: 2.7%**	RPI: 2.9%	**RPI: Decrease by 0.2%**	**Decrease in scheme liabilities by:**		
	CPI: 2.0%	CPI: 1.9%	**CPI: Decrease by 0.2% with consequent reduction**	**PSPS**	**0.6%**	0.6%
			in salary increases	**Other schemes**	**4.3%**	4.1%
Mortality rate			**Increase life expectancy by 1 year**	**Increase in scheme liabilities by:**		
				PSPS	**2.6%**	2.7%
				Other schemes	**2.4%**	2.4%

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.

W Policyholder liabilities

Analysis of movement in policyholder liabilities and unallocated surplus of with-profits funds

Group insurance operations

	Insurance operations £m			
	UK	**US**	**Asia**	**Total**
At 1 January 2011	135,717	60,523	28,740	224,980
Comprising:				
- Policyholder liabilities	125,530	60,523	28,674	214,727
- Unallocated surplus of with-profits funds	10,187	-	66	10,253
Premiums	6,988	12,914	5,079	24,981
Surrenders	(4,255)	(4,270)	(2,237)	(10,762)
Maturities/Deaths	(7,813)	(820)	(664)	(9,297)
Net flows	(5,080)	7,824	2,178	4,922
Shareholders' transfers post tax	(216)	-	(30)	(246)
Investment-related items and other movements	5,862	136	365	6,363
Foreign exchange translation differences	(94)	706	(341)	271
As at 31 December 2011	**136,189**	**69,189**	**30,912**	**236,290**
Comprising:				
- Policyholder liabilities	**127,024**	**69,189**	**30,862**	**227,075**
- Unallocated surplus of with-profits funds	**9,165**	**-**	**50**	**9,215**
At 1 January 2012	**136,189**	**69,189**	**30,912**	**236,290**
Premiums	**8,340**	**14,907**	**5,620**	**28,867**
Surrenders	**(4,785)**	**(4,356)**	**(2,541)**	**(11,682)**
Maturities/Deaths	**(8,009)**	**(954)**	**(658)**	**(9,621)**
Net flows	**(4,454)**	**9,597**	**2,421**	**7,564**
Shareholders' transfers post tax	**(205)**	**-**	**(31)**	**(236)**
Investment-related items and other movements	**13,006**	**4,241**	**2,178**	**19,425**
Foreign exchange translation differences	**(98)**	**(3,678)**	**(816)**	**(4,592)**
Acquisition of REALIC note Z	**-**	**12,912**	**-**	**12,912**
At 31 December 2012	**144,438**	**92,261**	**34,664**	**271,363**
Comprising:				
- Policyholder liabilities	**133,912**	**92,261**	**34,601**	**260,774**
- Unallocated surplus of with-profits funds	**10,526**	**-**	**63**	**10,589**
Average policyholder liability balances*				
2012	**130,468**	**77,497**	**32,732**	**240,697**
2011	126,277	64,856	29,768	220,901

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

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.

UK insurance operations

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

	SAIF and PAC with-profits sub-fund £m	Other shareholder-backed funds and subsidiaries: Unit-linked liabilities £m	Other shareholder-backed funds and subsidiaries: Annuity and other long-term business £m	Total £m
At 1 January 2011	91,773	21,671	22,273	135,717
Comprising:				
- Policyholder liabilities	81,586	21,671	22,273	125,530
- Unallocated surplus of with-profits funds	10,187	-	-	10,187
Premiums	3,413	1,854	1,721	6,988
Surrenders	(2,285)	(1,851)	(119)	(4,255)
Maturities/Deaths	(5,551)	(655)	(1,607)	(7,813)
Net flows note (a)	(4,423)	(652)	(5)	(5,080)
Shareholders' transfers post tax	(216)	-	-	(216)
Switches	(237)	237	-	-
Investment-related items and other movements note (b)	3,338	25	2,499	5,862
Foreign exchange translation differences	(94)	-	-	(94)
At 31 December 2011 / 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	**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**
Average policyholder liability balances*				
2012	**82,691**	**21,739**	**26,038**	**130,468**
2011	81,281	21,476	23,520	126,277

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

Notes

(a) Net outflows decreased from £5,080 million in 2011 to £4,454 million in 2012. An improvement in the net outflows of the with-profits business, following increased sales of with-profits bonds in the year, has been greater than the increase in outflows in the unit-linked business. The levels of inflows/outflows for unit-linked business is driven by the activity of corporate pension schemes with transfers in or out from only one or two schemes influencing the level of flows in the year. The net flows of negative £1,261 million in unit-linked business was a result of lower single premiums in and higher transfers out of this business in 2012.

(b) Investment-related items and other movements of £13,006 million across fund types reflected the continued strong performance of UK equity markets in 2012, as well as investment gains from debt securities following falling bond yields, and other asset classes.

US insurance operations

	Variable annuity separate account liabilities £m	Fixed annuity, GIC and other business £m	Total £m
At 1 January 2011	31,203	29,320	60,523
Premiums	9,176	3,738	12,914
Surrenders	(1,898)	(2,372)	(4,270)
Maturities/Deaths	(300)	(520)	(820)
Net flows note (b)	6,978	846	7,824
Transfers from general to separate account	957	(957)	-
Investment-related items and other movements	(1,735)	1,871	136
Foreign exchange translation differences note (a)	430	276	706
At 31 December 2011 / 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 note (c)	**4,014**	**227**	**4,241**
Foreign exchange translation differences note (a)	**(1,998)**	**(1,680)**	**(3,678)**
Acquisition of REALIC Notes (d), Z	**64**	**12,848**	**12,912**
At 31 December 2012	**49,298**	**42,963**	**92,261**
Average policyholder liability balances*			
2012	**43,549**	**33,948**	**77,497**
2011	34,518	30,338	64,856

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

Notes

(a) Movements in the year have been translated at an average rate of $1.58/£1.00 (2011: $1.60/£1.00). The closing balances have been translated at closing rate of $1.63/£1.00 (2011: $1.55/£1.00). Differences upon retranslation are included in foreign exchange translation differences.

(b) Net flows for the year were £9,597 million compared with £7,824 million in 2011 driven largely by increased new business volumes.

(c) Positive investment-related items and other movements in variable annuity separate account liabilities of £4,014 million for 2012 reflects the increase in the US equity market during the year with the S&P index increasing by 13.4 per cent. Fixed annuity, GIC and other business investment and other movements primarily reflects the interest credited to policyholder account in the year, net of falls in the technical provisions held for the guarantees issued with variable annuity business.

(d) The acquisition of REALIC reflects the liabilities, before reduction for reinsurances ceded, acquired at the date of acquisition.

Asia insurance operations

	With-profits business £m	Unit-linked liabilities £m	Other business £m	Total £m
At 1 January 2011	11,024	12,724	4,992	28,740
Comprising:				
- Policyholder liabilities	10,958	12,724	4,992	28,674
- Unallocated surplus of with-profits funds	66	–	–	66
Premiums:				
New business	162	1,136	723	2,021
In-force	1,110	1,163	785	3,058
	1,272	2,299	1,508	5,079
Surrenders note (c)	(502)	(1,490)	(245)	(2,237)
Maturities/Deaths	(431)	(39)	(194)	(664)
Net flows note (b)	339	770	1,069	2,178
Shareholders' transfers post tax	(30)	-	-	(30)
Investment-related items and other movements	1,274	(1,154)	245	365
Foreign exchange translation differences note (a)	36	(325)	(52)	(341)
At 31 December 2011 / 1 January 2012	**12,643**	**12,015**	**6,254**	**30,912**
Comprising:				
- Policyholder liabilities	**12,593**	**12,015**	**6,254**	**30,862**
- Unallocated surplus of with-profits funds	**50**	**-**	**-**	**50**
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 note (d)	**639**	**1,451**	**88**	**2,178**
Foreign exchange translation differences note (a)	**(239)**	**(361)**	**(216)**	**(816)**
At 31 December 2012	**13,451**	**14,028**	**7,185**	**34,664**
Comprising:				
- Policyholder liabilities	**13,388**	**14,028**	**7,185**	**34,601**
- Unallocated surplus of with-profits funds	**63**	**-**	**-**	**63**
Average policyholder liability balances*				
2012	**12,990**	**13,022**	**6,720**	**32,732**
2011	11,775	12,370	5,623	29,768

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

Notes

(a) Movements in the year have been translated at the average exchange rates for the year ended 31 December 2012. The closing balance has been translated at the closing spot rates as at 31 December 2012. Differences upon retranslation are included in foreign exchange translation differences.

(b) Net flows have increased by £243 million to £2,421 million in 2012 compared with £2,178 million in 2011 reflecting increased flows from new business and growth in the in-force books.

(c) In 2012 the rate of surrenders for shareholder-backed business (expressed as a percentage of opening liabilities) was 10.6 per cent (2011: 9.8 per cent). Excluding India where the market has been going through a significant period of change following regulatory changes in 2010, the surrender rate in 2012 was at 9.7 per cent (2011: 9.6 per cent). For with-profits business, surrenders have increased from £502 million in 2011 to £608 million in 2012, primarily as a result of certain products in Hong Kong reaching their five year anniversary, the point at which some product features trigger.

(d) Positive investment-related items and other movements of £2,178 million in 2012 primarily reflects improvements in the Asia equity market.

Duration of policyholder liabilities

	2012 £m				2011 £m			
	UK insurance operations	US insurance operations	Asia insurance operations	Total	UK insurance operations	US insurance operations	Asia insurance operations	Total
	note (i)	note (ii)	note (iii)		note (i)	note (ii)	note (iii)	
Insurance contract liabilities	**84,266**	**90,192**	**34,126**	**208,584**	82,732	67,278	30,353	180,363
Investment contract liabilities with discretionary participation features	**33,464**	**-**	**348**	**33,812**	29,348	-	397	29,745
Investment contract liabilities without discretionary participation features	**16,182**	**2,069**	**127**	**18,378**	14,944	1,911	112	16,967
	133,912	**92,261**	**34,601**	**260,774**	127,024	69,189	30,862	227,075

The tables above show the carrying value of the policyholder liabilities. The tables in the accompanying 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.

The cash flow projections of expected benefit payments used in the maturity profile tables below are from value of in-force business and exclude the value of future new business, including future vesting of internal pension contracts. The maturity tables have been prepared on a discounted basis.

Notes

(i) UK insurance operations

	2012 £m									
	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	
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**

	2011 £m									
	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	
Policyholder liabilities	38,974	29,365	68,339	12,637	18,236	30,873	12,885	14,927	27,812	127,024
	2011 %									
Expected maturity:										
0 to 5 years	47	32	41	29	25	27	34	28	31	35
5 to 10 years	24	26	25	24	22	22	25	22	24	24
10 to 15 years	13	19	16	18	18	18	18	18	18	17
15 to 20 years	8	14	10	12	13	13	11	12	11	11
20 to 25 years	5	7	6	8	10	9	7	9	7	7
over 25 years	3	2	2	9	12	11	5	11	9	6

Notes

(a) 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.
(b) Benefit payments do not reflect the pattern of bonuses and shareholder transfers in respect of the with-profits business.
(c) Investment contracts under 'Other' comprise certain unit-linked and similar contracts accounted for under IAS 39 and IAS 18.
(d) 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.

(ii) US insurance operations

	2012			2011		
	Fixed annuity and other business (including GICs and similar contracts)	Variable annuity	Total	Fixed annuity and other business (including GICs and similar contracts)	Variable annuity	Total
	£m	£m	£m	£m	£m	£m
Policyholder liabilities	**42,963**	**49,298**	**92,261**	31,356	37,833	69,189
	%	%	%	%	%	%
Expected maturity:						
0 to 5 years	**45**	**46**	**46**	47	47	47
5 to 10 years	**27**	**31**	**29**	27	30	29
10 to 15 years	**12**	**13**	**13**	11	13	12
15 to 20 years	**7**	**6**	**6**	6	6	6
20 to 25 years	**5**	**2**	**3**	5	2	3
Over 25 years	**4**	**2**	**3**	4	2	3

(iii) Asia insurance operations

	2012	2011
	£m	£m
Policyholder liabilities	**34,601**	30,862
Expected maturity:	%	%
0 to 5 years	**23**	22
5 to 10 years	**19**	19
10 to 15 years	**17**	15
15 to 20 years	**13**	13
20 to 25 years	**9**	10
Over 25 years	**19**	21

X Sensitivity analysis

a Group overview

Sensitivity of IFRS basis profit or loss and shareholders' equity to market and other risks

1 Overview of risks by business unit

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:

- Currency 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 currency 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
UK insurance operations				
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
US insurance operations				
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 indexed annuity business	Derivative hedge programme to the extent not fully hedged against liability and fund performance	Incidence of equity participation features		
Fixed indexed 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
Asia insurance operations				
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 rate and price risk	Interest rates for those operations where the basis of insurance liabilities is sensitive to current market movements		

2 IFRS shareholder results – Exposures for market and other risk

Key Group exposures

Detailed analyses of sensitivity of IFRS basis profit or loss and shareholders' equity to key market and other risks are provided in notes (b) to (f). 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. Other features to note are as follows.

UK

The IFRS operating profit based on longer-term investment returns for UK insurance operations has high potential sensitivity for changes to 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 US and Asia policyholder liabilities (which in general are measured on a basis that is insensitive to current market movements) and shareholder equity.

US

For Jackson at the level of operating profit based on longer-term investment returns, the 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. Further information is given below under the US insurance operations section of market and credit risk.

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).

Asia

For Asia operations, the operating profit based on longer-term investment returns is mainly affected by the impact of market levels on unit-linked business 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.

Impact of diversification on risk exposure

The Group enjoys significant diversification benefits. This arises because not all risk scenarios will 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.

b UK insurance operations

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

The risks to which the IFRS basis results of the UK insurance operations are sensitive are asset/liability matching, mortality experience and payment assumptions for shareholder-backed annuity business of Prudential Retirement Income Limited (PRIL) and the PAC non-profit sub-fund. Further details are described below.

i 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

Shareholder UK results of 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.

ii 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 £74 million (2011: £64 million). A decrease in credit default assumptions of five basis points would increase gross profits by £157 million (2011: £137 million). A decrease in renewal expenses (excluding asset management expenses) of 5 per cent would increase gross profits by £25 million (2011: £25 million). The effect on profits would be approximately symmetrical for changes in assumptions that are directionally opposite to those explained above.

iii 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 liabilities of other business and 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.

iv Shareholder exposure 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 for pension annuity business, not generally exposed to interest rate risk. At 31 December 2012 pension annuity liabilities accounted for 98 per cent (2011: 98 per cent) of UK shareholder-backed business liabilities. For pension 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 FSA 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 pension annuities business) to a movement in interest rates is as follows.

	2012 £m				2011 £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	**9,006**	**3,993**	**(3,265)**	**(5,983)**	7,676	3,426	(2,820)	(5,178)
Policyholder liabilities	**(7,878)**	**(3,513)**	**2,867**	**5,235**	(6,842)	(3,060)	2,510	4,593
Related deferred tax effects	**(259)**	**(110)**	**91**	**172**	(208)	(91)	77	146
Net sensitivity of profit after tax and shareholders' equity	**869**	**370**	**(307)**	**(576)**	626	275	(233)	(439)

In addition the shareholder-backed portfolio of UK non-linked insurance operations covering liabilities and shareholders' equity includes equity securities and investment property. 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.

	2012 £m		2011 £m	
	A decrease of 20%	A decrease of 10%	A decrease of 20%	A decrease of 10%
Pre-tax profit	**(316)**	**(158)**	(319)	(160)
Related deferred tax effects	**73**	**36**	80	40
Net sensitivity of profit after tax and shareholders' equity	**(243)**	**(122)**	(239)	(120)

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.

c US insurance operations (Jackson)

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

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. Note B provides explanation of the new US GAAP DAC basis adopted by the Company from 1 January 2012. Note O above provides an explanation of the dynamics that affect the amortisation charge.

i Sensitivity to equity risk

Variable annuity contract related

At 31 December 2012 and 2011, Jackson had variable annuity contracts with guarantees, for which the net amount at risk ('NAR') is generally the amount of guaranteed benefit in excess of current account value, as follows:

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***		

31 December 2011

	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%	31,571	2,914	64.2 years	
GMWB - Premium only	0%	2,325	195		
GMWB*	0-5%	2,582	582*		
GMAB - Premium only	0%	54	2		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		4,002	678	63.7 years	
GMWB - Highest anniversary only		1,855	423		
GMWB*		735	217*		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	2,098	479	66.1 years	
GMIB†	0-6%	1,661	575		4.2 years
GMWB*	0-8%**	21,902	2,263*		

* Amounts shown for GMWB 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 10-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 9 years.

† The GMIB reinsurance guarantees are fully reinsured.

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

	2012 £m	2011 £m
Mutual fund type:		
Equity	**38,092**	28,902
Bond	**5,673**	4,251
Balanced	**4,601**	3,846
Money market	**766**	677
Total	**49,132**	37,676

As noted above, Jackson is exposed to equity risk through the options embedded in the fixed indexed liabilities and GMDB and GMWB guarantees included in certain VA 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 net effect of opposite impacts would be observed if the equity markets were to decrease.

At 31 December 2012, the estimated sensitivity of Jackson's profit for VA business, 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.

	2012 £m				2011* £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 (excluding impact on future separate account fees)	**326**	**120**	**(86)**	**(215)**	373	196	(242)	(539)
Related deferred tax effects	**(114)**	**(42)**	**30**	**75**	(130)	(69)	85	189
Net sensitivity of profit after tax and shareholders' equity	**212**	**78**	**(56)**	**(140)**	243	127	(157)	(350)

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

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 2012.

Other sensitivity to equity risk
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.

A range of reasonably possible movements in the value of equity securities, partnerships in investment pools and other financial derivatives have been applied to Jackson's holdings at 31 December 2012 and 2011. The table below shows the sensitivity to a 10 and 20 per cent fall in value and the impact that this would have on pre-tax profit, net of related changes in amortisation of DAC, profit after tax and shareholders' equity.

	2012 £m		2011* £m	
	Decrease of 20%	Decrease of 10%	Decrease of 20%	Decrease of 10%
Pre-tax profit, net of related changes in amortisation of DAC	**(143)**	**(72)**	(129)	(64)
Related deferred tax effects	**50**	**25**	45	23
Net sensitivity of profit after tax and shareholders' equity	**(93)**	**(47)**	(84)	(41)

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

A 10 or 20 per cent increase in their value is estimated to have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above.

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 profit and loss. 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 2012 and 2011 is as follows:

	2012 £m				**2011* £m**			
	A 2% decrease	**A 1% decrease**	**A 1% increase**	**A 2% increase**	**A 2% decrease**	**A 1% decrease**	**A 1% increase**	**A 2% increase**
Profit and loss								
Direct effect								
Derivatives value change	**1,525**	**778**	**(625)**	**(1,142)**	1,549	736	(592)	(1,078)
Policyholder liabilities	**(2,021)**	**(871)**	**610**	**970**	(925)	(446)	395	753
Related effect on amortisation of DAC	**309**	**93**	**(39)**	**(14)**	(132)	(61)	33	46
Pre-tax profit effect	**(187)**	**-**	**(54)**	**(186)**	492	229	(164)	(279)
Related effect on charge for deferred tax	**65**	**-**	**19**	**65**	(172)	(80)	57	98
Net profit effect	**(122)**	**-**	**(35)**	**(121)**	320	149	(107)	(181)
Other comprehensive income								
Direct effect on carrying value of debt securities	**3,873**	**2,175**	**(2,175)**	**(3,873)**	2,679	1,513	(1,513)	(2,679)
Related effect on amortisation of DAC	**(1,332)**	**(748)**	**748**	**1,332**	(954)	(539)	539	954
Related effect on movement in deferred tax	**(889)**	**(499)**	**499**	**889**	(604)	(341)	341	604
Net effect	**1,652**	**928**	**(928)**	**(1,652)**	1,121	633	(633)	(1,121)
Total net effect on shareholders' equity	**1,530**	**928**	**(963)**	**(1,773)**	1,441	782	(740)	(1,302)

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

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 Currency translation 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 2012, the rates were US$1.58 (2011: $1.60) and US$1.63 (2011: $1.55) 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	
	2012	**2011***	**2012**	**2011***
	£m	**£m**	**£m**	**£m**
Profit before tax attributable to shareholders [note]	**(78)**	(44)	**95**	53
Profit for the year	**(56)**	(32)	**69**	39
Shareholders' equity attributable to US insurance operations	**(395)**	(342)	**483**	418

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

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.

In addition, the total profit for Jackson is affected by the level of impairment losses on the debt securities portfolio, net effect of market risk arising from the incidence and valuation of guarantee features, guaranteed benefit payments and equity index participation features, offset by variability of benefit related fees and equity derivative hedging performance, short-term value movements on derivatives held to manage the fixed annuity and other general account business, and other temporary value movements on portfolio investments classified as fair value through profit and loss.

iv Other sensitivities

Total profit 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 swaption 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 2012 and 2011 was 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 P, and;
- the required level of provision for guaranteed minimum death benefit claims.

d 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 exposure to market risk of the Group arising from its Asia operations is therefore at modest levels. This arises from 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 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.

(i) Sensitivity of profit and shareholders' equity to risks other than currency translation risk

With-profits business

Similar principles to those explained for UK with-profits business 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 and to interest rate risk are not material.

Other business

Interest rate risk

Asia operations offer a range of insurance and investment products, predominantly with-profits and non-participating term, whole life endowment and unit-linked. Excluding 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 2012, 10-year government bond rates vary from territory to territory and range from 0.60 per cent to 9.50 per cent (2011: 0.99 per cent to 12.88 per cent).

For the sensitivity analysis as at 31 December 2011 as shown in the table below, for the majority of the territories, a movement of 1 per cent in the 10-year government bond rate has been used. Exceptions to this approach are for Japan and Taiwan where a movement of 0.5 per cent has been used. Following falls in interest rates in many of the territories during 2012, the approach was altered such that 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. This revised approach was applied in estimating the sensitivity at 31 December 2012.

The estimated sensitivity to the decrease and increase in interest rates at 31 December 2012 and 2011 is as follows:

	2012 £m		2011 £m	
	Decrease of 1%	**Increase of 1%**	**Decrease of 1% ***	**Increase of 1% ***
Pre-tax profit	**216**	**(269)**	73	(159)
Related deferred tax (where applicable)	**(56)**	**53**	(22)	34
Net effect on profit and shareholders' equity	**160**	**(216)**	51	(125)

* Except for Japan and Taiwan using 0.5 per cent sensitivity.

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 (£663 million at 31 December 2012). Generally changes in equity and property investment values are not directly offset by movements in policyholder liabilities.

The estimated sensitivity to a 10 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 2012 and 2011 would be as follows:

	2012 £m		2011 £m	
	Decrease of 20%	**Decrease of 10%**	**Decrease of 20%**	**Decrease of 10%**
Pre-tax profit	**(134)**	**(67)**	(120)	(60)
Related deferred tax (where applicable)	**31**	**15**	24	12
Net effect on profit and shareholders' equity	**(103)**	**(52)**	(96)	(48)

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 £30 million (2011: £27 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 of IFRS basis profit and shareholders' equity to currency translation 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.

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	
	2012 £m	**2011 £m**	**2012 £m**	**2011 £m**
Profit before tax attributable to shareholders note	**(90)**	(57)	**110**	70
Profit for the year	**(75)**	(46)	**92**	56
Shareholders' equity, excluding goodwill, attributable to Asia operations	**(243)**	(228)	**297**	278

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.

e Asset management operations

i Currency translation

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.

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 £10 million (2011: £9 million) and £29 million (2011: £30 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 2012 by asset management operations were £1,846 million (2011: £1,842 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.

f 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.

Y Share capital, share premium and own shares

	Number of ordinary shares	Share capital £m	Share premium £m
Issued shares of 5p each fully paid:			
At 1 January 2011	2,545,594,506	127	1,856
Shares issued under share option schemes	2,444,824	-	17
Shares issued in lieu of cash dividends			
At 31 December 2011	**2,548,039,330**	**127**	**1,873**
Shares issued under share option schemes	**9,203,022**	**1**	**16**
Reserve movements in respect of shares issued in lieu of cash dividends			
At 31 December 2012	**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 2012, 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 2012	**9,396,810**	**288p**	**629p**	**2018**
31 December 2011	13,329,709	288p	572p	2017

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. Further information about these transactions is set out below.

The cost of own shares of £97 million as at 31 December 2012 (2011: £109 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans and savings-related share option schemes. At 31 December 2012, 8.0 million (2011: 8.1 million) Prudential plc shares with a market value of £69 million (2011: £52 million) were held in such trusts. Of this total, 8.0 million (2011: 8.0 million) shares were held in trusts under employee incentive plans.

In 2012, the Company purchased the following number of shares in respect of employee incentive plans.

	Number of shares purchased (in millions)*	Cost £m
2012	**9.4**	**76.1**
2011	8.2	54.7

*The maximum number of shares held in 2012 was 8.0 million which was in December 2012.

Of the total shares held in trust no shares were held by a qualifying employee share ownership trust (2011: 0.1 million).

The shares purchased each month are as follows:

	2012 Share Price				2011 Share Price			
	Number of shares	**Low**	**High**	**Cost**	**Number of shares**	**Low**	**High**	**Cost**
		£	**£**	**£**		**£**	**£**	**£**
January	**15,573**	**6.40**	**6.40**	**99,589**	12,723	6.83	6.83	86,834
February	**12,678**	**7.33**	**7.33**	**92,930**	11,688	7.13	7.13	83,376
March	**4,022,002**	**7.10**	**8.03**	**32,058,297**	2,106,702	7.04	7.14	15,253,240
April	**368,901**	**7.27**	**7.67**	**2,712,460**	263,361	7.40	7.49	1,960,300
May	**939,541**	**6.80**	**7.26**	**6,407,556**	174,614	7.46	7.53	1,307,410
June	**482,377**	**6.61**	**6.84**	**3,208,338**	1,418,209	7.07	7.18	10,141,069
July	**15,047**	**7.26**	**7.26**	**109,166**	98,334	6.89	7.34	683,084
August	**28,488**	**7.88**	**8.12**	**228,176**	1,520,620	5.77	6.32	9,051,804
September	**712,649**	**8.16**	**8.25**	**5,829,154**	19,273	5.85	6.00	115,022
October	**12,549**	**8.39**	**8.39**	**105,329**	15,385	6.07	6.07	93,310
November	**492,993**	**8.55**	**9.15**	**4,502,129**	110,951	6.15	6.33	692,501
December	**2,277,012**	**8.86**	**9.27**	**20,706,597**	2,456,692	6.07	6.55	15,226,106
Total	**9,379,810**			**76,059,721**	8,208,552			54,694,056

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 2012 was 4.5 million (2011: 8.6 million) and the cost of acquiring these shares of £27 million (2011: £52 million) is included in the cost of own shares. The market value of these shares as at 31 December 2012 was £39 million (2011: £54 million).

During 2012, these funds made net disposals of 4,143,340 Prudential shares (2011: net disposals of 1,171,635) for a net decrease of £25.1 million to book cost (2011: net increase of £4.8 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 2012 or 2011.

Z Acquisition of subsidiaries

(a) Acquisition of Reassure America Life Insurance Company (REALIC)

On 4 September 2012, the Group through its indirect wholly-owned subsidiary, Jackson National Life Insurance Company (JNLI) completed the acquisition of 100 per cent issued share capital of SRLC America Holding Corp. (SRLC), and its primary operating subsidiary, Reassure America Life Insurance Company (REALIC). The purchase consideration, which remains subject to final agreement under the terms of the transaction with Swiss Re, is £370 million (US$587 million). The acquisition increases the scale of the Group's life business in the US, helping Jackson to diversify earnings by increasing the amount of income from underwriting activities thereby enhancing the quality of earnings in a capital efficient manner. Immediately prior to the acquisition, SRLC entered into a reinsurance arrangement with Swiss Re, the former ultimate parent company facilitating Swiss Re to retain a portion of the REALIC business. As collateral for this reinsurance arrangement, REALIC holds £2.1 billion of policy loans, bonds and short-term investments, which are offset by a funds withheld liability.

REALIC was 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 write new business.

The purchase consideration paid is equivalent to the fair value of the identifiable acquired assets and liabilities assumed and accordingly no goodwill is recognised under IFRS on the date of completion of the acquisition.

In addition to the purchase consideration, the Group incurred £9 million of acquisition related costs that have been recognised as an expense during the year, in the consolidated income statement.

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

	Fair value recognised at acquisition date £m
Identifiable assets	
Intangible assets attributable to shareholders:	
Acquired value of in-force business	**5**
Other non-investment and non-cash assets:	
Reinsurers' share of insurance contract liabilities	**5,444**
Deferred tax	**390**
Current tax recoverable	**44**
Accrued investment income	**58**
Other debtors	**38**
Investments of long-term business and other operations:	
Loans	**2,204**
Equity securities and portfolio holdings in unit trusts	**69**
Debt securities	**7,177**
Cash and cash equivalents	**147**
Total identifiable assets	**15,576**
Identifiable liabilities	
Policyholder liabilities:	
Insurance contract liabilities	**12,912**
Other non-insurance liabilities	**2,294**
Total identifiable liabilities	**15,206**
Net identifiable assets acquired and liabilities assumed	**370**
Purchase consideration	**370**

At the date the financial statement were approved the fair value of the identifiable acquired assets and liabilities and the consideration were subject to finalisation. In accordance with accounting guidance for business combinations, the Company will continue to review the balance sheet and record required adjustments, for up to a twelve month period following the acquisition close date, in order to reflect updated information on certain accruals, related expenses, or other potential valuation adjustments, if further information becomes available about facts and circumstances that existed as of the acquisition date. Any measurement period adjustments determined to be material will be applied retrospectively to the acquisition date in the Company's consolidated financial statements and depending on the nature of the adjustment, the Company's results subsequent to the acquisition period could be affected.

Reserves were initially valued consistent with existing IFRS guidance. Accordingly, as for the Group's measurement of Jackson's insurance assets and liabilities, under IFRS 4, a 'grandfathered' US GAAP basis has been applied. For instance the traditional products were valued using standard modeling techniques with assumptions updated to match current interest rate environment or be consistent with Jackson's assumptions where appropriate. Base reserves on interest sensitive products were set equal to the account value and the reserves accounted for under FASB ASC Subtopic 944-80 Financial Services – Insurance – Separate Accounts (formerly SOP 03-1) were adjusted to reflect Jackson's assumptions where appropriate. In addition, provision has been made for the effects of fair valuing the acquired policyholder liabilities and value of in force business in accordance with IFRS 3.

Included within the identifiable assets as shown above are loans and other debtors acquired with fair values of £2,204 million and £38 million, respectively. These values represent the gross contractual amounts all of which are expected to be collected. The majority of the loans of £2,204 million were held to back liabilities for funds withheld under reinsurance arrangements as described above.

The consolidated statement of cash flows contains a £224 million net cash outflow in respect of this acquisition representing cash consideration of £371 million (based on the preliminary purchase price of £417 million with a deferred consideration of £46 million) less cash and cash equivalents acquired of £147 million.

Impact of acquisition on the results of the Group

	Actual £m	Estimated £m
	Post acquisition period from 4 Sept to 31 Dec 2012	**Full Year 2012** (note i)
Revenue	**184**	**695**
Operating profit based on longer-term investment returns	**67**	
Short-term fluctuations in investment returns	13	
Amortisation of acquisition accounting on the purchase of REALIC[note (ii)]	(19)	
Profit before tax	**61**	**123**

Notes

(i) Estimation of the REALIC business' contribution to the Group's consolidated revenue and profit before tax for the year if the acquisition had occurred on 1 January 2012. 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 if the acquisition had occurred on 1 January 2012.

(ii) The profit of £61 million for the period has been determined after a charge of £(19) million for amortisation of acquisition accounting adjustments. This charge reflects the net effect of:

(a) The difference between the yield on the acquired debt securities (excluding those held to back funds withheld for reinsurance contracts) determined by reference to their market value at acquisition as required by the IFRS 3 purchase GAAP purposes and the book yield on a historic GAAP basis;

(b) Amortisation of the fair value adjustments on policyholder liabilities, and

(c) Amortisation of the acquired value of in-force business.

This change has been shown separately within Group's supplementary analysis of profit, as explained in note B.

(b) Acquisition of Thanachart Life Assurance Company Limited

On 5 November 2012, Prudential plc , through its subsidiary Prudential Life Assurance (Thailand) Public Company Limited ('Prudential Thailand') entered into an agreement to acquire 100 per cent of Thanachart Life Assurance Company Limited ('Thanachart Life'), a wholly-owned life insurance subsidiary of Thanachart Bank Public Company limited ('Thanachart Bank'). The consideration for Thanachart Life is THB 17.5 billion (£352 million at the year end exchange rate) settled in cash on completion, with a further payment of THB 0.5 billion (£10 million) payable 12 months after completion, subject to a post-completion adjustment to reflect the net asset value as at the completion date. The transaction is subject to regulatory approval and is expected to close in the first half of 2013. Upon completion of the transaction, Thanachart Life will become a wholly-owned subsidiary of Prudential Thailand.

As part of the deal, Prudential Thailand and Thanachart Bank have entered into an agreement to establish an exclusive 15-year partnership to develop jointly their bancassurance business in Thailand. 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.

AA Associates and joint ventures

The Group had two associates at 31 December 2012 (31 December 2011: one) that were accounted for under the equity method. The Group's associates at 31 December 2012 are a 25 per cent interest in PruHealth Holdings Limited and a 49.99 per cent interest in PPM South Africa, following the dilution of the Group's holding in the period (see note G). The Group's share of the profit during the year was a profit of £8 million (full year 2011: a loss of £3 million). The total carrying value of these associates are £113 million (2011: £70 million). This is reflected in the Group's profit after tax attributable to equity holders during the year.

In addition to the above, the Group has associates that are carried at fair value through profit and loss, as allowed under IAS 28, 'Investments in associates and joint ventures' that comprise investment in Open-Ended Investment Companies (OEICs), unit trusts, funds holding collateralised debt obligations, property unit trusts and venture capital investments of the PAC with-profits funds where the Group has significant influence.

The Group owns a number of joint ventures. Joint ventures represent activities over which the Group exercises joint control through contractual agreement with one or more parties. The Group's significant joint ventures, which are accounted for using proportionate consolidation, comprise following interests:

Investment	% held	Principal activity	Country
CITIC Prudential Life Insurance Company Limited	50	Life assurance	China
CITIC-Prudential Fund Management Company Limited	49	Asset management	China
ICICI Prudential Asset Management Company Limited	49	Asset management	India
Prudential BSN Takaful Berhad	49	General and life insurance	Malaysia
BOCI-Prudential Asset Management Limited	36	Asset management	China (Hong Kong)
ICICI Prudential Life Insurance Company Limited	26	Life assurance	India

Joint ventures contributed £98 million (31 December 2011: £54 million) to profit after tax attributable to equity holders during the period. The year-on-year movement in these contributions reflect the growth in their operating profit based on longer-term investment returns and the increase in short-term fluctuations in investment returns by these joint ventures.

Further, in June 2012, the PAC with-profits fund, via its venture fund holdings and as part of its investment portfolio, entered into a joint venture to acquire control of Veolia Water RegCo (now renamed Affinity Water), the UK regulated water business of Veolia Environnement S.A. This joint venture investment is carried at fair value through profit and loss in the Group's financial statements, as allowed under IAS 28. The results of this operation are reflected in the movement in the unallocated surplus of the PAC with-profits fund and therefore do not affect shareholders' results.

AB Contingencies

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 2011.

AC Post balance sheet events

In January 2013, the Company issued US$700 million 5.25 per cent Tier 1 perpetual subordinated capital securities. The proceeds, net of costs, were US$689 million. The Company also repaid on maturity, the £250 million Medium Term Notes 2013, included within operational borrowings in note U, in January 2013.

AD Adoption of new accounting pronouncements in 2013

A number of new accounting pronouncements become effective for the Group in 2013. The effects of certain of these new accounting pronouncements, namely on pension accounting, joint arrangements and consolidation, on the Group's results are summarised below.

Amendments to IAS 19, 'Employee benefits'
In June 2011, the IASB published amendments to IAS 19 on accounting for pensions and other post-employment benefits effective from annual periods beginning on or after 1 January 2013. The key revisions to the standard are:

- The removal of the corridor option for actuarial gains and losses.

The Group does not apply the corridor option, therefore its removal has no impact to the Group.

- Presentation of actuarial gains and losses.

The Group currently presents actuarial gains and losses in the income statement. Under the revised standard actuarial gains and losses will be presented in 'other comprehensive income'. Details of the 2012 and 2011 actuarial gains and losses on the current basis are shown in note V.

- The replacement of the expected return on plan assets with an amount based on the liability discount rate in the determination of pension costs.

This revision alters the pension costs included in the Group's income statement with a corresponding equal and opposite effect on the actuarial gains and losses included in other comprehensive income. The effect of this change for Prudential is not expected to be significant.

- Enhanced disclosures, specifically on risks arising from defined benefit plans.

Adoption of the revised IAS19 standard will have no impact on shareholders' equity.

Standards on joint arrangements and disclosures: IFRS 11,'Joint arrangements', IFRS 12,'Disclosures of interest in other entities' and IAS 28,'Investments in associates and joint ventures'
In May 2011, the IASB issued IFRS 11,'Joint arrangements' to replace IAS 31, 'Interests in Joint Ventures'. The standard also incorporates the guidance contained in related interpretation in SIC-13 Jointly Controlled Entities- Non-Monetary Contributions by Venturers. The standard requires a joint venture to be recognised as an investment and be accounted for using the equity method in accordance with IAS 28. The attaching changes to disclosure requirements for parties to joint arrangements are specified in IFRS 12,'Disclosures of interest in other entities', which replaces the disclosure requirements of IAS 28,'Investments in associates and joint ventures' and IAS 31, 'Interests in Joint Ventures'.

The standards are effective from annual periods beginning on or after 1 January 2013 for IFRS as issued by the IASB and 1 January 2014 for IFRS as endorsed by the EU but with early adoption permitted. The Group's investments in joint ventures are currently accounted for using proportionate consolidation. At 31 December 2012 this approach gave rise to consolidated gross assets and liabilities for the joint ventures of £3,946 million and £ 3,595 million respectively. With the application of IFRS 11, the Group's investments in joint ventures will be accounted for on a single line equity method thus giving rise at 31 December 2012 to a net interest of £351million included within gross assets.

Similarly, the 2012 gross revenue and charges of £1,040 million and £942 million respectively which are currently included on a line by line basis within the income statement will, after adoption of the standard, be presented as a single net contribution of £98 million. As a consequence, the standard will also have a small impact on profit before tax as the tax on the profits of the joint ventures will no longer be presented in the tax line, Instead the tax charges will be required to be netted against the Group's share of Joint Ventures' income included in profit before tax. The tax charges for 2012 for the Group's share of Joint ventures' income was £19 million. Adoption of the standard will have no impact on net of tax profits or shareholders' equity.

Standards on consolidation and disclosures: IFRS 10,'Consolidated financial statements', IFRS 12,'Disclosures of interest in other entities', and IAS 27,'Separate financial statements'
In May 2011, the IASB issued these three standards to replace IAS 27,'Consolidated and separate financial statements' and SIC-12 Consolidation-Special Purpose Entities.

The standards are effective from annual periods beginning on or after 1 January 2013. The standards are expected to have a minor impact on Group's assessment of its interests in investment funds (including OEICs and unit trusts) and is likely to increase the number of funds consolidated. The Group is currently determining those additional funds that will require consolidation under the requirements of IFRS 10 and the effect of retrospective adjustment to comparative results. The principal effect will be to 'gross up' the consolidated balance sheet for:

(i) The difference between the net value of the newly consolidated assets and liabilities and the previous carrying value for the Group's interest; and

(ii) The equal and opposite liability or minority interest for the external parties' interests in the funds.

The grossing up effect on the 2012 statement of financial position is not expected to exceed £1 billion. Adoption of the standard is expected to have an insignificant effect on the retrospectively adjusted comparative 2012 profit and shareholders' equity in the 2013 results.

IFRS 13, 'Fair value measurement'
In May 2011, the IASB issued IFRS 13, 'Fair value measurement' standard which creates a uniform framework to explain how to measure fair value and aims to enhance fair value disclosures, but it does not change when to measure fair value or require additional fair value measurements. The standard requires additional disclosure on the fair value of non-financial assets and liabilities and enhanced disclosures of recurring Level 3 fair value measurements.

The standard is effective from annual periods beginning on or after 1 January 2013, with no adjustment to comparative results. The Group is currently assessing the impact of the standard but it is not expected to have a material impact on the fair value measurement of the Group's assets and liabilities. Disclosures will be enhanced in providing detail of the methodology and underlying assumptions used to determine fair value of Group's assets and liabilities, in line with the new requirements.

Additional Unaudited Financial Information (IFRS)

1 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 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** results represents the shareholders' transfer from the with-profits fund in the period.
- 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 period 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 period, 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

	2012				
	Asia	**US**	**UK**	**Unallocated**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Spread income	**106**	**702**	**266**	**-**	**1,074**
Fee income	**141**	**875**	**61**	**-**	**1,077**
With-profits result	**39**	**-**	**272**	**-**	**311**
Insurance margin	**594**	**399**	**39**	**-**	**1,032**
Margin on revenues	**1,453**	**-**	**216**	**-**	**1,669**
Expenses:					
Acquisition costs	**(903)**	**(972)**	**(122)**	**-**	**(1,997)**
Administration expenses	**(583)**	**(537)**	**(128)**	**-**	**(1,248)**
DAC adjustments	**(28)**	**442**	**(8)**	**-**	**406**
Expected return on shareholder assets	**43**	**55**	**107**	**-**	**205**
Gain on China Life (Taiwan) shares	**51**	**-**	**-**	**-**	**51**
Long-term business operating profit	**913**	**964**	**703**	**-**	**2,580**
Asset management operating profit	**75**	**39**	**371**	**-**	**485**
GI commission	**-**	**-**	**33**	**-**	**33**
Other income and expenditure[note (ii)]	**-**	**-**	**-**	**(565)**	**(565)**
Total operating profit based on longer-term investment returns	**988**	**1,003**	**1,107**	**(565)**	**2,533**

Analysis of pre-tax IFRS operating profit by source

	2011				
	Asia	**US**	**UK**	**Unallocated**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Spread income	88	730	247	-	1,065
Fee income	131	680	59	-	870
With-profits result	38	-	293	-	331
Insurance margin	477	232	27	-	736
Margin on revenues	1,199	-	226	-	1,425
Expenses:					
Acquisition costs	(766)	(890)	(127)	-	(1,783)
Administration expenses	(503)	(412)	(128)	-	(1,043)
DAC adjustments[note (i)]	14	228	(5)	-	237
Expected return on shareholder assets	26	83	91	-	200
Long-term business operating profit	704	651	683	-	2,038
Asset management operating profit	80	24	357	-	461
GI commission	-	-	40	-	40
RPI to CPI inflation measure change on defined benefit schemes	-	-	-	42	42
Other income and expenditure[note (ii)]	-	-	-	(554)	(554)
Total operating profit based on longer-term investment returns	784	675	1,080	(512)	2,027

Notes

(i) DAC adjustments have been adjusted for the retrospective application of the accounting policy change described in note B of the IFRS financial statements.

(ii) Including restructuring and Solvency II implementation costs.

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 W.

	2012			2011		
Long-term business	**Profit £m**	**Average liability £m** note (iv)	**Margin bps** note (iii)	**Profit £m**	**Average liability £m** note (iv)	**Margin bps** note (iii)
Spread income	**1,074**	**62,174**	**173**	1,065	57,417	185
Fee income	**1,077**	**78,807**	**137**	870	68,298	127
With-profits result	**311**	**95,681**	**33**	331	93,056	36
Insurance margin	**1,032**			736		
Margin on revenues	**1,669**			1,425		
Expenses:						
Acquisition costs note (i)	**(1,997)**	**4,195**	**(48)%**	(1,783)	3,681	(48)%
Administration expenses	**(1,248)**	**143,321**	**(87)**	(1,043)	125,715	(83)
DAC adjustments note (ii)	**406**			237		
Expected return on shareholder assets	**205**			200		
Gain on China Life (Taiwan) shares	**51**			-		
Operating profit	**2,580**			2,038		

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 shareholders.

(ii) DAC adjustments have been adjusted for the retrospective application of the accounting policy change described in note B of the IFRS financial statements.

(iii) Margin represents the operating return earned in the year as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus.

(iv) For UK and Asia, opening and closing policyholder liabilities have been used to derive an average balance for the year, as this is seen as a good 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. Liabilities held in the general account for variable annuity living and death guaranteed benefits together with other amounts on which no spread income is earned (eg REALIC liabilities) are excluded from the calculation of the average. In addition for REALIC, which are included in the average liability to calculate the administration expense margin, the calculation excludes the liabilities reinsured to (and in essence retained by) Swiss Re immediately prior to the acquisition by Jackson.

Long-term business	Asia 2012 Profit £m	Average liability £m	Margin bps note (iii)	2011 Profit £m	Average liability £m	Margin bps note (iii)
Spread income	**106**	**6,720**	**158**	88	5,623	157
Fee income	**141**	**13,022**	**108**	131	12,370	106
With-profits result	**39**	**12,990**	**30**	38	11,775	32
Insurance margin	**594**			477		
Margin on revenues	**1,453**			1,199		
Expenses:						
Acquisition costs[note (i)]	**(903)**	**1,897**	**(48)%**	(766)	1,660	(46)%
Administration expenses	**(583)**	**19,742**	**(295)**	(503)	17,993	(280)
DAC adjustments[note (ii)]	**(28)**			14		
Expected return on shareholder assets	**43**			26		
Gain on China Life (Taiwan) shares	**51**			-		
Operating profit	**913**			704		

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 shareholders.

(ii) DAC adjustments have been adjusted for the retrospective application of the accounting policy change described in note B of the IFRS financial statements.

(iii) Margin represents the operating return earned in the year as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus.

Analysis of Asia IFRS operating profit drivers

- ***Spread income*** has increased by £18 million from £88 million in 2011 to £106 million in 2012, an increase of 20 per cent that predominantly reflects the growth of the Asia non-linked policyholder liabilities.
- ***Fee income*** has increased from £131 million in 2011 to £141 million in 2012, broadly in line with the increase in movement in average unit-linked liabilities, following the recovery in equity markets in 2012.
- ***Insurance margin*** has increased by £117 million from £477 million in 2011 to £594 million in 2012 predominantly reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products. Insurance margin includes non-recurring items of £48 million (2011: £38 million), reflecting assumption changes and other items that are not expected to reoccur in the future.
- ***Margin on revenues*** has increased by £254 million from £1,199 million in 2011 to £1,453 million in 2012 primarily reflecting the on-going growth in the size of the portfolio and higher premium income recognised in the year.
- ***Acquisition costs*** have increased by 18 per cent from £766 million in 2011 to £903 million in 2012, compared to the 14 per cent increase in sales, resulting in a marginal increase in the acquisition cost ratio. The analysis above has been prepared applying shareholder acquisition costs as a proportion of total APE. If with-profits sales were excluded from the denominator the acquisition cost ratio would become 63 per cent (2011: 59 per cent) reflecting changes to product and country mix.
- ***Administration expenses*** have increased from £503 million in 2011 to £583 million in 2012 as the business continues to expand. Expressed as a ratio of policyholder liabilities, administration costs have increased from 280 basis points to 295 basis points due to changes in business mix.
- ***Expected return on shareholder assets*** has increased from £26 million in 2011 to £43 million in 2012 primarily due to higher income from increased shareholder assets.

Long-term business	US					
	2012			2011		
	Profit £m	Average liability £m note (iii)	Margin bps	Profit £m	Average liability £m note (iii)	Margin bps
Spread income	**702**	**29,416**	**239**	730	28,274	258
Fee income	**875**	**44,046**	**199**	680	34,452	197
Insurance margin	**399**			232		
Expenses:						
Acquisition costs[note (i)]	**(972)**	**1,462**	**(66)%**	(890)	1,275	(70)%
Administration expenses	**(537)**	**75,802**	**(71)**	(412)	62,726	(66)
DAC adjustments[note (ii)]	**442**			228		
Expected return on shareholder assets	**55**			83		
Operating profit	**964**			651		

Notes

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

(ii) DAC adjustments have been adjusted for the retrospective application of the accounting policy change described in note B of the IFRS financial statements.

(iii) The calculation of average liabilities for Jackson is derived from month-end balances throughout the year as opposed to opening and closing balances only. Liabilities held in the general account for variable annuity living and death guaranteed benefits together with other amounts on which no spread income is earned (eg REALIC liabilities) are excluded from the calculation of the average. In addition for REALIC, which are included in the average liability to calculate the administration expense margin, the calculation excludes the liabilities reinsured to (and in essence retained by) Swiss Re immediately prior to the acquisition by Jackson.

Analysis of US operating profit drivers

- ***Spread income*** was £702 million in 2012, down £28 million from the £730 million earned in 2011. 2012 benefited by £156 million from the effect of transactions entered into during 2011 and 2010 to more closely match the overall asset and liability duration (2011: £113 million). Excluding this effect, the spread margin would have been 186 basis points (2011: 218 basis points). The reported spread margin decreased as a result of downward pressure on yields caused by the low interest rate environment, the effect of which was only partly mitigated by reductions in crediting rates.

- ***Fee income*** has increased by 29 per cent to £875 million in 2012, compared to £680 million in 2011 as a result of the growth in separate account balances primarily due to positive net flows from variable annuity business. Fee income margin has increased slightly to 199 basis points (2011: 197 basis points) primarily reflecting changes to business mix.

- ***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 the benefit in the period of repricing actions, have increased the insurance margin from £232 million in 2011 to £399 million in 2012. This includes the benefits of four months profits amounting to £87 million from the life business of REALIC, following its acquisition by Jackson in September 2012.

- ***Acquisition costs,*** which are commissions and general expenses incurred to acquire new business, have increased in absolute terms compared to 2011 due largely to an increase in sales volumes. However, acquisition costs as a percentage of APE have decreased to 66 per cent for 2012, compared to 70 per cent in 2011, due to the continued increase in producers selecting asset based commission which is treated as an administrative expense in this analysis, rather than front end commissions.

- ***Administration expenses*** increased to £537 million in 2012 compared to £412 million in 2011, primarily as a result of higher asset based commissions paid on the larger 2012 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. The administration expense margin was higher at 71 basis points (2011: 66 basis points). Excluding these trail commission amounts, the resulting administration expense margin would be 48 basis points (2011: 46 basis points). The increase arises as a result of the effect of the REALIC acquisition on the administration expense margin together with impact in 2012 of non-recurring expenditures.

- ***DAC adjustments*** increased to £442 million in 2012 compared to £228 in 2011. 2011 was lowered by £190 million of accelerated DAC amortisation as a result of the reversal of the benefit received in 2008 from the mean reversion formula. Market movements in 2012 resulted in deceleration of DAC amortisation of £56 million which was offset by higher amortisation as a result of higher gross profits. Following the adoption of the altered US GAAP principles for deferred acquisition costs, as described in note B of the IFRS financial statements, certain acquisition costs are no longer fully deferrable resulting in new business strain of £174 million for 2012 (2011: £156 million).

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

	2012 £m				2011 £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	**1,494**			**1,494**	1,313			1,313
Less new business strain		**(972)**	**798**	**(174)**		(890)	734	(156)
Other DAC adjustments - amortisation of previously deferred acquisition costs								
Normal[note (i)]			**(412)**	**(412)**			(316)	(316)
Decelerated / (accelerated)			**56**	**56**			(190)	(190)
Total	**1,494**	**(972)**	**442**	**964**	1,313	(890)	228	651

Note

(i) The increase in normal DAC amortisation compared to 2011 is primarily driven by the effect of a DAC unlocking expense of £15 million in 2012, compared to a benefit of £31 million in 2011. The unlocking charge or credit arises on an annual basis as part of a routine review of the assumptions underpinning the estimated future profits used to amortise deferred acquisition costs on interest sensitive life and annuity business. Excluding the impacts of the unlockings, the DAC amortisation remains in line with the growth in business profits.

	UK					
	2012 £m			2011 £m		
Long-term business	**Profit £m**	**Average liability £m**	**Margin bps**	**Profit £m**	**Average liability £m**	**Margin bps**
Spread income	**266**	**26,038**	**102**	247	23,520	105
Fee income	**61**	**21,739**	**28**	59	21,476	27
With-profits result	**272**	**82,691**	**33**	293	81,281	36
Insurance margin	**39**			27		
Margin on revenues	**216**			226		
Expenses:						
Acquisition costs[note (i)]	**(122)**	**836**	**(15)%**	(127)	746	(17)%
Administration expenses	**(128)**	**47,777**	**(27)**	(128)	44,996	(28)
DAC adjustments	**(8)**			(5)		
Expected return on shareholder assets	**107**			91		
Operating profit	**703**			683		

Note

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

Analysis of UK IFRS operating profit drivers

- ***Spread income*** has increased from £247 million in 2011 to £266 million in 2012 principally due to increased new business profits from higher annuity sales. The margin has fallen slightly from 105 basis points to 102 basis points.

- ***Fee income*** has increased in line with the growth in unit-linked liabilities. Expressed as an asset management charge it is equivalent to 28 basis points (2011: 27 basis points).

- ***With-profits*** income has decreased by £21 million from £293 million in 2011 to £272 million in 2012 principally due to a 50 basis point reduction in annual bonus rates. This has contributed to the reduction in the with-profits margin from 36 basis points in 2011 to 33 basis points in 2012.

- ***Insurance margin*** has increased by £12 million from £27 million in 2011 to £39 million in 2012, mainly due to increased profits from our protection business.

- ***Margin on revenues*** represents premiums charges for expenses and other sundry net income received by the UK. 2012 income was £216 million (2011: £226 million).

- ***Acquisition costs*** as a percentage of new business sales have improved from 17 per cent in 2011 to 15 per cent in 2012.

  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 33 per cent for 2012 (2011: 33 per cent).

- ***Expected return on shareholder*** has increased from £91 million in 2011 to £107 million in 2012 principally due to higher IFRS shareholders' funds.

2 Asia operations – analysis of IFRS operating profit by territory

Operating profit based on longer-term investment returns for Asia operations are analysed as follows:

	2012 £m	2011* £m
China	**19**	11
Hong Kong	**88**	69
India	**54**	47
Indonesia	**260**	212
Japan	**(2)**	2
Korea	**16**	17
Malaysia	**120**	104
Philippines	**15**	5
Singapore	**206**	167
Taiwan bancassurance business	**18**	2
Thailand	**7**	4
Vietnam	**25**	30
Other	**(5)**	1
Non-recurrent items:note (ii)		
Gain on China Life (Taiwan) shares	**51**	-
Other non-recurrent items	**48**	38
Total insurance operations note (i)	**920**	709
Development expenses	**(7)**	(5)
Total long-term business operating profit	**913**	704
Eastspring Investments	**75**	80
Total Asia operations	**988**	784

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

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:

	2012 £m	2011* £m
New business strain	**(51)**	(70)
Business in force	**872**	741
Non-recurrent items:note (ii)		
Gain on China Life (Taiwan) shares	**51**	-
Other non-recurrent items	**48**	38
Total	**920**	709

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note B.

The IFRS new business strain corresponds to approximately 3 per cent of new business APE premiums for 2012 (2011: approximately 4 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 £48 million in 2012 (2011: £38 million) represent a small number of items that are not anticipated to re-occur in subsequent periods.

3 Analysis of asset management operating profit based on longer-term investment returns

	2012 £m				
	M&G	**Eastspring Investments**	**PruCap**	**US**	**Total**
	note (i),(ii)	note (ii)			
Operating income before performance-related fees	**734**	**201**	**120**	**296**	**1,351**
Performance-related fees	**9**	**2**	-	-	**11**
Operating income*	**743**	**203**	**120**	**296**	**1362**
Operating expense	**(436)**	**(128)**	**(69)**	**(257)**	**(890)**
Share of associate's results	**13**	**-**	**-**	**-**	**13**
Operating profit based on longer-term investment returns	**320**	**75**	**51**	**39**	**485**
Average funds under management (FUM), including 49.99% proportional share of PPM South Africa**	**£209.0bn**				
Average funds under management (FUM), excluding PPM South Africa**	**£205.1 bn**	**£55.0 bn**			
Margin based on operating income**	**36 bps**	**37 bps**			
Cost / income ratio***	**59%**	**64%**			

	2011 £m				
	M&G	**Eastspring Investments**	**PruCap**	**US**	**Total**
	note (i),(ii)	note (ii)			
Operating income before performance-related fees	666	196	122	249	1,233
Performance-related fees	13	6	-	-	19
Operating income*	679	202	122	249	1,252
Operating expense	(404)	(122)	(66)	(225)	(817)
Share of associate's results	26	-	-	-	26
Operating profit based on longer-term investment returns	301	80	56	24	461
Average funds under management (FUM), including 49.99% proportional share of PPM South Africa**	£195.1 bn				
Average funds under management (FUM), excluding PPM South Africa**	£190.9 bn	£51.4 bn			
Margin based on operating income**	35 bps	38 bps			
Cost / income ratio***	61%	62%			

(i) Following the divestment in the first half of 2012 of M&G's holding in PPM South Africa from 75 per cent to 49.99 per cent and its treatment from 2012 as an associate, M&G's operating income and expense no longer includes any element from PPM South Africa. In order to avoid period on period distortion, in the table above the 2011 operating income, margin and cost/income ratio reflect the retrospective application of this basis of presentation for the 2011 results.

(ii) M&G and Eastspring Investments can be further analysed as follows:

	M&G					
	Operating income*					
	Retail £m	Margin of FUM** bps	Institutional† £m	Margin of FUM** bps	Total £m	Margin of FUM** bps
2012	**438**	**91**	**297**	**19**	**734**	**36**
2011	396	97	270	18	666	35

	Eastspring Investments					
	Operating income*					
	Retail £m	Margin of FUM** bps	Institutional† £m	Margin of FUM** bps	Total £m	Margin of FUM** bps
2012	**118**	**64**	**83**	**24**	**201**	**37**
2011	120	62	76	24	196	38

* Operating income is net of commissions. M&G's operating income excludes any contribution from M&G's associate, PPM South Africa.

** Margin represents operating income before performance related fees as a proportion of the related funds under management (FUM), excluding PPM South Africa. 2011comparatives have been amended to be on a comparable basis. Monthly 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. In order to avoid period on period distortion, M&G's operating income and expense excludes any contribution from M&G's associate, PPM South Africa.

† Institutional includes internal funds.

4 Funds under management

(a) Summary

	2012 £bn	2011 £bn
Business area:		
Asia operations	**38.9**	32.6
US operations	**91.4**	71.9
UK operations	**153.3**	146.3
Internal funds under management	**283.6**	250.8
External funds note (i)	**121.4**	99.8
Total funds under management	**405.0**	350.6

Note

(i) External funds shown above for 2012 of £121.4 billion (2011: £99.8 billion) comprise £133.5 billion (2011: £111.2 billion) of funds managed by Eastspring Investments and M&G (as shown in note (c) below) less £12.1 billion (2011: £11.4 billion) that are classified within internal funds. The £133.5 billion (2011: £111.2 billion) investment products comprise £129.5 billion (2011: £107.0 billion) as published in the New Business Schedules (see schedule A of the EEV's Additional Unaudited Financial Information section) plus Asia Money Market Funds for 2012 of £4.0 billion (2011: £4.2 billion).

(b) Internal funds under management – analysis by business area

		Asia operations		US operations		UK operations		Total	
	Note	2012 £bn	2011 £bn	2012 £bn	2011 £bn	2012 £bn	2011 £bn	2012 £bn	2011 £bn
Investment properties	(i)	**-**	-	**0.1**	0.1	**11.0**	10.9	**11.1**	11.0
Equity securities		**14.3**	12.0	**49.6**	38.1	**36.1**	37.3	**100.0**	87.4
Debt securities		**21.4**	17.7	**33.0**	27.0	**85.7**	79.8	**140.1**	124.5
Loans and receivables		**1.0**	1.2	**6.2**	4.1	**4.6**	4.4	**11.8**	9.7
Other investments and deposits		**2.2**	1.7	**2.5**	2.6	**15.9**	13.9	**20.6**	18.2
Total		**38.9**	32.6	**91.4**	71.9	**153.3**	146.3	**283.6**	250.8

Note

(i) As included in the investments section of the consolidated statement of financial position at 31 December 2012 except for £0.2 billion (2011: £0.2 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 – funds under management

	2012 £m				
	1 Jan 2012	Market gross inflows	Redemptions	Market exchange translation and other movements	31 Dec 2012
Eastspring Investments	**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**

	2011 £m				
	1 Jan 2011	Market gross inflows	Redemptions	Market exchange translation and other movements	31 Dec 2011
Eastspring Investments	22,048	63,726	(63,605)	(2,948)	19,221
M&G	89,326	25,981	(21,596)	(1,763)	91,948
Group total	111,374	89,707	(85,201)	(4,711)	111,169

European Embedded Value (EEV) basis results

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European Embedded Value (EEV) basis results

Operating profit based on longer-term investment returns[note (i)]

Results analysis by business area

	Note	**2012 £m**	2011 £m note (v)
Asia operations			
New business	2	**1,266**	1,076
Business in force	3	**694**	688
Long-term business		**1,960**	1,764
Eastspring investments		**75**	80
Development expenses		**(7)**	(5)
Total		**2,028**	1,839
US operations			
New business	2	**873**	815
Business in force	3	**737**	616
Long-term business		**1,610**	1,431
Broker-dealer and asset management		**39**	24
Total		**1,649**	1,455
UK operations			
New business	2	**313**	260
Business in force	3	**553**	593
Long-term business		**866**	853
General insurance commission		**33**	40
Total UK insurance operations		**899**	893
M&G		**371**	357
Total		**1,270**	1,250
Other income and expenditure			
Investment return and other income		**13**	22
Interest payable on core structural borrowings		**(280)**	(286)
Corporate expenditure		**(231)**	(219)
Unwind of expected asset management margin[note (ii)]		**(56)**	(53)
Total		**(554)**	(536)
RPI to CPI inflation measure change on defined benefit pension schemes[note (iii)]		**-**	45
Solvency II implementation costs[note (iv)]		**(50)**	(56)
Restructuring costs[note (iv)]		**(22)**	(19)
Operating profit based on longer-term investment returns[note (i)]		**4,321**	3,978
Analysed as profits (losses) from:			
New business	2	**2,452**	2,151
Business in force	3	**1,984**	1,897
Long-term business		**4,436**	4,048
Asset management		**485**	461
Other results		**(600)**	(531)
Total		**4,321**	3,978

Notes

(i) EEV basis operating profit based on longer-term investment returns excludes the recurrent items of short-term fluctuations in investment returns, the mark to market value movements on core borrowings, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, and the effect of changes in economic assumptions. In addition for 2012, operating profit excludes the gain arising on the acquisition of REALIC 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.

(ii) The value of future profits or losses from asset management and service companies that support the Group's covered insurance businesses 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 margin for the year arising from the management of the assets of the covered business (as defined in note 1(a)) 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.

(iii) During 2011 the Group altered its inflation measure basis for future statutory increases to pension payments for certain tranches of its UK defined benefit pension schemes. This reflected the UK Government's decision to replace the basis of indexation from RPI with CPI. This resulted in a credit to operating profit for 2011 on an IFRS basis of £42 million and an additional £3 million recognised on the EEV basis.

(iv) Restructuring costs comprise the charge of £(19) million recognised on an IFRS basis and an additional £(3) million recognised on the EEV basis for the shareholders' share of restructuring costs incurred by the PAC with-profits fund. Solvency II implementation costs comprise the charge of £(48) million recognised on an IFRS basis and an additional £(2) million recognised on the EEV basis.

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

Summarised consolidated income statement

	Note	2012 £m	2011 £m
Operating profit based on longer-term investment returns			
Asia operations		**2,028**	1,839
US operations		**1,649**	1,455
UK operations:			
UK insurance operations		**899**	893
M&G		**371**	357
		1,270	1,250
Other income and expenditure		**(554)**	(536)
RPI to CPI inflation measure change on defined benefit pension schemes		**-**	45
Solvency II implementation costs		**(50)**	(56)
Restructuring costs		**(22)**	(19)
Operating profit based on longer-term investment returns		**4,321**	3,978
Short-term fluctuations in investment returns	6	**538**	(907)
Mark to market value movements on core borrowings	10	**(380)**	(14)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	7	**62**	23
Effect of changes in economic assumptions	8	**(16)**	(158)
Gain on dilution of Group's holdings	4	**42**	-
Gain on acquisition of REALIC	5	**453**	-
Profit before tax attributable to shareholders (including actual investment returns)		**5,020**	2,922
Tax attributable to shareholders' profit	12	**(1,207)**	(776)
Profit for the year		**3,813**	2,146
Attributable to:			
Equity holders of the Company		**3,813**	2,142
Non-controlling interests		**-**	4
Profit for the year		**3,813**	2,146

Earnings per share (in pence)

	Note	2012 £m	2011 £m
Based on operating profit including longer-term investment returns, after related tax and non-controlling interests of £3,176 million (2011: £2,930 million)	13	**125.0 p**	115.7 p
Based on profit after tax and non-controlling interests of £3,813 million (2011: £2,142 million)	13	**150.1 p**	84.6 p

Dividends per share (in pence)

	2012 £m	2011 £m
Dividends relating to reporting year:		
Interim dividend	**8.40 p**	7.95 p
Final dividend	**20.79 p**	17.24 p
Total	**29.19 p**	25.19 p
Dividends declared and paid in reporting year:		
Current year interim dividend	**8.40 p**	7.95 p
Final dividend for prior year	**17.24 p**	17.24 p
Total	**25.64 p**	25.19 p

Movement in shareholders' equity (excluding non-controlling interests)

	Note	**2012 £m**	2011 £m
Profit for the year attributable to equity shareholders		**3,813**	2,142
Items taken directly to equity:			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the year		**(467)**	(90)
Related tax		**(2)**	(68)
Dividends		**(655)**	(642)
New share capital subscribed		**17**	17
Reserve movements in respect of share-based payments		**42**	44
Treasury shares:			
Movement in own shares in respect of share-based payment plans		**(13)**	(30)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		**36**	(5)
Mark to market value movements on Jackson assets backing surplus and required capital:			
Mark to market value movements arising during the year		**53**	96
Related tax		**(18)**	(34)
Net increase in shareholders' equity	11	**2,806**	1,430
Shareholders' equity at beginning of year (excluding non-controlling interests)	11	**19,637**	18,207
Shareholders' equity at end of year (excluding non-controlling interests)	11	**22,443**	19,637

	31 December 2012 £m			31 December 2011 £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	**9,462**	**207**	**9,669**	8,510	211	8,721
Acquired goodwill	**239**	**61**	**300**	235	61	296
	9,701	**268**	**9,969**	8,745	272	9,017
US operations:						
Net assets of operations	**6,032**	**108**	**6,140**	5,082	113	5,195
Acquired goodwill	**-**	**16**	**16**	-	16	16
	6,032	**124**	**6,156**	5,082	129	5,211
UK insurance operations:						
Net assets of operations	**6,772**	**25**	**6,797**	6,058	29	6,087
M&G:						
Net assets of operations	**-**	**392**	**392**	-	229	229
Acquired goodwill	**-**	**1,153**	**1,153**	-	1,153	1,153
	-	**1,545**	**1,545**	-	1,382	1,382
	6,772	**1,570**	**8,342**	6,058	1,411	7,469
Other operations:						
Holding company net borrowings at market value	**-**	**(2,282)**	**(2,282)**	-	(2,188)	(2,188)
Other net assets	**-**	**258**	**258**	-	128	128
	-	**(2,024)**	**(2,024)**	-	(2,060)	(2,060)
Shareholders' equity at end of year (excluding non-controlling interests)	**22,505**	**(62)**	**22,443**	19,885	(248)	19,637
Representing:						
Net assets (liabilities)	**22,266**	**(1,292)**	**20,974**	19,650	(1,478)	18,172
Acquired goodwill	**239**	**1,230**	**1,469**	235	1,230	1,465
	22,505	**(62)**	**22,443**	19,885	(248)	19,637

	2012	2011
Net asset value per share (in pence)		
Based on EEV basis shareholders' equity of £22,443 million (2011: £19,637 million)	**878 p**	771 p
Number of issued shares at year end (millions)	**2,557**	2,548
Return on embedded value*	**16%**	16%

* Return on embedded value is based on EEV operating profit after related tax and non-controlling interests, as shown in note 13, as a percentage of opening EEV basis shareholders' equity.

Summary statement of financial position

	Note	**31 December 2012 £m**	31 December 2011 £m**
Total assets less liabilities, before deduction for insurance funds		**274,863**	243,207
Less insurance funds:*			
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds		**(264,504)**	(234,643)
Less shareholders' accrued interest in the long-term business		**12,084**	11,073
		(252,420)	(223,570)
Total net assets	11	**22,443**	19,637
Share capital		**128**	127
Share premium		**1,889**	1,873
IFRS basis shareholders' reserves		**8,342**	6,564
Total IFRS basis shareholders' equity	11	**10,359**	8,564
Additional EEV basis retained profit	11	**12,084**	11,073
Total EEV basis shareholders' equity (excluding non-controlling interests)	11	**22,443**	19,637

* Including liabilities in respect of insurance products classified as investment contracts under IFRS 4.

** For IFRS reporting purposes, the Group has adopted updated US GAAP requirements for deferred acquisition costs as an improvement to its accounting policy under IFRS 4 for those operations of the Group which measure insurance assets and liabilities substantially by reference to US GAAP principles. Accordingly, the IFRS elements and additional EEV basis shareholders' interest for the comparative results for 2011 have been adjusted from those previously published for the retrospective application of the change as if the new accounting policy had always applied. This has resulted in a reallocation of £553 million for 2011 from IFRS basis shareholders' reserves to shareholders' accrued interest in the long-term business, with no overall effect on the EEV basis results.

Notes on the EEV basis results

1 Basis of preparation, methodology and accounting presentation

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. The EEV basis results for 2012 and 2011 have been derived from the EEV basis results supplement to the Company's statutory accounts for 2012. Except for the consequential effects of the change in accounting policy for deferred acquisition costs for IFRS reporting, as described in the footnotes to the summary statement of financial position, the 2011 results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2011. The supplement included an unqualified audit report from the auditors.

(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 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.

With two principal exceptions, covered business comprises the Group's long-term business operations. The principal exceptions are for the closed Scottish Amicable Insurance Fund (SAIF) and for the presentational treatment of the financial position of the Group's principal defined benefit pension scheme, the Prudential Staff Pension Scheme (PSPS), as described in note 1(c)(vi). A small amount of UK group pensions business is also not modelled for EEV reporting purposes.

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.

(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 1(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 1(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.

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 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) and are calculated as the ratio of the value of new business profit to APE and PVNBP. APE are calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts. PVNBP are 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 (net of 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 2012 and 2011, depending on the particular product, jurisdiction where issued, and date of issue. For 2012 86 per cent (2011: 85 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 2012 and 2011.

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 £47 million at 31 December 2012 (31 December 2011: £90 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 £52 million at 31 December 2012 (31 December 2011: £59 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 £371 million was held in SAIF at 2012 (2011: £370 million) to honour the guarantees. As described in note 1(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 17(iv),(v) and (vi).

In deriving the time value of financial options and guarantees, management actions in response to emerging investment and fund solvency conditions have been modelled. Management actions encompass, but are not confined to investment allocation decisions, levels of reversionary and terminal bonuses and credited rates. Bonus rates are projected from current levels and varied in accordance with assumed management actions applying in the emerging investment and fund solvency conditions.

In all instances, the modelled actions are in accordance with approved local practice and therefore reflect the options actually available to management. For the PAC with-profits fund, the actions assumed are consistent with those set out in the Principles and Practices of Financial Management which explains how regular and final bonus rates within the discretionary framework are determined, subject to the general legislative requirements applicable.

(ii) Level of required capital
In adopting the EEV Principles, Prudential has based required capital on its internal targets for economic capital subject to it being at least the local statutory minimum requirements. Economic capital is assessed using internal models but, when applying the EEV Principles, Prudential does not take credit for the significant diversification benefits that exist within the Group. 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 at the higher of local statutory requirements and the economic capital requirement;
- US operations: the level of required capital has been set to an amount at least equal to 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 at 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 equal 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.

In 2012 the basis of determining projected rates of return for holdings of corporate bonds was refined so as to comprise the risk-free rate plus an assessment of long-term spread over the risk-free rate. Previously market spreads at the reporting date, rather than long-term spreads, were applied. The main effects of this change are for holdings in Hong Kong, Korea, Malaysia and Singapore. The new basis aligns with the approach for UK with-profit holdings of corporate bonds and, more generally, is consistent with the use of long-term risk premiums for holdings of other categories of investments across the Group's operations.

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. 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.

After taking these and related factors into account and based on market conditions, the risk discount rate for general account business includes an additional allowance of 150 basis points (2011: 200 basis points) for credit risk. For VA business, the additional allowance has been set at one-fifth (equivalent to 30 basis points (2011: 40 basis points)) of the non-VA business to reflect the proportion of the VA business that is allocated to holdings of general account debt securities. 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 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, 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, a credit risk premium, an allowance for a 1 notch downgrade of the portfolio subject to credit risk and an allowance for short-term defaults. For the purposes of presentation in the EEV results, the results on this basis are reconfigured. Under this approach the projected earned rate of return on the debt securities held is determined after allowing for expected long-term defaults and, where necessary, an additional allowance for an element of short-term downgrades and defaults to bring the allowance in the earned rate up to best estimate levels. The allowances for credit risk premium, 1 notch downgrade and the remaining element of short-term downgrade and default allowances are incorporated into the risk margin included in the discount rate, as shown in note 17(iii).

(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, 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 purpose of translating the profits and losses at average exchange rates, notwithstanding the fact that EEV profit represents the incremental value added on a discounted cash flow basis, is to maintain consistency with the methodology applied for IFRS basis reporting.

(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 1(c)(ii) below) and incorporate the following:

- new business contribution, as defined in note 1(b)(i);
- unwind of discount on the value of in-force business and other expected returns, as described in note 1(c)(iv) below;
- the impact of routine changes of estimates relating to non-economic assumptions, as described in note 1(c)(iii) below; and
- non-economic experience variances, as described in note 1(c)(v) below.

Non-operating results comprise the recurrent items of short-term fluctuations in investment returns, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, the mark to market value movements on core borrowings and the effect of changes in economic assumptions.

In addition, for 2012 the gain recognised on the acquisition of REALIC and the gain on dilution of the Group holding's in PPM South Africa have been shown separately from operating profits based on longer-term investment returns.

(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 1(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, required capital and surplus assets at the start of the period as adjusted for the effect of changes in economic and operating assumptions reflected in the current period.

For UK insurance operations the amount included within operating results based on longer-term investment returns represents the unwind of discount on the value of in-force business at the beginning of the period (adjusted for the effect of current period assumption changes), the unwind of discount on additional value representing the shareholders' share of smoothed surplus assets retained within the PAC with-profits fund (as explained in note 1(c)(ii) above), and the expected return on shareholders' assets held in other UK long-term business operations. Surplus assets retained within the PAC with-profits fund are smoothed for this purpose to remove the effects of short-term investment volatility from operating results. In the summary statement of financial position and for total profit reporting, asset values and investment returns are not smoothed. At 31 December 2012 the shareholders' interest in the smoothed surplus assets used for this purpose only, were £121 million lower (31 December 2011: £39 million higher) 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. Further details of these assumptions are shown in notes 17(vii),(viii) and (ix).

(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 the income statement. Consistent with the basis of distribution of bonuses and the treatment of the estate described in notes 1(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.

Actuarial and other gains and losses of defined benefit pension schemes
For the Group's defined benefit pension schemes the EEV results reflect the IAS 19 position booked for IFRS reporting. Consistent with this approach, to the extent of recognition of any surplus, the actuarial and other gains and losses include:

- the difference between actual and expected return on the scheme assets;
- experience gains and losses on scheme liabilities;
- the impact of altered economic and other assumptions on the discounted value of scheme liabilities; and
- for pension schemes where the IAS 19 position reflects a deficit funding obligation, actuarial and other gains and losses includes the movement in estimates of deficit funding requirements.

In addition, this item includes the effect of partial recognition of the Prudential Staff Pension Scheme surplus that arose in 2012. This partial recognition reflects the impact of the 5 April 2011 triennial valuation that was completed in 2012. Under that valuation there was sufficient actuarial surplus to permit a reduction in employer contributions to the minimum level under the trust deed rules, thereby allowing recoverability of part of the surplus in future years.

These items are recorded in the income statement but, consistent with the IFRS basis of presentation, are excluded from operating results based on longer-term investment returns.

(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. 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. In the UK the rate applied for 2012 is 23 per cent (2011: 25 per cent). For Jackson, the US federal tax rate of 35 per cent is applied to gross up movements on the value of in-force business. The overall tax rate includes the impact of tax effects determined on a local regulatory basis. For Asia, similar principles apply subject to the availability of taxable profits. 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. Possible future changes of rate are not anticipated. See note 17(ix) for further details.

(ix) Inter-company arrangements
The EEV results for covered business incorporate the effect of the reinsurance arrangement of non-profit immediate pension annuity liabilities of SAIF (which is not covered business) to PRIL. In addition, the analysis of free surplus and value of in-force business takes account of the impact of contingent loan arrangements between Group companies.

(x) Foreign exchange rates
Foreign currency results have been translated as discussed in note 1(b)(vi), for which the principal exchange rates are as follows:

Local currency: £	Closing rate at 31 Dec 2012	Average rate for 2012	Closing rate at 31 Dec 2011	Average rate for 2011	Opening rate at 1 Jan 2011
China	**10.13**	**10.00**	9.78	10.37	10.32
Hong Kong	**12.60**	**12.29**	12.07	12.48	12.17
India	**89.06**	**84.70**	82.53	74.80	70.01
Indonesia	**15,665.76**	**14,842.01**	14,091.80	14,049.41	14,106.51
Korea	**1,740.22**	**1,785.07**	1,790.32	1,775.98	1,776.86
Malaysia	**4.97**	**4.89**	4.93	4.90	4.83
Singapore	**1.99**	**1.98**	2.02	2.02	2.01
Taiwan	**47.20**	**46.88**	47.06	47.12	45.65
Vietnam	**33,875.42**	**33,083.59**	32,688.16	33,139.22	30,526.26
US	**1.63**	**1.58**	1.55	1.60	1.57

2 Analysis of new business contribution

	2012 £m						
	New business premiums		**Annual premium and contribution equivalents**	**Present value of new business premiums**	**Pre-tax new business**	**New business margin**	
	Single	**Regular**	**(APE)**	**(PVNBP)**	**contribution**	**(APE) %**	**(PVNBP) %**
Asia operations	**1,568**	**1,740**	**1,897**	**10,544**	**1,266**	**67**	**12.0**
US operations	**14,504**	**12**	**1,462**	**14,600**	**873**	**60**	**6.0**
UK insurance operations	**6,286**	**207**	**836**	**7,311**	**313**	**37**	**4.3**
Total	**22,358**	**1,959**	**4,195**	**32,455**	**2,452**	**58**	**7.6**

	2011 £m						
	New business premiums		Annual premium and contribution equivalents	Present value of new business premiums	Pre-tax new business	New business margin	
	Single	Regular	(APE)	(PVNBP)	contribution	(APE) %	(PVNBP) %
Asia operations	1,456	1,514	1,660	8,910	1,076	65	12.1
US operations	12,562	19	1,275	12,720	815	64	6.4
UK insurance operations	4,871	259	746	6,111	260	35	4.3
Total	18,889	1,792	3,681	27,741	2,151	58	7.8

	New business contribution £m	
	2012	2011
Asia operations:		
China	**26**	27
Hong Kong	**210**	218
India	**19**	20
Indonesia	**476**	314
Korea	**26**	43
Taiwan	**48**	28
Other	**461**	426
Total Asia operations	**1,266**	1,076

3 Operating profit from business in force

(i) Group Summary

	2012 £m				2011 £m			
	Asia operations note (ii)	**US operations note (iii)**	**UK insurance operations note (iv)**	**Total**	Asia operations note (ii)	US operations note (iii)	UK insurance operations note (iv)	Total
Unwind of discount and other expected returns	**599**	**412**	**482**	**1,493**	613	349	485	1,447
Effect of changes in operating assumptions*	**20**	**35**	**87**	**142**	10	14	79	103
Experience variances and other items	**75**	**290**	**(16)**	**349**	65	253	29	347
Total	**694**	**737**	**553**	**1,984**	688	616	593	1,897

* as shown below

(ii) Asia operations

	2012 £m	2011 £m
Unwind of discount and other expected returns[note (a)]	**599**	613
Effect of changes in operating assumptions:		
Mortality and morbidity[note (b)]	**94**	126
Persistency and withdrawals[note (c)]	**(34)**	(140)
Expense[note (d)]	**(48)**	11
Other	**8**	13
	20	10
Experience variance and other items:		
Mortality and morbidity[note (e)]	**57**	58
Persistency and withdrawals[note (f)]	**50**	10
Expense[note (g)]	**(30)**	(31)
Other [note (h)]	**(2)**	28
	75	65
Total Asia operations	**694**	688

Notes

(a) The decrease in unwind of discount and other expected returns of £(14) million from £613 million in 2011 to £599 million in 2012 mainly reflects the £(43) million effect of lower risk discount rates driven by the reduction in interest rates, partly offset by the £29 million effect of the growth in the opening in-force value (adjusted for assumption changes), on which the discount rates are applied.

(b) The credit of £94 million in 2012 for mortality and morbidity assumption changes primarily reflects mortality improvements in Hong Kong and Singapore and revised assumptions for critical illness business in Singapore in line with recent experience. In 2011, the £126 million reflected £69 million arising in Malaysia, £33 million in Indonesia and a net £24 million for other operations.

(c) The charge of £(140) million for 2011 principally arose in Malaysia for partial withdrawals. The 2012 charge reflects a number of offsetting items including further adjustments to partial withdrawals in Malaysia.

(d) The charge of £(48) million for expense assumption changes in 2012 principally arises in Malaysia and reflects changes to the pension entitlements of agents.

(e) The favourable effect of mortality and morbidity experience in 2012 of £57 million (2011: £58 million) reflects continued better than expected experience, principally arising in Hong Kong, Indonesia, Malaysia and Singapore.

(f) The positive persistency and withdrawals experience variance of £50 million in 2012 (2011: £10 million) reflects a combination of favourable experience in Hong Kong and Indonesia.

(g) The negative expense experience variance of £(30) million in 2012 (2011: £(31) 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.

(h) The charge of £(2) million in 2012 for other items reflects the broadly offsetting effects of the realised gain on the sale of the Group's 7.74 per cent stake in China Life of Taiwan and charges for other non-recurrent items.

(iii) US operations

	2012 £m	2011 £m
Unwind of discount and other expected returns[note (a)]	**412**	349
Effect of changes in operating assumptions:		
Persistency[note (b)]	**45**	29
Variable annuity (VA) fees[note (c)]	**(19)**	24
Mortality[note (d)]	**33**	(36)
Other[note (e)]	**(24)**	(3)
	35	14
Experience variances and other items:		
Spread experience variance[note (f)]	**205**	152
Amortisation of interest-related realised gains and losses[note (g)]	**91**	84
Other	**(6)**	17
	290	253
Total US operations	**737**	616

Notes

(a) The increase in unwind of discount and other expected returns of £63 million from £349 million for 2011 to £412 million for 2012 includes the £67 million effect of the increase in opening value of in-force business (after economic assumption changes), an impact of £19 million relating to the post-acquisition unwind of discount for REALIC, partly offset by the £(23) million effect of lower risk discount rates driven by the 0.1 per cent reduction in the 10-year US treasury rate together with the decrease in additional allowance for credit risk as explained in note 1(b) (iii).

(b) The effect of changes in persistency assumptions of £45 million in 2012 primarily relate to VA business.

(c) The effect of the change of assumption for VA fees represents the capitalised value of the change in the projected level of policyholder advisory fees, which vary according to the current size and mix of VA funds.

(d) The credit of £33 million in 2012 for the effect of updated mortality assumptions principally relates to life business, representing a credit of £86 million for the modelling of projected mortality improvement, partially offset by a charge of £(53) million for other regular mortality updates to reflect recent experience.
In 2011 the charge of £(36) million for updated mortality assumptions primarily arose on variable annuity business.

(e) The charge of £(24) million in 2012 for other operating assumption changes includes a charge of £(12) million for the impact of altered assumptions for Guaranteed Minimum Withdrawal Benefit utilisation and £(12) million for other items.

(f) The spread assumption for Jackson is determined on a longer-term basis, net of provision for defaults. The spread experience variance in 2012 of £205 million (2011: £152 million) includes the positive effect of transactions undertaken to more closely match the overall asset and liability duration.

(g) 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.

(iv) UK insurance operations

	2012 £m	2011 £m
Unwind of discount and other expected returns[note (a)]	**482**	485
Effect of change in UK corporate tax rate[note (b)]	**87**	79
Other items[note (c)]	**(16)**	29
Total UK insurance operations	**553**	593

Notes

(a) The decrease in unwind of discount and other expected returns of £(3) million from £485 million in 2011 to £482 million for 2012 reflects the £(17) million effect of lower risk discount rates driven by the reduction in interest rates, partly offset by the £14 million effect of an increase in the opening in-force value (after economic assumption changes) on which the discount rates are applied.

(b) The effect of the change in tax rate of £87 million in 2012 represents the benefit of the reduction in tax rate from 25 per cent to 23 per cent. Consistent with the Group's approach of grossing up the movement in the net of tax value of in-force for shareholder tax, the £87 million benefit is presented gross (2011: £79 million, 27 per cent to 25 per cent).

(c) Other items in 2012 of £(16) million includes 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 Changes to Group's holdings

PPM South Africa

On 22 February 2012, M&G completed transactions to (i) exchange bonus share rights for equity holdings with the employees of PPM South Africa and (ii) the sale of a 10 per cent holding in the majority of the business to Thesele Group, a minority shareholder, for cash. Following these transactions M&G's majority holding in the business reduced from 75 per cent to 49.99 per cent. Under IFRS requirements, the divestment is accounted for as the disposal of the 75 per cent holding and an acquisition of a 49.99 per cent holding at fair value resulting in a reclassification of PPM South Africa from a subsidiary to an associate. As a consequence of the IFRS application, the transactions gave rise to a gain on dilution of £42 million. Consistent with the Group's treatment for IFRS reporting, this amount has been treated as a gain on dilution of holdings which is shown separately from operating profit based on longer-term investment returns in the Group's supplementary analysis of profit.

5 Acquisition of Reassure America Life Insurance Company (REALIC)

On 4 September 2012, the Group through its indirect wholly-owned subsidiary, Jackson National Life Insurance Company completed the acquisition of 100 per cent issued share capital of SRLC America Holding Corp. (SRLC), and its primary operating subsidiary, Reassure America Life Insurance Company (REALIC). The purchase consideration, which remains subject to final agreement under the terms of the transaction with Swiss Re, is £370 million (US$587 million). The Embedded value of REALIC on the date of acquisition, calculated in accordance with the Group's methodology and assumptions as set out in note 1 was £823 million. The acquisition increases the scale of the Group's life business in the US, helping Jackson to diversify earnings by increasing the amount of income from underwriting activities thereby enhancing the quality of earnings in a capital efficient manner. The earnings of REALIC are derived from seasoned, long duration cash flows, generated principally from term life, whole life and basic universal life products.

The gain arising from the acquisition of REALIC is excluded from the Group's EEV operating profit based on longer-term investment returns and is calculated as follows:

	Total EEV £m note (ii)
Embedded value of acquired business[note (i)]	823
Total purchase consideration	(370)
Gain arising on acquisition	453

Notes

(i) The embedded value of the acquired business has been 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 has been used.

(ii) The amounts shown above have been translated at the 4 September 2012 exchange rate of US$1.59/£.

6 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

	2012 £m	2011 £m
Insurance operations:		
Asia[note (ii)]	**395**	(155)
US[note (iii)]	**(254)**	(491)
UK[note (iv)]	**315**	(141)
	456	(787)
Other operations:		
Economic hedge value movement[note (v)]	**(32)**	-
Other[note (vi)]	**114**	(120)
Total	**538**	(907)

(ii) Asia operations

For 2012, the positive short-term fluctuations in investment returns of £395 million in Asia operations were driven by unrealised gains on bonds and higher equity markets, principally arising 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.

For 2011, short-term fluctuations in investment returns of £(155) million were driven by lower equity markets reducing future expected fee income, mainly arising in Singapore of £(105) million and Korea of £(22) million. The 2011 short-term fluctuations in investment returns also included £(28) million of adverse variance arising in other territories. This principally comprises fluctuations arising in India of £(53) million reflecting lower equity market returns, in Vietnam of £(33) million for unrealised losses on bonds and equities and Taiwan of £(30) million for losses on bonds and CDOs, partially offset by a credit in Hong Kong of £96 million primarily relating to positive returns on bonds backing participating business.

(iii) US operations

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

	2012 £m	2011 £m
Investment return related experience on fixed income securities[note (a)]	**(99)**	(74)
Investment return related impact due primarily to changed expectation of profits on in-force variable annuity business in future periods based on current period equity returns, net of related hedging activity for equity related products[note (b)]	**(183)**	(418)
Actual less long-term return on equity based investments and other items	**28**	1
Total Jackson	**(254)**	(491)

Notes

(a) The charge relating to fixed income securities comprises the following elements:
- the excess of actual realised losses over the amortisation of interest related realised gains and losses recorded in the profit and loss account;
- credit loss experience (versus the longer-term assumption); and
- the impact of de-risking activities within the portfolio.

(b) This item reflects the net impact of:
- variances in projected future fees arising from the effect of market fluctuations on the growth in separate account asset values in the current reporting period; and
- related hedging activity.

In 2012 there was a 14.8 per cent rate of return for the variable annuity separate account assets compared with an assumed longer-term rate of return of 5.3 per cent. Consequently, the asset values and therefore projected future fees at 31 December 2012 were higher than assumed. However, net of the impact of related hedging effects there is a short-term fluctuation of £(183) million.
In 2011 there was a negative 0.5 per cent rate of return for the variable annuity separate account assets. This compared with an assumed longer-term rate of return of 5.4 per cent. Consequently, the asset values and therefore projected future fees at 31 December 2011 were lower than assumed.

(iv) UK insurance operations

The short-term fluctuations in investment returns for UK insurance operations arise from the following types of business:

	2012 £m	2011 £m
With-profits[note (a)]	**285**	(201)
Shareholder-backed annuity[note (b)]	**(3)**	56
Unit-linked and other	**33**	4
	315	(141)

Notes

(a) For with-profits business the amounts reflect the excess (deficit) of the actual investment return on the investments of the PAC with-profits fund (covering policyholder liabilities and unallocated surplus) against the assumed long-term rate for the year. For 2012 the credit of £285 million reflects the actual investment return of 9.8 per cent against the assumed long-term rate of 5.0 per cent for the year.
For 2011 the charge of £(201) million reflects the actual investment return of 3.2 per cent against the assumed long-term rate of 5.1 per cent, primarily reflecting the fall in equity markets and widening of corporate bond credit spreads, partially offset by the increase in asset values as a result of the reduction in bond yields.

(b) Short-term fluctuations in investment returns for shareholder-backed annuity business comprise: (1) gains on surplus assets reflecting reductions 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.

(v) Economic hedge value movements

This item represents the costs on 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.

(vi) Other

Short-term fluctuations of Other operations in 2012 of £114 million primarily represent unrealised fair value movements on Prudential Capital's bond portfolio. Short-term fluctuations of Other operations in 2011 of £(120) million represent unrealised value movements on investments, including centrally held swaps to manage foreign exchange and certain macro-economic exposures of the Group.

7 Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes

The credit for the shareholders' share of actuarial and other gains and losses comprises:

	2012 £m	2011 £m
IFRS basis	**50**	21
Additional shareholders' interest (note 1(c)(vi))	**12**	2
EEV basis total	**62**	23

8 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

	2012 £m	2011 £m
Asia operations[note (ii)]	**(149)**	279
US operations[note (iii)]	**85**	(144)
UK insurance operations[note (iv)]	**48**	(293)
Total	**(16)**	(158)

(ii) Asia operations

The effect of changes in economic assumptions for Asia operations in 2012 of £(149) million principally arises 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 are partial offsets which in total are £218 million, principally arising in Malaysia and Indonesia, mainly reflecting the positive impact of discounting projected health and protection profits at lower rates, driven by the decrease in risk discount rates.

The effect of changes in economic assumptions for 2011 of a credit of £279 million principally arose in Singapore of £160 million, Malaysia of £97 million and Indonesia of £94 million, primarily reflecting the positive impact of discounting projected health and protection profits at lower rates, driven by the decrease in risk-free rates. There is a partial offset arising in Hong Kong of £(57) million, primarily reflecting the reduction in fund earned rates for participating business.

(iii) US operations

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

	2012 £m	2011 £m
Effect of changes in 10-year treasury rates, beta and equity risk premium:[note (a)]		
Fixed annuity and other general account business	**20**	282
Variable annuity (VA) business	**(83)**	(333)
Decrease (increase) in additional allowance for credit risk[note (b)]	**148**	(93)
	85	(144)

Notes

(a) For Jackson the effect of changes in economic assumptions represents the aggregate of the effects of changes to projected returns and the risk discount rate. The risk discount rate, as discussed in note 1(b)(iii), represents the aggregate of the risk-free rate and margin for market risk, credit risk and non-diversifiable non-market risk.
For fixed annuity and other general account business the effect of changes to the risk-free rate, which is defined as the 10-year treasury rate, is reflected in the risk discount rate. This discount rate is in turn applied to projected cash flows which principally reflect projected spread, which is largely insensitive to changes in the risk-free rate. Secondary effects on the cash flows also result from changes to assumed future yield and resulting policyholder behaviour. For VA business, changes to the risk-free rate are also reflected in determining the risk discount rate. However, the projected cash flows are also reassessed for altered investment returns on the underlying separate account assets on which fees are charged. In 2012, for fixed annuity and other general account business the credit of £20 million principally arises from the effect of a lower discount rate on the opening value of the in-force book, driven by the 10 basis points reduction in the risk-free rate (as shown in note 17(ii)), partially offset by the effect for the acquired REALIC book reflecting the 20 basis point increase in the risk-free rate from the 4 September acquisition date.
For 2011 the credit of £282 million reflected the 140 basis points reduction in the risk-free rate. For VA business, the charge of £(83) million (2011: £(333) million) reflects the 10 basis points reduction (2011: a reduction of 140 basis points) in the risk-free rate (as shown in note 17(ii)).

(b) For 2012 the £148 million effect of the decrease in the additional allowance within the risk discount rate for credit risk reflects the reduction in credit spreads and represents a 50 basis points decrease for spread business, including the acquired REALIC business (from 200 basis points in 2011 to 150 basis points in 2012), and 10 basis points decrease for VA business (from 40 basis points in 2011 to 30 basis points in 2012), representing the proportion of business invested in the general account (as described in note 1(b)(iii)).
For 2011 the effect of £(93) million for the increase in the risk margin allowance within the risk discount rate for credit risk represented a 50 basis points increase for spread business and 10 basis points increase for VA business.

(iv) UK insurance operations

The effect of changes in economic assumptions of a credit of £48 million for UK insurance operations for 2012 comprises the effect of:

	2012 £m	2011 £m
Shareholder-backed annuity business[note (a)]		
Effect of change in:		
Expected long-term rates of return, risk discount rates and other changes	**140**	278
Tax regime[note (b)]	**(46)**	-
	94	278
With-profits and other business[note (c)]		
Effect of changes in expected long-term rates of return	**(62)**	(1,113)
Effect of changes in risk discount rates	**24**	627
Other changes	**(8)**	(84)
	(46)	(570)
	48	(292)

Notes

(a) For shareholder-backed annuity business the overall effect of changes in expected long-term rates of return and risk discount rates for the years shown above 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 17(iii)).

(b) The change in the insurance tax regime was enacted on 17 July 2012. The effect of £(46) million reflects 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.

(c) For with-profits and other business the total charge in 2012 of £(46) million reflects the changes in fund earned rates and risk discount rate (as shown in note 17(iii)), driven by the 20 basis points decrease in the gilt rate.

For 2011, the charge of £(1,113) million for the effect of changes in expected long-term rates of return arises from the reduction in fund earned rates, driven by the 1.5 per cent decrease in gilt rates and reduction in additional returns assumed on corporate bonds, reflecting changes in asset mix. The credit of £627 million for the effect of changes in risk discount rates reflects the 1.35 per cent reduction in the risk discount rate, driven by the 1.5 per cent decrease in gilt rates, partly offset by the impact of an increase in beta for with-profits business. Beta allowances are explained in note 1(b)(iii).

9 Analysis of movement in free surplus

Free surplus is the excess of the net worth over the capital required to support the covered business. Where appropriate, adjustments are made to the regulatory basis net worth from the local regulatory basis so as to include backing assets movements at fair value rather than cost so as to comply with the EEV Principles.

Long-term business and asset management operations note (i)	**2012 £m** Long-term business note 14	Asset management and UK general insurance commission note (iii)	Free surplus of long-term business, asset management and UK general insurance commission
Underlying movement:			
Investment in new business note (ii)	**(618)**	**-**	**(618)**
Business in force:			
Expected in-force cash flows (including expected return on net assets)	**2,019**	**386**	**2,405**
Effects of changes in operating assumptions, operating experience variances and other operating items	**295**	**-**	**295**
	1,696	**386**	**2,082**
Changes in non-operating items note (iv)	**(163)**	**84**	**(79)**
Gain on dilution of Group's holdings note 4	**-**	**42**	**42**
Effect of acquisition of REALIC notes 5 and (v)	**(169)**	**-**	**(169)**
	1,364	**512**	**1,876**
Net cash flows to parent company note (vi)	**(921)**	**(279)**	**(1,200)**
Exchange movements, timing differences and other items note (vii)	**(325)**	**(83)**	**(408)**
Net movement in free surplus	**118**	**150**	**268**
Balance at 1 January 2012	**2,839**	**582**	**3,421**
Balance at 31 December 2012	**2,957**	**732**	**3,689**
Representing:			
Asia operations	**974**	**207**	**1,181**
US operations	**1,211**	**108**	**1,319**
UK operations	**772**	**417**	**1,189**
	2,957	**732**	**3,689**
Balance at 1 January 2012			
Representing:			
Asia operations	1,067	211	1,278
US operations	1,220	113	1,333
UK operations	552	258	810
	2,839	582	3,421

Notes

(i) All figures are shown net of tax.

(ii) Free surplus invested in new business is for the effects of setting aside required capital and incurring 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
This represents short-term fluctuations in investment returns, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes and the effect of changes in economic assumptions for long-term business operations.
Short-term fluctuations in investment returns primarily reflect temporary market movements on the portfolio of investments held by the Group's shareholder-backed operations.

(v) The effect on free surplus of the purchase of REALIC reflects the difference between the consideration of £370 million and the free surplus of REALIC at the acquisition date.

(vi) 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.

(vii) Exchange movements, timing differences and other items represent:

	2012 £m Long-term business	Asset management and UK general insurance commission	Total
Exchange movements note 14	**(92)**	**(13)**	**(105)**
Mark to market value movements on Jackson assets backing surplus and required capital note 14	**35**	**-**	**35**
Other note (viii)	**(268)**	**(70)**	**(338)**
	(325)	**(83)**	**(408)**

(viii) Other primarily reflects the effect of repayment of contingent loan funding, as shown in note 14(ii), together with intra-group loans, timing differences and other non-cash items.

10 Net core structural borrowings of shareholder-financed operations

	2012 £m			2011 £m		
	IFRS basis	**Mark to market value adjustment** note	**EEV basis at market value**	IFRS basis	Mark to market value adjustment note	EEV basis at market value
Holding company* cash and short-term investments	**(1,380)**	**-**	**(1,380)**	(1,200)	-	(1,200)
Core structural borrowings – central funds	**3,126**	**536**	**3,662**	3,201	187	3,388
Holding company net borrowings	**1,746**	**536**	**2,282**	2,001	187	2,188
Core structural borrowings – Prudential Capital	**275**	**-**	**275**	250	-	250
Core structural borrowings – Jackson	**153**	**43**	**196**	160	17	177
Net core structural borrowings of shareholder-financed operations	**2,174**	**579**	**2,753**	2,411	204	2,615

* Including central finance subsidiaries.

Note

The movement in the mark to market value adjustment represents:

Mark to market movement in balance sheet:	**2012 £m**	2011 £m
Beginning of year	**204**	190
Change reflected in:		
Income statement	**380**	14
Foreign exchange effects	**(5)**	-
End of year	**579**	204

11 Reconciliation of movement in shareholders' equity (excluding non-controlling interests)

	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
Operating profit (based on longer-term investment returns)						
Long-term business:						
New business[note 2]	1,266	873	313	2,452	-	2,452
Business in force[note 3]	694	737	553	1,984	-	1,984
	1,960	1,610	866	4,436	-	4,436
Asset management	-	-	-	-	485	485
Other results	(7)	(2)	(29)	(38)	(562)	(600)
Operating profit based on longer-term investment returns	1,953	1,608	837	4,398	(77)	4,321
Short-term fluctuations in investment returns[note 6]	395	(254)	315	456	82	538
Mark to market value movements on core borrowings[note 10]	-	(28)	-	(28)	(352)	(380)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes[note 7]	-	-	(16)	(16)	78	62
Effect of changes in economic assumptions[note 8]	(149)	85	48	(16)	-	(16)
Gain on dilution of Group's holdings[note 4]	-	-	-	-	42	42
Gain on acquisition of REALIC[note 5]	-	453	-	453	-	453
Profit before tax (including actual investment returns)	2,199	1,864	1,184	5,247	(227)	5,020
Tax (charge) credit attributable to shareholders' profit:[note 12]						
Tax on operating profit	(420)	(513)	(168)	(1,101)	(44)	(1,145)
Tax on short-term fluctuations in investment returns	(60)	91	(72)	(41)	(3)	(44)
Tax on shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	4	4	(18)	(14)
Tax on effect of changes in economic assumptions	36	(29)	(11)	(4)	-	(4)
Total tax charge	(444)	(451)	(247)	(1,142)	(65)	(1,207)
Profit (loss) for the year	1,755	1,413	937	4,105	(292)	3,813
Other movements						
Exchange movements on foreign operations and net investment hedges, net of tax	(271)	(252)	-	(523)	54	(469)
Intra-group dividends (including statutory transfers)[note (ii)]	(544)	(252)	(207)	(1,003)	1,003	-
Investment in operations[note (ii)]	4	-	-	4	(4)	-
External dividends	-	-	-	-	(655)	(655)
Reserve movements in respect of share-based payments	-	-	-	-	42	42
Other transfers	8	6	(16)	(2)	2	-
Treasury shares movements	-	-	-	-	23	23
New share capital subscribed	-	-	-	-	17	17
Mark to market value movements on Jackson assets backing surplus and required capital net of tax	-	35	-	35	-	35
Net increase in shareholders' equity	952	950	714	2,616	190	2,806
Shareholders' equity at 1 January 2012 [note (i)]	8,510	5,082	6,058	19,650	(13)	19,637
Shareholders' equity at 31 December 2012[note (i)]	9,462	6,032	6,772	22,266	177	22,443
Representing:						
Statutory IFRS basis shareholders' equity	2,290	4,343	3,008	9,641	718	10,359
Additional retained profit (loss) on an EEV basis [note (iii)]	7,172	1,689	3,764	12,625	(541)	12,084
EEV basis shareholders' equity	9,462	6,032	6,772	22,266	177	22,443
Balance at 1 January 2012						
Representing:						
Statutory IFRS basis shareholders' equity	2,071	3,761	2,552	8,384	180	8,564
Additional retained profit (loss) on an EEV basis [note (iii)]	6,439	1,321	3,506	11,266	(193)	11,073
EEV basis shareholders' equity	8,510	5,082	6,058	19,650	(13)	19,637

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. For long-term business operations, the difference between the net amount of £999 million for intra-group dividends (including statutory transfers) and investment in operations shown above and the net cash flows to parent company of £921 million (as shown in note 9) primarily relates to intra-group loans, timing differences arising on statutory transfers and other non-cash items.
(iii) The additional retained profit on an EEV basis for Other operations primarily represents the mark to market value adjustment for holding company net borrowings of a charge of £(536) million (2011: £(187) million) (as shown in note 10).

12 Tax attributable to shareholders' profit

The tax charge comprises:

	2012 £m	2011 £m
Tax charge on operating profit based on longer-term investment returns:		
Long-term business:		
Asia operations	**420**	402
US operations	**513**	487
UK insurance operations	**168**	221
	1,101	1,110
Other operations	**44**	(66)
Total tax charge on operating profit based on longer-term investment returns	**1,145**	1,044
Tax charge (credit) on items not included in operating profit:		
Tax charge (credit) on short-term fluctuations in investment returns	**44**	(210)
Tax charge on shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**14**	6
Tax charge (credit) on effect of changes in economic assumptions	**4**	(64)
Total tax charge (credit) on items not included in operating profit	**62**	(268)
Tax charge on profit attributable to shareholders (including tax on actual investment returns)	**1,207**	776

13 Earnings per share (EPS)

	2012 £m		2011 £m	
	Operating	**Total***	Operating	Total
Profit before tax	**4,321**	**5,020**	3,978	2,922
Tax	**(1,145)**	**(1,207)**	(1,044)	(776)
Non-controlling interests	**-**	**-**	(4)	(4)
Profit after tax and non-controlling interests	**3,176**	**3,813**	2,930	2,142
EPS (pence)	**125.0 p**	**150.1 p**	115.7 p	84.6 p
Average number of shares (millions)	**2,541**	**2,541**	2,533	2,533

* Total profit in 2012 includes a gain of £453 million relating to the acquisition of REALIC – see note 5.

14 Reconciliation of net worth and value of in-force for long-term business[note(i)]

	2012 £m				
	Free Surplus note 9	Required capital	Total net worth	Value of in-force business note (vi)	Total long-term business operations
Group					
Shareholders' equity at 1 January 2012	**2,839**	**3,447**	**6,286**	**13,364**	**19,650**
New business contribution[notes (iii), (iv)]	**(618)**	**454**	**(164)**	**1,955**	**1,791**
Existing business – transfer to net worth	**1,923**	**(324)**	**1,599**	**(1,599)**	**-**
Expected return on existing business	**96**	**85**	**181**	**929**	**1,110**
Changes in operating assumptions and experience variances	**295**	**50**	**345**	**51**	**396**
Changes in non-operating assumptions and experience variances	**(163)**	**109**	**(54)**	**409**	**355**
Gain on acquisition of REALIC[notes 5 and (v)]	**(169)**	**169**	**-**	**453**	**453**
Profit after tax from long-term business	**1,364**	**543**	**1,907**	**2,198**	**4,105**
Exchange movements on foreign operations and net investment hedges	**(92)**	**(92)**	**(184)**	**(339)**	**(523)**
Intra-group dividends (including statutory transfers) and investment in operations[note (ii)]	**(1,187)**	**-**	**(1,187)**	**188**	**(999)**
Mark to market value movements on Jackson assets backing surplus and required capital	**35**	**-**	**35**	**-**	**35**
Other transfers from net worth	**(2)**	**-**	**(2)**	**-**	**(2)**
Shareholders' equity at 31 December 2012	**2,957**	**3,898**	**6,855**	**15,411**	**22,266**
Representing:					
Asia operations					
Shareholders' equity at 1 January 2012	**1,067**	**860**	**1,927**	**6,583**	**8,510**
New business contribution[note (iv)]	**(292)**	**97**	**(195)**	**1,177**	**982**
Existing business – transfer to net worth	**635**	**(3)**	**632**	**(632)**	**-**
Expected return on existing business	**56**	**-**	**56**	**413**	**469**
Changes in operating assumptions and experience variances	**80**	**25**	**105**	**(23)**	**82**
Changes in non-operating assumptions and experience variances	**114**	**16**	**130**	**92**	**222**
Profit after tax from long-term business	**593**	**135**	**728**	**1,027**	**1,755**
Exchange movements on foreign operations and net investment hedges	**(38)**	**(25)**	**(63)**	**(208)**	**(271)**
Intra-group dividends (including statutory transfers) and investment in operations[note (ii)]	**(656)**	**-**	**(656)**	**116**	**(540)**
Other transfers to net worth	**8**	**-**	**8**	**-**	**8**
Shareholders' equity at 31 December 2012	**974**	**970**	**1,944**	**7,518**	**9,462**
US operations					
Shareholders' equity at 1 January 2012	**1,220**	**1,371**	**2,591**	**2,491**	**5,082**
New business contribution[note (iv)]	**(281)**	**271**	**(10)**	**578**	**568**
Existing business – transfer to net worth	**777**	**(242)**	**535**	**(535)**	**-**
Expected return on existing business	**40**	**48**	**88**	**180**	**268**
Changes in operating assumptions and experience variances	**219**	**19**	**238**	**21**	**259**
Changes in non-operating assumptions and experience variances	**(330)**	**31**	**(299)**	**164**	**(135)**
Gain on acquisition of REALIC[notes 5 and (v)]	**(169)**	**169**	**-**	**453**	**453**
Profit after tax from long-term business	**256**	**296**	**552**	**861**	**1,413**
Exchange movements on foreign operations and net investment hedges	**(54)**	**(67)**	**(121)**	**(131)**	**(252)**
Intra-group dividends (including statutory transfers)	**(252)**	**-**	**(252)**	**-**	**(252)**
Mark to market value movements on Jackson assets backing surplus and required capital	**35**	**-**	**35**	**-**	**35**
Other transfers to net worth	**6**	**-**	**6**	**-**	**6**
Shareholders' equity at 31 December 2012	**1,211**	**1,600**	**2,811**	**3,221**	**6,032**
UK insurance operations					
Shareholders' equity at 1 January 2012	**552**	**1,216**	**1,768**	**4,290**	**6,058**
New business contribution[note (iv)]	**(45)**	**86**	**41**	**200**	**241**
Existing business – transfer to net worth	**511**	**(79)**	**432**	**(432)**	**-**
Expected return on existing business	**-**	**37**	**37**	**336**	**373**
Changes in operating assumptions and experience variances	**(4)**	**6**	**2**	**53**	**55**
Changes in non-operating assumptions and experience variances	**53**	**62**	**115**	**153**	**268**
Profit after tax from long-term business	**515**	**112**	**627**	**310**	**937**
Intra-group dividends (including statutory transfers)[note (ii)]	**(279)**	**-**	**(279)**	**72**	**(207)**
Other transfers from net worth	**(16)**	**-**	**(16)**	**-**	**(16)**
Shareholders' equity at 31 December 2012	**772**	**1,328**	**2,100**	**4,672**	**6,772**

Notes

(i) All figures are shown net of tax.

(ii) The amounts shown in respect of free surplus and the value of in-force business for Asia and UK insurance operations for intra-group dividends (including statutory transfers) and investment in operations include the repayment of contingent loan funding. Contingent loan funding represents amounts whose repayment to the lender is contingent upon future surpluses emerging from certain contracts specified under the arrangement. If insufficient surplus emerges on those contracts, there is no recourse to other assets of the Group and the liability is not payable to the degree of shortfall.

(iii) The movements arising from new business contribution are as follows:

	2012 £m	2011 £m
Free surplus invested in new business	**(618)**	(553)
Increase in required capital	**454**	406
Reduction in total net worth	**(164)**	(147)
Increase in the value associated with new business	**1,955**	1,683
Total post-tax new business contribution	**1,791**	1,536

(iv) Free surplus invested in new business is as follows:

	2012 £m				2011 £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]	**1,266**	**873**	**313**	**2,452**	1,076	815	260	2,151
Tax	**(284)**	**(305)**	**(72)**	**(661)**	(265)	(285)	(65)	(615)
Post-tax new business contribution	**982**	**568**	**241**	**1,791**	811	530	195	1,536
Free surplus invested in new business	**(292)**	**(281)**	**(45)**	**(618)**	(297)	(202)	(54)	(553)
Post-tax new business contribution per £1 million free surplus invested	**3.4**	**2.0**	**5.4**	**2.9**	2.7	2.6	3.6	2.8

(v) The effect on free surplus of the purchase of REALIC reflects the difference between the consideration of £370 million and the free surplus of REALIC at the acquisition date. The REALIC free surplus represents the excess of net worth over required capital. The incremental value of in-force of £453 million represents the amount which is recognized on the EEV reporting basis over and above the net worth.

(vi) 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:

	2012 £m				2011 £m			
	Asia operations	**US operations**	**UK insurance operations** note	**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	**7,903**	**3,992**	**4,916**	**16,811**	6,922	3,222	4,598	14,742
Cost of capital	**(352)**	**(121)**	**(244)**	**(717)**	(317)	(135)	(241)	(693)
Cost of time value of guarantees	**(33)**	**(650)**	**-**	**(683)**	(22)	(596)	(67)	(685)
Net value of in-force business	**7,518**	**3,221**	**4,672**	**15,411**	6,583	2,491	4,290	13,364

Note

A provision for the cost of time value of options and guarantees for UK insurance operations is no longer required.

15 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 2012 and 2011 totals in the tables below for the emergence of free surplus as follows:

	2012 £m	2011 £m
Required capital[note 14]	**3,898**	3,447
Value of in-force (VIF)[note 14]	**15,411**	13,364
Add back: deduction for cost of time value of guarantees[note 14]	**683**	685
Other items[note]	**(1,401)**	(1,214)
	18,591	16,282

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 is 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.

		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%**

		2011 £m					
		Expected period of conversion of future post tax distributable earnings and required capital flows to free surplus					
	2011 Total as shown above	1-5 years	6 -10 years	11-15 years	16 -20 years	21-40 years	40+ years
Asia operations	7,387	2,582	1,596	1,012	732	1,262	203
US operations	4,267	2,241	1,287	490	173	76	-
UK insurance operations	4,628	1,864	1,166	743	453	394	8
Total	16,282	6,687	4,049	2,245	1,358	1,732	211
	100%	41%	25%	14%	8%	11%	1%

16 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 2012 (31 December 2011) and the new business contribution after the effect of required capital for 2012 and 2011 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);
- holding company statutory minimum capital (by contrast to required capital), (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

	2012 £m				2011 £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
New business contribution[note 2]	**1,266**	**873**	**313**	**2,452**	1,076	815	260	2,151
Discount rates – 1% increase	**(163)**	**(40)**	**(38)**	**(241)**	(139)	(45)	(36)	(220)
Interest rates – 1% increase	**33**	**104**	**6**	**143**	2	81	5	88
Interest rates – 1% decrease	**(106)**	**(161)**	**(11)**	**(278)**	(72)	(117)	(6)	(195)
Equity/property yields – 1% rise	**48**	**97**	**13**	**158**	50	92	11	153
Long-term expected defaults - 5 bps increase	**-**	**-**	**(10)**	**(10)**	-	-	(8)	(8)
Liquidity premium - 10 bps increase	**-**	**-**	**20**	**20**	-	-	16	16

Embedded value of long-term business operations

	2012 £m				2011 £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 11]	**9,462**	**6,032**	**6,772**	**22,266**	8,510	5,082	6,058	19,650
Discount rates – 1% increase	**(879)**	**(209)**	**(482)**	**(1,570)**	(771)	(147)	(443)	(1,361)
Interest rates – 1% increase	**(218)**	**(124)**	**(328)**	**(670)**	(376)	(106)	(343)	(825)
Interest rates – 1% decrease	**85**	**49**	**399**	**533**	253	58	400	711
Equity/property yields – 1% rise	**328**	**230**	**202**	**760**	329	185	205	719
Equity/property market values – 10% fall	**(159)**	**(69)**	**(309)**	**(537)**	(159)	16	(326)	(469)
Statutory minimum capital	**108**	**89**	**4**	**201**	114	92	4	210
Long-term expected defaults – 5 bps increase	**-**	**-**	**(112)**	**(112)**	-	-	(98)	(98)
Liquidity premium – 10 bps increase	**-**	**-**	**224**	**224**	-	-	196	196

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 2012 (31 December 2011) and the new business contribution after the effect of required capital for 2012 and 2011 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

	2012 £m				2011 £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
New business contribution[note 2]	**1,266**	**873**	**313**	**2,452**	1,076	815	260	2,151
Maintenance expenses – 10% decrease	**32**	**13**	**4**	**49**	26	11	7	44
Lapse rates – 10% decrease	**95**	**26**	**7**	**128**	92	24	10	126
Mortality and morbidity – 5% decrease	**76**	**5**	**(11)**	**70**	60	9	(9)	60
Change representing effect on:								
Life business	**76**	**5**	**3**	**84**	60	9	3	72
UK annuities	**-**	**-**	**(14)**	**(14)**	-	-	(12)	(12)

Embedded value of long-term business operations

	2012 £m				2011 £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 11]	**9,462**	**6,032**	**6,772**	**22,266**	8,510	5,082	6,058	19,650
Maintenance expenses – 10% decrease	**137**	**50**	**56**	**243**	117	44	52	213
Lapse rates – 10% decrease	**333**	**225**	**66**	**624**	342	157	65	564
Mortality and morbidity – 5% decrease	**387**	**178**	**(273)**	**292**	289	92	(227)	154
Change representing effect on:								
Life business	**387**	**178**	**13**	**578**	289	92	12	393
UK annuities	**-**	**-**	**(286)**	**(286)**	-	-	(239)	(239)

(c) *Effect of proposed change in UK corporation tax rate*

The proposed rate change from 23 per cent to 22 per cent announced in the 2012 Budget on 21 March 2012 has been reduced by a further 1 per cent to 21 per cent in the Autumn Statement on 5 December 2012. The change from 23 per cent to 21 per cent is expected to be effective 1 April 2014 and when substantively enacted it would have the impact of increasing the net of tax value of in-force business of UK insurance operations at 31 December 2012 by around £65 million.

17 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 (a),(b),(d)

	31 December 2012 %											
	China	**Hong Kong** notes (b),(d)	**India**	**Indonesia**	**Japan**	**Korea**	**Malaysia** notes (c),(d)	**Philippines**	**Singapore** note (d)	**Taiwan**	**Thailand**	**Vietnam**
Risk discount rate:												
New business	**10.1**	**3.8**	**13.2**	**9.4**	**-**	**7.4**	**5.8**	**11.1**	**3.6**	**3.25**	**10.3**	**17.2**
In force	**10.1**	**3.5**	**13.2**	**9.4**	**4.5**	**7.2**	**5.8**	**11.1**	**4.3**	**3.4**	**10.3**	**17.2**
Expected long-term rate of inflation	**2.5**	**2.25**	**4.0**	**5.0**	**0.0**	**3.0**	**2.5**	**4.0**	**2.0**	**1.0**	**3.0**	**5.5**
Government bond yield	**3.6**	**1.8**	**8.2**	**5.3**	**0.8**	**3.2**	**3.5**	**4.35**	**1.3**	**1.2**	**3.5**	**10.5**

	31 December 2011 %											
	China	Hong Kong notes (b),(d)	India	Indonesia	Japan	Korea	Malaysia notes (c),(d)	Philippines	Singapore note (d)	Taiwan	Thailand	Vietnam
Risk discount rate:												
New business	10.0	3.85	13.75	11.15	-	7.1	6.4	12.2	3.9	5.0	10.1	19.6
In force	10.0	3.7	13.75	11.15	4.7	7.1	6.5	12.2	4.65	5.0	10.1	19.6
Expected long-term rate of inflation	2.5	2.25	4.0	5.0	0.0	3.0	2.5	4.0	2.0	1.0	3.0	6.5
Government bond yield	3.5	1.9	8.75	6.1	1.0	3.8	3.7	5.4	1.6	1.3	3.3	12.9

	Asia Total %	
	2012	2011
Weighted risk discount rate: note (a)		
New business	**6.8**	7.4
In force	**6.1**	6.9

Equity risk premiums in Asia range from 3.25 per cent to 8.8 per cent for 2012 (2011: 3.25 per cent to 8.7 per cent).

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 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 risk discount rate for Malaysia reflects both the Malaysia life and Takaful operations.

(d) The mean equity return assumptions for the most significant equity holdings in the Asia operations were:

	2012 %	2011 %
Hong Kong	**5.8**	5.9
Malaysia	**9.5**	9.7
Singapore	**7.35**	7.7

(ii) US operations

	2012 %	2011 %
Assumed new business spread margins:[notes (a), (c)]		
Fixed Annuity business*		
January to June issues	**1.4** **	1.75 **
July to December issues	**1.1** **	1.75 **
Fixed Index Annuity business		
January to June issues	**1.75** **	2.25
July to December issues	**1.35** **	2.25
Institutional business	**1.25**	1.0
Risk discount rate:[note (d)]		
Variable annuity	**6.5**	6.7
Non-variable annuity	**4.0**	4.6
Weighted average total:[note (b)]		
New business	**6.3**	6.5
In force	**5.6**	6.0
US 10-year treasury bond rate at end of year	**1.8**	1.9
Pre-tax expected long-term nominal rate of return for US equities	**5.8**	5.9
Equity risk premium	**4.0**	4.0
Expected long-term rate of inflation	**2.5**	2.0

* including the proportion of variable annuity business invested in the general account

** grading up linearly by 25 basis points to a long-term assumption over five years

Notes

(a) The assumed new business 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) in both years the assumed spread margin grades up linearly by 25 basis points to the long-term assumption over five years. In 2012 for fixed index annuity business the assumed spread margin also grades up linearly by 25 basis points to the long-term assumption over five years. For fixed index annuity business in 2011 and institutional business in both years the assumption applies from inception (ie no grading).

(b) The weighted average risk discount rates reflect the mix of business between variable annuity and non-variable annuity business. The decrease in the weighted average risk discount rates from 2011 to 2012 primarily reflects the decrease in the US 10-year Treasury bond rate of 10 basis points together with the effect of the decrease in additional allowance for credit risk (as described in note (d) below).

(c) Credit risk treatment
The projected cash flows incorporate the expected long-term spread between the earned rate and the rate credited to policyholders. The projected earned rates reflect book value yields which are adjusted over time to reflect projected reinvestment rates. Positive net cash flows are assumed to be reinvested in a mix of corporate bonds, commercial mortgages and limited partnerships. The yield on those assets is assumed to grade from the current level to a yield that allows for a long-term assumed credit spread on the reinvested assets of 1.25 per cent over 10 years. The yield also reflects an allowance for a risk margin reserve which for 2012 is 28 basis points (2011: 27 basis points) for long-term defaults (as described in note 1(b)(iii)), which represents the allowance as at the valuation date applied in the cash flow projections of the value of the in-force business.
In the event that long-term default levels are higher, then unlike for UK annuity business where policyholder benefits are not changeable, Jackson has some discretion to adjust crediting rates, subject to contract guarantee levels and general market competition considerations.

(d) For US operations, the risk discount rates shown above include an additional allowance for a combination of credit risk premium and short-term downgrade and default allowance for general account business of 150 basis points (2011: 200 basis points) and for variable annuity business of 30 basis points (2011: 40 basis points) to reflect the fact that a proportion of the variable annuity business is allocated to the general account (as described in note 1(b)(iii)).

(iii) UK insurance operations

	2012 %	2011 %
Shareholder-backed annuity business:[note (d)]		
Risk discount rate:		
New business[note (a)]	**6.9**	7.7
In force[note (b)]	**7.95**	8.6
Pre-tax expected long-term nominal rate of return for shareholder-backed annuity business:		
New business	**4.2**	4.85
In force[note (b)]	**3.9**	4.4
Other business:[note (d)]		
Risk discount rate:[note (c)]		
New business	**5.2**	5.3
In force	**5.6**	5.65
Equity risk premium	**4.0**	4.0
Pre-tax expected long-term nominal rates of investment return:		
UK equities	**6.3**	6.5
Overseas equities	**5.8 to 9.6**	5.9 to 9.9
Property	**5.1**	5.2
Gilts	**2.3**	2.5
Corporate bonds	**3.9**	4.0
Expected long-term rate of inflation	**2.9**	3.0
Post-tax expected long-term nominal rate of return for the PAC with-profits fund:		
Pension business (where no tax applies)	**5.0**	5.1
Life business	**4.35**	4.4

Notes

(a) The new business risk discount rate for shareholder-backed annuity business incorporates an allowance for best estimate defaults and additional credit risk provisions, appropriate to the new business assets, over the projected lifetime of this business. These additional provisions comprise of a credit risk premium, which is derived from Moody's data from 1970 to 2009, an allowance for a 1 notch downgrade of the portfolio subject to credit risk and an allowance for short-term defaults.

(b) 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.

(c) The risk discount rates for new business and business in force for UK insurance operations other than shareholder-backed annuities reflect weighted rates based on the type of business.

(d) Credit spread treatment

For with-profits business, the embedded value reflects the discounted value of future shareholder transfers. These transfers are directly affected by the level of projected rates of return on investments, including debt securities. 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.

For UK shareholder-backed annuity business, different dynamics apply both in terms of the nature of the business and the EEV methodology applied. For this type of business the assets are generally held to maturity to match long duration liabilities. It is therefore appropriate under EEV methodology to include a liquidity premium in the economic basis used. The appropriate EEV risk discount rate is set in order to equate the EEV with a 'market consistent embedded value' including liquidity premium. The liquidity premium in the 'market consistent embedded value' is derived from the yield on the assets held after deducting an appropriate allowance for credit risk.

For Prudential Retirement Income Limited, which has approximately 90 per cent of UK shareholder-backed annuity business, the allowance for credit risk for the in-force business at 31 December 2012 is made up of:

(1) 15 basis points in respect of long-term expected defaults 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 and Poor's and Fitch.

(2) 50 basis points in respect of additional provisions which comprise a credit risk premium, which is derived from Moody's data from 1970 to 2009, an allowance for a 1 notch downgrade of the portfolio subject to credit risk and an allowance for short-term defaults.

The credit assumptions used and the residual liquidity premium element of the bond spread over swap rates is as follows:

New business*	31 December 2012 (bps)	31 December 2011 (bps)
Bond spread over swap rates	**150**	139
Total credit risk allowance**	**35**	35
Liquidity premium	**115**	104
In-force business		
Bond spread over swap rates	**161**	201
Total credit risk allowance	**65**	66
Liquidity premium	**96**	135

* The new business liquidity premium is based on the weighted average of the point of sale liquidity premia.

** Specific assets are allocated to the new business for the period with the appropriate allowance for credit risk which was 35 basis points for 2012 and 2011.

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 and Singapore 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, and the volatility of government bond yields ranges from 0.9 per cent to 2.3 per cent (2011: 0.9 per cent to 2.4 per cent).

(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 all periods throughout these results, 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 (2011: 2.1 per cent to 2.4 per cent).

(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:

	2012 %	2011 %
Equities:		
UK	**20**	20
Overseas	**18**	18
Property	**15**	15

(vii) 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.

(viii) 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 provided these are 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, and is charged as incurred. These costs are primarily for corporate related activities and included within corporate expenditure.

(ix) Taxation and other legislation

Current taxation and other legislation have been assumed to continue unaltered except where changes have been announced and substantively enacted in the year.

The sensitivity of the embedded value as at 31 December 2012 to the effect of the forthcoming change in the UK corporate tax rates is shown in note 16(c).

18 New business premiums and contributions[note (i)]

	Single		Regular		Annual premium and contribution equivalents (APE)		Present value of new business premiums (PVNBP)	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Group insurance operations								
Asia	**1,568**	1,456	**1,740**	1,514	**1,897**	1,660	**10,544**	8,910
US	**14,504**	12,562	**12**	19	**1,462**	1,275	**14,600**	12,720
UK	**6,286**	4,871	**207**	259	**836**	746	**7,311**	6,111
Group Total	**22,358**	18,889	**1,959**	1,792	**4,195**	3,681	**32,455**	27,741
Asia insurance operations								
Hong Kong	**157**	180	**380**	313	**396**	331	**2,316**	2,023
Indonesia	**359**	250	**410**	338	**446**	363	**2,097**	1,435
Malaysia	**98**	79	**208**	215	**218**	223	**1,388**	1,225
Philippines	**172**	95	**28**	20	**45**	30	**254**	153
Singapore	**399**	371	**261**	198	**301**	235	**2,314**	1,855
Thailand	**12**	11	**36**	26	**37**	27	**140**	102
Vietnam	**1**	1	**44**	42	**45**	42	**159**	143
SE Asia operations inc. Hong Kong	**1,198**	987	**1,367**	1,152	**1,488**	1,251	**8,668**	6,936
China[note (ii)]	**37**	46	**53**	54	**56**	59	**277**	294
Korea	**94**	71	**86**	94	**95**	101	**438**	542
Taiwan	**172**	217	**138**	126	**156**	148	**723**	672
India[note (iii)]	**67**	135	**96**	88	**102**	101	**438**	466
Total Asia operations	**1,568**	1,456	**1,740**	1,514	**1,897**	1,660	**10,544**	8,910
US insurance operations								
Fixed annuities	**581**	472	**-**	-	**58**	47	**581**	472
Fixed index annuities	**1,094**	934	**-**	-	**109**	93	**1,094**	934
Life	**6**	10	**12**	19	**12**	20	**102**	168
Variable annuities	**12,445**	10,909	**-**	-	**1,245**	1,091	**12,445**	10,909
Wholesale	**378**	237	**-**	-	**38**	24	**378**	237
Total US insurance operations	**14,504**	12,562	**12**	19	**1,462**	1,275	**14,600**	12,720
UK and Europe insurance operations								
Direct and partnership annuities	**297**	328	**-**	-	**30**	33	**297**	328
Intermediated annuities	**653**	241	**-**	-	**65**	24	**653**	241
Internal vesting annuities	**1,456**	1,223	**-**	-	**146**	122	**1,456**	1,223
Total individual annuities	**2,406**	1,792	**-**	-	**241**	179	**2,406**	1,792
Corporate pensions	**303**	184	**159**	215	**189**	233	**1,045**	1,224
Onshore bonds	**2,275**	1,779	**-**	-	**228**	178	**2,277**	1,781
Other products	**894**	780	**48**	44	**137**	122	**1,175**	978
Wholesale	**408**	336	**-**	-	**41**	34	**408**	336
Total UK and Europe insurance operations	**6,286**	4,871	**207**	259	**836**	746	**7,311**	6,111
Group Total	**22,358**	18,889	**1,959**	1,792	**4,195**	3,681	**32,455**	27,741

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.

19 Other developments

Acquisition of Thanachart Life Assurance Company Limited

On 5 November 2012, Prudential plc , through its subsidiary Prudential Life Assurance (Thailand) Public Company Limited ('Prudential Thailand') entered into an agreement to acquire 100 per cent of Thanachart Life Assurance Company Limited ('Thanachart Life'), a wholly-owned life insurance subsidiary of Thanachart Bank Public Company limited ('Thanachart Bank'). The consideration for Thanachart Life is THB 17.5 billion (£352 million at the year end exchange rate) settled in cash on completion, with a further payment of THB 0.5 billion (£10 million) payable 12 months after completion, subject to a post-completion adjustment to reflect the net asset value as at the completion date. The transaction is subject to regulatory approval and is expected to close in the first half of 2013. Upon completion of the transaction, Thanachart Life will become a wholly-owned subsidiary of Prudential Thailand.

As part of the deal, Prudential Thailand and Thanachart Bank have entered into an agreement to establish an exclusive 15-year partnership to develop jointly their bancassurance business in Thailand. 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.

Additional Unaudited Financial Information

A New Business Schedules

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 FSA 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 2012 Full Year EEV Preliminary Announcement.

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) – A(vi)

(1a) Insurance and investment new business for overseas operations has been calculated using average exchange rates. The applicable rate for Jackson for 2012 is 1.58.
(1b) Insurance and investment new business for overseas operations for 2011 has been calculated using constant exchange rates. The applicable rate for Jackson is 1.58.
(2) New business values are all presented pre-tax.
(3) 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.
(4) 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.
(5) New business in India is included at Prudential's 26 per cent interest in the India life operation.
(6) Balance Sheet figures have been calculated at the closing exchange rate.
(7) Sales are converted using the year-to-date average exchange rate applicable at the time. 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.
(8) New business in China is included at Prudential's 50 per cent interest in the China life operation.
(9) Mandatory Provident Fund (MPF) product sales in Hong Kong are included at Prudential's 36 per cent interest in Hong Kong MPF operation.
(10) Investment flows for the year exclude Eastspring Money Market Funds (MMF) gross inflows of £51,463 million (2011: £55,902 million) and net outflows of £226 million (2011 net outflows: £512 million).
(11) From 1 January 2012, Prudential Portfolio Managers South Africa (Pty) Limited is no longer a subsidiary of M&G following the restructuring transaction whereby M&G's ownership has been diluted following the equitisation of the staff incentive scheme and reduced further by the sale of an additional 10 per cent equity stake to an empowerment company as encouraged under Broad Based Black Economic Empowerment legislation. Only 49.99 per cent of funds under management and flows from the South African associate company will be included in M&G's results from 2012 onwards whereas 100 per cent has been included up to the end of 2011.

Schedule A(i) – Reported Exchange Rates
PRUDENTIAL PLC – NEW BUSINESS – 2012
INSURANCE OPERATIONS

	Single			Regular			Annual Equivalents[3]			PVNBP		
	2012	2011		2012	2011		2012	2011		2012	2011	
	YTD	YTD	+/- (%)	YTD	YTD	+/- (%)	YTD	YTD	+/- (%)	YTD	YTD	+/- (%)
	£m	£m		£m	£m		£m	£m		£m	£m	
Group Insurance Operations												
Asia	**1,568**	1,456	8%	**1,740**	1,514	15%	**1,897**	1,660	14%	**10,544**	8,910	18%
US[1a) (7)]	**14,504**	12,562	15%	**12**	19	(37%)	**1,462**	1,275	15%	**14,600**	12,720	15%
UK	**6,286**	4,871	29%	**207**	259	(20%)	**836**	746	12%	**7,311**	6,111	20%
Group Total	**22,358**	18,889	18%	**1,959**	1,792	9%	**4,195**	3,681	14%	**32,455**	27,741	17%
Asia Insurance Operations[(1a) (7)]												
Hong Kong	**157**	180	(13%)	**380**	313	21%	**396**	331	20%	**2,316**	2,023	14%
Indonesia	**359**	250	44%	**410**	338	21%	**446**	363	23%	**2,097**	1,435	46%
Malaysia	**98**	79	24%	**208**	215	(3%)	**218**	223	(2%)	**1,388**	1,225	13%
Philippines	**172**	95	81%	**28**	20	40%	**45**	30	50%	**254**	153	66%
Singapore	**399**	371	8%	**261**	198	32%	**301**	235	28%	**2,314**	1,855	25%
Thailand	**12**	11	9%	**36**	26	38%	**37**	27	37%	**140**	102	37%
Vietnam	**1**	1	-	**44**	42	5%	**45**	42	7%	**159**	143	11%
SE Asia Operations inc. Hong Kong	**1,198**	987	21%	**1,367**	1,152	19%	**1,488**	1,251	19%	**8,668**	6,936	25%
China[(8)]	**37**	46	(20%)	**53**	54	(2%)	**56**	59	(5%)	**277**	294	(6%)
Korea	**94**	71	32%	**86**	94	(9%)	**95**	101	(6%)	**438**	542	(19%)
Taiwan	**172**	217	(21%)	**138**	126	10%	**156**	148	5%	**723**	672	8%
India[(5)]	**67**	135	(50%)	**96**	88	9%	**102**	101	1%	**438**	466	(6%)
Total Asia Operations	**1,568**	1,456	8%	**1,740**	1,514	15%	**1,897**	1,660	14%	**10,544**	8,910	18%
US Insurance Operations[(1a) (7)]												
Fixed Annuities	**581**	472	23%	**-**	-	N/A	**58**	47	23%	**581**	472	23%
Fixed Index Annuities	**1,094**	934	17%	**-**	-	N/A	**109**	93	17%	**1,094**	934	17%
Life	**6**	10	(40%)	**12**	19	(37%)	**12**	20	(40%)	**102**	168	(39%)
Variable Annuities	**12,445**	10,909	14%	**-**	-	N/A	**1,245**	1,091	14%	**12,445**	10,909	14%
Wholesale	**378**	237	59%	**-**	-	N/A	**38**	24	58%	**378**	237	59%
Total US Insurance Operations	**14,504**	12,562	15%	**12**	19	(37%)	**1,462**	1,275	15%	**14,600**	12,720	15%
UK & Europe Insurance Operations												
Direct and Partnership Annuities	**297**	328	(9%)	**-**	-	N/A	**30**	33	(9%)	**297**	328	(9%)
Intermediated Annuities	**653**	241	171%	**-**	-	N/A	**65**	24	171%	**653**	241	171%
Internal Vesting Annuities	**1,456**	1,223	19%	**-**	-	N/A	**146**	122	20%	**1,456**	1,223	19%
Total Individual Annuities	**2,406**	1,792	34%	**-**	-	N/A	**241**	179	35%	**2,406**	1,792	34%
Corporate Pensions	**303**	184	65%	**159**	215	(26%)	**189**	233	(19%)	**1,045**	1,224	(15%)
On-shore Bonds	**2,275**	1,779	28%	**-**	-	N/A	**228**	178	28%	**2,277**	1,781	28%
Other Products	**894**	780	15%	**48**	44	9%	**137**	122	12%	**1,175**	978	20%
Wholesale	**408**	336	21%	**-**	-	N/A	**41**	34	21%	**408**	336	21%
Total UK & Europe Insurance Operations	**6,286**	4,871	29%	**207**	259	(20%)	**836**	746	12%	**7,311**	6,111	20%
Group Total	**22,358**	18,889	18%	**1,959**	1,792	9%	**4,195**	3,681	14%	**32,455**	27,741	17%

Schedule A(ii) – Constant Exchange Rates
PRUDENTIAL PLC – NEW BUSINESS – 2012
INSURANCE OPERATIONS

	Single			Regular			Annual Equivalents[3]			PVNBP		
	2012	2011		2012	2011		2012	2011		2012	2011	
	YTD	YTD	+/- (%)	YTD	YTD	+/- (%)	YTD	YTD	+/- (%)	YTD	YTD	+/- (%)
	£m	£m		£m	£m		£m	£m		£m	£m	
Group Insurance Operations												
Asia [(1b) (7)]	**1,568**	1,442	9%	**1,740**	1,498	16%	**1,897**	1,642	16%	**10,544**	8,862	19%
US[(1b) (7)]	**14,504**	12,711	14%	**12**	19	(37%)	**1,462**	1,290	13%	**14,600**	12,871	13%
UK	**6,286**	4,871	29%	**207**	259	(20%)	**836**	746	12%	**7,311**	6,111	20%
Group Total	**22,358**	19,024	18%	**1,959**	1,776	10%	**4,195**	3,678	14%	**32,455**	27,844	17%
Asia Insurance Operations[(1b) (7)]												
Hong Kong	**157**	183	(14%)	**380**	318	19%	**396**	336	18%	**2,316**	2,055	13%
Indonesia	**359**	237	51%	**410**	320	28%	**446**	343	30%	**2,097**	1,358	54%
Malaysia	**98**	79	24%	**208**	216	(4%)	**218**	224	(3%)	**1,388**	1,227	13%
Philippines	**172**	98	76%	**28**	21	33%	**45**	31	45%	**254**	158	61%
Singapore	**399**	377	6%	**261**	201	30%	**301**	239	26%	**2,314**	1,888	23%
Thailand	**12**	11	9%	**36**	25	44%	**37**	26	42%	**140**	102	37%
Vietnam	**1**	1	0%	**44**	42	5%	**45**	42	7%	**159**	143	11%
SE Asia Operations inc. Hong Kong	**1,198**	986	22%	**1,367**	1,143	20%	**1,488**	1,241	20%	**8,668**	6,931	25%
China[(8)]	**37**	48	(23%)	**53**	56	(5%)	**56**	61	(8%)	**277**	304	(9%)
Korea	**94**	70	34%	**86**	94	(9%)	**95**	101	(6%)	**438**	539	(19%)
Taiwan	**172**	219	(21%)	**138**	127	9%	**156**	149	5%	**723**	676	7%
India[(5)]	**67**	119	(44%)	**96**	78	23%	**102**	90	13%	**438**	412	6%
Total Asia Operations	**1,568**	1,442	9%	**1,740**	1,498	16%	**1,897**	1,642	16%	**10,544**	8,862	19%
US Insurance Operations[(1b) (7)]												
Fixed Annuities	**581**	477	22%	**-**	-	N/A	**58**	48	21%	**581**	477	22%
Fixed Index Annuities	**1,094**	945	16%	**-**	-	N/A	**109**	94	16%	**1,094**	945	16%
Life	**6**	10	(40%)	**12**	19	(37%)	**12**	20	(40%)	**102**	170	(40%)
Variable Annuities	**12,445**	11,038	13%	**-**	-	N/A	**1,245**	1,104	13%	**12,445**	11,038	13%
Wholesale	**378**	241	57%	**-**	-	N/A	**38**	24	58%	**378**	241	57%
Total US Insurance Operations	**14,504**	12,711	14%	**12**	19	(37%)	**1,462**	1,290	13%	**14,600**	12,871	13%
UK & Europe Insurance Operations												
Direct and Partnership Annuities	**297**	328	(9%)	**-**	-	N/A	**30**	33	(9%)	**297**	328	(9%)
Intermediated Annuities	**653**	241	171%	**-**	-	N/A	**65**	24	171%	**653**	241	171%
Internal Vesting Annuities	**1,456**	1,223	19%	**-**	-	N/A	**146**	122	20%	**1,456**	1,223	19%
Total Individual Annuities	**2,406**	1,792	34%	**-**	-	N/A	**241**	179	35%	**2,406**	1,792	34%
Corporate Pensions	**303**	184	65%	**159**	215	(26%)	**189**	233	(19%)	**1,045**	1,224	(15%)
On-shore Bonds	**2,275**	1,779	28%	**-**	-	N/A	**228**	178	28%	**2,277**	1,781	28%
Other Products	**894**	780	15%	**48**	44	9%	**137**	122	12%	**1,175**	978	20%
Wholesale	**408**	336	21%	**-**	-	N/A	**41**	34	21%	**408**	336	21%
Total UK & Europe Insurance Operations	**6,286**	4,871	29%	**207**	259	(20%)	**836**	746	12%	**7,311**	6,111	20%
Group Total	**22,358**	19,024	18%	**1,959**	1,776	10%	**4,195**	3,678	14%	**32,455**	27,844	17%

Schedule A(iii) - Reported Exchange Rates
PRUDENTIAL PLC - NEW BUSINESS – 2012
TOTAL INSURANCE NEW BUSINESS APE - BY QUARTER

	2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	£m	£m	£m	£m	£m	£m	£m	£m
Group Insurance Operations								
Asia	367	376	404	513	443	456	429	**569**
US(1a)(7)	322	350	316	287	332	387	414	**329**
UK	199	210	160	177	189	223	205	**219**
Group Total	**888**	**936**	**880**	**977**	**964**	**1,066**	**1,048**	**1,117**
Asia Insurance Operations(1a)(7)								
Hong Kong	77	74	78	102	85	92	96	**123**
Indonesia	74	84	81	124	97	109	97	**143**
Malaysia	44	47	59	73	45	53	47	**73**
Philippines	6	8	8	8	10	11	12	**12**
Singapore	47	56	60	72	72	69	76	**84**
Thailand	5	6	9	7	11	8	9	**9**
Vietnam	8	11	10	13	7	11	11	**16**
SE Asia Operations inc. Hong Kong	**261**	**286**	**305**	**399**	**327**	**353**	**348**	**460**
China(8)	18	17	11	13	17	16	13	**10**
Korea	28	27	26	20	21	24	22	**28**
Taiwan	29	30	36	53	43	45	24	**44**
India(5)	31	16	26	28	35	18	22	**27**
Total Asia Insurance Operations	**367**	**376**	**404**	**513**	**443**	**456**	**429**	**569**
US Insurance Operations(1a)(7)								
Fixed Annuities	13	10	10	14	16	15	14	**13**
Fixed Index Annuities	20	22	26	25	25	25	29	**30**
Life	5	6	5	4	4	4	3	**1**
Variable Annuities	284	305	262	240	279	332	359	**275**
Wholesale	-	7	13	4	8	11	9	**10**
Total US Insurance Operations	**322**	**350**	**316**	**287**	**332**	**387**	**414**	**329**
UK & Europe Insurance Operations								
Direct and Partnership Annuities	10	8	8	6	7	7	7	**9**
Intermediated Annuities	5	7	6	6	10	15	16	**24**
Internal Vesting annuities	27	29	32	34	31	35	38	**42**
Total Individual Annuities	**42**	**44**	**47**	**46**	**48**	**57**	**61**	**75**
Corporate Pensions	78	69	43	43	49	55	44	**41**
On-shore Bonds	43	41	43	51	55	51	55	**67**
Other Products	36	28	27	31	37	33	31	**36**
Wholesale	-	28	-	6	-	27	14	**-**
Total UK & Europe Insurance Operations	**199**	**210**	**160**	**177**	**189**	**223**	**205**	**219**
Group Total	**888**	**936**	**880**	**977**	**964**	**1,066**	**1,048**	**1,117**

Schedule A(iv) – Constant Exchange Rates
PRUDENTIAL PLC - NEW BUSINESS – 2012
TOTAL INSURANCE NEW BUSINESS APE - BY QUARTER

	2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	£m	£m	£m	£m	£m	£m	£m	£m
Group Insurance Operations								
Asia	366	374	398	504	443	456	429	**569**
US(1b) (7)	326	359	322	283	332	387	414	**329**
UK	199	210	160	177	189	223	205	**219**
Group Total	**891**	**943**	**880**	**964**	**964**	**1,066**	**1,048**	**1,117**
Asia Insurance Operations(1b)(7)								
Hong Kong	79	76	79	102	85	92	96	**123**
Indonesia	71	80	75	117	97	109	97	**143**
Malaysia	44	47	59	74	45	53	47	**73**
Philippines	7	8	8	8	10	11	12	**12**
Singapore	49	58	59	73	72	69	76	**84**
Thailand	5	6	9	6	11	8	9	**9**
Vietnam	8	11	11	12	7	11	11	**16**
SE Asia Operations inc. Hong Kong	**263**	**286**	**300**	**392**	**327**	**353**	**348**	**460**
China(8)	19	18	12	12	17	16	13	**10**
Korea	28	27	26	20	21	24	22	**28**
Taiwan	29	29	37	54	43	45	24	**44**
India(1b) (7) (5)	27	14	23	26	35	18	22	**27**
Total Asia Insurance Operations	**366**	**374**	**398**	**504**	**443**	**456**	**429**	**569**
US Insurance Operations(1b) (7)								
Fixed Annuities	13	11	10	14	16	15	14	**13**
Fixed Index Annuities	21	22	27	24	25	25	29	**30**
Life	5	5	5	5	4	4	3	**1**
Variable Annuities	287	314	266	237	279	332	359	**275**
Wholesale	-	7	14	3	8	11	9	**10**
Total US Insurance Operations	**326**	**359**	**322**	**283**	**332**	**387**	**414**	**329**
UK & Europe Insurance Operations								
Direct and Partnership Annuities	10	8	8	6	7	7	7	**9**
Intermediated Annuities	5	7	6	6	10	15	16	**24**
Internal Vesting annuities	27	29	32	34	31	35	38	**42**
Total Individual Annuities	**42**	**44**	**47**	**46**	**48**	**57**	**61**	**75**
Corporate Pensions	78	69	43	43	49	55	44	**41**
On-shore Bonds	43	41	43	51	55	51	55	**67**
Other Products	36	28	27	31	37	33	31	**36**
Wholesale	-	28	-	6	-	27	14	**-**
Total UK & Europe Insurance Operations	**199**	**210**	**160**	**177**	**189**	**223**	**205**	**219**
Group Total	**891**	**943**	**880**	**964**	**964**	**1,066**	**1,048**	**1,117**

Schedule A(v) - Reported Exchange Rates
PRUDENTIAL PLC - NEW BUSINESS – 2012
INVESTMENT OPERATIONS - BY QUARTER

	2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	£m	£m	£m	£m	£m	£m	£m	£m
Group Investment Operations								
Opening FUM	107,491	108,234	109,901	102,535	106,984	109,507	110,204	**120,709**
Net Flows[10]	1,891	1,019	487	1,621	2,116	3,251	6,975	**6,165**
- Gross Inflows	9,186	8,482	8,599	7,538	9,183	9,305	13,228	**13,783**
- Redemptions	(7,295)	(7,463)	(8,112)	(5,917)	(7,067)	(6,054)	(6,253)	**(7,618)**
Other Movements	(1,148)	648	(7,853)	2,828	407	(2,554)	3,530	**2,624**
Total Group Investment Operations	**108,234**	**109,901**	**102,535**	**106,984**	**109,507**	**110,204**	**120,709**	**129,498**
M&G								
Retail								
Opening FUM	42,506	44,018	45,603	41,427	44,228	47,972	48,352	**51,951**
Net Flows	1,310	1,486	(172)	1,271	2,398	1,876	1,863	**1,705**
- Gross Inflows	5,474	4,900	4,322	4,353	6,055	4,995	4,903	**5,528**
- Redemptions	(4,164)	(3,414)	(4,494)	(3,082)	(3,657)	(3,119)	(3,040)	**(3,823)**
Other Movements	202	99	(4,004)	1,530	1,346	(1,496)	1,736	**1,223**
Closing FUM	**44,018**	**45,603**	**41,427**	**44,228**	**47,972**	**48,352**	**51,951**	**54,879**
Institutional[4]								
Opening FUM	46,820	47,364	47,747	45,921	47,720	45,371	46,291	**52,215**
Net Flows	367	(241)	(116)	480	(631)	1,298	4,505	**3,867**
- Gross Inflows	1,445	1,571	2,105	1,811	954	2,697	5,643	**5,688**
- Redemptions	(1,078)	(1,812)	(2,221)	(1,331)	(1,585)	(1,399)	(1,138)	**(1,821)**
Other Movements	177	624	(1,710)	1,319	(1,718)	(378)	1,419	**907**
Closing FUM	**47,364**	**47,747**	**45,921**	**47,720**	**45,371**	**46,291**	**52,215**	**56,989**
Total M&G Investment Operations	**91,382**	**93,350**	**87,348**	**91,948**	**93,343**	**94,643**	**104,166**	**111,868**
PPM South Africa FUM included in Total M&G	**8,772**	**8,695**	**7,396**	**7,872**	**3,757**	**3,584**	**3,848**	**4,391**
Eastspring - excluding MMF[10]								
Equity/Bond/Other[9]								
Opening FUM	16,358	14,943	14,565	13,404	13,007	13,970	13,423	**14,508**
Net Flows	64	(272)	713	(252)	333	50	838	**521**
- Gross Inflows	2,031	1,911	2,088	1,147	2,120	1,552	2,407	**2,446**
- Redemptions	(1,967)	(2,183)	(1,375)	(1,399)	(1,787)	(1,502)	(1,569)	**(1,925)**
Other Movements	(1,479)	(106)	(1,874)	(145)	630	(597)	247	**428**
Closing FUM[6]	**14,943**	**14,565**	**13,404**	**13,007**	**13,970**	**13,423**	**14,508**	**15,457**
Third Party Institutional Mandates								
Opening FUM	1,807	1,909	1,986	1,783	2,029	2,194	2,138	**2,035**
Net Flows	150	46	62	122	16	27	(231)	**72**
- Gross Inflows	236	100	84	227	54	61	275	**121**
- Redemptions	(86)	(54)	(22)	(105)	(38)	(34)	(506)	**(49)**
Other Movements	(48)	31	(265)	124	149	(83)	128	**66**
Closing FUM[6]	**1,909**	**1,986**	**1,783**	**2,029**	**2,194**	**2,138**	**2,035**	**2,173**
Total Eastspring Investment Operations	**16,852**	**16,551**	**15,187**	**15,036**	**16,164**	**15,561**	**16,543**	**17,630**
US								
Curian Capital - FUM[6]	**3,873**	**4,268**	**4,291**	**4,705**	**5,118**	**5,212**	**6,421**	**7,061**

Schedule A(vi) - Reported Exchange Rates
PRUDENTIAL PLC - NEW BUSINESS –2012
TOTAL INSURANCE NEW BUSINESS PROFIT

	2011				2012			
	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m
Annual Equivalent(3)								
Total Asia Insurance Operations	367	743	1,147	1,660	443	899	1,328	**1,897**
Total US Insurance Operations	322	672	988	1,275	332	719	1,133	**1,462**
Total UK & Europe Insurance Operations	199	409	569	746	189	412	617	**836**
Group Total	**888**	**1,824**	**2,704**	**3,681**	**964**	**2,030**	**3,078**	**4,195**
New business profit(2)								
Total Asia Insurance Operations	213	465	719	1,076	260	547	828	**1,266**
Total US Insurance Operations	220	458	622	815	214	442	683	**873**
Total UK & Europe Insurance Operations	65	146	194	260	62	152	227	**313**
Group Total	**498**	**1,069**	**1,535**	**2,151**	**536**	**1,141**	**1,738**	**2,452**
New business margin (% of APE)								
Total Asia Insurance Operations	58%	63%	63%	65%	59%	61%	62%	**67%**
Total US Insurance Operations	68%	68%	63%	64%	64%	61%	60%	**60%**
Total UK & Europe Insurance Operations	33%	36%	34%	35%	33%	37%	37%	**37%**
Group Total	**56%**	**59%**	**57%**	**58%**	**56%**	**56%**	**56%**	**58%**
PVNBP(3)								
Total Asia Insurance Operations	1,935	3,939	6,221	8,910	2,303	4,725	7,074	**10,544**
Total US Insurance Operations	3,206	6,689	9,858	12,720	3,307	7,180	11,308	**14,600**
Total UK & Europe Insurance Operations	1,551	3,264	4,603	6,111	1,580	3,495	5,264	**7,311**
Group Total	**6,692**	**13,892**	**20,682**	**27,741**	**7,190**	**15,400**	**23,646**	**32,455**
New business profit(2)								
Total Asia Insurance Operations	213	465	719	1,076	260	547	828	**1,266**
Total US Insurance Operations	220	458	622	815	214	442	683	**873**
Total UK & Europe Insurance Operations	65	146	194	260	62	152	227	**313**
Group Total	**498**	**1,069**	**1,535**	**2,151**	**536**	**1,141**	**1,738**	**2,452**
New business margin (% of PVNBP)								
Total Asia Insurance Operations	11.0%	11.8%	11.6%	12.1%	11.3%	11.6%	11.7%	**12.0%**
Total US Insurance Operations	6.9%	6.8%	6.3%	6.4%	6.5%	6.2%	6.0%	**6.0%**
Total UK & Europe Insurance Operations	4.2%	4.5%	4.2%	4.3%	3.9%	4.3%	4.3%	**4.3%**
Group Total	**7.4%**	**7.7%**	**7.4%**	**7.8%**	**7.5%**	**7.4%**	**7.4%**	**7.6%**

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 2012, the tables also present the expected future free surplus to be generated from the investment made in new business during 2012 over the same 40 year period.

Expected transfer of value of in-force (VIF) and required capital business to free surplus

	2012 £m							
	Undiscounted expected generation from all in-force business at 31 December*				Undiscounted expected generation from 2012 long-term new business written*			
Expected period of emergence	**Asia**	**US**	**UK**	**Total**	**Asia**	**US**	**UK**	**Total**
2013	719	785	446	**1,950**	105	269	27	**401**
2014	761	572	483	**1,816**	129	108	23	**260**
2015	724	600	464	**1,788**	129	113	23	**265**
2016	686	557	444	**1,687**	99	37	20	**156**
2017	654	587	430	**1,671**	98	115	23	**236**
2018	628	551	415	**1,594**	86	77	22	**185**
2019	617	514	401	**1,532**	91	64	18	**173**
2020	610	524	389	**1,523**	94	115	18	**227**
2021	598	445	380	**1,423**	89	95	18	**202**
2022	585	390	372	**1,347**	95	78	18	**191**
2023	557	353	365	**1,275**	85	73	17	**175**
2024	538	298	356	**1,192**	85	56	17	**158**
2025	525	229	349	**1,103**	80	45	17	**142**
2026	521	204	343	**1,068**	82	39	17	**138**
2027	510	179	330	**1,019**	107	33	17	**157**
2028	506	154	317	**977**	80	27	17	**124**
2029	492	134	309	**935**	77	22	17	**116**
2030	478	126	299	**903**	76	18	17	**111**
2031	453	106	289	**848**	71	14	17	**102**
2032	437	117	281	**835**	82	14	17	**113**
2033-2037	1,911	145	1,170	**3,226**	307	19	77	**403**
2038-2042	1,554	(21)	916	**2,449**	234	(25)	78	**287**
2043-2047	1,251	-	514	**1,765**	187	-	51	**238**
2048-2052	926	-	300	**1,226**	141	-	36	**177**
Total free surplus expected to emerge in the next 40 years	17,241	7,549	10,362	**35,152**	2,709	1,406	622	**4,737**

* The analysis excludes amounts incorporated into VIF at 31 December 2012 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 2052.

The above amounts can be reconciled to the new business amounts as follows:

New business	2012 £m			
	Asia	**US**	**UK**	**Total**
Undiscounted expected free surplus generation for years 2013-2052	2,709	1,406	622	**4,737**
Less: discount effect	(1,499)	(406)	(348)	**(2,253)**
Discounted expected free surplus generation for years 2013-2052	1,210	1,000	274	**2,484**
Discounted expected free surplus generation for years 2052+	41	-	3	**44**
Less: Free surplus investment in new business	(292)	(281)	(45)	**(618)**
Other items**	23	(151)	9	**(119)**
Post-tax EEV new business profit	982	568	241	**1,791**
Tax	284	305	72	**661**
Pre-tax EEV new business profit	**1,266**	**873**	**313**	**2,452**

** 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 2012 shown below can be reconciled to the amount that was expected to be generated as at 31 December 2011 as follows:

Group	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	Other £m	Total £m
2011 expected free surplus generation for years 2012-2051	1,777	1,634	1,556	1,512	1,502	1,414	24,667	**34,062**
Less: Amounts expected to be realised in the current year	(1,777)	-	-	-	-	-	-	**(1,777)**
Add: Expected free surplus to be generated in year 2052 *	-	-	-	-	-	-	175	**175**
Foreign exchange differences	-	(45)	(42)	(41)	(42)	(38)	(594)	**(802)**
New business	-	401	260	265	156	236	3,419	**4,737**
Acquisition of REALIC	-	45	35	44	38	41	738	**941**
Operating movements	-	(2)	28	32	24	17		
Non-operating and other movements **	-	(83)	(21)	(24)	9	1	(2,165)	**(2,184)**
2012 expected free surplus generation for years 2013-2052	-	1,950	1,816	1,788	1,687	1,671	26,240	**35,152**

Asia	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	Other £m	Total £m
2011 expected free surplus generation for years 2012-2051	674	647	634	595	590	564	13,998	**17,702**
Less: Amounts expected to be realised in the current year	(674)	-	-	-	-	-	-	**(674)**
Add: Expected free surplus to be generated in year 2052 *	-	-	-	-	-	-	135	**135**
Foreign exchange differences	-	(24)	(22)	(20)	(20)	(18)	(460)	**(564)**
New business	-	105	129	129	99	98	2,149	**2,709**
Operating movements	-	(21)	-	9	-	(6)		
Non-operating and other movements	-	12	20	11	17	16	(2,125)	**(2,067)**
2012 expected free surplus generation for years 2013-2052	-	719	761	724	686	654	13,697	**17,241**

US	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	Other £m	Total £m
2011 expected free surplus generation for years 2012-2051	680	485	450	480	484	438	2,996	**6,013**
Less: Amounts expected to be realised in the current year	(680)	-	-	-	-	-	-	**(680)**
Add: Expected free surplus to be generated in year 2052 *	-	-	-	-	-	-	-	**-**
Foreign exchange differences	-	(21)	(20)	(21)	(22)	(20)	(134)	**(238)**
New business	-	269	108	113	37	115	764	**1,406**
Acquisition of REALIC	-	45	35	44	38	41	738	**941**
Operating movements	-	(4)	7	14	20	18		
Non-operating and other movements	-	11	(8)	(30)	-	(5)	84	**107**
2012 expected free surplus generation for years 2013-2052	-	785	572	600	557	587	4,448	**7,549**

UK	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	Other £m	Total £m
2011 expected free surplus generation for years 2012-2051	423	502	472	437	428	412	7,673	**10,347**
Less: Amounts expected to be realised in the current year	(423)	-	-	-	-	-	-	**(423)**
Add: Expected free surplus to be generated in year 2052*	-	-	-	-	-	-	40	**40**
New business	-	27	23	23	20	23	506	**622**
Operating movements	-	23	21	9	4	5		
Non-operating and other movements **	-	(106)	(33)	(5)	(8)	(10)	(124)	**(224)**
2012 expected free surplus generation for years 2013-2052	-	446	483	464	444	430	8,095	**10,362**

* Excluding 2012 new business.
** Includes an adjustment of £102 million to the cashflows for which there is no definitive timeframe for their emergence and therefore which have been removed from the cashflows presented at 31 December 2012.

At 31 December 2012 the total free surplus expected to be generated over the next five years (years 2013-2017 inclusive), using the same assumptions and methodology as underpin our embedded value reporting was £8.9 billion, an increase of £1.3 billion from the £7.6 billion expected over the same period at the end of 2011.

This increase primarily reflects the new business written in 2012, which is expected to generate £1,318 million of free surplus over the next five years. Operating movements contributed positive £99 million. The acquisition of REALIC contributed positive expected cashflows of £203 million over the next five years. Non-operating and other items, including foreign exchange movements, reduced expected free surplus generation for the next five years by £326 million.

At 31 December 2012 the total free surplus expected to be generated on an undiscounted basis in the next forty years is £35 billion, up from the £34 billion expected at end of 2011. This is after allowing for adverse market movements in the period, with a £0.8 billion reduction due to foreign exchange and negative market movements in Asia as a result of lower fund earned rates. A significant proportion of these market movements arise in Hong Kong reflecting both the projected derisking of the asset portfolio for participating business and lower local government bond yields (fall of 90 basis points) and Singapore where government bond yields have fallen by 30 basis points. The overall growth in the undiscounted value of free surplus, notwithstanding these impacts, reflects both our ability to write new business on attractive economics and to manage the in-force book for value.

Actual underlying free surplus generated in 2012 from life business in-force at the end of 2011 was £2.3 billion inclusive of £0.3 billion of changes in operating assumptions and experience variances. This compares with the expected 2012 realisation at the end of 2011 of £1.8 million. This can be analysed further as follows:

	Asia £m	**US £m**	**UK £m**	**Total £m**
Transfer to free surplus in 2012	635	777	511	**1,923**
Expected return on free assets	56	40	-	**96**
Changes in operating assumptions and experience variances	80	219	(4)	**295**
Underlying free surplus generated from in-force life business in 2012	**771**	**1,036**	**507**	**2,314**
2012 free surplus expected to be generated at 31/12/2011	674	680	423	**1,777**

The equivalent discounted amounts of the undiscounted totals shown previously are outlined below:

	2012 £m							
	Discounted expected generation from all in-force business at 31 December				**Discounted expected generation from long-term 2012 new business written**			
Expected period of emergence	**Asia**	**US**	**UK**	**Total**	**Asia**	**US**	**UK**	**Total**
2013	687	766	418	**1,871**	101	260	26	**387**
2014	679	526	426	**1,631**	113	98	21	**232**
2015	604	520	385	**1,509**	106	96	19	**221**
2016	537	455	346	**1,338**	76	30	16	**122**
2017	480	456	315	**1,251**	69	87	17	**173**
2018	434	404	284	**1,122**	57	55	15	**127**
2019	401	352	258	**1,011**	56	44	12	**112**
2020	375	344	234	**953**	55	74	11	**140**
2021	345	277	213	**835**	48	58	11	**117**
2022	318	230	196	**744**	48	45	10	**103**
2023	282	210	180	**672**	40	39	9	**88**
2024	255	168	164	**587**	37	27	8	**72**
2025	232	124	150	**506**	32	21	8	**61**
2026	215	106	138	**459**	30	17	8	**55**
2027	197	90	124	**411**	36	14	7	**57**
2028	198	75	110	**383**	28	10	7	**45**
2029	181	64	100	**345**	26	8	6	**40**
2030	167	59	91	**317**	23	6	6	**35**
2031	153	50	81	**284**	21	5	6	**32**
2032	141	53	74	**268**	22	5	5	**32**
2033-2037	545	77	246	**868**	77	5	20	**102**
2038-2042	359	33	133	**525**	49	(4)	15	**60**
2043-2047	240	-	47	**287**	33	-	7	**40**
2048-2052	153	-	19	**172**	27	-	4	**31**
Total discounted free surplus expected to emerge in the next 40 years	8,178	5,439	4,732	**18,349**	1,210	1,000	274	**2,484**

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 2013-2052	**18,349**
Discounted expected generation from all in-force business for years after 2052	**242**
Discounted expected generation from all in-force business at 31 December 2012	**18,591**
Add: Free surplus of life operations held at 31 December 2012	**2,957**
Less: Time value of guarantees	**(683)**
Other non-modelled items* note 15	**1,401**
Total EEV for life operations	**22,266**

* 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 2012. In particular it excludes the value of the shareholders' interest in the estate.

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 'Business Review' section under 'Risk and Capital Management'.

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 had to operate 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 have also fallen to historic lows in the US and 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;
- Prudential in the normal course of business enters into a variety of transactions with counterparties, including derivative transactions. Failure of any of these counterparties to discharge their obligations, or where adequate collateral is not in place, could have an adverse impact on Prudential's results; and
- 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 value and estimates of value require substantial elements of judgment, assumptions and estimates (which may change over time). Increased illiquidity also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline.

Global financial markets have experienced, and continue to experience, significant uncertainty brought on, in particular, by concerns over European and US sovereign debt, as well as concerns about a general slowing of global demand reflecting an increasing lack of confidence among consumers, companies and governments. 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 exactly 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 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. There could be market circumstances where the derivatives that it enters into to hedge its market risks may not fully offset its losses, and any cost of the guarantees that remain unhedged will also affect Prudential's results.

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, principally for UK, other European, US and Asian countries held in its investment portfolio. In recent years, rating agencies have downgraded the sovereign debt of some Continental European countries, the UK and the US. There is a risk of further downgrades for these countries. In addition, for some European countries the risk of default has also increased. Investing in such instruments 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. 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. If a sovereign were to default on its obligations, 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 their geographical diversity, Prudential's businesses are 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 currency. 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. The currency exposure relating to the translation of reported earnings is not currently separately managed. 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 the recent interventions by governments in response to global economic conditions, it is widely expected that there will 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 European financial services groups to demonstrate net aggregate surplus capital in excess of solvency requirements at the group level in respect of shareholder-owned entities. The 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 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 valuations, 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 Financial Services Authority (FSA) or other relevant supervisory authority. The Solvency II Directive was formally approved by the Economic and Financial Affairs Council in November 2009. Representatives from the European Parliament, the European Commission and the Council of the European Union are currently discussing the Omnibus II Directive which, once approved, will amend certain aspects of the original Solvency II Directive. In addition, the European Commission is continuing to develop the detailed rules that will complement the high-level principles of the Directive, referred to as 'implementing measures'. The Omnibus II Directive is not currently scheduled to be finalised until late 2013, while the implementing measures cannot be finalised until after Omnibus II. There is a significant uncertainty regarding the final outcome of this process. In particular, the Solvency II rules relating to the determination of the liability discount rate and to the treatment of the US business remain unclear. 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 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 prospective 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 Globally Systemically Important Financial Institutions (G-SIFIs) 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 systematically 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.

As part of a global initiative to identify G-SIFIs, in May 2012, the IAIS published proposed assessment methodology for designating Globally Systematically Important Insurers (G-SIIs).For those groups that are designated by the FSB as G-SII, additional policy measures including enhanced supervision and higher loss absorbency requirements could be proposed. Further detail of the proposals is expected during 2013 and implementation is likely to be over a period of years. Furthermore, the FSA is considering the designation of a Domestically Systemically Important Insurer (D-SII) for those UK insurers that are significant in UK terms. It is not yet clear what the impact of this designation may be.

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 possible that some prescriptive requirements, including regarding group capital, could be proposed. Further clarity on ComFrame is expected during the second half of 2013.

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 an 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. The IASB continues its deliberation on the exposure draft principles but 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 2017.

Any changes or modification of IFRS accounting policies may require a change in the future results or a restatement 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 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, businesses 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. 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 Allianz, AXA, ING, AIA and Manulife. In a number of markets, local companies have a very significant market presence.

Within the UK, Prudential's principal competitors in the life market include many of the major retail financial services companies including, in particular, Aviva, Legal & General, Lloyds Banking Group and Standard Life.

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 hurt 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 most of 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 debt 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. The Moody's and Fitch ratings are on stable outlook and the Standard & Poor's rating is on negative 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. The Moody's and Fitch ratings are on stable outlook and the Standard & Poor's rating is on negative outlook.

Jackson's financial strength is rated AA by Standard & Poor's and Fitch, A1 by Moody's, and A+ by AM Best. . The Moody's, Fitch and AM Best ratings are on stable outlook and the Standard & Poor's rating is on negative 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 complex transactions across numerous and diverse products, and is subject to a number of different legal and regulatory regimes. Further, because of the long-term nature of much of the Group's business, accurate records have to be maintained for significant periods. These factors, among others, result in significant reliance on and require significant investment in information technology, compliance and other 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 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 the business has not experienced a material failure or breach in relation to IT systems and processes to date, failures or breaches of this sort, including a cyber-security attack, could harm its ability to perform necessary business functions and hurt 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 2012, 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 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 also face financial or other exposure in the event that any of its joint venture partners fails to meet its obligations under the joint venture or encounters financial difficulty. 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 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

13 March 2013, 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, Robert Alan Devey, John William Foley, Michael George Alexander McLintock, Barry Lee Stowe and Michael Andrew Wells

Independent Non-executive Directors
Keki Bomi Dadiseth FCA, Sir Howard John Davies, Michael William Oliver Garrett, Ann Frances Godbehere FCGA, Alexander Dewar Kerr Johnston CMG FCA, Kaikhushru Shiavax Nargolwala FCA, Philip John Remnant CBE ACA and Lord Andrew Turnbull KCB CVO

* *For identification purposes*