Remuneration policy report

Directors' remuneration report

The directors' remuneration report has been prepared by the Remuneration Committee (the 'Committee') and has been approved by the Board. Shareholders will be given the opportunity to approve the report at the Annual General Meeting on 16 May 2013.

This report has been drawn up in accordance with the UK Corporate Governance Code, Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008, the UK Listing Authority Listing Rules and the Corporate Governance Code in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong. KPMG Audit Plc has audited the information provided on pages 134 to 142.

During the year, the Company has complied with the provisions of Section D and Schedule A of the UK Corporate Governance Code which are in force regarding directors' remuneration.

The Remuneration Committee

The Committee is responsible for:

- Determining the remuneration of the Chairman and approving the remuneration of the executive directors of the Company; and
- The oversight of the remuneration of a defined leadership population and for individuals with the opportunity to earn over £1 million per annum.

The Committee's terms of reference are available on the Company's website and a copy may be obtained from the Company Secretary. These terms of reference are reviewed annually.

Each business unit also has its own remuneration committee, with similar terms of reference, to ensure effective remuneration governance in all our businesses.

Remuneration strategy and principles

The aims of Prudential's remuneration structure are:

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

As part of the review of remuneration architecture which took place during 2012, the Committee revisited the aims and operation of Prudential's remuneration strategy. The table below summarises how the Remuneration Committee achieves these aims:

To attract and retain the high calibre executives required to lead and develop the Group

Reward must be:

- **Valued by executives; and**
- **Competitive, to engage executives who are in demand in the global talent market and, if required, support hiring the best external talent.**

To reward executives for delivering our business plans and generating sustainable growth and returns for shareholders

Reward must be:

- **Determined by delivery of the Group's annual and longer-term business objectives;**
- **Aligned with shareholder value creation; and**
- **Consistent with the Group's risk appetite so that the delivery of the business plan can be sustained.**

The remuneration strategy is underpinned by a number of remuneration principles:

- A substantial portion of total remuneration is delivered through performance-related reward, with the highest levels of reward only being paid for the highest levels of achievement;
- A significant element of performance-related reward is deferred and provided in the form of shares;
- The total remuneration package for each executive director is set with reference to the relevant employment market(s);
- The performance of executive directors responsible for business units is measured at both a business unit and Group level;
- Performance measures include absolute financial measures and a relative measure of Total Shareholder Return, as appropriate;
- Reward structures are designed to deliver fair and equitable remuneration for all employees; and
- Reward arrangements are designed to be consistent with the Group's risk framework and appetite, and minimise regulatory and operational risk.

This strategy and these principles shape remuneration policies and practices which are aligned with our business model. They are designed to ensure that a strong governance approach is adopted and applied across all business units. The Committee continues to review this strategy and these principles regularly.

The remuneration strategy and principles outlined in this section are cascaded to other employees within the Company. Employees receive remuneration which is appropriate given their skills and experience, is competitive within the relevant market(s) and which rewards strong performance.

Remuneration architecture review

In 2012, the Committee undertook a review of all aspects of the Group's executive remuneration architecture. The aim of the review was to ensure that the Group's remuneration structures continue to be aligned with the Group's business strategy and ambitions, and with the remuneration strategy set out above, giving the Company a competitive advantage in the international talent market. This was a review of remuneration structures and did not result in any changes to incentive opportunities as a percentage of salary.

Key features of the proposed architecture

Salary and benefits

No changes were made to the policy on salary and benefits.

Cash bonus

Bonus opportunities, as a percentage of salary, are unchanged.

Bonuses reward annual performance using a range of measures linked to the annual business plan.

Deferred bonus

60 per cent of bonus is payable immediately in cash.

All executive directors defer 40 per cent of bonus into shares for three years.

Deferred awards are subject to strengthened clawback provisions.

Prudential Long Term Incentive Plan

Long-term incentive opportunities, as a percentage of salary, are unchanged.

Prudential Long Term Incentive Plan awards are made in shares and vesting will be dependent on two performance measures:

- IFRS operating profit (50 per cent of award); and
- Relative TSR (50 per cent of award).

Prudential's performance against these metrics is measured over the three financial years starting from the year of award.

Share ownership guidelines

Share ownership guidelines have increased to:

- 350 per cent of salary for the Group Chief Executive; and
- 200 per cent of salary for other executive directors.

Guidelines have been introduced below the Board.

Note
The President and Chief Executive Officer of Jackson also shares in the JNL bonus pool while the Chief Executive of M&G retains separate arrangements.

Key
- Fixed pay
- Short-term variable pay
- Long-term variable pay
- Share ownership guidelines

Remuneration policy report continued

Summary of key changes

Element of compensation	What is unchanged?	What is changing?	Why?
Annual bonus	Executives will continue to receive awards under the Annual Incentive Plan (AIP). The percentage of salary used to calculate maximum bonus opportunity is unchanged. No changes are proposed to the performance measures. The three-year deferral period remains. The President and Chief Executive Officer of Jackson continues to share in the JNL bonus pool in addition to receiving awards under the AIP.	The proportion of bonus deferred will be 40 per cent for all executive directors. Clawback provisions have been enhanced for the deferred portion of 2013 and subsequent bonuses. A cap will be introduced to the Chief Executive of M&G's maximum annual bonus opportunity of the lower of 0.75 per cent of M&G's IFRS profit or six times salary.	Creates alignment among the executive directors. Allows the deferred element of the bonus to be forfeited in specific circumstances, including a material, adverse restatement of the financial results or regulatory breach. The calculation of the Chief Executive of M&G's annual bonus opportunity is transparent and linked to the success of the M&G business.
Long-term incentives	Long-term incentive awards (as a percentage of salary) are unchanged. The use of a combination of Group and business unit metrics for business unit Chief Executives continues. Outstanding awards made under the GPSP and BUPP will not be affected by the introduction of the Prudential Long Term Incentive Plan. The Chief Executive of M&G will continue to participate in the M&G Executive LTIP.	A new long-term incentive plan (the Prudential Long Term Incentive Plan) will be proposed for shareholder approval at the 2013 AGM. The Prudential Long Term Incentive Plan provides reward for achievement of IFRS operating profit as well as superior relative TSR. TSR will be measured against a revised peer group and assessed against peers on a ranked (rather than an index) basis. Subject to shareholder approval, 2013 awards will be made under this plan. The awards made to the Chief Executive of M&G will be calculated as a percentage of salary. He will receive awards with a face value of 150 per cent of salary under the Prudential Long Term Incentive Plan and 300 per cent of salary under the M&G Executive LTIP.	The expanded TSR peer group ensures the continued relevance of comparators. Assessing performance against peers' ranked performance (rather than an index) is more straightforward. IFRS operating profit is central to the management of the business and a key driver of shareholder value. The calculation of the Chief Executive of M&G's LTIP award is transparent and aligned with the other executive directors.
Share ownership guidelines	The guidelines continue to be expressed as a percentage of salary. The five-year period to build holding is maintained.	The requirement for the Group Chief Executive has increased from 200 per cent to 350 per cent of salary. The requirement for all other executive directors will be increased to 200 per cent of salary. Most executive directors were previously required to hold Prudential plc shares with a value of 100 per cent of salary. Executives will have five years from the implementation of this policy (or the date of their appointment, if later) to build the additional level of required ownership.	This change increases alignment with shareholder interests.

Performance measures

Annual bonus

Executive directors receive bonus awards under the Annual Incentive Plan (the AIP). The 2012 AIP:

- Strongly aligns annual reward with the KPIs that underpin the Group's business strategy;
- Incentivises the executive team to outperform stretching annual targets; and
- Remains consistent with the Group's risk framework and appetite.

No changes were proposed to the structure or the performance conditions, of the annual bonus for 2013.

Long-term incentives

The Prudential Long Term Incentive Plan has been designed to reward the creation of IFRS profit as well as the sustained delivery of superior returns to shareholders. Performance will be assessed over a three-year period on the following basis:

Performance condition	Measurement approach	Assessment
IFRS operating profit (50 per cent of award)	Participants will be incentivised to deliver and outperform the long-term business plan. The awards will vest based on achievement of IFRS operating profit compared to performance ranges. IFRS targets will be set at a Group or business unit level, dependent on role.	Cumulative performance will be measured over three years. Threshold, plan and maximum achievement levels will be set at the beginning of the performance periods in line with the three-year business plan. 25 per cent of the award will vest for threshold performance, increasing to 100 per cent for stretch performance. The target for Group IFRS operating profit will be disclosed when the performance period ends.
Total Shareholder Return (50 per cent of award)	The long-term incentive plan will continue to reward executives for superior shareholder returns. TSR will continue to be measured on a local currency basis. TSR will be measured relative to a revised peer group to ensure the continued relevance of this measure. In order to reflect the international scope of the Group's business operations, the peer group has been extended to encompass the global insurance peers with which we compete for customers and capital. Our revised peer group is outlined below.	Relative three-year TSR will be measured on a ranked basis. 25 per cent of the award will vest for median performance increasing on a straight-line basis to full vesting for TSR at or above the upper quartile.

Revised TSR peer group for awards made from 2013 onwards:
Aegon, Aflac*, AIA*, AIG*, Allianz, Aviva, AXA, Generali, Legal & General, Manulife, MetLife*, Munich Re*, Old Mutual, Prudential Financial*, Standard Life, Sun Life Financial*, Swiss Re*, Zurich Insurance Group*
Those peers marked with an asterisk have been added to the peer group for 2013 onwards.

The Remuneration Committee believes that adequate controls exist to ensure that these performance measures will not create an implicit incentive to take undue operational or financial risks or to adopt an unduly risky capital structure.

For any Prudential Long Term Incentive Plan award to vest, the Committee must be satisfied that the quality of the Company's underlying financial performance justifies the level of reward delivered at the end of the performance period. To ensure close alignment with our shareholders' long-term interests, participants receive the value of reinvested dividends over the performance period for those shares which ultimately vest. If performance measures are not achieved in full, the unvested portion of any award lapses and performance cannot be retested.

As with the Group Performance Share Plan (GPSP), the performance achieved against target, and the resulting vesting of the award, will be assessed by an independent third party.

The Committee believes that the proposed performance measures are more relevant to the Group and at least as stretching as those used in the Group Performance Share Plan and the Business Unit Performance Plan.

We have undertaken an extensive process of consultation about these proposals with shareholders and their representatives who together comprise more than half of our shareholder base. The Committee took account of shareholder feedback when developing these proposals.

Remuneration policy report continued

Summary of main elements of remuneration

Element	Purpose	Policy in 2012
Base salary	To provide executives with a guaranteed level of remuneration. Paying salaries at an appropriate level ensures that Prudential continues to be competitive when recruiting and retaining key executives. Salary is intended to reward executives for the performance of their role.	The Committee reviews salaries annually. Changes in base salaries are generally effective from 1 January. In determining base salaries for each executive the Committee considers: - The performance and experience of the executive; - Internal relativities; - Company financial performance; - Salary increases for all employees; and - Benchmark information from appropriate markets.
Annual bonus	To incentivise and reward the achievement of stretching annual business plans which are: - Determined in line with the Group's long-term commitments to shareholders; and - Consistent with the Group's risk appetite.	Executive directors participate in annual bonus plans based on the achievement of Group and business unit financial performance measures including profitability, cash flow and capital adequacy, and personal objectives. Targets are determined in line with the business plan. Executive directors are required to defer between 30 per cent and 50 per cent of annual bonus (for the Chief Executive of M&G, 50 per cent of bonus over £500,000 is deferred) into Prudential shares for three years. Bonuses are not pensionable.
Long-term incentives	To incentivise and reward the achievement of: - Longer-term commitments to shareholders; - Sustainable long-term returns for shareholders; and - Adherence to the Group's risk appetite.	All executive directors participate in the Group Performance Share Plan (GPSP). GPSP awards vest based on relative TSR. Business unit Chief Executives also participate in business unit performance plans (BUPPs or the M&G Executive LTIP) which focus on those financial measures which contribute to the long-term success of the business unit and, therefore, the Group.
Share ownership guidelines	To create a community of interest between the executives and shareholders.	The Group Chief Executive and Chief Executive of M&G are required to build up and hold shares equal to 200 per cent of base salary. Other executive directors are required to build up and hold shares equal to 100 per cent of base salary. Executives have five years to build up their shareholding. Full details of the current shareholdings of the directors are provided on page 133.
Benefits	To provide executives with items and allowances that assist them in carrying out their duties efficiently.	All executive directors received core health and security benefits (for example medical insurance and life assurance). Other benefits may be offered to executives, dependent on: - Local market practice; - The benefits offered to other employees within the business unit; and - Applicable expatriate and relocation benefits and allowances. No benefits are pensionable. Details of the costs of providing the benefits to each executive director are outlined in the remuneration table on page 134.
Pension	To provide executives with an opportunity to save for an income in retirement.	The pension provision for executive directors depends on the arrangements in place for other employees in their business unit when they joined the Group. Executives who joined after June 2003 have the option to: - Receive payments into a defined contribution scheme; or - Take a cash supplement in lieu of contributions. Executives who joined the Group before June 2003 were entitled to join the defined benefit plans available at that time. At the end of 2012, no executive director was an active member of a Group defined benefit scheme.

2012 opportunity	2012 performance metrics	Changes to policy for 2013
2012 base salaries are set out on page 124.		
The maximum annual bonus opportunity available to the majority of executive directors is between 160 per cent and 200 per cent of salary. Based on relevant market practice, the Chief Executive of M&G and the President & CEO, Jackson have bonus opportunities which are not capped as a percentage of their salaries. The Chief Executive of M&G has an overriding cap on total remuneration of 3 per cent of M&G's IFRS profit. Details of executive directors' 2012 bonus opportunities are provided on page 125.	Awards for the majority of executive directors are subject to the achievement of: - Net free surplus generated; - IFRS operating profit; - EEV operating profit; - Holding company cash flow; - Insurance Groups Directive (IGD) Capital Surplus; and - Personal objectives.	As part of the review of remuneration architecture which took place during 2012, the clawback provisions applied to the deferred portion of bonuses for 2013 onwards have been strengthened. The percentage of annual bonus awards which executives are required to defer has been made consistent across our senior executive team at 40 per cent. The annual bonus opportunity for the Chief Executive of M&G will be capped at the lower of 0.75 per cent of M&G's IFRS profit or six times salary. Please see page 118 for further details.
The maximum combined award under the GPSP and BUPP is 550 per cent of salary, although the actual awards made in 2012 were below this level. The Chief Executive of M&G's long-term incentive opportunity was not capped as a percentage of salary in 2012. There is an overriding cap on total remuneration for this role of 3 per cent of M&G's IFRS profit. A breakdown of the long-term incentive opportunities available to executive directors is set out on page 123.	GPSP awards vest based on relative TSR (Total Shareholder Return, a combination of share price growth and dividends paid) performance relative to an index of international insurers. The performance measures for the BUPPs and the M&G Executive LTIP vary according to the business plan and strategy of the business unit. These are outlined on pages 127 to 128.	As part of the review of remuneration architecture, the Remuneration Committee has proposed a new long-term incentive (the Prudential Long Term Incentive Plan) for approval at the 2013 AGM. Subject to shareholder approval, the first awards will be made under this plan in May 2013. Full details of the proposal are outlined on pages 118 to 119.
		As part of the review of remuneration architecture, the executive director shareholding guidelines have been enhanced. The revised guidelines are: - 350 per cent of salary for the Group Chief Executive; and - 200 per cent of salary for all other executive directors. Full details of the revised guidelines are outlined on page 118.
Executive directors based in the UK and Asia are entitled to receive pension contributions or a cash supplement (or combination of the two) of 25 per cent of base salary. The President & CEO, Jackson, participates in Jackson's Defined Contribution Retirement Plan on the same basis as other JNL employees. Full details of the amounts paid by the Company with regards to pension provision are outlined in the remuneration table on page 134 and the pensions table on page 130.	Jackson's Defined Contribution Retirement Plan has a guaranteed element and additional contributions based on the profitability of JNL. No other Group pension schemes have performance conditions.	