

Directors' remuneration report

**Lord Turnbull
Chairman of the
Remuneration Committee**



Dear Shareholder

I am pleased to present the Remuneration Committee's report on directors' remuneration for the year to 31 December 2012.

As I indicated in my letter last year, during 2012 the Committee reviewed Prudential's executive director remuneration architecture for 2013 and beyond. These are the first major changes to the architecture since current arrangements were implemented in 2006.

The Group has developed substantially over recent years and we believe that it is essential that our executive reward arrangements remain closely aligned with the Group's business strategy and ambitions.

Our aims

Our aim in undertaking the review was to develop and implement reward structures which provide lasting competitive advantage for the Group in order to:

- Attract and retain the high calibre executives required to lead and develop the Group; and
- Reward executives for delivering our business plans and generating sustainable growth and returns for shareholders.

The proposed changes

Where aspects of the previous reward architecture remain appropriate and effective, we have retained them. For example, we have not proposed changes to executives' maximum incentive opportunities as a percentage of salary. We have made revisions where there was scope for better alignment with our aims. Some of the key changes are:

- A more consistent approach will apply to the deferral of annual bonuses across the senior executive team;
- Enhanced clawback provisions will apply to future deferred bonus awards;
- Shareholding guidelines for executive directors will be increased; and
- A new long-term incentive plan is proposed for shareholder approval. We have designed this plan to reward the achievement of IFRS profit targets and the delivery of superior shareholder returns.

These changes are described in detail in the first pages of this report.

We have consulted widely on the proposals

We have undertaken extensive consultation with our key institutional investors on the changes to the reward architecture. I have personally met with shareholders and their representatives who together comprise more than half of our shareholder base.

I would like to take this opportunity to thank shareholders for their feedback, which we have taken into account when developing these proposals.

Rewarding 2012 performance

During 2012, the Group delivered further increases in new business profitability, IFRS profitability and cash generation. This was accomplished in the context of continuing macroeconomic uncertainty. The Group exceeded the targets that the Committee set at the start of the year as well as the results delivered in 2011.

This outstanding growth was achieved while operating within the Group's risk appetite, risk framework, and maintaining appropriate levels of capital. The 2012 bonuses that we awarded to executive directors reflect these achievements.

The excellent results delivered in 2012 built on strong financial performance over recent years. This has generated significant returns for shareholders over the period 2010 to 2012 through share price growth and dividends paid. These returns have significantly outstripped those produced by our peers in the international insurance sector over the same period.

The 2010 Group Performance Share Plan awards, which have a performance condition of relative total shareholder return, will therefore be released in full.

Clear information provided in this report

The UK Government continues to develop its proposals aimed at increasing the information available to shareholders in remuneration reports. This report reflects some aspects of the draft requirements. Once the final requirements are clear, we will incorporate them into our report for 2013.

I look forward to receiving your support for the directors' remuneration report at our AGM.



Lord Turnbull
Chairman of the Remuneration Committee
12 March 2013