

PRUDENTIAL PLC  
Form 6-K  
March 12, 2014

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934

For the month of March, 2014

PRUDENTIAL PUBLIC LIMITED COMPANY

(Translation of registrant's name into English)

LAURENCE POUNTNEY HILL,  
LONDON, EC4R 0HH, ENGLAND  
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports  
under cover Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark whether the registrant by furnishing the information  
contained in this Form is also thereby furnishing the information to the  
Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If "Yes" is marked, indicate below the file number assigned to the registrant  
in connection with Rule 12g3-2(b): 82-

Enclosures: Prudential plc - FY13 Results - IFRS

International Financial Reporting Standards (IFRS) Basis Results

## CONSOLIDATED INCOME STATEMENT

| Year ended 31 December                                                                            | Note  | 2013 £m  | 2012* £m |
|---------------------------------------------------------------------------------------------------|-------|----------|----------|
| Gross premiums earned                                                                             |       | 30,502   | 29,113   |
| Outward reinsurance premiums                                                                      |       | (658)    | (491)    |
| Earned premiums, net of reinsurance                                                               |       | 29,844   | 28,622   |
| Investment return                                                                                 |       | 20,347   | 23,931   |
| Other income                                                                                      |       | 2,184    | 1,885    |
| Total revenue, net of reinsurance                                                                 |       | 52,375   | 54,438   |
| Benefits and claims                                                                               |       | (42,227) | (44,116) |
| Outward reinsurers' share of benefit and claims                                                   |       | 622      | 259      |
| Movement in unallocated surplus of with-profits funds                                             |       | (1,549)  | (1,287)  |
| Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance |       | (43,154) | (45,144) |
| Acquisition costs and other expenditure                                                           | B3    | (6,861)  | (6,032)  |
| Finance costs: interest on core structural borrowings of shareholder-financed operations          |       | (305)    | (280)    |
| Remeasurement of carrying value of Japan life business classified as held for sale                | D1    | (120)    | -        |
| Total charges, net of reinsurance                                                                 |       | (50,440) | (51,456) |
| Share of profits from joint ventures and associates, net of related tax                           | A2,D5 | 147      | 135      |
| Profit before tax (being tax attributable to shareholders' and policyholders' returns)**          |       | 2,082    | 3,117    |
| Less tax charge attributable to policyholders' returns                                            |       | (447)    | (370)    |
| Profit before tax attributable to shareholders                                                    | B1.1  | 1,635    | 2,747    |
| Total tax charge attributable to policyholders and shareholders                                   | B5    | (736)    | (954)    |
| Adjustment to remove tax charge attributable to policyholders' returns                            |       | 447      | 370      |
| Tax charge attributable to shareholders' returns                                                  | B5    | (289)    | (584)    |
| Profit for the year attributable to equity holders of the Company                                 |       | 1,346    | 2,163    |
| Earnings per share (in pence)                                                                     |       | 2013     | 2012*    |
| Based on profit attributable to the equity holders of the Company:                                | B6    |          |          |
| Basic                                                                                             |       | 52.8p    | 85.1p    |
| Diluted                                                                                           |       | 52.7p    | 85.0p    |
| Dividends per share (in pence)                                                                    |       | 2013     | 2012*    |
| Dividends relating to reporting year:                                                             | B7    |          |          |
| Interim dividend                                                                                  |       | 9.73p    | 8.40p    |

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|                                                |                               |    |        |        |
|------------------------------------------------|-------------------------------|----|--------|--------|
|                                                | Final dividend                |    | 23.84p | 20.79p |
| Total                                          |                               |    | 33.57p | 29.19p |
| Dividends declared and paid in reporting year: |                               | B7 |        |        |
|                                                | Current year interim dividend |    | 9.73p  | 8.40p  |
|                                                | Final dividend for prior year |    | 20.79p | 17.24p |
| Total                                          |                               |    | 30.52p | 25.64p |

\*The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefits accounting standard, from 1 January 2013 as described in note A2.

Accordingly, the 2012 comparative results and related notes have been adjusted retrospectively from those previously published.

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

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| Year ended 31 December                                                                                        | Note    | 2013 £m | 2012* £m |
|---------------------------------------------------------------------------------------------------------------|---------|---------|----------|
| Profit for the year                                                                                           |         | 1,346   | 2,163    |
| Other comprehensive income:                                                                                   |         |         |          |
| Items that may be reclassified subsequently to profit or loss                                                 |         |         |          |
| Exchange movements on foreign operations and net investment hedges:                                           |         |         |          |
| Exchange movements arising during the year                                                                    |         | (255)   | (214)    |
| Related tax                                                                                                   |         | -       | (2)      |
|                                                                                                               |         | (255)   | (216)    |
| Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale: |         |         |          |
| Net unrealised holding (losses) gains arising during the year                                                 |         | (2,025) | 930      |
| Net gains included in the income statement on disposal and impairment                                         |         | (64)    | (68)     |
| Total                                                                                                         | C3.3    | (2,089) | 862      |
| Related change in amortisation of deferred acquisition costs                                                  | C5.1(b) | 498     | (270)    |
| Related tax                                                                                                   |         | 557     | (205)    |
|                                                                                                               |         | (1,034) | 387      |
| Total                                                                                                         |         | (1,289) | 171      |

Items that will not be reclassified to profit or loss

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

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|             |      |      |
|-------------|------|------|
| Gross       | (62) | 45   |
| Related tax | 14   | (11) |
|             | (48) | 34   |

Other comprehensive (loss) income for the year, net of related tax (1,337) 205

Total comprehensive income for the year 9 2,368

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

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|                                                                                                                         | Year ended 31 December 2013 £m |                           |                           |                   |                     |                                        |                      |                           |              |
|-------------------------------------------------------------------------------------------------------------------------|--------------------------------|---------------------------|---------------------------|-------------------|---------------------|----------------------------------------|----------------------|---------------------------|--------------|
|                                                                                                                         | Note                           | Share capital<br>note C10 | Share premium<br>note C10 | Retained earnings | Translation reserve | Available-for-sale securities reserves | Shareholders' equity | Non-controlling interests | Total equity |
| Reserves                                                                                                                |                                |                           |                           |                   |                     |                                        |                      |                           |              |
| Profit for the year                                                                                                     |                                | -                         | -                         | 1,346             | -                   | -                                      | 1,346                | -                         | 1,346        |
| Other comprehensive loss:                                                                                               |                                |                           |                           |                   |                     |                                        |                      |                           |              |
| Exchange movements on foreign operations and net investment hedges, net of related tax                                  |                                | -                         | -                         | -                 | (255)               | -                                      | (255)                | -                         | (255)        |
| Net unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax |                                | -                         | -                         | -                 | -                   | (1,034)                                | (1,034)              | -                         | (1,034)      |
| Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, net of tax              |                                | -                         | -                         | (48)              | -                   | -                                      | (48)                 | -                         | (48)         |
| Total other comprehensive loss                                                                                          |                                | -                         | -                         | (48)              | (255)               | (1,034)                                | (1,337)              | -                         | (1,337)      |
|                                                                                                                         |                                | -                         | -                         | 1,298             | (255)               | (1,034)                                | 9                    | -                         | 9            |

Total comprehensive  
income for the year

|                                                                                             |     |     |       |       |       |         |        |     |        |
|---------------------------------------------------------------------------------------------|-----|-----|-------|-------|-------|---------|--------|-----|--------|
| Dividends                                                                                   | B7  | -   | -     | (781) | -     | -       | (781)  | -   | (781)  |
| Reserve movements in<br>respect of share-based<br>payments                                  |     | -   | -     | 98    | -     | -       | 98     | -   | 98     |
| Change in non-controlling<br>interests                                                      |     | -   | -     | -     | -     | -       | -      | (4) | (4)    |
| Share capital and share<br>premium                                                          |     |     |       |       |       |         |        |     |        |
| New share capital<br>subscribed                                                             | C10 | -   | 6     | -     | -     | -       | 6      | -   | 6      |
| Treasury shares                                                                             |     |     |       |       |       |         |        |     |        |
| Movement in own shares in<br>respect of share-based<br>payment plans                        |     | -   | -     | (10)  | -     | -       | (10)   | -   | (10)   |
| Movement in Prudential plc<br>shares purchased by unit<br>trusts consolidated under<br>IFRS |     | -   | -     | (31)  | -     | -       | (31)   | -   | (31)   |
| Net increase (decrease) in<br>equity                                                        |     | -   | 6     | 574   | (255) | (1,034) | (709)  | (4) | (713)  |
| At beginning of year                                                                        |     | 128 | 1,889 | 6,851 | 66    | 1,425   | 10,359 | 5   | 10,364 |
| At end of year                                                                              |     | 128 | 1,895 | 7,425 | (189) | 391     | 9,650  | 1   | 9,651  |

## International Financial Reporting Standards (IFRS) Basis Results

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|                                                                                                       | Note | Year ended 31 December 2012* £m |                                 |                      |                        |                                                  |                         |                                  |                 |
|-------------------------------------------------------------------------------------------------------|------|---------------------------------|---------------------------------|----------------------|------------------------|--------------------------------------------------|-------------------------|----------------------------------|-----------------|
|                                                                                                       |      | Share<br>capital<br>note<br>C10 | Share<br>premium<br>note<br>C10 | Retained<br>earnings | Translation<br>reserve | Available<br>-for-sale<br>securities<br>reserves | Shareholders'<br>equity | Non-<br>controlling<br>interests | Total<br>equity |
| Reserves                                                                                              |      |                                 |                                 |                      |                        |                                                  |                         |                                  |                 |
| Profit for the year                                                                                   |      | -                               | -                               | 2,163                | -                      | -                                                | 2,163                   | -                                | 2,163           |
| Other comprehensive<br>income (loss):                                                                 |      |                                 |                                 |                      |                        |                                                  |                         |                                  |                 |
| Exchange<br>movements on<br>foreign operations<br>and net investment<br>hedges, net of<br>related tax |      | -                               | -                               | -                    | (216)                  | -                                                | (216)                   | -                                | (216)           |

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

\*The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefits accounting standard, from 1 January 2013 as described in note A2.

Accordingly, the 2012 comparative results and related notes have been adjusted retrospectively from those previously published.

## International Financial Reporting Standards (IFRS) Basis Results

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

\*The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefits accounting standard, from 1 January 2013 as described in note A2.

Accordingly, the 2012 comparative balance sheets and the 2012 related notes have been adjusted retrospectively from those previously published.

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

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

## International Financial Reporting Standards (IFRS) Basis Results

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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



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|                              |         |         |         |
|------------------------------|---------|---------|---------|
| Total liabilities            | C1,C3.1 | 316,281 | 297,280 |
| Total equity and liabilities |         | 325,932 | 307,644 |

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

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

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF CASH FLOWS

| Year ended 31 December                                                                         | Note | 2013 £m  | 2012* £m |
|------------------------------------------------------------------------------------------------|------|----------|----------|
| Cash flows from operating activities                                                           |      |          |          |
| Profit before tax (being tax attributable to shareholders' and policyholders' returns)note (i) |      | 2,082    | 3,117    |
| Non-cash movements in operating assets and liabilities reflected in profit before tax:         |      |          |          |
| Investments                                                                                    |      | (23,487) | (26,993) |
| Other non-investment and non-cash assets                                                       |      | (1,146)  | (774)    |
| Policyholder liabilities (including unallocated surplus)                                       |      | 21,951   | 26,362   |
| Other liabilities (including operational borrowings)                                           |      | 1,907    | (511)    |
| Interest income and expense and dividend income included in result before tax                  |      | (8,345)  | (7,772)  |
| Other non-cash itemsnote (ii)                                                                  |      | 81       | 188      |
| Operating cash items:                                                                          |      |          |          |
| Interest receipts                                                                              |      | 6,961    | 6,483    |
| Dividend receipts                                                                              |      | 1,738    | 1,530    |
| Tax paid                                                                                       |      | (418)    | (925)    |
| Net cash flows from operating activities                                                       |      | 1,324    | 705      |
| Cash flows from investing activities                                                           |      |          |          |
| Purchases of property, plant and equipment                                                     |      | (221)    | (139)    |
| Proceeds from disposal of property, plant and equipment                                        |      | 42       | 14       |
| Acquisition of subsidiaries and distribution rights, net of cash balancenote (iii)             | D1   | (405)    | (224)    |
| Change to Group's holdings, net of cash balancenote (iii)                                      |      | -        | 23       |
| Net cash flows from investing activities                                                       |      | (584)    | (326)    |
| Cash flows from financing activities                                                           |      |          |          |
| Structural borrowings of the Group:                                                            |      |          |          |
| Shareholder-financed operations:note (iv)                                                      | C6.1 |          |          |
| Issue of subordinated debt, net of costs                                                       |      | 1,124    | -        |
| Bank loan                                                                                      |      | -        | 25       |
| Interest paid                                                                                  |      | (291)    | (270)    |
| With-profits operations:note (v)                                                               | C6.2 |          |          |
| Interest paid                                                                                  |      | (9)      | (9)      |
| Equity capital:                                                                                |      |          |          |
| Issues of ordinary share capital                                                               |      | 6        | 17       |
| Dividends paid                                                                                 |      | (781)    | (655)    |
| Net cash flows from financing activities                                                       |      | 49       | (892)    |
| Net increase (decrease) in cash and cash equivalents                                           |      | 789      | (513)    |
| Cash and cash equivalents at beginning of year                                                 |      | 6,126    | 6,741    |

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|                                                              |       |       |
|--------------------------------------------------------------|-------|-------|
| Effect of exchange rate changes on cash and cash equivalents | (130) | (102) |
| Cash and cash equivalents at end of year                     | 6,785 | 6,126 |

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

### Notes

- (i) This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders.
- (ii) Other non-cash items consist of the adjustment of non-cash items to profit before tax together with other net items, net purchases of treasury shares and other net movements in equity.
- (iii) The acquisition of Thanachart Life and the related distribution agreements in 2013 resulted in a net cash outflow of £396 million. The acquisition of REALIC in 2012, resulted in a net cash outflow of £224 million and a further cash payment of £9 million in 2013. See note D1 for further details.  
The net cash inflow of £23 million for change in Group's holdings in 2012 was in respect of the dilution of M&G's holdings in PPM South Africa resulting in a reclassification from a subsidiary to an associate.
- (iv) Structural borrowings of shareholder-financed operations exclude borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.
- (v) Interest paid on structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds, which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.

### International Financial Reporting Standards (IFRS) Basis Results

#### NOTES

#### A

#### BACKGROUND

#### A1

#### Background and basis of preparation

These statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU) as required by EU law (IAS Regulation EC1606/2002). EU-endorsed IFRS may differ from IFRS issued by the IASB if, at any point in time, new or amended IFRS have not been endorsed by the EU. At 31 December 2013, there were no unendorsed standards effective for the two years ended 31 December 2013 affecting the consolidated financial information of the Group and there were no differences between IFRS endorsed by the EU and IFRS issued by the IASB in terms of their application to the Group.

Except for the adoption of the new and amended accounting standards for Group IFRS reporting as described in note A2 below, the accounting policies applied by the Group in determining the IFRS basis results in this report are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2012.

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

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

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2013 or 2012 but is derived from those accounts. The auditors have reported on the 2013 statutory accounts. Statutory accounts for 2012 have been delivered to the registrar of companies, and those for 2013 will be delivered following the Company's Annual General Meeting. Their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

## A2 Adoption of new and amended accounting standards in 2013

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

| Accounting standard                                                                                                                             | Key Requirements                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Impact on results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IFRS 11, 'Joint arrangements', IFRS 12, 'Disclosures of interest in other entities' and IAS 28, 'Investments in associates and joint ventures'  | <p>The standards are effective from annual periods beginning on or after 1 January 2014 for IFRS as endorsed by the EU and have been early adopted by the Group from 1 January 2013 with adjustments to comparative results.</p> <p>IFRS 11 requires a joint venture to be recognised as an investment and be accounted for using the equity method in accordance with IAS 28.</p> <p>IFRS 12 requires certain disclosures in respect of the Group's interest in the joint ventures.</p> | <p>The Group has early adopted the standards from 1 January 2013 and has applied the requirements for the relevant interests in accordance with the transition provisions of IFRS 11. The Group has recognised its investment in joint ventures as the aggregate of the carrying amounts of the assets and liabilities that were previously proportionately consolidated by the Group. This determines the deemed cost of the Group's investments in joint ventures for applying equity accounting.</p> |
| IFRS 10, 'Consolidated financial statements', IFRS 12, 'Disclosures of interest in other entities', and IAS 27, 'Separate financial statements' | <p>The standards are effective for annual periods beginning on or after 1 January 2014 for IFRS as endorsed by the EU and have been early adopted by the Group. Comparative results are retrospectively adjusted.</p> <p>The standard changes the definition of control such that an investor has control over an investee when it is</p>                                                                                                                                                | <p>The Group has assessed whether the investment holdings as at 1 January 2013 that need to be consolidated under IAS 27 for SIC12 differ under IFRS 10. Where consolidation has led to the additional funds being consolidated, the principal effect has been to 'gross up' the consolidated statement of financial position for:</p>                                                                                                                                                                  |

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|                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                   |                                                                                                                                                                   |                                                                                                                                                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>exposed, or has rights, to variable returns from its involvement with the investee and has ability to influence those returns through power over the investee.</p>                                                                                                                                                                         | <p>(i)the difference between the net value of the newly consolidated assets and liabilities (including those attributable to external parties) and the previous carrying value for the Group’s interest; and</p>                                  |                                                                                                                                                                   |                                                                                                                                                  |
| <p>The principal category of vehicles affected is the Group’s interest in investment funds.</p>                                                                                                                                                                                                                                               | <p>(ii)the equal and opposite liability or non-controlling interest for the external parties’ interests in the funds.</p>                                                                                                                         |                                                                                                                                                                   |                                                                                                                                                  |
| <p>IFRS 13, ‘Fair value measurement’</p>                                                                                                                                                                                                                                                                                                      | <p>IFRS 13 creates a uniform framework to explain how to measure fair value and aims to enhance fair value disclosures.</p>                                                                                                                       | <p>The Group has adopted the standard for 1 January 2013 and there is no material impact on the fair value measurement of the Group’s assets and liabilities.</p> |                                                                                                                                                  |
| <p>The standard is effective from annual periods beginning on or after 1 January 2013, with no adjustment to comparative results.</p>                                                                                                                                                                                                         | <p>Amendments to IAS 19, ‘Employee benefits’</p>                                                                                                                                                                                                  | <p>These amendments are effective from 1 January 2013 and key revisions relevant to the Group are:</p>                                                            | <p>Following this adoption, the Group presents actuarial gains and losses in ‘other comprehensive income’ instead of the ‘income statement’.</p> |
| <p>(i)Presentation of actuarial gains and losses in ‘other comprehensive income’.</p> <p>(ii)The replacement of the expected return on plan assets with an amount based on the liability discount rate in the determination of pension costs.</p> <p>(iii)Enhanced disclosures, specifically on risks arising from defined benefit plans.</p> | <p>The revision to the assumption relating to expected returns altered the pension costs by an insignificant amount, with a corresponding equal and opposite effect on the actuarial gains and losses included in other comprehensive income.</p> |                                                                                                                                                                   |                                                                                                                                                  |
| <p>Amendments to IAS 1, ‘Presentation of financial statements’</p>                                                                                                                                                                                                                                                                            | <p>These amendments, effective from 1 January 2013, require items in other comprehensive income to be presented separately based on whether or not they may be recycled to profit or loss in the future.</p>                                      | <p>The Group has adopted these amendments from 1 January 2013 and amended the presentation of the statement of other comprehensive income.</p>                    |                                                                                                                                                  |
| <p>Amendment to IFRS 7, ‘Financial Instruments: Disclosures’</p>                                                                                                                                                                                                                                                                              | <p>The amendment requires additional disclosures for recognised financial instruments that have been offset in accordance with IAS 32 or are subject to enforceable master netting agreements or similar arrangements.</p>                        | <p>This is disclosure only requirement with the relevant disclosures provided in note C3.5(c).</p>                                                                |                                                                                                                                                  |
| <p>Amendment to IAS 36, ‘Recoverable Amount Disclosures for Non-financial Assets’</p>                                                                                                                                                                                                                                                         | <p>The Group has early adopted the amendment for 2013.</p> <p>The amendment effective in 2014 clarifies that the recoverable amount for a cash-generating unit to which</p>                                                                       | <p>There is no consequential impact on the Group’s disclosures.</p>                                                                                               |                                                                                                                                                  |

significant goodwill has been allocated  
is only required to be disclosed when  
an impairment loss has been  
recognised or reversed.

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

## B EARNINGS PERFORMANCE

### B1 Analysis of performance by segment

#### B1.1 Segment results – profit before tax

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

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|                                                                      |    |       |       |
|----------------------------------------------------------------------|----|-------|-------|
| (Loss) profit attaching to held for sale Japan Life businessnote (v) | D1 | (102) | 17    |
| Costs of domestication of Hong Kong branch                           | D2 | (35)  | -     |
| Profit before tax attributable to shareholders                       |    | 1,635 | 2,747 |

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

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

Notes

- (i) The Group's UK insurance operations transferred its general insurance business to Churchill in 2002. General insurance commission represents the commission receivable net of expenses for Prudential-branded general insurance products as part of this arrangement.
- (ii) Corporate expenditure as shown above is for Group Head Office and Asia Regional Head Office.
- (iii) Restructuring costs are incurred in the UK and represent one-off expenses incurred in securing expense savings.
- (iv) During 2012, M&G reduced its holdings in PPM South Africa resulting in a reclassification from a subsidiary to an associate giving rise to a gain on dilution of £42 million.
- (v) To facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the held for sale Japan Life business are included separately within the supplementary analysis of profit above.

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

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

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

Notes

- (i) General overview of defaults  
The Group did not experience any defaults on its shareholder-backed debt securities portfolio in 2013 or 2012.
- (ii) Asia insurance operations  
In Asia, the negative short-term fluctuations of £(204) million (2012: positive £54 million) primarily reflect net unrealised movements on bond holdings following a rise in bond yields during the year.
- (iii) US insurance operations  
The short-term fluctuations in investment returns for US insurance operations comprise the following items:

|                                                     | 2013 £m | 2012 £m |
|-----------------------------------------------------|---------|---------|
| Short-term fluctuations relating to debt securities |         |         |
| Charges in the year:                                |         |         |

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

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

Notes

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

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

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

| Moody's rating category (or equivalent under | Average book value | 2013 RMR | Annual expected loss | Average book value | 2012 RMR | Annual expected loss |
|----------------------------------------------|--------------------|----------|----------------------|--------------------|----------|----------------------|
|----------------------------------------------|--------------------|----------|----------------------|--------------------|----------|----------------------|

NAIC ratings of mortgage-backed securities)

|              | US\$m  | %    | US\$m | £m   | US\$m  | %    | US\$m | £m   |
|--------------|--------|------|-------|------|--------|------|-------|------|
| A3 or higher | 27,557 | 0.11 | (32)  | (20) | 23,129 | 0.11 | (26)  | (16) |
| Baa1, 2 or 3 | 24,430 | 0.25 | (62)  | (40) | 21,892 | 0.26 | (56)  | (36) |
| Ba1, 2 or 3  | 1,521  | 1.18 | (18)  | (11) | 1,604  | 1.12 | (18)  | (11) |
| B1, 2 or 3   | 530    | 2.80 | (15)  | (9)  | 597    | 2.82 | (17)  | (11) |
| Below B3     | 317    | 2.32 | (7)   | (5)  | 342    | 2.44 | (8)   | (5)  |
| Total        | 54,355 | 0.25 | (134) | (85) | 47,564 | 0.26 | (125) | (79) |

|                                                                                      |  |  |       |      |  |  |       |      |
|--------------------------------------------------------------------------------------|--|--|-------|------|--|--|-------|------|
| Related change to amortisation of deferred acquisition costs (see below)             |  |  | 25    | 16   |  |  | 21    | 13   |
| Risk margin reserve charge to operating profit for longer-term credit related losses |  |  | (109) | (69) |  |  | (104) | (66) |

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

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

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

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

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

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

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

These amounts are in respect of the equity-based derivatives and associated guarantee liabilities of Jackson's variable and fixed index annuity business. The equity based derivatives are undertaken to manage the equity risk exposure of



the guarantee liabilities. The economic exposure of these guarantee liabilities also includes the effects of changes in interest rates which are managed through the swaps and swaptions programmes described in note (c) above.

The amounts reflect the net effect of:

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

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

- The free standing derivatives and Guaranteed Minimum Withdrawal Benefit (GMWB) "not for life" embedded derivative liabilities are required to be fair valued. These fair value movements include the effects of changes to levels of equity markets, implied volatility and interest rates. The interest rate exposure is managed through the derivative programme explained above in note (c);
- The Guaranteed Minimum Death Benefit (GMDB) and GMWB "for life" guarantees are valued under the US GAAP insurance measurement basis applied for IFRS in a way that substantially does not recognise the effect of equity market and interest rate changes.

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

(iv) UK insurance operations

The negative short-term fluctuations in investment returns for UK insurance operations of £(254) million (2012: positive £136 million) reflect mainly net investment movements arising in the period on fixed income assets backing the capital of the annuity business following the rise in bond yields during the year. In addition, the amount for 2013 includes the effect of a partial hedge of future shareholder transfers expected to emerge from the UK's with-profits sub-fund taken out during the year. This hedge reduces the risk arising from equity market declines.

(v) Economic hedge value movement

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

(vi) Other

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

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

Operating segments

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

Insurance operations

- Asia
- US (Jackson)
- UK

Asset management operations

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

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

Performance measure

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

- Short-term fluctuations in investment returns.
- Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012.
- For 2012, gain on dilution of the Group's holdings in PPM South Africa.
- (Loss) profit attaching to the held for sale Japan Life business. See note D1 for further details.
- For 2013, the costs associated with the domestication of the Hong Kong branch.

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

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

- UK annuity business liabilities: For this business, policyholder liabilities are determined by reference to current interest rates. The value movements of the assets covering liabilities are closely correlated with the related change in liabilities. Accordingly, asset value movements are recorded within the 'operating results based on longer-term investment returns'. Policyholder liabilities include a margin for credit risk. Variations between actual and best estimate expected impairments are recorded as a component of short-term fluctuations in investment returns.
- Unit-linked and US variable annuity business separate account liabilities: For such business, the policyholder unit liabilities are directly reflective of the asset value movements. Accordingly, the operating results based on longer-term investment returns reflect the current period value movements in unit liabilities and the backing assets.

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

(a) Debt, equity-type securities and loans

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

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

Risk margin reserve based charge for the expected level of defaults for the period, which is determined by reference to the credit quality of the portfolio. The difference between impairment losses in the reporting period and the risk margin reserve charge to the operating result is reflected in short-term fluctuations in investment returns.

- The amortisation of interest-related realised gains and losses to operating results based on longer-term investment returns to the date when sold bonds would have otherwise matured.

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

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

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

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

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

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

For Asia insurance operations, excluding assets of the Japan Life held for sale business, investments in equity securities held for non-linked shareholder-financed operations amounted to £571 million as at 31 December 2013 (2012: £474 million). The rates of return applied in the years 2013 and 2012 ranged from 3.42 per cent to 13.75 per cent with the rates applied varying by territory.

The longer-term rates of return discussed above for equity-type securities are determined after consideration by the Group's in-house economists of long-term expected real government bond returns, equity risk premium and long-term inflation. These rates are broadly stable from period to period but may be different between countries reflecting, for

example, differing expectations of inflation in each territory. The assumptions are for returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations.

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

(b) US variable and fixed index annuity business

The following value movements for Jackson's variable and fixed index annuity business are excluded from operating profit based on longer-term investment returns:

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

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

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

(c) Other derivative value movements

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

(d) Other liabilities to policyholders and embedded derivatives for product guarantees

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

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

returns.

Examples where such bifurcation is necessary are:

#### Asia – Hong Kong

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

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

#### UK shareholder-backed annuity business

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

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

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

#### (e) Fund management and other non-insurance businesses

For these businesses, the particular features applicable for life assurance noted above do not apply. For these businesses it is inappropriate to include returns in the operating result on the basis described above. Instead, it is appropriate to generally include realised gains and losses (including impairments) in the operating result with unrealised gains and losses being included in short-term fluctuations. For this purpose impairments are calculated as the credit loss determined by comparing the projected cash flows discounted at the original effective interest rate to the carrying value. In some instances it may also be appropriate to amortise realised gains and losses on derivatives and other financial instruments to operating results over a time period that reflects the underlying economic substance of the arrangements.

#### B2 Profit before tax – Asset management operations

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

|                                                                                         |       | 2013 £m |                        | 2012* £m |       |
|-----------------------------------------------------------------------------------------|-------|---------|------------------------|----------|-------|
|                                                                                         |       | US      | Eastspring Investments | Total    | Total |
| Revenue (excluding revenue of consolidated investment funds and NPH broker-dealer fees) | M&G   | 362     | 244                    | 1,914    | 1,739 |
| NPH broker-dealer feesnote (i)                                                          | -     | 504     | -                      | 504      | 435   |
| Gross revenue                                                                           | 1,308 | 866     | 244                    | 2,418    | 2,174 |

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|                                                                                         |       |       |       |         |         |
|-----------------------------------------------------------------------------------------|-------|-------|-------|---------|---------|
| Charges (excluding charges of consolidated investment funds and NPH broker-dealer fees) | (857) | (303) | (193) | (1,353) | (1,144) |
| NPH broker-dealer feesnote (i)                                                          | -     | (504) | -     | (504)   | (435)   |
| Gross charges                                                                           | (857) | (807) | (193) | (1,857) | (1,579) |
| Share of profit from joint ventures and associates, net of related tax                  | 12    | -     | 23    | 35      | 24      |
| Profit before tax                                                                       | 463   | 59    | 74    | 596     | 619     |
| Comprising:                                                                             |       |       |       |         |         |
| Operating profit based on longer-term investment returnsnote (ii)                       | 441   | 59    | 74    | 574     | 479     |
| Short-term fluctuations in investment returns note (iii)                                | 22    | -     | -     | 22      | 98      |
| Gain on dilution of Group's holdings                                                    | -     | -     | -     | -       | 42      |
| Profit before tax                                                                       | 463   | 59    | 74    | 596     | 619     |

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

Notes

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

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

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

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

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

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

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

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

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

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

(a) Asia insurance operations

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

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

(b) US insurance operations

Amortisation of deferred acquisition costs

Jackson applies a mean reversion technique for amortisation of deferred acquisition costs on variable annuity business which dampens the effects of short-term market movements on expected gross profits against which deferred acquisition costs are amortised. To the extent that the mean reversion methodology does not fully dampen the effects of market returns, there is a charge or credit for accelerated or decelerated amortisation. For 2013, reflecting the positive market returns in the year, there was a credit for decelerated amortisation of £82 million (2012: £56 million) to the operating profit based on longer-term investment returns. See note C5.1(b) for further details.

Other

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

(c) UK insurance operations

Annuity business: allowance for credit risk

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

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

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

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

Notes

- (i) Bond spread over swap rates reflect market observed data.
- (ii) Long-term expected defaults are derived by applying Moody's data from 1970 to 2009 and the definition of the credit rating used is the second highest credit rating published by Moody's, Standard & Poor's and Fitch.
- (iii) Additional provisions comprise credit risk premium, which is derived from Moody's data from 1970 to 2009, an allowance for a one-notch downgrade of the portfolio subject to credit risk and an additional allowance for short-term defaults.

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

Movement in the credit risk allowance

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

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

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



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

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

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

#### Mortality and other assumption changes

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

#### B5 Tax charge

##### (a) Total tax charge by nature of expense

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

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

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

The current tax charge of £399 million includes £18 million (2012: £17 million) in respect of the tax charge for the Hong Kong operation. The Hong Kong current tax charge is calculated as 16.5 per cent for all periods on either (i) 5 per cent of the net insurance premium or (ii) the estimated assessable profits, depending on the nature of the business written.

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

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

| Tax charge | 2013 £m |          |       | 2012* £m |
|------------|---------|----------|-------|----------|
|            | Current | Deferred | Total | Total    |

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|                                         |       |       |       |       |
|-----------------------------------------|-------|-------|-------|-------|
|                                         | tax   | tax   |       |       |
| Tax charge to policyholders' returns    | (207) | (240) | (447) | (370) |
| Tax charge attributable to shareholders | (192) | (97)  | (289) | (584) |
| Total tax charge                        | (399) | (337) | (736) | (954) |

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

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

b Reconciliation of effective tax rate  
Reconciliation of tax charge on profit attributable to shareholders

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

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

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dependent on the mix of profits.

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

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

2012\* £m (Except for tax rates)

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

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

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

B6

## Earnings per share

|                                                                                      |      | 2013                     |                 |                  |                                      |                                        |
|--------------------------------------------------------------------------------------|------|--------------------------|-----------------|------------------|--------------------------------------|----------------------------------------|
|                                                                                      | Note | Before tax<br>B1.1<br>£m | Tax<br>B5<br>£m | Net of tax<br>£m | Basic earnings<br>per share<br>Pence | Diluted earnings<br>per share<br>Pence |
| Based on operating profit based on longer-term investment returns                    |      | 2,954                    | (638)           | 2,316            | 90.9p                                | 90.7p                                  |
| Short-term fluctuations in investment returns on shareholder-backed business         | B1.2 | (1,110)                  | 318             | (792)            | (31.1)p                              | (31.0)p                                |
| Amortisation of acquisition accounting adjustments                                   |      | (72)                     | 24              | (48)             | (1.9)p                               | (1.9)p                                 |
| Loss attaching to held for sale Japan Life business                                  | D1   | (102)                    | -               | (102)            | (4.0)p                               | (4.0)p                                 |
| Costs of domestication of Hong Kong branch                                           | D2   | (35)                     | 7               | (28)             | (1.1)p                               | (1.1)p                                 |
| Based on profit for the year                                                         |      | 1,635                    | (289)           | 1,346            | 52.8p                                | 52.7p                                  |
|                                                                                      |      | 2012*                    |                 |                  |                                      |                                        |
|                                                                                      | Note | Before tax<br>B1.1<br>£m | Tax<br>B5<br>£m | Net of tax<br>£m | Basic earnings<br>per share<br>Pence | Diluted earnings<br>per share<br>Pence |
| Based on operating profit based on longer-term investment returns                    |      | 2,520                    | (567)           | 1,953            | 76.9p                                | 76.8p                                  |
| Short-term fluctuations in investment returns on shareholder-backed business         | B1.2 | 187                      | (24)            | 163              | 6.4p                                 | 6.4p                                   |
| Gain on dilution of holdings in PPMSA                                                |      | 42                       | -               | 42               | 1.7p                                 | 1.7p                                   |
| Amortisation of acquisition accounting adjustments arising on the purchase of REALIC |      | (19)                     | 7               | (12)             | (0.5)p                               | (0.5)p                                 |
| Profit attaching to held for sale Japan life business                                | D1   | 17                       | -               | 17               | 0.6p                                 | 0.6p                                   |
| Based on profit for the year                                                         |      | 2,747                    | (584)           | 2,163            | 85.1p                                | 85.0p                                  |

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

The tables above exclude actuarial and other gains and losses on defined benefit pension schemes which following the changes to IAS 19 described in note A2 are now reported in Other Comprehensive Income. Furthermore, in order to facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the held for sale Japan Life business are included separately within the supplementary analysis of profit.

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

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

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

B7

Dividends

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

Dividend per share

Interim dividends are recorded in the period in which they are paid. Final dividends are recorded in the period in which they are approved by shareholders. The final dividend for the year ended 31 December 2012 of 20.79 pence per ordinary share was paid to eligible shareholders on 23 May 2013 and the 2013 interim dividend of 9.73 pence per ordinary share was paid to eligible shareholders on 26 September 2013.

The 2013 final dividend of 23.84 pence per ordinary share will be paid on 22 May 2014 in sterling to shareholders on the principal register and the Irish branch register at 6.00pm BST on 28 March 2014 (Record Date), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30pm Hong Kong time on the Record Date (HK Shareholders). Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about 2 June 2014. The final dividend will be paid on or about 29 May 2014 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte.) Limited (CDP) at 5.00pm Singapore time on the Record Date (SG Shareholders). The dividend payable to the HK Shareholders will be translated using the exchange rate quoted by the WM Company at the close of business on 11 March 2014. The exchange rate at which the dividend payable to the SG Shareholders will be translated into SG\$, will be determined by CDP.

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

C

BALANCE SHEET

C1

Analysis of Group position by segment and business type

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

|                                                                                             |         | 2013 £m              |       |       |                            |                             |                                               |                          | 2012*<br>£m        |                    |
|---------------------------------------------------------------------------------------------|---------|----------------------|-------|-------|----------------------------|-----------------------------|-----------------------------------------------|--------------------------|--------------------|--------------------|
|                                                                                             |         | Insurance operations |       |       | Total insurance operations | Asset management operations | Unallocated to a segment (central operations) | Intra-group eliminations | 31 Dec Group Total | 31 Dec Group Total |
| Note                                                                                        | Asia    | US                   | UK    |       |                            |                             |                                               |                          |                    |                    |
| By operating segment Assets                                                                 | C2.1    | C2.2                 | C2.3  |       | C2.4                       |                             |                                               |                          |                    |                    |
| Intangible assets attributable to shareholders:                                             |         |                      |       |       |                            |                             |                                               |                          |                    |                    |
| Goodwill                                                                                    | C5.1(a) | 231                  | -     | -     | 231                        | 1,230                       | -                                             |                          | 1,461              | 1,469              |
| Deferred acquisition costs and other intangible assets                                      | C5.1(b) | 1,026                | 4,140 | 90    | 5,256                      | 20                          | 19                                            |                          | 5,295              | 4,177              |
| Total                                                                                       |         | 1,257                | 4,140 | 90    | 5,487                      | 1,250                       | 19                                            | -                        | 6,756              | 5,646              |
| Intangible assets attributable to with-profits funds:                                       |         |                      |       |       |                            |                             |                                               |                          |                    |                    |
| Goodwill in respect of acquired subsidiaries for venture fund and other investment purposes |         | -                    | -     | 177   | 177                        | -                           | -                                             |                          | 177                | 178                |
| Deferred acquisition costs and other intangible assets                                      |         | 66                   | -     | 6     | 72                         | -                           | -                                             |                          | 72                 | 78                 |
| Total                                                                                       |         | 66                   | -     | 183   | 249                        | -                           | -                                             | -                        | 249                | 256                |
| Total                                                                                       |         | 1,323                | 4,140 | 273   | 5,736                      | 1,250                       | 19                                            | -                        | 7,005              | 5,902              |
| Deferred tax assets                                                                         | C8      | 55                   | 2,042 | 142   | 2,239                      | 119                         | 54                                            |                          | 2,412              | 2,306              |
| Other non-investment and non-cash                                                           |         | 1,073                | 6,710 | 5,808 | 13,591                     | 1,356                       | 4,500                                         | (7,090)                  | 12,357             | 11,952             |

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|                                                                                    |      |        |         |         |         |       |       |         |         |
|------------------------------------------------------------------------------------|------|--------|---------|---------|---------|-------|-------|---------|---------|
| assets                                                                             |      |        |         |         |         |       |       |         |         |
| Investments of long-term business and other operations:                            |      |        |         |         |         |       |       |         |         |
| Investment properties                                                              |      | 1      | 28      | 11,448  | 11,477  | -     | -     | 11,477  | 10,554  |
| Investments in joint ventures and associates accounted for using the equity method |      | 268    | -       | 449     | 717     | 92    | -     | 809     | 635     |
| Financial investments:                                                             |      |        |         |         |         |       |       |         |         |
| Loans                                                                              | C3.4 | 922    | 6,375   | 4,173   | 11,470  | 1,096 | -     | 12,566  | 12,743  |
| Equity securities and portfolio holdings in unit trusts                            |      | 14,383 | 66,008  | 39,745  | 120,136 | 65    | 21    | 120,222 | 98,626  |
| Debt securities                                                                    | C3.3 | 18,554 | 30,292  | 82,014  | 130,860 | 2,045 | -     | 132,905 | 138,907 |
| Other investments                                                                  |      | 41     | 1,557   | 4,603   | 6,201   | 61    | 3     | 6,265   | 7,547   |
| Deposits                                                                           |      | 896    | -       | 11,252  | 12,148  | 65    | -     | 12,213  | 12,248  |
| Total investments                                                                  |      | 35,065 | 104,260 | 153,684 | 293,009 | 3,424 | 24    | 296,457 | 281,260 |
| Assets held for sale                                                               | D1   | 916    | -       | -       | 916     | -     | -     | 916     | 98      |
| Cash and cash equivalents                                                          |      | 1,522  | 604     | 2,586   | 4,712   | 1,562 | 511   | 6,785   | 6,126   |
| Total assets                                                                       | C3.1 | 39,954 | 117,756 | 162,493 | 320,203 | 7,711 | 5,108 | (7,090) | 325,932 |

2012\*  
£m

Insurance operations

| By operating segment   | Note | 2013 £m |       |       |                                         | Total insurance operations | Unallocated |  | Intra-group eliminations | 31 Dec Group Total | 31 Dec Group Total |
|------------------------|------|---------|-------|-------|-----------------------------------------|----------------------------|-------------|--|--------------------------|--------------------|--------------------|
|                        |      | Asia    | US    | UK    | Asset to a segment (central operations) |                            |             |  |                          |                    |                    |
| Equity and liabilities |      |         |       |       |                                         |                            |             |  |                          |                    |                    |
| Equity                 |      |         |       |       |                                         |                            |             |  |                          |                    |                    |
| Shareholders' equity   |      | 2,795   | 3,446 | 2,998 | 9,239                                   | 1,991                      | (1,580)     |  | 9,650                    | 10,359             |                    |
|                        |      | 1       | -     | -     | 1                                       | -                          | -           |  | 1                        | 5                  |                    |

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|                                                                              |        |         |         |         |       |         |       |         |         |       |
|------------------------------------------------------------------------------|--------|---------|---------|---------|-------|---------|-------|---------|---------|-------|
| Non-controlling interests                                                    |        |         |         |         |       |         |       |         |         |       |
| Total equity                                                                 | 2,796  | 3,446   | 2,998   | 9,240   | 1,991 | (1,580) | -     | 9,651   | 10,364  |       |
| Liabilities                                                                  |        |         |         |         |       |         |       |         |         |       |
| Policyholder liabilities and unallocated surplus of with-profits funds:      |        |         |         |         |       |         |       |         |         |       |
| Insurance contract liabilities                                               | 31,540 | 104,971 | 81,674  | 218,185 | -     | -       |       | 218,185 | 205,484 |       |
| Investment contract liabilities with discretionary participation features    | 240    | -       | 35,352  | 35,592  | -     | -       |       | 35,592  | 33,812  |       |
| Investment contract liabilities without discretionary participation features | 130    | 2,440   | 17,606  | 20,176  | -     | -       |       | 20,176  | 18,378  |       |
| Unallocated surplus of with-profits funds                                    | 77     | -       | 11,984  | 12,061  | -     | -       |       | 12,061  | 10,589  |       |
| Total policyholder liabilities and unallocated surplus of with-profits funds | 31,987 | 107,411 | 146,616 | 286,014 | -     | -       | -     | 286,014 | 268,263 |       |
| Core structural borrowings of shareholder-financed operations:               |        |         |         |         |       |         |       |         |         |       |
| Subordinated debt                                                            | -      | -       | -       | -       | -     | 3,662   |       | 3,662   | 2,577   |       |
| Other                                                                        | -      | 150     | -       | 150     | 275   | 549     |       | 974     | 977     |       |
| Total                                                                        | C6.1   | -       | 150     | -       | 150   | 275     | 4,211 | -       | 4,636   | 3,554 |
| Operational borrowings attributable to shareholder-financed operations       | C6.2   | -       | 142     | 74      | 216   | 3       | 1,933 | 2,152   | 2,245   |       |
| Borrowings attributable to                                                   | C6.2   | -       | -       | 895     | 895   | -       | -     | 895     | 968     |       |



with-profits  
operations

|                                                                                            |       |        |         |         |         |       |       |         |         |
|--------------------------------------------------------------------------------------------|-------|--------|---------|---------|---------|-------|-------|---------|---------|
| Obligations under funding, securities lending and sale and repurchase agreements           |       | -      | 794     | 1,280   | 2,074   | -     | -     | 2,074   | 2,381   |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds |       | 1,038  | 26      | 4,214   | 5,278   | -     | -     | 5,278   | 5,145   |
| Deferred tax liabilities                                                                   | C8.1  | 594    | 1,948   | 1,213   | 3,755   | 14    | 9     | 3,778   | 3,964   |
| Current tax liabilities                                                                    | C8.2  | 45     | -       | 181     | 226     | 8     | 161   | 395     | 443     |
| Accruals and deferred income                                                               |       | 106    | -       | 383     | 489     | 302   | 33    | 824     | 751     |
| Other creditors                                                                            |       | 1,797  | 666     | 3,240   | 5,703   | 4,684 | 10    | (7,090) | 3,307   |
| Provisions                                                                                 |       | 85     | 11      | 166     | 262     | 298   | 75    | 635     | 591     |
| Derivative liabilities                                                                     |       | 58     | 515     | 804     | 1,377   | 112   | 200   | 1,689   | 2,832   |
| Other liabilities                                                                          |       | 580    | 2,647   | 429     | 3,656   | 24    | 56    | 3,736   | 3,442   |
| Total                                                                                      |       | 4,303  | 6,607   | 11,910  | 22,820  | 5,442 | 544   | (7,090) | 21,716  |
| Liabilities held for sale                                                                  | D1(c) | 868    | -       | -       | 868     | -     | -     | 868     | -       |
| Total liabilities                                                                          |       | 37,158 | 114,310 | 159,495 | 310,963 | 5,720 | 6,688 | (7,090) | 316,281 |
| Total equity and liabilities                                                               | C3.1  | 39,954 | 117,756 | 162,493 | 320,203 | 7,711 | 5,108 | (7,090) | 325,932 |

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

|                                                 | Policyholder | 31 Dec 2013 £m      |                                  |                     |                             |                                               |                                               | 31 Dec 2012* £m          |             |             |
|-------------------------------------------------|--------------|---------------------|----------------------------------|---------------------|-----------------------------|-----------------------------------------------|-----------------------------------------------|--------------------------|-------------|-------------|
|                                                 |              | Participating funds | Shareholder-backed business      |                     |                             |                                               | Unallocated to a segment (central operations) | Intra-group eliminations | Group Total | Group Total |
|                                                 |              |                     | Unit-linked and variable annuity | Non-linked business | Asset management operations | Unallocated to a segment (central operations) |                                               |                          |             |             |
|                                                 |              |                     |                                  |                     |                             |                                               |                                               |                          |             |             |
| Assets                                          |              |                     |                                  |                     |                             |                                               |                                               |                          |             |             |
| Intangible assets attributable to shareholders: |              |                     |                                  |                     |                             |                                               |                                               |                          |             |             |

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|                                                                                    |      |       |     |       |       |    |   |        |        |
|------------------------------------------------------------------------------------|------|-------|-----|-------|-------|----|---|--------|--------|
| Goodwill                                                                           | C5.1 | -     | -   | 231   | 1,230 | -  | - | 1,461  | 1,469  |
| Deferred acquisition costs and other intangible assets                             | C5.1 | -     | -   | 5,256 | 20    | 19 | - | 5,295  | 4,177  |
| Total                                                                              |      | -     | -   | 5,487 | 1,250 | 19 | - | 6,756  | 5,646  |
| Intangible assets attributable to with-profits funds:                              |      |       |     |       |       |    |   |        |        |
| In respect of acquired subsidiaries for venture fund and other investment purposes |      |       |     |       |       |    |   |        |        |
| Deferred acquisition costs and other intangible assets                             |      | 177   | -   | -     | -     | -  | - | 177    | 178    |
| Total                                                                              |      | 249   | -   | -     | -     | -  | - | 249    | 256    |
| Total                                                                              |      | 249   | -   | 5,487 | 1,250 | 19 | - | 7,005  | 5,902  |
| Deferred tax assets                                                                | C8   | 83    | 1   | 2,155 | 119   | 54 | - | 2,412  | 2,306  |
| Other non-investment and non-cash assets                                           |      |       |     |       |       |    |   |        |        |
| Investments of long-term business and other operations:                            |      |       |     |       |       |    |   |        |        |
| Investment properties                                                              |      | 9,260 | 645 | 1,572 | -     | -  | - | 11,477 | 10,554 |
| Investments in joint ventures and associates accounted for using the equity method |      | 383   | -   | 334   | 92    | -  | - | 809    | 635    |
| Financial investments:                                                             |      |       |     |       |       |    |   |        |        |
| Loans                                                                              | C3.4 | 3,346 | -   | 8,124 | 1,096 | -  | - | 12,566 | 12,743 |

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|                                                                                                                  |      |         |         |        |       |         |                |         |
|------------------------------------------------------------------------------------------------------------------|------|---------|---------|--------|-------|---------|----------------|---------|
| Equity securities and portfolio holdings in unit trusts                                                          |      | 28,365  | 90,872  | 899    | 65    | 21      | - 120,222      | 98,626  |
| Debt securities                                                                                                  | C3.3 | 57,791  | 9,622   | 63,447 | 2,045 | -       | - 132,905      | 138,907 |
| Other investments                                                                                                |      | 4,309   | 36      | 1,856  | 61    | 3       | - 6,265        | 7,547   |
| Deposits                                                                                                         |      | 9,486   | 1,024   | 1,638  | 65    | -       | - 12,213       | 12,248  |
| Total investments                                                                                                |      | 112,940 | 102,199 | 77,870 | 3,424 | 24      | - 296,457      | 281,260 |
| Assets held for sale                                                                                             | D1   | -       | 328     | 588    | -     | -       | - 916          | 98      |
| Cash and cash equivalents                                                                                        |      | 1,952   | 982     | 1,778  | 1,562 | 511     | - 6,785        | 6,126   |
| Total assets                                                                                                     |      | 118,555 | 104,109 | 97,539 | 7,711 | 5,108   | (7,090)325,932 | 307,644 |
| Equity and liabilities                                                                                           |      |         |         |        |       |         |                |         |
| Equity                                                                                                           |      |         |         |        |       |         |                |         |
| Shareholders' equity                                                                                             |      | -       | -       | 9,239  | 1,991 | (1,580) | - 9,650        | 10,359  |
| Non-controlling interests                                                                                        |      | -       | -       | 1      | -     | -       | - 1            | 5       |
| Total equity                                                                                                     |      | -       | -       | 9,240  | 1,991 | (1,580) | - 9,651        | 10,364  |
| Liabilities                                                                                                      |      |         |         |        |       |         |                |         |
| Policyholder liabilities and unallocated surplus of with-profits funds:                                          |      |         |         |        |       |         |                |         |
| Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) |      | 96,991  | 101,251 | 75,711 | -     | -       | - 273,953      | 257,674 |
| Unallocated surplus of with-profits funds                                                                        |      | 12,061  | -       | -      | -     | -       | - 12,061       | 10,589  |
| Total policyholder liabilities and unallocated                                                                   | C4   | 109,052 | 101,251 | 75,711 | -     | -       | - 286,014      | 268,263 |

|                                                                                    |      |         |         |        |       |       |         |         |         |
|------------------------------------------------------------------------------------|------|---------|---------|--------|-------|-------|---------|---------|---------|
| surplus of<br>with-profits<br>funds                                                |      |         |         |        |       |       |         |         |         |
| Core structural<br>borrowings of<br>shareholder-financed<br>operations:            |      |         |         |        |       |       |         |         |         |
| Subordinated<br>debt                                                               |      | -       | -       | -      | -     | 3,662 | -       | 3,662   | 2,577   |
| Other                                                                              |      | -       | -       | 150    | 275   | 549   | -       | 974     | 977     |
| Total                                                                              | C6.1 | -       | -       | 150    | 275   | 4,211 | -       | 4,636   | 3,554   |
| Operational<br>borrowings<br>attributable to<br>shareholder-financed<br>operations | C6.2 | -       | -       | 216    | 3     | 1,933 | -       | 2,152   | 2,245   |
| Borrowings<br>attributable to<br>with-profits<br>operations                        | C6.2 | 895     | -       | -      | -     | -     | -       | 895     | 968     |
| Deferred tax<br>liabilities                                                        | C8   | 1,192   | 44      | 2,519  | 14    | 9     | -       | 3,778   | 3,964   |
| Other<br>non-insurance<br>liabilities                                              |      | 7,416   | 2,486   | 9,163  | 5,428 | 535   | (7,090) | 17,938  | 18,286  |
| Liabilities held<br>for sale                                                       | D1   | -       | 328     | 540    | -     | -     | -       | 868     | -       |
| Total liabilities                                                                  |      | 118,555 | 104,109 | 88,299 | 5,720 | 6,688 | (7,090) | 316,281 | 297,280 |
| Total equity<br>and liabilities                                                    |      | 118,555 | 104,109 | 97,539 | 7,711 | 5,108 | (7,090) | 325,932 | 307,644 |

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

## C2 Analysis of segment position by business type

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

### C2.1 Asia insurance operations

|                                                 | 31 Dec 2013 £m                       |                                          |                   | 31 Dec 2012* £m |       |
|-------------------------------------------------|--------------------------------------|------------------------------------------|-------------------|-----------------|-------|
|                                                 | With-profits<br>business<br>note (i) | Unit-linked<br>assets and<br>liabilities | Other<br>business | Total           | Total |
| Assets                                          |                                      |                                          |                   |                 |       |
| Intangible assets attributable to shareholders: |                                      |                                          |                   |                 |       |
| Goodwill                                        | -                                    | -                                        | 231               | 231             | 239   |
|                                                 | -                                    | -                                        | 1,026             | 1,026           | 819   |

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

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

Notes

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

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

| C2.2                                                                                                                            | US insurance operations                                                       |                                                               |         | 31 Dec  |  |
|---------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|---------------------------------------------------------------|---------|---------|--|
|                                                                                                                                 | 31 Dec 2013 £m                                                                |                                                               |         | 2012 £m |  |
|                                                                                                                                 | Variable annuity<br>separate account<br>assets and<br>liabilities<br>note (i) | Fixed<br>annuity,<br>GIC and<br>other<br>business<br>note (i) | Total   | Total   |  |
| Assets                                                                                                                          |                                                                               |                                                               |         |         |  |
| Intangible assets attributable to shareholders:                                                                                 |                                                                               |                                                               |         |         |  |
| Deferred acquisition costs and other intangibles                                                                                | -                                                                             | 4,140                                                         | 4,140   | 3,222   |  |
| Total                                                                                                                           | -                                                                             | 4,140                                                         | 4,140   | 3,222   |  |
| Deferred tax assets                                                                                                             | -                                                                             | 2,042                                                         | 2,042   | 1,889   |  |
| Other non-investment and non-cash assets note (iv)                                                                              | -                                                                             | 6,710                                                         | 6,710   | 6,792   |  |
| Investments of long-term business and other operations:                                                                         |                                                                               |                                                               |         |         |  |
| Investment properties                                                                                                           | -                                                                             | 28                                                            | 28      | 24      |  |
| Financial investments:                                                                                                          |                                                                               |                                                               |         |         |  |
| Loans C3.4                                                                                                                      | -                                                                             | 6,375                                                         | 6,375   | 6,235   |  |
| Equity securities and portfolio<br>holdings in unit trusts note (iii)                                                           | 65,681                                                                        | 327                                                           | 66,008  | 49,551  |  |
| Debt securities C3.3                                                                                                            | -                                                                             | 30,292                                                        | 30,292  | 32,993  |  |
| Other investments note (ii)                                                                                                     | -                                                                             | 1,557                                                         | 1,557   | 2,296   |  |
| Deposits                                                                                                                        | -                                                                             | -                                                             | -       | 211     |  |
| Total investments                                                                                                               | 65,681                                                                        | 38,579                                                        | 104,260 | 91,310  |  |
| Cash and cash equivalents                                                                                                       | -                                                                             | 604                                                           | 604     | 513     |  |
| Total assets                                                                                                                    | 65,681                                                                        | 52,075                                                        | 117,756 | 103,726 |  |
| Equity and liabilities                                                                                                          |                                                                               |                                                               |         |         |  |
| Equity                                                                                                                          |                                                                               |                                                               |         |         |  |
| Shareholders' equity note (vi)                                                                                                  | -                                                                             | 3,446                                                         | 3,446   | 4,343   |  |
| Total equity                                                                                                                    | -                                                                             | 3,446                                                         | 3,446   | 4,343   |  |
| Liabilities                                                                                                                     |                                                                               |                                                               |         |         |  |
| Policyholder liabilities:                                                                                                       |                                                                               |                                                               |         |         |  |
| Contract liabilities (including amounts in respect<br>of contracts classified as investment contracts<br>under IFRS 4) note (v) | 65,681                                                                        | 41,730                                                        | 107,411 | 92,261  |  |
| Total C4.1 (c)                                                                                                                  | 65,681                                                                        | 41,730                                                        | 107,411 | 92,261  |  |
| Core structural borrowings of shareholder-financed<br>operations                                                                | -                                                                             | 150                                                           | 150     | 153     |  |
| Operational borrowings attributable to<br>shareholder-financed operations                                                       | -                                                                             | 142                                                           | 142     | 26      |  |
| Deferred tax liabilities                                                                                                        | -                                                                             | 1,948                                                         | 1,948   | 2,168   |  |
| Other non-insurance liabilities note (v)                                                                                        | -                                                                             | 4,659                                                         | 4,659   | 4,775   |  |
| Total liabilities                                                                                                               | 65,681                                                                        | 48,629                                                        | 114,310 | 99,383  |  |
| Total equity and liabilities                                                                                                    | 65,681                                                                        | 52,075                                                        | 117,756 | 103,726 |  |

## Notes

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

(ii) Other investments comprise:

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

\* After taking account of the derivative liabilities of £515 million (2012: £645 million), which are also included in Other non-insurance liabilities, the derivative position for US operations is a net asset of £251 million (2012: £901 million).

\*\* Partnerships in investment pools and other comprise primarily investments in limited partnerships. These include interests in the PPM America Private Equity Fund and diversified investments in 166 (2012: 167) other partnerships by independent money managers that generally invest in various equities and fixed income loans and securities.

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

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

(v) In addition to the policyholder liabilities above, Jackson has entered into a programme of funding arrangements under contracts, which, in substance are almost identical to GICs. The liabilities under these funding agreements totalled, £485 million (2012: £825 million) and are included in Other non-insurance liabilities in the statement of financial position above.

(vi) Changes in shareholders' equity

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

|                                                                                | 2013 £m | 2012 £m |
|--------------------------------------------------------------------------------|---------|---------|
| Profit for the year (as above)                                                 | 452     | 621     |
| Items recognised in other comprehensive income:                                |         |         |
| Exchange movements                                                             | (32)    | (181)   |
| Unrealised valuation movements on securities classified as available-for sale: |         |         |
| Unrealised holding (losses) gains arising during the year                      | (2,025) | 930     |
| Deduct net gains included in the income statement                              | (64)    | (68)    |
| Total unrealised valuation movements                                           | (2,089) | 862     |
|                                                                                | 498     | (270)   |

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|                                                                       |                                                                      |         |       |
|-----------------------------------------------------------------------|----------------------------------------------------------------------|---------|-------|
|                                                                       | Related change in amortisation of deferred acquisition costs C5.1(b) |         |       |
|                                                                       | Related tax                                                          | 557     | (205) |
| Total other comprehensive (loss) income                               |                                                                      | (1,066) | 206   |
| Total comprehensive (loss) income for the year                        |                                                                      | (614)   | 827   |
| Dividends, interest payments to central companies and other movements |                                                                      | (283)   | (245) |
| Net (decrease) increase in equity                                     |                                                                      | (897)   | 582   |
| Shareholders' equity at beginning of year                             |                                                                      | 4,343   | 3,761 |
| Shareholders' equity at end of year                                   |                                                                      | 3,446   | 4,343 |

C2.3 UK insurance operations

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

|                                                                                    | 2013 £m                                     |                                          |                                    |                                      |        | 2012* £m     |              |
|------------------------------------------------------------------------------------|---------------------------------------------|------------------------------------------|------------------------------------|--------------------------------------|--------|--------------|--------------|
|                                                                                    | Other funds and subsidiaries                |                                          |                                    |                                      |        |              |              |
|                                                                                    | Scottish Amicable Insurance Fund note (iii) | PAC with-profits sub-fund notes (i),(ii) | Unit-linked assets and liabilities | Annuity and other long-term business | Total  | 31 Dec Total | 31 Dec Total |
| By operating segment                                                               |                                             |                                          |                                    |                                      |        |              |              |
| Assets                                                                             |                                             |                                          |                                    |                                      |        |              |              |
| Intangible assets attributable to shareholders:                                    |                                             |                                          |                                    |                                      |        |              |              |
| Deferred acquisition costs and other intangible assets                             | -                                           | -                                        | -                                  | 90                                   | 90     | 90           | 105          |
| Total                                                                              | -                                           | -                                        | -                                  | 90                                   | 90     | 90           | 105          |
| Intangible assets attributable to with-profits funds:                              |                                             |                                          |                                    |                                      |        |              |              |
| In respect of acquired subsidiaries for venture fund and other investment purposes | -                                           | 177                                      | -                                  | -                                    | -      | 177          | 178          |
| Deferred acquisition costs                                                         | -                                           | 6                                        | -                                  | -                                    | -      | 6            | 6            |
| Total                                                                              | -                                           | 183                                      | -                                  | -                                    | -      | 183          | 184          |
| Total                                                                              | -                                           | 183                                      | -                                  | 90                                   | 90     | 273          | 289          |
| Deferred tax assets                                                                | 1                                           | 82                                       | -                                  | 59                                   | 59     | 142          | 183          |
| Other non-investment and non-cash assets                                           | 267                                         | 2,744                                    | 468                                | 2,329                                | 2,797  | 5,808        | 5,448        |
| Investments of long-term business and other operations:                            |                                             |                                          |                                    |                                      |        |              |              |
| Investment properties                                                              | 456                                         | 8,804                                    | 645                                | 1,543                                | 2,188  | 11,448       | 10,528       |
| Investments in joint ventures and associates accounted for using the equity method | -                                           | 383                                      | -                                  | 66                                   | 66     | 449          | 259          |
| Financial investments:                                                             |                                             |                                          |                                    |                                      |        |              |              |
| Loans C3.4                                                                         | 96                                          | 2,728                                    | -                                  | 1,349                                | 1,349  | 4,173        | 4,303        |
| Equity securities and portfolio holdings in unit trusts                            | 2,060                                       | 21,767                                   | 15,917                             | 1                                    | 15,918 | 39,745       | 36,281       |
| Debt securities C3.3                                                               | 3,340                                       | 44,715                                   | 7,171                              | 26,788                               | 33,959 | 82,014       | 84,008       |



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|                           |       |        |        |        |        |         |         |  |
|---------------------------|-------|--------|--------|--------|--------|---------|---------|--|
| Other investmentsnote     |       |        |        |        |        |         |         |  |
| (iv)                      | 315   | 3,986  | 15     | 287    | 302    | 4,603   | 4,256   |  |
| Deposits                  | 694   | 8,488  | 764    | 1,306  | 2,070  | 11,252  | 11,131  |  |
| Total investments         | 6,961 | 90,871 | 24,512 | 31,340 | 55,852 | 153,684 | 150,766 |  |
| Assets held for sale      | -     | -      | -      | -      | -      | -       | 98      |  |
| Cash and cash equivalents | 196   | 1,364  | 650    | 376    | 1,026  | 2,586   | 2,668   |  |
| Total assets              | 7,425 | 95,244 | 25,630 | 34,194 | 59,824 | 162,493 | 159,452 |  |

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

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

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

## Notes

- (i) The PAC with-profits sub-fund (WPSF) mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). Included in the PAC with-profits fund is £12.2 billion (2012: £13.3 billion) of non-profits annuities liabilities. The WPSF's profits are apportioned 90 per cent to its policyholders and 10 per cent to shareholders as surplus for distribution is determined via the annual actuarial valuation. For the purposes of this table and subsequent explanation, references to the WPSF also include, for convenience, the amounts attaching to the Defined Charges Participating Sub-fund which comprises 3.6 per cent of the total assets of the WPSF and includes the with-profits annuity business transferred to Prudential from the Equitable Life Assurance Society on 1 December 2007 (with assets of approximately £1.7 billion). Profits to shareholders on this with-profits annuity business emerge on a 'charges less expenses' basis and policyholders are entitled to 100 per cent of the investment earnings.
- (ii) The Hong Kong branch balance is reported within the unallocated surplus of the PAC with-profits sub-fund and excludes policyholder liabilities of the Hong Kong branch of PAC.
- (iii) The fund is solely for the benefit of policyholders of SAIF. Shareholders have no interest in the profits of this fund although they are entitled to asset management fees on this business. SAIF is a separate sub-fund within the PAC long-term business fund.

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

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

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

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

## C2.4 Asset management operations

|                                                                                       |                 | 2013 £m |                           | 2012* £m        |                 |
|---------------------------------------------------------------------------------------|-----------------|---------|---------------------------|-----------------|-----------------|
|                                                                                       | M&G<br>note (i) | US      | Eastspring<br>Investments | 31 Dec<br>Total | 31 Dec<br>Total |
| Assets                                                                                |                 |         |                           |                 |                 |
| Intangible assets:                                                                    |                 |         |                           |                 |                 |
| Goodwill                                                                              | 1,153           | 16      | 61                        | 1,230           | 1,230           |
| Deferred acquisition costs and other<br>intangible assets                             | 17              | 2       | 1                         | 20              | 13              |
| Total                                                                                 | 1,170           | 18      | 62                        | 1,250           | 1,243           |
| Other non-investment and non-cash assets                                              | 1,210           | 198     | 67                        | 1,475           | 1,142           |
| Investments in joint ventures and associates accounted<br>for using the equity method | 34              | -       | 58                        | 92              | 92              |
| Financial investments:                                                                |                 |         |                           |                 |                 |
| LoansC3.4                                                                             | 1,096           | -       | -                         | 1,096           | 1,199           |
| Equity securities and portfolio<br>holdings in unit trusts                            | 54              | -       | 11                        | 65              | 64              |
| Debt securitiesC3.3                                                                   | 2,045           | -       | -                         | 2,045           | 1,839           |
| Other investments                                                                     | 47              | 14      | -                         | 61              | 41              |

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|                                                                                 |       |     |     |       |       |
|---------------------------------------------------------------------------------|-------|-----|-----|-------|-------|
| Deposits                                                                        | -     | 32  | 33  | 65    | 55    |
| Total investments                                                               | 3,276 | 46  | 102 | 3,424 | 3,290 |
| Cash and cash equivalents                                                       | 1,405 | 56  | 101 | 1,562 | 918   |
| Total assets                                                                    | 7,061 | 318 | 332 | 7,711 | 6,593 |
| Equity and liabilities                                                          |       |     |     |       |       |
| Equity                                                                          |       |     |     |       |       |
| Shareholders' equity                                                            | 1,602 | 134 | 255 | 1,991 | 1,937 |
| Total equity                                                                    | 1,602 | 134 | 255 | 1,991 | 1,937 |
| Liabilities                                                                     |       |     |     |       |       |
| Core structural borrowing of shareholder-financed operations                    | 275   | -   | -   | 275   | 275   |
| Intra-group debt represented by operational borrowings at Group level note (ii) | 1,933 | -   | -   | 1,933 | 2,084 |
| Other non-insurance liabilities note (iii)                                      | 3,251 | 184 | 77  | 3,512 | 2,297 |
| Total liabilities                                                               | 5,459 | 184 | 77  | 5,720 | 4,656 |
| Total equity and liabilities                                                    | 7,061 | 318 | 332 | 7,711 | 6,593 |

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

Notes

- (i) The M&G statement of financial position includes the assets and liabilities in respect of Prudential Capital.  
(ii) Intra-group debt represented by operational borrowings at Group level.  
Operational borrowings for M&G are in respect of Prudential Capital's short-term fixed income security programme and comprise:

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

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

C3 Assets and Liabilities - Classification and Measurement

C3.1 Group assets and liabilities - Classification

The classification of the Group's assets and liabilities, and its corresponding accounting carrying values reflect the requirements of IFRS. For financial investments the basis of valuation reflects the Group's application of IAS 39 'Financial Instruments: Recognition and Measurement' as described further below. Where assets and liabilities have been valued at fair value or measured on a different basis but fair value is disclosed, the Group has followed the principles under IFRS13 'Fair value measurement'. The basis applied is summarised below:

|                                                       | 2013 £m                          |                                                |                            | 2012* £m                         |                                                |                            |
|-------------------------------------------------------|----------------------------------|------------------------------------------------|----------------------------|----------------------------------|------------------------------------------------|----------------------------|
|                                                       | Cost/<br>Amortised<br>cost/ IFRS | Fair<br>value,<br>where<br>value<br>applicable | Total<br>carrying<br>value | Cost/<br>Amortised<br>cost/ IFRS | Fair<br>value,<br>where<br>value<br>applicable | Total<br>carrying<br>value |
| At fair value<br>Through Available<br>profit for sale | (i)                              |                                                |                            | (i)                              |                                                |                            |

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|                                                                                    | and loss |   |       |       | and loss |   |       |       |       |
|------------------------------------------------------------------------------------|----------|---|-------|-------|----------|---|-------|-------|-------|
| Intangible assets attributable to shareholders:                                    |          |   |       |       |          |   |       |       |       |
| Goodwill                                                                           | -        | - | 1,461 | 1,461 | -        | - | 1,469 | 1,469 |       |
| Deferred acquisition costs and other intangible assets                             | -        | - | 5,295 | 5,295 | -        | - | 4,177 | 4,177 |       |
| Total                                                                              | -        | - | 6,756 | 6,756 | -        | - | 5,646 | 5,646 |       |
| Intangible assets attributable to with-profits funds:                              |          |   |       |       |          |   |       |       |       |
| In respect of acquired subsidiaries for venture fund and other investment purposes | -        | - | 177   | 177   | -        | - | 178   | 178   |       |
| Deferred acquisition costs and other intangible assets                             | -        | - | 72    | 72    | -        | - | 78    | 78    |       |
| Total                                                                              | -        | - | 249   | 249   | -        | - | 256   | 256   |       |
| Total intangible assets                                                            | -        | - | 7,005 | 7,005 | -        | - | 5,902 | 5,902 |       |
| Other non-investment and non-cash assets:                                          |          |   |       |       |          |   |       |       |       |
| Property, plant and equipment                                                      | -        | - | 920   | 920   | -        | - | 754   | 754   |       |
| Reinsurers' share of insurance contract liabilities                                | -        | - | 6,838 | 6,838 | -        | - | 6,854 | 6,854 |       |
| Deferred tax assets                                                                | -        | - | 2,412 | 2,412 | -        | - | 2,306 | 2,306 |       |
| Current tax recoverable                                                            | -        | - | 244   | 244   | -        | - | 248   | 248   |       |
| Accrued investment income                                                          | -        | - | 2,609 | 2,609 | 2,609    | - | 2,771 | 2,771 | 2,771 |
| Other debtors                                                                      | -        | - | 1,746 | 1,746 | 1,746    | - | 1,325 | 1,325 | 1,325 |

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|                                                                  |         |        |        |         |         |         |        |        |         |         |
|------------------------------------------------------------------|---------|--------|--------|---------|---------|---------|--------|--------|---------|---------|
| Total                                                            | -       | -      | 14,769 | 14,769  | -       | -       | 14,258 | 14,258 |         |         |
| Investments of long-term business and other operations:note (ii) |         |        |        |         |         |         |        |        |         |         |
| Investment properties                                            | 11,477  | -      | -      | 11,477  | 11,477  | 10,554  | -      | -      | 10,554  | 10,554  |
| Investments accounted for using the equity method                | -       | -      | 809    | 809     | -       | -       | 635    | 635    |         |         |
| Loans                                                            | 2,137   | -      | 10,429 | 12,566  | 12,995  | 2,068   | -      | 10,675 | 12,743  | 13,255  |
| Equity securities and portfolio holdings in unit trusts          | 120,222 | -      | -      | 120,222 | 120,222 | 98,626  | -      | -      | 98,626  | 98,626  |
| Debt securities                                                  | 102,700 | 30,205 | -      | 132,905 | 132,905 | 106,082 | 32,825 |        | 138,907 | 138,907 |
| Other investments                                                | 6,265   | -      | -      | 6,265   | 6,265   | 7,547   | -      | -      | 7,547   | 7,547   |
| Deposits                                                         | -       | -      | 12,213 | 12,213  | 12,213  | -       | -      | 12,248 | 12,248  | 12,248  |
| Total investments                                                | 242,801 | 30,205 | 23,451 | 296,457 |         | 224,877 | 32,825 | 23,558 | 281,260 |         |
| Assets held for sale                                             | 916     | -      | -      | 916     | 916     | 98      | -      | -      | 98      | 98      |
| Cash and cash equivalents                                        | -       | -      | 6,785  | 6,785   | 6,785   | -       | -      | 6,126  | 6,126   | 6,126   |
| Total assets                                                     | 243,717 | 30,205 | 52,010 | 325,932 |         | 224,975 | 32,825 | 49,844 | 307,644 |         |

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

|                                                                         | 2013 £m                                         |                              |                              | 2012* £m                                        |                              |                              |         |         |
|-------------------------------------------------------------------------|-------------------------------------------------|------------------------------|------------------------------|-------------------------------------------------|------------------------------|------------------------------|---------|---------|
|                                                                         | At fair value Through profit Available and loss | Cost/ Amortised cost/ IFRS 4 | Fair value, where applicable | At fair value Through profit Available and loss | Cost/ Amortised cost/ IFRS 4 | Fair value, where applicable |         |         |
| Policyholder liabilities and unallocated surplus of with-profits funds: |                                                 |                              |                              |                                                 |                              |                              |         |         |
| Insurance contract liabilities                                          | -                                               | -                            | 218,185                      | 218,185                                         | -                            | -                            | 205,484 | 205,484 |
|                                                                         | -                                               | -                            | 35,592                       | 35,592                                          | -                            | -                            | 33,812  | 33,812  |

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

Liabilities held for sale

|                   |        |   |         |         |        |   |         |         |
|-------------------|--------|---|---------|---------|--------|---|---------|---------|
| Total liabilities | 27,903 | - | 288,378 | 316,281 | 26,606 | - | 270,674 | 297,280 |
|-------------------|--------|---|---------|---------|--------|---|---------|---------|

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

Notes

- (i) Assets carried at cost or amortised cost are subject to impairment testing where appropriate under IFRS requirements. This category also includes assets which are valued by reference to specific IFRS standards such as reinsurers' share of insurance contract liabilities, deferred tax assets and investments accounted for under the equity method.
- (ii) Realised gains and losses on the Group's investments for 2013 recognised in the income statement amounted to a net gain of £2.5 billion (2012: £6.8 billion).
- (iii) The carrying value of investment contracts with discretionary participation features is on IFRS 4 basis. It is impractical to determine the fair value of these contracts due to the lack of a reliable basis to measure participation features.

C3.2 Group assets and liabilities - Measurement

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

(a) Determination of fair value

The fair values of the assets and liabilities of the Group have been determined on the following bases.

The fair values of the financial instruments for which fair valuation is required under IFRS are determined by the use of current market bid prices for exchange-quoted investments, or by using quotations from independent third-parties, such as brokers and pricing services or by using appropriate valuation techniques.

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

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

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

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

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

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

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

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

## Financial instruments at fair value

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



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|                                                |         |        |         |         |
|------------------------------------------------|---------|--------|---------|---------|
| Other financial liabilities held at fair value | -       | (263)  | (2,051) | (2,314) |
| Total financial instruments at fair value      | 144,560 | 86,549 | 3,385   | 234,494 |
| Percentage of total                            | 61%     | 37%    | 2%      | 100%    |

In addition to the financial instruments shown above, the assets and liabilities held for sale on the consolidated statement of financial position at 31 December 2013 in respect of Japan Life business included a net financial instruments balance of £934 million, primarily for equity securities and debt securities. Of this amount, £905 million has been classified as level 1 and £29 million as level 2.

|                                                                                   | 31 Dec 2012* £m                              |                                                         |                                                           | Total   |
|-----------------------------------------------------------------------------------|----------------------------------------------|---------------------------------------------------------|-----------------------------------------------------------|---------|
|                                                                                   | Level 1                                      | Level 2                                                 | Level 3                                                   |         |
|                                                                                   | Quoted prices (unadjusted) in active markets | Valuation based on significant observable market inputs | Valuation based on significant unobservable market inputs |         |
| Analysis of financial investments, net of derivative liabilities by business type |                                              |                                                         |                                                           |         |
| With-profits                                                                      |                                              |                                                         |                                                           |         |
| Equity securities and portfolio holdings in unit trusts                           | 22,057                                       | 2,496                                                   | 480                                                       | 25,033  |
| Debt securities                                                                   | 16,056                                       | 45,550                                                  | 542                                                       | 62,148  |
| Other investments (including derivative assets)                                   | 108                                          | 1,743                                                   | 2,574                                                     | 4,425   |
| Derivative liabilities                                                            | (61)                                         | (1,075)                                                 | -                                                         | (1,136) |
| Total financial investments, net of derivative liabilities                        | 38,160                                       | 48,714                                                  | 3,596                                                     | 90,470  |
| Percentage of total                                                               | 42%                                          | 54%                                                     | 4%                                                        | 100%    |
| Unit-linked and variable annuity separate account                                 |                                              |                                                         |                                                           |         |
| Equity securities and portfolio holdings in unit trusts                           | 72,488                                       | 183                                                     | 39                                                        | 72,710  |
| Debt securities                                                                   | 3,660                                        | 5,409                                                   | 2                                                         | 9,071   |
| Other investments (including derivative assets)                                   | 26                                           | 10                                                      | -                                                         | 36      |
| Derivative liabilities                                                            | -                                            | (1)                                                     | -                                                         | (1)     |
| Total financial investments, net of derivative liabilities                        | 76,174                                       | 5,601                                                   | 41                                                        | 81,816  |
| Percentage of total                                                               | 93%                                          | 7%                                                      | 0%                                                        | 100%    |
| Non-linked shareholder-backed                                                     |                                              |                                                         |                                                           |         |
| Loans                                                                             | -                                            | 226                                                     | 1,842                                                     | 2,068   |
| Equity securities and portfolio holdings in unit trusts                           | 827                                          | 7                                                       | 49                                                        | 883     |
| Debt securities                                                                   | 13,357                                       | 54,146                                                  | 185                                                       | 67,688  |
| Other investments (including derivative assets)                                   | 24                                           | 2,301                                                   | 761                                                       | 3,086   |
| Derivative liabilities                                                            | (16)                                         | (1,484)                                                 | (195)                                                     | (1,695) |
| Total financial investments, net of derivative liabilities                        | 14,192                                       | 55,196                                                  | 2,642                                                     | 72,030  |
| Percentage of total                                                               | 20%                                          | 76%                                                     | 4%                                                        | 100%    |
| Group total analysis, including other financial liabilities held at fair value    |                                              |                                                         |                                                           |         |
| Group total                                                                       |                                              |                                                         |                                                           |         |
| Loans                                                                             | -                                            | 226                                                     | 1,842                                                     | 2,068   |
| Equity securities and portfolio holdings in unit trusts                           | 95,372                                       | 2,686                                                   | 568                                                       | 98,626  |
| Debt securities                                                                   | 33,073                                       | 105,105                                                 | 729                                                       | 138,907 |
| Other investments (including derivative assets)                                   | 158                                          | 4,054                                                   | 3,335                                                     | 7,547   |
| Derivative liabilities                                                            | (77)                                         | (2,560)                                                 | (195)                                                     | (2,832) |
| Total financial investments, net of derivative liabilities                        | 128,526                                      | 109,511                                                 | 6,279                                                     | 244,316 |

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|                                                                                                  |         |          |         |          |
|--------------------------------------------------------------------------------------------------|---------|----------|---------|----------|
| Investment contracts liabilities without discretionary participation features held at fair value | -       | (16,309) | -       | (16,309) |
| Borrowings attributable to the with-profits fund held at fair value                              | -       | (40)     | -       | (40)     |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds       | (3,653) | (268)    | (1,224) | (5,145)  |
| Other financial liabilities held at fair value                                                   | -       | (259)    | (2,021) | (2,280)  |
| Total financial instruments at fair value                                                        | 124,873 | 92,635   | 3,034   | 220,542  |
| Percentage of total                                                                              | 57%     | 42%      | 1%      | 100%     |

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

Investment properties at fair value

|                       |                                              |                                               |                                                    |        |
|-----------------------|----------------------------------------------|-----------------------------------------------|----------------------------------------------------|--------|
| Group total           | 31 Dec 2013 £m                               |                                               |                                                    |        |
|                       | Level 1                                      | Level 2                                       | Level 3                                            | Total  |
|                       | Valuation                                    |                                               |                                                    |        |
|                       | Quoted prices (unadjusted) in active markets | based on significant observable market inputs | Valuation based on significant unobservable inputs |        |
| Investment properties | -                                            | -                                             | 11,477                                             | 11,477 |

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

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

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

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

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

Of the total level 2 debt securities of £100,687 million at 31 December 2013 (2012: £105,105 million), £8,556 million are valued internally (2012: £8,248 million). The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

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

Valuation approach for Level 3 fair valued assets and liabilities

Financial instruments at fair value

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

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

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

At 31 December 2013 the Group held £3,385 million (2012: £3,034 million), 2 per cent of the total fair valued financial assets net of fair valued financial liabilities (2012: 1 per cent), within level 3.

Included within these amounts were loans of £1,887 million at 31 December 2013 (2012: £1,842 million), measured at the loan outstanding balance, attached to REALIC acquired in 2012 and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of £2,051 million at 31 December 2013 (2012: £2,021 million) was also classified within level 3, accounted for on a fair value basis being equivalent to the carrying value of the underlying assets.

Excluding the loans and funds withheld liability under REALIC's reinsurance arrangements as described above, which amounted to a net liability of £(164) million (2012: £(179) million), the level 3 fair valued financial assets net of financial liabilities were £3,549 million (2012: £3,213 million). Of this amount, a net liability of £(304) million (2012: net liability of £(213) million) were internally valued, representing 0.1 per cent of the total fair valued financial assets net of financial liabilities (2012: 0.1 per cent). Internal valuations are inherently more subjective than external valuations. Included within these internally valued net liabilities were:

- (a) Debt securities of £118 million (2012: £75 million), which were either valued on a discounted cash flow method with an internally developed discount rate or on external prices adjusted to reflect the specific known conditions relating to these securities (eg distressed securities or securities which were being restructured).
- (b) Private equity and venture investments of £878 million (2012: £904 million) which were valued internally based on management information available for these investments. These investments were principally held by consolidated investment funds which are managed on behalf of third-parties.
- (c) Liabilities of £(1,301) million (2012: £(1,199) million) for the Net asset value attributable to external unit holders respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities are valued by reference to the underlying assets.
- (d) Other sundry individual financial investments of £1 million (2012: £7 million).

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

- (e) A net liability of £(380) million (2012: net liability of £(240) million) was held by the Group's participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments.
- (f) A net asset of nil (2012: £3 million) was held by the Group's unit-linked funds for which the investment return is wholly attributable to policyholders.
- (g) A net asset of £76 million (2012: £24 million) was held to support non-linked shareholder-backed business. If the value of all the level 3 instruments held to support non-linked shareholder-backed business valued internally was varied downwards by 10 per cent, the change in valuation would be £8 million (2012: £2 million), which would reduce shareholders' equity by this amount before tax. Of this amount, a decrease of £6 million (2012: an increase of £1 million) would pass through the income statement substantially as part of short-term fluctuations in investment returns outside of operating profit and a £2 million decrease (2012: a £3 million decrease) would be included as part of other comprehensive income, being unrealised movements on assets classified as available-for-sale.

#### Other assets at fair value – Investment properties

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

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

During 2013, the transfers between levels within the Group's portfolio were primarily transfers from level 1 to 2 of £471million and transfers from level 2 to level 1 of £260 million. These transfers which relate to equity securities and debt securities arose to reflect the change in the observability of the inputs used in valuing these securities.

In addition, the transfers into and out of level 3 in 2013 were £228 million and £(51) million, respectively. These transfers were between levels 3 and 2 and primarily for equity securities and debt securities.

(f) Valuation processes applied by the Group

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

C3.3 Debt securities

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

Debt securities are carried at fair value. The amounts included in the statement of financial position are analysed as follows, with further information relating to the credit quality of the Group's debt securities at 31 December 2013 provided in the notes below.

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

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

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

(a) Asia insurance operations

|                        | 2013 £m               |                    |                | 2012* £m |        |
|------------------------|-----------------------|--------------------|----------------|----------|--------|
|                        | With-profits business | Unit-linked assets | Other business | Total    | Total  |
| S&P – AAA              | 489                   | 13                 | 222            | 724      | 785    |
| S&P – AA+ to AA-       | 2,584                 | 432                | 1,717          | 4,733    | 5,523  |
| S&P – A+ to A-         | 1,710                 | 257                | 929            | 2,896    | 3,272  |
| S&P – BBB+ to BBB-     | 1,349                 | 516                | 852            | 2,717    | 1,906  |
| S&P – Other            | 351                   | 238                | 844            | 1,433    | 3,132  |
|                        | 6,483                 | 1,456              | 4,564          | 12,503   | 14,618 |
| Moody's – Aaa          | 1,076                 | 218                | 434            | 1,728    | 1,389  |
| Moody's – Aa1 to Aa3   | 128                   | 31                 | 17             | 176      | 271    |
| Moody's – A1 to A3     | 104                   | 22                 | 51             | 177      | 147    |
| Moody's – Baa1 to Baa3 | 238                   | 207                | 127            | 572      | 375    |

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|                       |       |       |       |        |        |
|-----------------------|-------|-------|-------|--------|--------|
| Moody's – Other       | 30    | 13    | 33    | 76     | 112    |
|                       | 1,576 | 491   | 662   | 2,729  | 2,294  |
| Fitch                 | 415   | 131   | 182   | 728    | 533    |
| Other                 | 1,262 | 373   | 959   | 2,594  | 2,622  |
| Total debt securities | 9,736 | 2,451 | 6,367 | 18,554 | 20,067 |

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

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

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

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

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

(b) US insurance operations

(i) Overview

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

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

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

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

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

Under IAS 39, unless categorised as ‘held to maturity’ or ‘loans and receivables’ debt securities are required to be fair valued. Where available, quoted market prices are used. However, where securities do not have an externally quoted price based on regular trades or where markets for the securities are no longer active as a result of market conditions, IAS 39 requires that valuation techniques be applied. IFRS 13 requires classification of the fair values applied by the Group into a three level hierarchy. At 31 December 2013, 0.1 per cent of Jackson’s debt securities were classified as Level 3 (31 December 2012: 0.1 per cent) comprising of fair values where there are significant inputs which are not based on observable market data.

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

#### Movements in unrealised gains and losses

There was a movement in the statement of financial position value for debt securities classified as available-for-sale from a net unrealised gain of £2,807 million to a net unrealised gain of £781 million as analysed in the table below. This decrease reflects the effects of rising long-term interest rates.

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

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

\*\* Translated at the average rate of US\$1.5646: £1.00

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

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

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

|  | 2013 £m    | 2012 £m    |
|--|------------|------------|
|  | Unrealised | Unrealised |
|  | Fair value | Fair value |
|  | loss       | loss       |

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|                      |       |       |       |       |
|----------------------|-------|-------|-------|-------|
| Between 90% and 100% | 7,624 | (310) | 4,214 | (112) |
| Between 80% and 90%  | 1,780 | (331) | 85    | (13)  |
| Below 80%            | 572   | (208) | 74    | (53)  |
| Total                | 9,976 | (849) | 4,373 | (178) |

(b) Unrealised losses by maturity of security

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

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

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

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

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

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

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



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

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

(iii) Ratings

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

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

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

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

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

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

for residential mortgage-backed securities and BlackRock Solutions for commercial mortgage-backed securities).

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

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

Where no external ratings are available, internal ratings produced by the Group's asset management operation, which are prepared on the Company's assessment of a comparable basis to external ratings, are used where possible. The £8,421 million total debt securities held at 31 December 2013 (2012: £8,345 million) which are not externally rated are either internally rated or unrated. These are analysed as follows:

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

The majority of unrated debt security investments were held in SAIF and the PAC with-profits fund and relate to convertible debt and other investments which are not covered by ratings analysts nor have an internal rating attributed to them. For the £2,627 million for PRIL and other annuity and long-term business investments for non-linked shareholder-backed business which are not externally rated, £605 million were internally rated AA+ to AA-, £948 million A+ to A-, £868 million BBB+ to BBB-, £65 million BB+ to BB- and £141 million were internally rated B+ and below or unrated.

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(d) Asset management operations

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

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

(e) Asset-backed securities

The Group's holdings in asset-backed securities (ABS), which comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralised debt obligations (CDO) funds and other asset-backed securities, at 31 December 2013 is as follows:

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

Notes

(i) Asia insurance operations

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

(ii) US insurance operations

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

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

(iii) UK insurance operations

The majority of holdings of the shareholder-backed business relates to the UK market and primarily relates to investments held by PRIL. Of the holdings of the with-profits operations, £1,490 million (31 December 2012: £1,697 million) relates to exposure to the US markets and with the remaining exposure being primarily to the UK market.

(iv) Asset management operations

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

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(f) Group sovereign debt and bank debt exposure

The Group exposures held by the shareholder-backed business and with-profits funds in sovereign debts and bank debt securities at 31 December 2013:

Exposure to sovereign debts

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

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

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

The table above excludes assets held to cover linked liabilities and those of the consolidated unit trusts and similar funds. In addition, the table above excludes the proportionate share of sovereign debt holdings of the Group's joint venture operations. As discussed in note A2 following the adoption of IFRS 11 these operations are accounted for using single line equity method in the balance sheet.

Exposure to bank debt securities

Bank debt securities £m

| Shareholder-backed business | Senior debt |        |                   | Subordinated debt |        |                         | Total       |             |
|-----------------------------|-------------|--------|-------------------|-------------------|--------|-------------------------|-------------|-------------|
|                             | Covered     | Senior | Total senior debt | Tier 2            | Tier 1 | Total subordinated debt | 31 Dec 2013 | 31 Dec 2012 |
| Portugal                    | -           | 45     | 45                | -                 | -      | -                       | 45          | 37          |
| Ireland                     | -           | 17     | 17                | -                 | -      | -                       | 17          | 16          |
| Italy                       | -           | 30     | 30                | -                 | -      | -                       | 30          | 39          |
| Spain                       | 100         | 12     | 112               | 23                | -      | 23                      | 135         | 168         |
| Austria                     | -           | -      | -                 | 12                | -      | 12                      | 12          | 11          |
| France                      | 23          | 64     | 87                | 71                | 17     | 88                      | 175         | 195         |
| Germany                     | -           | 3      | 3                 | 63                | -      | 63                      | 66          | 22          |
| Netherlands                 | -           | 14     | 14                | 57                | 81     | 138                     | 152         | 182         |
| Total Continental Europe    | 123         | 185    | 308               | 226               | 98     | 324                     | 632         | 670         |
| United Kingdom              | 409         | 175    | 584               | 673               | 112    | 785                     | 1,369       | 1,466       |
| Total Europe                | 532         | 360    | 892               | 899               | 210    | 1,109                   | 2,001       | 2,136       |

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|                      |     |       |       |       |     |       |       |       |
|----------------------|-----|-------|-------|-------|-----|-------|-------|-------|
| United States        | -   | 1,688 | 1,688 | 456   | 19  | 475   | 2,163 | 2,243 |
| Other, predominantly |     |       |       |       |     |       |       |       |
| Asia                 | 21  | 281   | 302   | 300   | 96  | 396   | 698   | 741   |
| Total                | 553 | 2,329 | 2,882 | 1,655 | 325 | 1,980 | 4,862 | 5,120 |
| With-profits funds   |     |       |       |       |     |       |       |       |
| Portugal             | -   | 6     | 6     | -     | -   | -     | 6     | 6     |
| Ireland              | 10  | -     | 10    | -     | -   | -     | 10    | 6     |
| Italy                | 15  | 67    | 82    | -     | -   | -     | 82    | 75    |
| Spain                | 136 | 13    | 149   | -     | -   | -     | 149   | 186   |
| France               | 12  | 168   | 180   | 57    | -   | 57    | 237   | 157   |
| Germany              | -   | 24    | 24    | -     | -   | -     | 24    | -     |
| Netherlands          | -   | 208   | 208   | 7     | -   | 7     | 215   | 138   |
| Total Continental    |     |       |       |       |     |       |       |       |
| Europe               | 173 | 486   | 659   | 64    | -   | 64    | 723   | 568   |
| United Kingdom       | 598 | 442   | 1,040 | 635   | 20  | 655   | 1,695 | 1,904 |
| Total Europe         | 771 | 928   | 1,699 | 699   | 20  | 719   | 2,418 | 2,472 |
| United States        | -   | 1,942 | 1,942 | 129   | 143 | 272   | 2,214 | 2,083 |
| Other, predominantly |     |       |       |       |     |       |       |       |
| Asia                 | 108 | 638   | 746   | 174   | 182 | 356   | 1,102 | 655   |
| Total                | 879 | 3,508 | 4,387 | 1,002 | 345 | 1,347 | 5,734 | 5,210 |

The table above excludes assets held to cover linked liabilities and those of the consolidated unit trusts and similar funds. In addition, the table above excludes the proportionate share of sovereign debt holdings of the Group's joint venture operations. As discussed in note A2 following the adoption of IFRS 11 these operations are accounted for using a single line equity method in the balance sheet.

### C3.4 Loans portfolio

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

- certain mortgage loans which have been designated at fair value through profit and loss of the UK insurance operations as this loan portfolio is managed and evaluated on a fair value basis; and
- certain policy loans of the US insurance operations which are held to back liabilities for funds withheld under reinsurance arrangement and are also accounted on a fair value basis.

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

|                              |              | 2013 £m | 2012*<br>£m |
|------------------------------|--------------|---------|-------------|
| Insurance operations:        |              |         |             |
|                              | Asianote (a) | 922     | 1,006       |
|                              | USnote (b)   | 6,375   | 6,235       |
|                              | UKnote (c)   | 4,173   | 4,303       |
| Asset management operations: |              |         |             |
|                              | M&Gnote (d)  | 1,096   | 1,199       |
| Total                        |              | 12,566  | 12,743      |

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

#### (a) Asia insurance operations

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

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

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

‡ The mortgage and policy loans are secured by properties and life insurance policies respectively.

‡‡ The majority of the other loans are commercial loans held by the Malaysia operation and which are all investment graded by two local rating agencies.

(b) US insurance operations

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

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

‡ All of the mortgage loans are commercial mortgage loans which are collateralised by properties. The property types are industrial, multi-family residential, suburban office, retail and hotel. The breakdown by property type is as follows:

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

‡‡ The policy loans are fully secured by individual life insurance policies or annuity policies. The purchase of REALIC in the second half of 2012 included policy loans which are accounted for at fair value through profit and loss to back liabilities for funds withheld under reinsurance. The policy loans are valued at £1,887 million at 31 December 2013 (2012: £1,842 million). All other policy loans are accounted for at amortised cost, less any impairment.

The US insurance operations' commercial mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the risk of defaults associated with residential sub-prime mortgage loans. The average loan size is £6.5 million (2012: £6.3 million). The portfolio has a current estimated average loan to value of 61 per cent (2012: 65 per cent).

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At 31 December 2013, Jackson had mortgage loans with a carrying value of £47 million (2012: £78 million) where the contractual terms of the agreements had been restructured.

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

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

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

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

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

(d) Asset management operations

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

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

C4 Policyholder liabilities and unallocated surplus

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

C4.1 Movement and duration of liabilities

C4.1(a) Group overview

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

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|                                                                                                 | Insurance operations £m |                       |                       | Total    |
|-------------------------------------------------------------------------------------------------|-------------------------|-----------------------|-----------------------|----------|
|                                                                                                 | Asia<br>note<br>C4.1(b) | US<br>note<br>C4.1(c) | UK<br>note<br>C4.1(d) |          |
| At 1 January 2012                                                                               | 30,912                  | 69,189                | 136,189               | 236,290  |
| Comprising:                                                                                     |                         |                       |                       |          |
| - Policyholder liabilities on the consolidated statement of financial position*                 | 28,110                  | 69,189                | 127,024               | 224,323  |
| - Unallocated surplus of with-profits funds on the consolidated statement of financial position | 50                      | -                     | 9,165                 | 9,215    |
| - Group's share of policyholder liabilities of joint ventures‡                                  | 2,752                   | -                     | -                     | 2,752    |
| Net flows:                                                                                      |                         |                       |                       |          |
| Premiums                                                                                        | 5,620                   | 14,907                | 8,340                 | 28,867   |
| Surrenders                                                                                      | (2,541)                 | (4,356)               | (4,785)               | (11,682) |
| Maturities/Deaths                                                                               | (658)                   | (954)                 | (8,009)               | (9,621)  |
| Net flows                                                                                       | 2,421                   | 9,597                 | (4,454)               | 7,564    |
| Shareholders' transfers post tax                                                                | (31)                    | -                     | (205)                 | (236)    |
| Investment-related items and other movements                                                    | 2,178                   | 4,241                 | 13,006                | 19,425   |
| Foreign exchange translation differences                                                        | (816)                   | (3,678)               | (98)                  | (4,592)  |
| Acquisition of REALIC note D1                                                                   | -                       | 12,912                | -                     | 12,912   |
| As at 31 December 2012 / 1 January 2013                                                         | 34,664                  | 92,261                | 144,438               | 271,363  |
| Comprising:                                                                                     |                         |                       |                       |          |
| - Policyholder liabilities on the consolidated statement of financial position*                 | 31,501                  | 92,261                | 133,912               | 257,674  |
| - Unallocated surplus of with-profits funds on the consolidated statement of financial position | 63                      | -                     | 10,526                | 10,589   |
| - Group's share of policyholder liabilities of joint ventures‡                                  | 3,100                   | -                     | -                     | 3,100    |
| Reclassification of Japan life business as held for sale**                                      | (1,026)                 | -                     | -                     | (1,026)  |
| Net flows:                                                                                      |                         |                       |                       |          |
| Premiums                                                                                        | 6,555                   | 15,951                | 7,378                 | 29,884   |
| Surrenders                                                                                      | (2,730)                 | (5,087)               | (4,582)               | (12,399) |
| Maturities/Deaths                                                                               | (997)                   | (1,229)               | (8,121)               | (10,347) |
| Net flows                                                                                       | 2,828                   | 9,635                 | (5,325)               | 7,138    |
| Shareholders' transfers post tax                                                                | (38)                    | -                     | (192)                 | (230)    |
| Investment-related items and other movements                                                    | 462                     | 8,219                 | 7,812                 | 16,493   |
| Foreign exchange translation differences                                                        | (2,231)                 | (2,704)               | (117)                 | (5,052)  |
| Acquisition of Thanachart Lifenote D1                                                           | 487                     | -                     | -                     | 487      |
| At 31 December 2013                                                                             | 35,146                  | 107,411               | 146,616               | 289,173  |
| Comprising:                                                                                     |                         |                       |                       |          |
| - Policyholder liabilities on the consolidated statement of financial position*                 | 31,910                  | 107,411               | 134,632               | 273,953  |
| - Unallocated surplus of with-profits funds on the consolidated statement of financial position | 77                      | -                     | 11,984                | 12,061   |
| - Group's share of policyholder liabilities of joint ventures‡                                  | 3,159                   | -                     | -                     | 3,159    |
| Average policyholder liability balances†                                                        |                         |                       |                       |          |
| 2013                                                                                            | 34,423                  | 99,836                | 134,272               | 268,531  |
| 2012                                                                                            | 32,732                  | 77,497                | 130,468               | 240,697  |

\*



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

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

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

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

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

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

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

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

Comprising:

|                                                                                |        |        |        |  |         |
|--------------------------------------------------------------------------------|--------|--------|--------|--|---------|
| - Policyholder liabilities on the consolidated statement of financial position | 18,113 | 92,261 | 49,505 |  | 159,879 |
| - Group's share of policyholder liabilities relating to joint ventures         | 3,100  | -      | -      |  | 3,100   |

| Shareholder-backed business | Asia             | 2013 £m |        |  | Total   |
|-----------------------------|------------------|---------|--------|--|---------|
|                             |                  | US      | UK     |  |         |
| At 1 January                | 21,213           | 92,261  | 49,505 |  | 162,979 |
|                             | note (b) (1,026) | -       | -      |  | (1,026) |

## Reclassification of Japan business as held for sale

|                                              |          |         |         |         |         |
|----------------------------------------------|----------|---------|---------|---------|---------|
| Premiums                                     |          | 4,728   | 15,951  | 3,628   | 24,307  |
| Surrenders                                   |          | (2,016) | (5,087) | (2,320) | (9,423) |
| Maturities/Deaths                            |          | (363)   | (1,229) | (2,346) | (3,938) |
| Net flows                                    | note (a) | 2,349   | 9,635   | (1,038) | 10,946  |
| Investment-related items and other movements |          | 622     | 8,219   | 2,312   | 11,153  |
| Acquisition of subsidiaries                  |          | 487     | -       | -       | 487     |
| Foreign exchange translation differences     |          | (1,714) | (2,704) | -       | (4,418) |
| At 31 December                               |          | 21,931  | 107,411 | 50,779  | 180,121 |

## Comprising:

- Policyholder liabilities on the consolidated statement of financial position

18,772      107,411      50,779      176,962

- Group's share of policyholder liabilities relating to joint ventures

3,159      -      -      3,159

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

## Notes

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

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

## C4.1(b) Asia insurance operations

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

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

|                                                                                                 | With-profits business | Unit-linked liabilities | Other business | Total  |
|-------------------------------------------------------------------------------------------------|-----------------------|-------------------------|----------------|--------|
|                                                                                                 | £m                    | £m                      | £m             | £m     |
| At 1 January 2012                                                                               | 12,643                | 12,015                  | 6,254          | 30,912 |
| Comprising:                                                                                     |                       |                         |                |        |
| - Policyholder liabilities on the consolidated statement of financial position*                 | 12,593                | 10,101                  | 5,416          | 28,110 |
| - Unallocated surplus of with-profits funds on the consolidated statement of financial position | 50                    | -                       | -              | 50     |
| - Group's share of policyholder liabilities relating to joint ventures‡                         | -                     | 1,914                   | 838            | 2,752  |
| Premiums                                                                                        |                       |                         |                |        |
| New business                                                                                    | 216                   | 1,336                   | 636            | 2,188  |
| In-force                                                                                        | 1,263                 | 1,292                   | 877            | 3,432  |

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|                                                            |                                                                                                 |        |         |       |         |
|------------------------------------------------------------|-------------------------------------------------------------------------------------------------|--------|---------|-------|---------|
|                                                            |                                                                                                 | 1,479  | 2,628   | 1,513 | 5,620   |
| Surrenders note (c)                                        |                                                                                                 | (608)  | (1,675) | (258) | (2,541) |
| Maturities/Deaths                                          |                                                                                                 | (432)  | (30)    | (196) | (658)   |
| Net flows note (b)                                         |                                                                                                 | 439    | 923     | 1,059 | 2,421   |
| Shareholders' transfers post tax                           |                                                                                                 | (31)   | -       | -     | (31)    |
| Investment-related items and other movements               |                                                                                                 | 639    | 1,451   | 88    | 2,178   |
| Foreign exchange translation differences note (a)          |                                                                                                 | (239)  | (361)   | (216) | (816)   |
| At 31 December 2012 / 1 January 2013                       |                                                                                                 | 13,451 | 14,028  | 7,185 | 34,664  |
| Comprising:                                                |                                                                                                 |        |         |       |         |
|                                                            | - Policyholder liabilities on the consolidated statement of financial position*                 | 13,388 | 11,969  | 6,144 | 31,501  |
|                                                            | - Unallocated surplus of with-profits funds on the consolidated statement of financial position | 63     | -       | -     | 63      |
|                                                            | - Group's share of policyholder liabilities relating to joint ventures‡                         | -      | 2,059   | 1,041 | 3,100   |
| Reclassification of Japan Life business as held for sale** |                                                                                                 | -      | (366)   | (660) | (1,026) |
| Premiums                                                   |                                                                                                 |        |         |       |         |
|                                                            | New business                                                                                    | 242    | 1,519   | 902   | 2,663   |
|                                                            | In-force                                                                                        | 1,585  | 1,301   | 1,006 | 3,892   |
|                                                            |                                                                                                 | 1,827  | 2,820   | 1,908 | 6,555   |
| Surrenders note (c)                                        |                                                                                                 | (714)  | (1,799) | (217) | (2,730) |
| Maturities/Deaths                                          |                                                                                                 | (634)  | (46)    | (317) | (997)   |
| Net flows note (b)                                         |                                                                                                 | 479    | 975     | 1,374 | 2,828   |
| Shareholders' transfers post tax                           |                                                                                                 | (38)   | -       | -     | (38)    |
| Investment-related items and other movements note (d)      |                                                                                                 | (160)  | 369     | 253   | 462     |
| Acquisition of Thanachart life                             |                                                                                                 | -      | -       | 487   | 487     |
| Foreign exchange translation differences note (a)          |                                                                                                 | (517)  | (1,241) | (473) | (2,231) |
| At 31 December 2013                                        |                                                                                                 | 13,215 | 13,765  | 8,166 | 35,146  |
| Comprising:                                                |                                                                                                 |        |         |       |         |
|                                                            | - Policyholder liabilities on the consolidated statement of financial position*                 | 13,138 | 11,918  | 6,854 | 31,910  |
|                                                            | - Unallocated surplus of with-profits funds on the consolidated statement of financial position | 77     | -       | -     | 77      |
|                                                            | - Group's share of policyholder liabilities relating to joint ventures‡                         | -      | 1,847   | 1,312 | 3,159   |
| Average policyholder liability balances†                   |                                                                                                 |        |         |       |         |
|                                                            | 2013                                                                                            | 13,263 | 13,714  | 7,446 | 34,423  |
|                                                            | 2012                                                                                            | 12,990 | 13,022  | 6,720 | 32,732  |

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

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

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

\*\* The reclassification of Japan Life business as held for sale reflects the value of policyholder liabilities held at 1 January 2013 following its reclassification during 2013 as held for sale. No other amounts are shown within the 2013 analysis above in respect of Japan. The 2012 comparatives include the Japan Life business. If Japan Life business

had been excluded from the 2012 amount, the average policyholder liability balance for 2012 would have been £31,616 million in total allocated £12,990 million, £12,648 million and £5,978 million for its with-profits business, unit-linked business and other business respectively.

Notes

- (a) Movements in the year have been translated at the average exchange rates for the year ended 31 December 2013. The closing balance has been translated at the closing spot rates as at 31 December 2013. Differences upon retranslation are included in foreign exchange translation differences.
- (b) Net flows have increased by £407 million to £2,828 million in 2013 compared with £2,421 million in 2012 reflecting increased flows from new business and growth in the in-force books.
- (c) The rate of surrenders for shareholder-backed business (expressed as a percentage of opening liabilities after the removal of Japan) was 10.0 per cent in 2013, lower than the 10.6 per cent recorded in 2012. Maturities/deaths have increased from £658 million in 2012 to £997 million in 2013, primarily as a result of an increased number of endowment products within Hong Kong, Singapore and Thailand reaching their maturity point.
- (d) Investment-related items and other movements for 2013 principally represents unrealised losses on bonds, following the rise in bond yields within the with-profits funds and positive investment gains from the Asia equity market in the unit-linked and other business.

(ii) Duration of liabilities

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

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

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

C4.1(c) US insurance operations

(i) Analysis of movements in policyholder liabilities

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

US insurance operations

| Variable annuity separate account liabilities | Fixed annuity, GIC and other business | Total |
|-----------------------------------------------|---------------------------------------|-------|
|-----------------------------------------------|---------------------------------------|-------|

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|                                                       | £m      | £m      | £m      |
|-------------------------------------------------------|---------|---------|---------|
| At 1 January 2012                                     | 37,833  | 31,356  | 69,189  |
| Premiums                                              | 10,361  | 4,546   | 14,907  |
| Surrenders                                            | (2,149) | (2,207) | (4,356) |
| Maturities/Deaths                                     | (404)   | (550)   | (954)   |
| Net flows note (b)                                    | 7,808   | 1,789   | 9,597   |
| Transfers from general to separate account            | 1,577   | (1,577) | -       |
| Investment-related items and other movements          | 4,014   | 227     | 4,241   |
| Foreign exchange translation differences note (a)     | (1,998) | (1,680) | (3,678) |
| Acquisition of REALIC note (d)                        | 64      | 12,848  | 12,912  |
| At 31 December 2012 / 1 January 2013                  | 49,298  | 42,963  | 92,261  |
| Premiums                                              | 11,377  | 4,574   | 15,951  |
| Surrenders                                            | (2,906) | (2,181) | (5,087) |
| Maturities/Deaths                                     | (485)   | (744)   | (1,229) |
| Net flows note (b)                                    | 7,986   | 1,649   | 9,635   |
| Transfers from general to separate account            | 1,603   | (1,603) | -       |
| Investment-related items and other movements note (c) | 8,725   | (506)   | 8,219   |
| Foreign exchange translation differences note (a)     | (1,931) | (773)   | (2,704) |
| At 31 December 2013                                   | 65,681  | 41,730  | 107,411 |
| Average policyholder liability balances*              |         |         |         |
| 2013                                                  | 57,489  | 42,347  | 99,836  |
| 2012                                                  | 43,549  | 33,948  | 77,497  |

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

Notes

- (a) Movements in the year have been translated at an average rate of US\$1.56/£1.00 (2012: US\$1.58/£1.00). The closing balances have been translated at closing rate of US\$1.66/£1.00 (2012: US\$1.63/£1.00). Differences upon retranslation are included in foreign exchange translation differences.
- (b) Net flows for the year were £9,635 million compared with £9,597 million in 2012. Gross inflows increased by 7 per cent primarily reflecting increased variable annuity new business volume.
- (c) Positive investment-related items and other movements in variable annuity separate account liabilities of £8,725 million for 2013 primarily reflects the increase in the US equity market during the year. Fixed annuity, GIC and other business investment and other movements primarily reflects the reduction in guarantee reserves (reflecting the impact of higher equity values and higher interest rates on these reserves), which has more than offset the increase in general account reserves which arise from interest credited to policyholder accounts in the year.
- (d) The amounts shown for the acquisition of REALIC represents the liabilities, before reduction for reinsurance ceded, acquired at the date of acquisition.

(ii) Duration of liabilities

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

|  | 2013                                                         |                  |       | 2012                                                         |                  |       |
|--|--------------------------------------------------------------|------------------|-------|--------------------------------------------------------------|------------------|-------|
|  | Fixed annuity and other business (including GICs and similar | Variable annuity | Total | Fixed annuity and other business (including GICs and similar | Variable annuity | Total |
|  |                                                              |                  |       |                                                              |                  |       |

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|                          | contracts) |        |         | contracts) |        |        |
|--------------------------|------------|--------|---------|------------|--------|--------|
|                          | £m         | £m     | £m      | £m         | £m     | £m     |
| Policyholder liabilities | 41,730     | 65,681 | 107,411 | 42,963     | 49,298 | 92,261 |
|                          | %          | %      | %       | %          | %      | %      |
| Expected maturity:       |            |        |         |            |        |        |
| 0 to 5 years             | 49         | 48     | 48      | 45         | 46     | 46     |
| 5 to 10 years            | 27         | 31     | 30      | 27         | 31     | 29     |
| 10 to 15 years           | 11         | 13     | 12      | 12         | 13     | 13     |
| 15 to 20 years           | 6          | 5      | 5       | 7          | 6      | 6      |
| 20 to 25 years           | 4          | 2      | 3       | 5          | 2      | 3      |
| Over 25 years            | 3          | 1      | 2       | 4          | 2      | 3      |

C4.1(d)

UK insurance operations

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

|                                                       | Shareholder-backed funds and subsidiaries |             |             |                                      |         |
|-------------------------------------------------------|-------------------------------------------|-------------|-------------|--------------------------------------|---------|
|                                                       | SAIF and PAC with-profits sub-fund        | Unit-linked | liabilities | Annuity and other long-term business | Total   |
|                                                       | £m                                        | £m          | £m          | £m                                   | £m      |
| At 1 January 2012                                     | 90,141                                    |             | 21,281      | 24,767                               | 136,189 |
| Comprising:                                           |                                           |             |             |                                      |         |
| - Policyholder liabilities                            | 80,976                                    |             | 21,281      | 24,767                               | 127,024 |
| - Unallocated surplus of with-profits funds           | 9,165                                     |             | -           | -                                    | 9,165   |
| Premiums                                              | 4,539                                     |             | 1,775       | 2,026                                | 8,340   |
| Surrenders                                            | (2,200)                                   |             | (2,378)     | (207)                                | (4,785) |
| Maturities/Deaths                                     | (5,664)                                   |             | (658)       | (1,687)                              | (8,009) |
| Net flows note (a)                                    | (3,325)                                   |             | (1,261)     | 132                                  | (4,454) |
| Shareholders' transfers post tax                      | (205)                                     |             | -           | -                                    | (205)   |
| Switches                                              | (236)                                     |             | 236         | -                                    | -       |
| Investment-related items and other movements note (b) | 8,656                                     |             | 1,941       | 2,409                                | 13,006  |
| Foreign exchange translation differences              | (98)                                      |             | -           | -                                    | (98)    |
| At 31 December 2012 / 1 January 2013                  | 94,933                                    |             | 22,197      | 27,308                               | 144,438 |
| Comprising:                                           |                                           |             |             |                                      |         |
| - Policyholder liabilities                            | 84,407                                    |             | 22,197      | 27,308                               | 133,912 |
| - Unallocated surplus of with-profits funds           | 10,526                                    |             | -           | -                                    | 10,526  |
| Premiums                                              | 3,750                                     |             | 2,150       | 1,478                                | 7,378   |
| Surrenders                                            | (2,262)                                   |             | (2,263)     | (57)                                 | (4,582) |
| Maturities/Deaths                                     | (5,775)                                   |             | (644)       | (1,702)                              | (8,121) |
| Net flows note (a)                                    | (4,287)                                   |             | (757)       | (281)                                | (5,325) |
| Shareholders' transfers post tax                      | (192)                                     |             | -           | -                                    | (192)   |
| Switches                                              | (195)                                     |             | 195         | -                                    | -       |

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|                                                       |        |        |        |         |
|-------------------------------------------------------|--------|--------|--------|---------|
| Investment-related items and other movements note (b) | 5,695  | 2,017  | 100    | 7,812   |
| Foreign exchange translation differences              | (117)  | -      | -      | (117)   |
| At 31 December 2013                                   | 95,837 | 23,652 | 27,127 | 146,616 |
| Comprising:                                           |        |        |        |         |
| - Policyholder liabilities                            | 83,853 | 23,652 | 27,127 | 134,632 |
| - Unallocated surplus of with-profits funds           | 11,984 | -      | -      | 11,984  |
| Average policyholder liability balances*              |        |        |        |         |
| 2013                                                  | 84,130 | 22,924 | 27,218 | 134,272 |
| 2012                                                  | 82,691 | 21,739 | 26,038 | 130,468 |

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

Notes

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

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

(ii) Duration of liabilities

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

|                           | 2013 £m               |                      |        |                                                  |        |        |                     |                       |        | Total   |
|---------------------------|-----------------------|----------------------|--------|--------------------------------------------------|--------|--------|---------------------|-----------------------|--------|---------|
|                           | With-profits business |                      |        | Annuity business<br>(Insurance contracts)        |        |        | Other               |                       |        |         |
|                           | Insurance contracts   | Investment contracts | Total  | Non-profit annuities within WPSF (including PAL) | PRIL   | Total  | Insurance contracts | Investments contracts | Total  |         |
| Policyholders liabilities | 36,248                | 35,375               | 71,623 | 12,230                                           | 19,973 | 32,203 | 13,223              | 17,583                | 30,806 | 134,632 |
|                           | 2013 %                |                      |        |                                                  |        |        |                     |                       |        |         |
| Expected maturity:        |                       |                      |        |                                                  |        |        |                     |                       |        |         |
| 0 to 5 years              | 42                    | 40                   | 41     | 33                                               | 28     | 30     | 39                  | 40                    | 39     | 38      |
| 5 to 10 years             | 24                    | 25                   | 25     | 25                                               | 23     | 24     | 25                  | 22                    | 23     | 24      |
| 10 to 15 years            | 14                    | 17                   | 16     | 18                                               | 18     | 18     | 16                  | 16                    | 16     | 16      |
| 15 to 20 years            | 9                     | 11                   | 10     | 11                                               | 13     | 12     | 9                   | 10                    | 10     | 11      |
|                           | 5                     | 5                    | 5      | 6                                                | 8      | 8      | 5                   | 6                     | 6      | 6       |

|                              |         |        |        |        |        |        |        |        |        |         |
|------------------------------|---------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| 20 to 25 years over 25 years | 6       | 2      | 3      | 7      | 10     | 8      | 6      | 6      | 6      | 5       |
|                              | 2012 £m |        |        |        |        |        |        |        |        |         |
| Policyholders liabilities    | 37,698  | 33,486 | 71,184 | 13,223 | 20,114 | 33,337 | 13,231 | 16,160 | 29,391 | 133,912 |
|                              | 2012 %  |        |        |        |        |        |        |        |        |         |
| Expected maturity:           |         |        |        |        |        |        |        |        |        |         |
| 0 to 5 years                 | 45      | 39     | 42     | 30     | 26     | 27     | 35     | 28     | 31     | 36      |
| 5 to 10 years                | 24      | 25     | 24     | 24     | 22     | 22     | 25     | 23     | 24     | 24      |
| 10 to 15 years               | 13      | 17     | 15     | 18     | 17     | 18     | 17     | 17     | 17     | 16      |
| 15 to 20 years               | 8       | 11     | 10     | 12     | 13     | 13     | 10     | 12     | 11     | 11      |
| 20 to 25 years               | 5       | 6      | 5      | 8      | 9      | 9      | 6      | 9      | 8      | 7       |
| over 25 years                | 5       | 2      | 4      | 8      | 13     | 11     | 7      | 11     | 9      | 6       |

## Notes

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

## C5 Intangible assets

## C5.1 Intangible assets attributable to shareholders

## (a) Goodwill attributable to shareholders

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

Goodwill attributable to shareholders comprises:



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

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

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

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

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

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

|                                                         | 2013 £m                    |       |               |       | PVIF and other intangibles† | Total | 2012* £m | Total |
|---------------------------------------------------------|----------------------------|-------|---------------|-------|-----------------------------|-------|----------|-------|
|                                                         | Deferred acquisition costs |       |               |       |                             |       |          |       |
|                                                         | Asia                       | US    | UK management | Asset |                             |       |          |       |
| Balance at 1 January                                    |                            |       |               |       |                             |       |          |       |
| As previously reported                                  | 654                        | 3,199 | 103           | 10    | 301                         | 4,267 | 4,234    |       |
| Effect of adoption of IFRS 11 note A2                   | (90)                       | -     | -             | -     | -                           | (90)  | (90)     |       |
| After effect of change                                  | 564                        | 3,199 | 103           | 10    | 301                         | 4,177 | 4,144    |       |
| Reclassification of Japan Life as held for sale note D5 | (28)                       | -     | -             | -     | -                           | (28)  | -        |       |
| Additions                                               | 202                        | 716   | 3             | 12    | 297                         | 1,230 | 1,059    |       |
| Acquisition of subsidiaries                             | -                          | -     | -             | -     | 21                          | 21    | 5        |       |
| Amortisation to the income statement:                   |                            |       |               |       |                             |       |          |       |
| Operating profit                                        | (167)                      | (403) | (17)          | (5)   | (51)                        | (643) | (682)    |       |

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|                                                                                                                                                           |       |       |      |     |      |       |       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|------|-----|------|-------|-------|
| Non-operating profit                                                                                                                                      | -     | 228   | -    | -   | -    | 228   | 76    |
|                                                                                                                                                           | (167) | (175) | (17) | (5) | (51) | (415) | (606) |
| Disposals                                                                                                                                                 | -     | -     | -    | -   | (1)  | (1)   | -     |
| Exchange differences and other movements                                                                                                                  | (18)  | (117) | -    | -   | (52) | (187) | (155) |
| Amortisation of DAC related to net unrealised valuation movements on Jackson's available-for-sale securities recognised within other comprehensive income | -     | 498   | -    | -   | -    | 498   | (270) |
| Balance at 31 December                                                                                                                                    | 553   | 4,121 | 89   | 17  | 515  | 5,295 | 4,177 |

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

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

US insurance operations

Summary balances

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

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

\*Consequent upon the negative unrealised valuation movement in 2013 of £2,089 million (2012: positive unrealised valuation movement of £862 million), there is a credit of £498 million (2012: a debit of £270 million) for altered 'shadow' DAC amortisation booked within other comprehensive income. These adjustments reflect movement from period to period, in the changes to the pattern of reported gross profits that would have happened if the assets reflected in the statement of financial position had been sold, crystallising the unrealised gains and losses, and the proceeds reinvested at the yields currently available in the market. At 31 December 2013, the cumulative shadow DAC balance as shown in the table above was negative £463 million (2012: negative £952 million).

Overview of the deferral and amortisation of acquisition costs for Jackson

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

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

#### Mean reversion technique

For variable annuity products, under US GAAP (as 'grandfathered' under IFRS 4) the projected gross profits, against which acquisition costs are amortised, reflect an assumed long-term level of returns on separate account investments which, as referenced in note A2, for Jackson, is 7.4 per cent (2012: 8.4 per cent ) after deduction of net external fund management fees. This is applied to the period end level of separate account assets after application of a mean reversion technique that removes a portion of the effect of levels of short-term variability in current market returns.

Under the mean reversion technique applied by Jackson, the projected level of return for each of the next five years is adjusted from period to period so that in combination with the actual rates of return for the preceding two years and the current period, the 7.4 per cent (2012: 8.4 per cent) annual return is realised on average over the entire eight-year period. Projected returns after the mean reversion period revert back to the 7.4 per cent (2012: 8.4 per cent) assumption.

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

#### Sensitivity of amortisation charge

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

- i) a core amount that reflects a relatively stable proportion of underlying premiums or profit; and
- ii) an element of acceleration or deceleration arising from market movements differing from expectations.

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

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

In 2013, the DAC amortisation charge for operating profit was determined after including a credit for decelerated amortisation of £82 million (2012: £56 million). The 2013 amount primarily reflects the separate account performance of 20 per cent, which is higher than the assumed level for the year.

As noted above, the application of the mean reversion formula has the effect of dampening the impact of equity market movements on DAC amortisation while the mean reversion assumption lies within the corridor. It would take a significant movement in equity markets in 2014 (outside the range of negative 37 per cent to positive 27 per cent) for the mean reversion assumption to move outside the corridor.

## C6 Borrowings

## C6.1 Core structural borrowings of shareholder-financed operations

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

## Notes

- (i) These debt classifications are consistent with the treatment of capital for regulatory purposes, as defined in the Prudential Regulation Authority handbook.
- Tier 1 subordinated debt is entirely US\$ denominated. The Group has designated all US\$3.55 billion (2012: US\$2.85 billion) of its Tier 1 subordinated debt as a net investment hedge under IAS 39 to hedge the currency risks related to the net investment in Jackson.
- (ii) The senior debt ranks above subordinated debt in the event of liquidation.
- (iii) The Prudential Capital bank loan of £275 million has been made in two tranches: a £160 million loan maturing on 20 December 2017, currently drawn at a cost of 12 month £LIBOR plus 0.4 per cent and a £115 million loan also maturing on 20 December 2017 and currently drawn at a cost of 12 month £LIBOR plus 0.59 per cent.
- (iv) In January 2013, the Company issued core structural borrowings of US\$700 million 5.25 per cent Tier 1 Perpetual Subordinated Capital Securities primarily to retail investors in Asia. The proceeds, net of costs, were US\$689 million.
- (v) In December 2013, the Company issued core structural borrowings of £700 million Lower Tier 2 Subordinated notes primarily to UK institutional investors. The proceeds, net of costs, were £695 million.

## C6.2 Other borrowings

## (a) Operational borrowings attributable to shareholder-financed operations

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

## Notes

- (i) In addition to the debt listed above, £200 million Floating Rate Notes were issued by Prudential plc in October 2013 which will mature in April 2014. These Notes have been wholly subscribed by a Group subsidiary and accordingly have been eliminated on consolidation in the Group financial statements. These notes were originally issued in October 2008 and have been reissued upon their maturity.
- (ii) In January 2013 the Company repaid on maturity, £250 million Medium Term Notes included within borrowings in respect of short-term fixed income securities in the table above.

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

(b) Borrowings attributable to with-profits operations

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

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

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

C7 Risk and sensitivity analysis

C7.1 Group overview

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

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

The financial and insurance assets and liabilities attaching to the Group's life assurance business are, to varying degrees, subject to market and insurance risk and other changes of experience assumptions that may have a material effect on IFRS basis profit or loss and shareholders' equity.

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

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

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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                               |                                                                                                                                                        | Other exposure                                                       | Insurance and lapse risk                         |
|---------------------------------------------------|------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|--------------------------------------------------|
|                                                   | Investments/derivatives                              | Liabilities / unallocated surplus                                                                                                                      |                                                                      |                                                  |
| Asia insurance operations (see also section C7.2) |                                                      |                                                                                                                                                        |                                                                      | Mortality and morbidity risk<br>Persistency risk |
| All business                                      |                                                      | Currency risk                                                                                                                                          | Investment performance subject to smoothing through declared bonuses |                                                  |
| With-profits business                             | Net neutral direct exposure (Indirect exposure only) |                                                                                                                                                        | Investment performance through asset management fees                 |                                                  |
| Unit-linked business                              | Net neutral direct exposure (Indirect exposure only) |                                                                                                                                                        |                                                                      |                                                  |
| Non-participating business                        |                                                      | Asset/liability mismatch risk<br>Interest rates for those operations where the basis of insurance liabilities is sensitive to current market movements |                                                                      |                                                  |
|                                                   | Credit risk                                          |                                                                                                                                                        |                                                                      |                                                  |
|                                                   | Interest rate and price risk                         |                                                                                                                                                        |                                                                      |                                                  |
| US insurance operations (see also section C7.3)   |                                                      |                                                                                                                                                        |                                                                      |                                                  |

|                                                                |                                                                                                                                                                                                                                                                                                                                                                                        |                                                                          | Persistency risk                                                                                                                                |
|----------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| All business                                                   | Currency risk                                                                                                                                                                                                                                                                                                                                                                          |                                                                          |                                                                                                                                                 |
| Variable annuity business                                      | Net effect of market risk arising from incidence of guarantee features and variability of asset management fees offset by derivative hedging programme                                                                                                                                                                                                                                 |                                                                          |                                                                                                                                                 |
| Fixed index annuity business                                   | Derivative hedge programme to the extent not fully hedged against liability and fund performance                                                                                                                                                                                                                                                                                       | Incidence of equity participation features                               |                                                                                                                                                 |
| Fixed index annuities, Fixed annuities and GIC business        | Credit risk<br>Interest rate risk<br>Profit and loss and shareholders' equity are volatile for these risks as they affect the values of derivatives and embedded derivatives and impairment losses. In addition, shareholders' equity is volatile for the incidence of these risks on unrealised appreciation of fixed income securities classified as available-for-sale under IAS 39 | Spread difference between earned rate and rate credited to policyholders | Lapse risk, but the effects of extreme events are mitigated by the application of market value adjustments and by the use of swaption contracts |
| UK insurance operations (see also section C7.4)                |                                                                                                                                                                                                                                                                                                                                                                                        |                                                                          |                                                                                                                                                 |
| With-profits business (including Prudential Annuities Limited) | Net neutral direct exposure (Indirect exposure only)                                                                                                                                                                                                                                                                                                                                   | Investment performance subject to smoothing through declared bonuses     | Persistency risk to future shareholder transfers                                                                                                |
| SAIF sub-fund                                                  | Net neutral direct exposure (Indirect exposure only)                                                                                                                                                                                                                                                                                                                                   | Asset management fees earned by M&G                                      |                                                                                                                                                 |
| Unit-linked business                                           | Net neutral direct exposure (Indirect exposure only)                                                                                                                                                                                                                                                                                                                                   | Investment                                                               | Persistency risk                                                                                                                                |

performance  
through  
asset  
management  
fees

Asset/liability mismatch risk

Shareholder-backed  
annuity business

Credit risk for assets  
covering liabilities and  
shareholder capital

Interest rate risk for  
assets in excess of  
liabilities ie assets  
representing  
shareholder capital

Mortality  
experience  
and  
assumptions  
for longevity

Detailed analyses of sensitivity of IFRS basis profit or loss and shareholders' equity to key market and other risks by business unit are provided in notes C7.2, C7.3, C7.4 and C7.5. The sensitivity analyses provided show the effect on profit or loss and shareholders' equity to changes in the relevant risk variables, all of which are reasonably possible at the relevant balance sheet date.

Impact of diversification on risk exposure

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

Correlation across geographic regions

- Financial risk factors
- Non-financial risk factors

Correlation across risk factors

- Longevity risk
- Expenses
- Persistency
- Other risks

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

C7.2 Asia insurance operations

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

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



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

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

(i) Sensitivity to risks other than foreign exchange risk

With-profits business

Similar principles to those explained for UK with-profits business in C7.4 apply to profit emergence for the Asia with-profits business. Correspondingly, the profit emergence reflects bonus declaration and is relatively insensitive to period by period fluctuations in insurance risk or interest rate movements.

Unit-linked business

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

Other business

Interest rate risk

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

For the purposes of analysing sensitivity to variations in interest rates, reference has been made to the movements in the 10-year government bond rates of the territories. At 31 December 2013, 10-year government bond rates vary from territory to territory and range from 1.7 per cent to 9.0 per cent (2012: 0.6 per cent to 9.5 per cent).

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

The estimated sensitivity to the decrease and increase in interest rates at 31 December 2013 and 2012 is as follows:

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

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

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

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

#### Equity price risk

The non-linked shareholder business has limited exposure to equity and property investment (£571 million at 31 December 2013). Generally changes in equity and property investment values are not directly offset by movements in policyholder liabilities.

The estimated sensitivity to a 10 per cent and 20 per cent change in equity and property prices for shareholder-backed Asia other business, which would be reflected in the short-term fluctuation component of the Group's segmental analysis of profit before tax, at 31 December 2013 and 2012 would be as follows:

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

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

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

In the equity risk sensitivity analysis shown above, the Group has considered the impact of an instantaneous 20 per cent fall in equity markets. If equity markets were to fall by more than 20 per cent, the Group believes that this would not be an instantaneous fall but rather this would be expected to occur over a period of time during which the Group would be able to put in place mitigating management actions.

#### Insurance risk

Many of the territories in Asia are exposed to mortality/morbidity risk and provision is made within policyholder liabilities on a prudent regulatory basis to cover the potential exposure. If these prudent assumptions were strengthened by 5 per cent then it is estimated that post tax profit would be decreased by approximately £38 million (2012: £30 million). Mortality and morbidity has a symmetrical effect on the portfolio and any weakening of these assumptions would have a similar equal and opposite impact.

#### (ii) Sensitivity to foreign exchange risk

Consistent with the Group's accounting policies, the profits of the Asia insurance operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. For 2013, the rates for the most significant operations are given in note A1.

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

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|                                                                              | A 10% increase in<br>local currency to £<br>exchange rates |         | A 10% decrease in<br>local currency to £<br>exchange rates |         |
|------------------------------------------------------------------------------|------------------------------------------------------------|---------|------------------------------------------------------------|---------|
|                                                                              | 2013 £m                                                    | 2012 £m | 2013 £m                                                    | 2012 £m |
| Profit before tax attributable to shareholders note                          | (63)                                                       | (90)    | 77                                                         | 110     |
| Profit for the year                                                          | (49)                                                       | (75)    | 60                                                         | 92      |
| Shareholders' equity, excluding goodwill,<br>attributable to Asia operations | (246)                                                      | (243)   | 300                                                        | 297     |

Note

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

C7.3

US insurance operations

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

At the level of operating profit based on longer-term investment returns, Jackson's results are sensitive to market conditions to the extent of income earned on spread-based products and second order equity-based exposure in respect of variable annuity asset management fees.

Jackson's main exposures are to market risk through its exposure to interest rate risk and equity risk. Approximately 94 per cent (2012: 94 per cent) of its general account investments support fixed interest rate and fixed index annuities, life business and surplus and 6 per cent (2012: 6 per cent) support institutional business. All of these types of business contain considerable interest rate guarantee features and, consequently, require that the assets that support them are primarily fixed income or fixed maturity.

Jackson is exposed primarily to the following risks:

| Risks              | Risk of loss                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Equity risk        | <ul style="list-style-type: none"> <li>• related to the incidence of benefits related to guarantees issued in connection with its VA contracts;</li> <li>and</li> <li>• related to meeting contractual accumulation requirements in FIA contracts.</li> <li>• related to meeting guaranteed rates of accumulation on fixed annuity products</li> </ul>                                                                                                                   |
| Interest rate risk | <ul style="list-style-type: none"> <li>following a sharp and sustained fall in</li> <li>• related to the guarantee features attaching to the company's products and to policyholder withdrawals following a sharp and sustained increase in interest rates;</li> <li>and</li> <li>• the risk of mismatch between the expected duration of certain annuity liabilities and prepayment risk</li> <li>and extension risk inherent in mortgage-backed securities.</li> </ul> |

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

addition to these effects the Jackson shareholders' equity is sensitive to the impact of interest rate and credit spread movements on the value of fixed income securities. Movements in unrealised appreciation on these securities are included as movement in shareholders' equity (ie outside the income statement).

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

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

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

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

| Derivative                                              | Purpose                                                                                                                                                                                                                                                                                                                                                                                                                       |
|---------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Interest rate swaps                                     | These generally involve the exchange of fixed and floating payments over the period for which Jackson holds the instrument without an exchange of the underlying principal amount. These agreements are used for hedging purposes.                                                                                                                                                                                            |
| Put-swaption contracts                                  | These contracts provide the purchaser with the right, but not the obligation, to require the writer to pay the present value of a long-duration interest rate swap at future exercise dates. Jackson purchases and writes put-swaptions with maturities up to 10 years. Put-swaptions hedge against significant movements in interest rates.                                                                                  |
| Equity index futures contracts and equity index options | These derivatives (including various call, put options and put spreads) are used to hedge Jackson's obligations associated with its issuance of fixed index immediate and deferred annuities and certain VA guarantees. Some of these annuities and guarantees contain embedded options which are fair valued for financial reporting purposes.                                                                               |
| Total return swaps                                      | Total return swaps in which Jackson receives equity returns or returns based on reference pools of assets in exchange for short-term floating rate payments based on notional amounts, are held for both hedging and investment purposes.                                                                                                                                                                                     |
| Cross-currency swaps                                    | Cross-currency swaps, which embody spot and forward currency swaps and additionally, in some cases, interest rate swaps and equity index swaps, are entered into for the purpose of hedging Jackson's foreign currency denominated funding agreements supporting trust instrument obligations.                                                                                                                                |
| Credit default swaps                                    | These swaps, represent agreements under which Jackson has purchased default protection on certain underlying corporate bonds held in its portfolio. These contracts allow Jackson to sell the protected bonds at par value to the counterparty if a default event occurs in exchange for periodic payments made by Jackson for the life of the agreement. Jackson does not write default protection using credit derivatives. |

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

(i) **Sensitivity to equity risk**  
At 31 December 2013 and 2012, Jackson had variable annuity contracts with guarantees, for which the net amount at risk ('NAR') is defined as the amount of guaranteed benefit in excess of current account value, as follows:

31 December 2013

|                                                                                                                                    | Minimum return | Account value<br>£m | Net amount<br>at risk<br>£m | Weighted<br>average<br>age attained | Period<br>until<br>expected<br>annuitisation |
|------------------------------------------------------------------------------------------------------------------------------------|----------------|---------------------|-----------------------------|-------------------------------------|----------------------------------------------|
| Return of net deposits plus a minimum return                                                                                       |                |                     |                             |                                     |                                              |
| GMDB                                                                                                                               | 0-6%           | 52,985              | 1,248                       | 64.7 years                          |                                              |
| GMWB - Premium only                                                                                                                | 0%             | 2,260               | 36                          |                                     |                                              |
| GMWB*                                                                                                                              | 0-5%           | 5,632               | 46                          |                                     |                                              |
| GMAB - Premium only                                                                                                                | 0%             | 57                  | -                           |                                     |                                              |
| Highest specified anniversary account value minus<br>withdrawals post-anniversary                                                  |                |                     |                             |                                     |                                              |
| GMDB                                                                                                                               |                | 5,522               | 134                         | 64.6 years                          |                                              |
| GMWB - Highest anniversary only                                                                                                    |                | 2,039               | 93                          |                                     |                                              |
| GMWB*                                                                                                                              |                | 717                 | 62                          |                                     |                                              |
| Combination net deposits plus minimum return, highest<br>specified anniversary account value minus withdrawals<br>post-anniversary |                |                     |                             |                                     |                                              |
| GMDB                                                                                                                               | 0-6%           | 3,522               | 217                         | 66.9 years                          |                                              |
| GMIB†                                                                                                                              | 0-6%           | 1,642               | 317                         |                                     | 2.4 years                                    |
| GMWB*                                                                                                                              | 0-8%           | 40,906              | 1,059                       |                                     |                                              |

31 December 2012

|                                                                                   | Minimum return | Account value<br>£m | Net amount<br>at risk<br>£m | Weighted<br>average<br>age attained | Period<br>until<br>expected<br>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<br>withdrawals post-anniversary |                |                     |                             |                                     |                                              |
| GMDB                                                                              |                | 4,554               | 324                         | 64.0 years                          |                                              |
| GMWB - Highest anniversary only                                                   |                | 1,880               | 245                         |                                     |                                              |

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|                                                                                                                              |        |        |       |            |
|------------------------------------------------------------------------------------------------------------------------------|--------|--------|-------|------------|
| GMWB*                                                                                                                        |        | 697    | 137   |            |
| Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary |        |        |       |            |
| GMDB                                                                                                                         | 0-6%   | 2,705  | 348   | 66.4 years |
| GMIB†                                                                                                                        | 0-6%   | 1,588  | 469   | 3.3 years  |
| GMWB*                                                                                                                        | 0-8%** | 31,167 | 1,918 |            |

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

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

† The GMIB reinsurance guarantees are fully reinsured.

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

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

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

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

In addition to the exposure explained above, Jackson is also exposed to equity risk from its holding of equity securities, partnerships in investment pools and other financial derivatives, including that relating to the reinsurance of Guaranteed Minimum Income Benefit guarantees.

At 31 December 2013, the estimated sensitivity of Jackson's profit, and shareholders' equity to immediate increases and decreases in equity markets is shown below. The sensitivities are shown net of related changes in DAC amortisation.

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

Note

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

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

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

In the equity risk sensitivity analysis shown above, the Group has considered the impact of an instantaneous 20 per cent fall in equity markets. If equity markets were to fall by more than 20 per cent, the Group believes that this would not be an instantaneous fall but rather this would be expected to occur over a period of time during which the Group would be able to put in place mitigating management actions.

(ii) Sensitivity to interest rate risk

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

Debt securities and related derivatives are marked to fair value. Value movements on derivatives, again net of related changes to amortisation of DAC and deferred tax, are recorded within the income statement. Fair value movements on debt securities, net of related changes to amortisation of DAC and deferred tax, are recorded within other comprehensive income. The estimated sensitivity of these items and policyholder liabilities to a 1 per cent and 2 per cent decrease (subject to a floor of zero) and increase in interest rates at 31 December 2013 and 2012 is as follows:

|                                                                       | 2013 £m        |                |                |                | 2012 £m        |                |                |                |
|-----------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                                                       | Decrease of 2% | Decrease of 1% | Increase of 1% | Increase of 2% | Decrease of 2% | Decrease of 1% | Increase of 1% | Increase of 2% |
| Profit and loss:                                                      |                |                |                |                |                |                |                |                |
| Pre-tax profit effect (net of related changes in amortisation of DAC) | (128)          | (66)           | (52)           | (161)          | (187)          | -              | (54)           | (186)          |
|                                                                       | 45             | 23             | 18             | 56             | 65             | -              | 19             | 65             |

|                                                                                                    |       |       |         |         |       |       |         |         |  |
|----------------------------------------------------------------------------------------------------|-------|-------|---------|---------|-------|-------|---------|---------|--|
| Related effect on charge for deferred tax                                                          |       |       |         |         |       |       |         |         |  |
| Net profit effect                                                                                  | (83)  | (43)  | (34)    | (105)   | (122) | -     | (35)    | (121)   |  |
| Other comprehensive income:                                                                        |       |       |         |         |       |       |         |         |  |
| Direct effect on carrying value of debt securities (net of related changes in amortisation of DAC) | 2,624 | 1,477 | (1,477) | (2,624) | 2,541 | 1,427 | (1,427) | (2,541) |  |
| Related effect on movement in deferred tax                                                         | (918) | (517) | 517     | 918     | (889) | (499) | 499     | 889     |  |
| Net effect                                                                                         | 1,706 | 960   | (960)   | (1,706) | 1,652 | 928   | (928)   | (1,652) |  |
| Total net effect on shareholders' equity                                                           | 1,623 | 917   | (994)   | (1,811) | 1,530 | 928   | (963)   | (1,773) |  |

These sensitivities are shown only for interest rates in isolation and do not include other movements in credit risk that may affect credit spreads and valuations of debt securities.

(iii) Sensitivity to foreign exchange risk

Consistent with the Group's accounting policies, the profits of the Group's US operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. For 2013, the rates were US\$1.56 (2012: \$1.58) and US\$1.66 (2012: US\$1.63) to £1.00 sterling, respectively. A 10 per cent increase or decrease in these rates would reduce or increase profit before tax attributable to shareholders, profit for the year and shareholders' equity attributable to US insurance operations respectively as follows:

|                                                              | A 10% increase in US\$:£ exchange rates |         | A 10% decrease in US\$:£ exchange rates |         |
|--------------------------------------------------------------|-----------------------------------------|---------|-----------------------------------------|---------|
|                                                              | 2013 £m                                 | 2012 £m | 2013 £m                                 | 2012 £m |
| Profit before tax attributable to shareholders note          | (50)                                    | (78)    | 61                                      | 95      |
| Profit for the year                                          | (41)                                    | (56)    | 50                                      | 69      |
| Shareholders' equity attributable to US insurance operations | (313)                                   | (395)   | 383                                     | 483     |

Note

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

(iv) Other sensitivities

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

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

- Growth in the size of assets under management covering the liabilities for the contracts in force;



• Variations in fees and other income, offset by variations in market value adjustment payments and, where necessary, strengthening of liabilities;

- Spread returns for the difference between investment returns and rates credited to policyholders; and
- Amortisation of deferred acquisition costs.

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

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

Jackson is sensitive to lapse risk. However, Jackson uses derivatives to ameliorate the effect of a sharp rise in interest rates, which would be the most likely cause of a sudden change in policyholder behaviour.

For variable annuity business, the key assumption is the expected long-term level of separate account returns, which for 2013 was 7.4 per cent (2012: 8.4 per cent). The impact of using this return is reflected in two principal ways, namely;

• through the projected expected gross profits which are used to determine the amortisation of deferred acquisition costs. This is applied through the use of a mean reversion technique which is described in more detail in note C5.1(b) above, and;

- the required level of provision for guaranteed minimum death benefit claims.

#### C7.4

#### UK insurance operations

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

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

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

With-profits business

SAIF

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

With-profits sub-fund business

The shareholder results of the UK with-profits business (including non-participating annuity business of the WPSF and of Prudential Annuities Limited (PAL), which is owned by the WPSF) are only sensitive to market risk through the indirect effect of investment performance on declared policyholder bonuses.

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

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

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

#### Shareholder-backed annuity business

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

Except to the extent of any asset/liability duration mismatch which is reviewed regularly, and exposure to credit risk, the sensitivity of the Group's results to market risk for movements in the carrying value of the liabilities and covering assets is broadly neutral on a net basis.

The main market risk sensitivity for the UK shareholder-backed annuity business arises from interest rate risk on the debt securities which substantially represent shareholders' equity. This shareholders' equity comprises the net assets held within the long-term fund of the company that cover regulatory basis liabilities that are not recognised for IFRS reporting purposes, for example contingency reserves, and shareholder capital held outside the long-term fund.

In summary, profits from shareholder-backed annuity business are most sensitive to:

¶The extent to which the duration of the assets held closely matches the expected duration of the liabilities under the contracts;

- Actual versus expected default rates on assets held;
- The difference between long-term rates of return on corporate bonds and risk-free rates;
- The variance between actual and expected mortality experience;

¶The extent to which changes to the assumed rate of improvements in mortality give rise to changes in the measurement of liabilities; and

- Changes in renewal expense levels.

A decrease in assumed mortality rates of 1 per cent would decrease gross profits by approximately £71 million (2012: £74 million). A decrease in credit default assumptions of five basis points would increase gross profits by £151 million (2012: £157 million). A decrease in renewal expenses (excluding asset management expenses) of 5 per cent would increase gross profits by £27 million (2012: £25 million). The effect on profits would be approximately symmetrical for changes in assumptions that are directionally opposite to those explained above.

#### Unit-linked and other business

Unit-linked and other business represents a comparatively small proportion of the in-force business of the UK insurance operations.

Due to the matching of policyholder liabilities to attaching asset value movements the UK unit-linked business is not directly affected by market or credit risk. The liabilities of the other business are also broadly insensitive to market risk. Profits from unit-linked and similar contracts primarily arise from the excess of charges to policyholders for management of assets under the Company's stewardship, over expenses incurred. The former is most sensitive to the net accretion of funds under management as a function of new business and lapse and timing of death. The accounting impact of the latter is dependent upon the amortisation of acquisition costs in line with the emergence of margins (for insurance contracts) and amortisation in line with service provision (for the investment management component of investment contracts). By virtue of the design features of most of the contracts which provide low levels of mortality cover, the profits are relatively insensitive to changes in mortality experience.

(i) Sensitivity to interest rate risk and other market risk

By virtue of the fund structure, product features and basis of accounting, the policyholder liabilities of the UK insurance operations are, except annuity business, not generally exposed to interest rate risk. At 31 December 2013 annuity liabilities accounted for 98 per cent (2012: 98 per cent) of UK shareholder-backed business liabilities. For annuity business, liabilities are exposed to interest rate risk. However, the net exposure to the PAC WPSF (for PAL) and shareholders (for annuity liabilities of PRIL and the non-profit sub-fund) is very substantially ameliorated by virtue of the close matching of assets with appropriate duration. The level of matching from period to period can vary depending on management actions and economic factors so it is possible for a degree of mis-matching profits or losses to arise.

The close matching by the Group of assets of appropriate duration to annuity liabilities is based on maintaining economic and regulatory capital. The measurement of liabilities under capital reporting requirements and IFRS is not the same with contingency reserves and some other margins for prudence within the assumptions required under the regulatory solvency basis not included for IFRS reporting purposes. As a result IFRS equity is higher than regulatory capital and therefore more sensitive to interest rate and credit risk.

The estimated sensitivity of the UK non-linked shareholder-backed business (principally annuities business) to a movement in interest rates is as follows.

|                                                              | 2013 £m                |                        |                         |                         | 2012 £m                |                        |                         |                         |
|--------------------------------------------------------------|------------------------|------------------------|-------------------------|-------------------------|------------------------|------------------------|-------------------------|-------------------------|
|                                                              | A<br>decrease<br>of 2% | A<br>decrease<br>of 1% | An<br>increase<br>of 1% | An<br>increase<br>of 2% | A<br>decrease<br>of 2% | A<br>decrease<br>of 1% | An<br>increase<br>of 1% | An<br>increase<br>of 2% |
| Carrying value of debt securities and derivatives            | 8,602                  | 3,843                  | (3,170)                 | (5,827)                 | 9,006                  | 3,993                  | (3,265)                 | (5,983)                 |
| Policyholder liabilities                                     | (7,525)                | (3,366)                | 2,762                   | 5,054                   | (7,878)                | (3,513)                | 2,867                   | 5,235                   |
| Related deferred tax effects                                 | (215)                  | (95)                   | 82                      | 155                     | (259)                  | (110)                  | 91                      | 172                     |
| Net sensitivity of profit after tax and shareholders' equity | 862                    | 382                    | (326)                   | (618)                   | 869                    | 370                    | (307)                   | (576)                   |

In addition the shareholder-backed portfolio of UK non-linked insurance operations covering liabilities and shareholders' equity includes equity securities and investment properties. Excluding any second order effects on the measurement of the liabilities for future cash flows to the policyholder, a fall in their value would have given rise to the following effects on pre-tax profit, profit after tax and shareholders' equity.

2013 £m

2012 £m

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

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

In the equity risk sensitivity analysis shown above, the Group has considered the impact of an instantaneous 20 per cent fall in equity markets. If equity markets were to fall by more than 20 per cent, the Group believes that this would not be an instantaneous fall but rather this would be expected to occur over a period of time during which the Group would be able to put in place mitigating management actions.

C7.5 Asset management and other operations

(a) Asset management

(i) Sensitivities to foreign exchange risk

Consistent with the Group's accounting policies, the profits of Eastspring Investments and US asset management operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. The rates for the functional currencies of most significant operations are shown in note A1.

A 10 per cent increase in the relevant exchange rates would have reduced reported profit before tax attributable to shareholders and shareholders' equity, excluding goodwill attributable to Eastspring Investments and US asset management operations, by £21 million (2012: £10 million) and £44 million (2012: £29 million) respectively.

(ii) Sensitivities to other financial risks for asset management operations

The principal sensitivities to other financial risk of asset management operations are credit risk on the bridging loan portfolio of the Prudential Capital operation and the indirect effect of changes to market values of funds under management. Due to the nature of the asset management operations there is limited direct sensitivity to movements in interest rates. Total debt securities held at 31 December 2013 by asset management operations were £2,045 million (2012: £1,839 million), the majority of which are held by the Prudential Capital operation. Debt securities held by M&G and Prudential Capital are in general variable rate bonds and so market value is limited in sensitivity to interest rate movements and consequently any change in interest rates would not have a material impact on profit or shareholders' equity. The Group's asset management operations do not hold significant investments in property or equities.

(b) Other operations

The Group holds certain derivatives that are used to manage foreign currency movements and macroeconomic exposures. The fair value of these derivatives is sensitive to the combined effect of movements in exchange rates, interest rates and inflation rates. The possible permutations cover a wide range of scenarios. For indicative purposes, a reasonably possible range of fair value movements could be plus or minus £75 million.

C8 Tax assets and liabilities

C8.1 Deferred tax

The statement of financial position contains the following deferred tax assets and liabilities in relation to:

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|                                                         | Deferred tax assets |          | Deferred tax liabilities |          |
|---------------------------------------------------------|---------------------|----------|--------------------------|----------|
|                                                         | 2013 £m             | 2012* £m | 2013 £m                  | 2012* £m |
| Unrealised losses or gains on investments               | 315                 | 100      | (1,450)                  | (1,812)  |
| Balances relating to investment and insurance contracts | 8                   | 1        | (451)                    | (428)    |
| Short-term timing differences                           | 2,050               | 2,092    | (1,861)                  | (1,715)  |
| Capital allowances                                      | 10                  | 15       | (16)                     | (9)      |
| Unused deferred tax losses                              | 29                  | 98       | -                        | -        |
| Total                                                   | 2,412               | 2,306    | (3,778)                  | (3,964)  |

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

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

The taxation regimes applicable across the Group often apply separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. Accordingly, for the 2013 full year results and financial position at 31 December 2013 the possible tax benefit of approximately £127 million (2012: £158 million), which may arise from capital losses valued at approximately £0.6 billion (2012: £0.8 billion), is sufficiently uncertain that it has not been recognised. In addition, a potential deferred tax asset of £61 million (2012: £122 million), which may arise from trading tax losses and other potential temporary differences totalling £0.4 billion (2012: £0.5 billion) is sufficiently uncertain that it has not been recognised. Of these, losses of £54 million will expire within the next seven years. Of the remaining losses £0.5m will expire within 20 years and the rest have no expiry date.

The table that follows provides a breakdown of the recognised deferred tax assets set out in the table above for both the short-term timing differences and unused tax losses split by business unit. The table also shows the period of estimated recoverability for each respective business unit. For these and each category of deferred tax asset recognised their recoverability against forecast taxable profits is not significantly impacted by any current proposed changes to future accounting standards.

|                       | Short-term timing differences |                                   | Unused tax losses |                                   |
|-----------------------|-------------------------------|-----------------------------------|-------------------|-----------------------------------|
|                       | 2013 £m                       | Expected period of recoverability | 2013 £m           | Expected period of recoverability |
| Asia                  | 24                            | 1 to 3 years                      | 20                | 3 to 5 years                      |
| Jackson               | 1,733                         | With run-off of in-force book     | -                 | -                                 |
| UK long-term business | 135                           | 1 to 10 years                     | 2                 | 1 to 3 years                      |
| Other                 | 158                           | 1 to 10 years                     | 7                 | 1 to 3 years                      |
| Total                 | 2,050                         |                                   | 29                |                                   |

Under IAS 12, 'Income Taxes', deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on the tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting periods.

The reduction in the UK corporation tax rate to 21 per cent from 1 April 2014 and a further reduction to 20 per cent from 1 April 2015 was substantively enacted on 2 July 2013 which has had the effect of reducing the UK with-profits

and shareholder-backed business element of the deferred tax balances as at 31 December 2013 by £51 million. As the 2013 Finance Act has been enacted at the balance sheet date, the effects of these changes are reflected in the financial statements for the year ended 31 December 2013.

#### C8.2 Current tax asset and liability

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

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

### C9 Defined benefit pension schemes

#### (a) Summary and background information

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

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

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

The Group's businesses operate a number of pension schemes. The specific features of these plans vary in accordance with the regulations of the country in which the employees are located, although they are, in general, funded by the Group and based either on a cash balance formula or on years of service and salary earned in the last year or years of employment. The largest defined benefit scheme is the principal UK scheme, namely the Prudential Staff Pension Scheme (PSPS). PSPS accounts for 84 per cent (2012: 86 per cent) of the underlying scheme liabilities of the Group's defined benefit schemes.

The Group also operates two smaller UK defined benefit schemes in respect of Scottish Amicable and M&G. In addition, there are two small defined benefit schemes in Taiwan which have negligible deficits.

#### Triennial actuarial valuations

Defined benefit schemes in the UK are generally required to be subject to full actuarial valuations every three years in order to assess the appropriate level of funding for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds.

The last completed actuarial valuation of PSPS was as at 5 April 2011, finalised in 2012 by CG Singer, Fellow of the Institute of Actuaries, of Towers Watson Limited. This valuation demonstrated the scheme to be 111 per cent funded

by reference to the Scheme Solvency Target that forms the basis of the scheme's funding objective. Based on this valuation, future contributions into the scheme were reduced to the minimum level of contributions required under the scheme rules effective from July 2012. Excluding expenses, the contributions are now payable at approximately £6 million per annum for ongoing service of active members of the scheme. No deficit or other funding is required. Deficit funding for PSPS, where applicable, as applied prior to 2012, is apportioned in the ratio of 70/30 between the PAC with-profits fund and shareholder-backed operations following detailed consideration in 2005 of the sourcing of previous contributions. Employer contributions for ongoing service of current employees are apportioned in the ratio relevant to current activity.

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

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

#### Summary economic and IAS 19 financial positions

Under the IAS 19 'Employee Benefits' valuation basis, the Group applies IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. Under IFRIC 14, a surplus is only recognised to the extent that the Company is able to access the surplus either through an unconditional right of refund to the surplus or through reduced future contributions relating to ongoing service, which have been substantively enacted or contractually agreed. Further, the IFRS financial position recorded, reflects the higher of any underlying IAS 19 deficit and any obligation for committed deficit funding where applicable. For PSPS, the Group does not have an unconditional right of refund to any surplus of the scheme.

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

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

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

#### (b) Assumptions

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The actuarial assumptions used in determining benefit obligations and the net periodic benefit costs for the years ended 31 December were as follows:

|                                                        | 2013 % | 2012 % |
|--------------------------------------------------------|--------|--------|
| Discount rate*                                         | 4.4    | 4.4    |
| Rate of increase in salaries                           | 3.3    | 2.7    |
| Rate of inflation**                                    |        |        |
| Retail prices index (RPI)                              | 3.3    | 2.7    |
| Consumer prices index (CPI)                            | 2.3    | 2.0    |
| Rate of increase of pensions in payment for inflation: |        |        |
| PSPS:                                                  |        |        |
| Guaranteed (maximum 5%)                                | 2.5    | 2.5    |
| Guaranteed (maximum 2.5%)                              | 2.5    | 2.5    |
| Discretionary                                          | 2.5    | 2.5    |
| Other schemes                                          | 3.3    | 2.7    |

\*The discount rate has been determined by reference to an 'AA' corporate bond index, adjusted where applicable, to allow for the difference in duration between the index and the pension liabilities.

\*\*The rate of inflation reflects the long-term assumption for the UK RPI or CPI depending on the tranche of the schemes.

The calculations are based on current actuarially calculated mortality estimates with a specific allowance made for future improvements in mortality. The specific allowance made is in line with a custom calibration and has been updated in 2013 to reflect the 2011 mortality model from the Continuous Mortality Investigation Bureau of the Institute and Faculty of Actuaries (CMI). The tables used for PSPS immediate annuities in payment at 31 December 2013 were:

Male: 112.0 per cent PNMA00 with improvements in line with a custom calibration of the CMI's 2011 mortality model, with a long-term mortality improvement rate of 1.75 per cent per annum; and  
 Female: 108.5 per cent PNFA00 with improvements in line with a custom calibration of the CMI's 2011 mortality model, with a long-term mortality improvement rate of 1.25 per cent per annum.

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

Male: 108.6 per cent PNMA00 with improvements in line with a custom calibration of the CMI's 2009 mortality model, with a long-term mortality improvement rate of 1.75 per cent per annum; and  
 Female: 103.4 per cent PNFA00 with improvements in line with a custom calibration of the CMI's 2009 mortality model, with a long-term mortality improvement rate of 1.00 per cent per annum.

Using external actuarial advice provided by the scheme actuaries being Towers Watson for the valuation of PSPS, Xafinity Consulting for SASPS and Aon Hewitt Limited for the M&G GPS, the most recent full valuations have been updated to 31 December 2013, applying the principles prescribed by IAS 19.

(c) Estimated pension scheme surpluses and deficits

The underlying pension position on an economic basis reflects the assets (including investments in Prudential policies that are offset against liabilities to policyholders on the Group consolidation) and the liabilities of the schemes. The IAS 19 basis excludes the investments in Prudential policies. At 31 December 2013, the investments in Prudential insurance policies comprise £143 million (2012: £123 million) for PSPS and £114 million (2012: £169 million) for the M&G GPS. In principle, on consolidation the investments are eliminated against policyholder liabilities of UK insurance operations, so that the formal IAS 19 position for the schemes in isolation excludes these items. This treatment applies to the M&G GPS investments. However, as a substantial portion of the Company's interest in the



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underlying surplus of PSPS is not recognised, the adjustment is not necessary for the PSPS investments.

Movements on the pension scheme deficit determined on the economic basis are as follows, with the effect of the application of IFRIC 14 being shown separately:

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

Underlying investments and liabilities of the schemes

On the 'economic basis', after including the underlying assets represented by the investments in Prudential insurance policies as scheme assets, the plans net assets at 31 December comprise the following investments and liabilities:

|          | 2013                           |                        |             | 2012** |                                |                        |             |   |
|----------|--------------------------------|------------------------|-------------|--------|--------------------------------|------------------------|-------------|---|
|          | Other<br>PSPS<br>schemes<br>£m | Other<br>schemes<br>£m | Total<br>£m | %      | Other<br>PSPS<br>schemes<br>£m | Other<br>schemes<br>£m | Total<br>£m | % |
| Equities |                                |                        |             |        |                                |                        |             |   |

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

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

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

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

The total underlying Group pension scheme liabilities of £6,298 million (2012: £6,059 million) comprise £5,316 million (2012: £5,226 million) for PSPS and £982 million (2012: £833 million) for the other schemes. The table below shows the sensitivity of the underlying PSPS and the other scheme liabilities at 31 December 2013 and 2012 to changes in discount rate, inflation rates and mortality rates. The sensitivity information below is based on the core scheme liabilities and assumptions at the balance sheet date. The sensitivity is calculated based on a change in one assumption with all other assumptions being held constant. As such, interdependencies between the assumptions are excluded.

The sensitivity of the underlying pension scheme liabilities to changes in discount, inflation and mortality rates as shown above does not directly equate to the impact on the profit or loss attributable to shareholders or shareholders' equity due to the effect of the application of IFRIC 14 on PSPS and the allocation of a share of the interest in financial position of the PSPS and Scottish Amicable schemes to the PAC with-profits fund as described above.

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

|                   | Assumption applied |              | Sensitivity change in assumption                | Impact of sensitivity on scheme liabilities on IAS 19 basis | 2013          |      | 2012 |  |
|-------------------|--------------------|--------------|-------------------------------------------------|-------------------------------------------------------------|---------------|------|------|--|
|                   | 2013               | 2012         |                                                 |                                                             | 2013          | 2012 |      |  |
| Discount rate     | 4.4%               | 4.4%         | Decrease by 0.2%                                | Increase in scheme liabilities by:                          | PSPS          | 3.3% | 3.3% |  |
|                   |                    |              |                                                 |                                                             | Other schemes | 5.1% | 4.9% |  |
|                   |                    |              |                                                 |                                                             |               |      |      |  |
| Discount rate     | 4.4%               | 4.4%         | Increase by 0.2%                                | Decrease in scheme liabilities by:                          | PSPS          | 3.1% | 3.1% |  |
|                   |                    |              |                                                 |                                                             | Other schemes | 4.7% | 4.6% |  |
|                   |                    |              |                                                 |                                                             |               |      |      |  |
| Rate of inflation | RPI:<br>3.3%       | RPI:<br>2.7% | RPI: Decrease by 0.2%                           | Decrease in scheme liabilities by:                          | PSPS          | 0.7% | 0.6% |  |
|                   |                    |              |                                                 |                                                             | Other schemes | 4.6% | 4.3% |  |
|                   |                    |              |                                                 |                                                             |               |      |      |  |
|                   | CPI:<br>2.3%       | CPI:<br>2.0% | CPI: Decrease by 0.2% with consequent reduction | PSPS                                                        | 0.7%          | 0.6% |      |  |
| Other schemes     |                    |              |                                                 | 4.6%                                                        | 4.3%          |      |      |  |
|                   |                    |              |                                                 |                                                             |               |      |      |  |

|                |                                    |  |                                    |      |      |
|----------------|------------------------------------|--|------------------------------------|------|------|
| Mortality rate | in salary increases                |  |                                    |      |      |
|                | Increase life expectancy by 1 year |  | Increase in scheme liabilities by: |      |      |
|                |                                    |  | PSPS                               | 2.7% | 2.6% |
|                |                                    |  | Other schemes                      | 2.7% | 2.4% |

## C10 Share capital, share premium and own shares

|                                         | 2013                      |                  |                  | 2012                      |                  |                  |
|-----------------------------------------|---------------------------|------------------|------------------|---------------------------|------------------|------------------|
|                                         | Number of ordinary shares | Share capital £m | Share premium £m | Number of ordinary shares | Share capital £m | Share premium £m |
| Issued shares of 5p each fully paid:    |                           |                  |                  |                           |                  |                  |
| At 1 January                            | 2,557,242,352             | 128              | 1,889            | 2,548,039,330             | 127              | 1,873            |
| Shares issued under share-based schemes | 3,139,384                 | -                | 6                | 9,203,022                 | 1                | 16               |
| At 31 December                          | 2,560,381,736             | 128              | 1,895            | 2,557,242,352             | 128              | 1,889            |

Amounts recorded in share capital represent the nominal value of the shares issued. The difference between the proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued is credited to the share premium account.

At 31 December 2013, there were options outstanding under Save As You Earn schemes to subscribe for shares as follows:

|                  | Number of shares to subscribe for | Share price range |      | Exercisable by year |
|------------------|-----------------------------------|-------------------|------|---------------------|
|                  |                                   | from              | to   |                     |
| 31 December 2013 | 10,233,986                        | 288p              | 901p | 2019                |
| 31 December 2012 | 9,396,810                         | 288p              | 629p | 2018                |

## Transactions by Prudential plc and its subsidiaries in Prudential plc shares

The Group buys and sells Prudential plc ('own shares') either in relation to its employee share schemes or via transactions undertaken by authorised investment funds that the Group is deemed to control. The cost of own shares of £141 million as at 31 December 2013 (2012: £97 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans. At 31 December 2013, 7.1 million (2012: 8.0 million) Prudential plc shares with a market value of £94.5 million (2012: £69 million) were held in such trusts all of which are for employee incentive plans.

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

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

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

The shares purchased each month are as follows:

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

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

The Group has consolidated a number of authorised investment funds where it is deemed to control these funds under IFRS. Some of these funds hold shares in Prudential plc. The total number of shares held by these funds at 31 December 2013 was 7.1 million (2012: 4.5 million) and the cost of acquiring these shares of £60 million (2012: £27 million) is included in the cost of own shares. The market value of these shares as at 31 December 2013 was £95 million (2012: £39 million). During 2013, these funds made net additions of 2,629,816 Prudential shares (2012: net disposals of 4,143,340) for a net increase of £33.1 million to book cost (2012: net decrease of £25.1 million).

All share transactions were made on an exchange other than the Stock Exchange of Hong Kong.

Other than set out above the Group did not purchase, sell or redeem any Prudential plc listed securities during 2013 or 2012.

## D OTHER NOTES

### D1 Business acquisitions and disposals

#### (a) Acquisition of Thanachart Life Assurance Company Limited and bancassurance partnership agreement with Thanachart Bank

On 3 May 2013, the agreement Prudential plc, through its subsidiary Prudential Life Assurance (Thailand) Public Company Limited (Prudential Thailand), entered into in November 2012 to establish an exclusive 15-year partnership with Thanachart Bank Public Company Limited (Thanachart Bank) to develop jointly their bancassurance business in Thailand was launched. At the same time, Prudential Thailand completed the acquisition of 100 per cent of the voting interest in Thanachart Life Assurance Company Limited (Thanachart Life), a wholly-owned life insurance subsidiary of Thanachart Bank. This transaction builds on Prudential's strategy of focusing on the highly attractive markets of South-east Asia and is in line with the Group's multichannel distribution strategy.

The consideration for the transaction is THB 18.981 billion (£412 million), of which THB 17.500 billion (£380 million) was settled in cash on completion in May 2013 with a further payment of THB 0.946 billion (£20 million), for adjustments to reflect the net asset value as at completion date, paid in July 2013. In addition a deferred payment

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of THB 0.535 billion (£12 million) is payable 12 months after completion. Included in the total consideration of THB 18.981 billion (£412 million) was the cost of the distribution rights associated with the exclusive 15-year bancassurance partnership agreement with Thanachart Bank.

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

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

Assets acquired and liabilities assumed at the date of acquisition

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

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

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

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

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

Impact of the acquisition on the results of the Group

|           |           |
|-----------|-----------|
| Actual £m | Proforma  |
| Post      | £m        |
|           | Estimated |

|                                                             | acquisition<br>period<br>from 3<br>May<br>to 31<br>December<br>2013 | full year<br>2013 |
|-------------------------------------------------------------|---------------------------------------------------------------------|-------------------|
| Revenue                                                     | 113                                                                 | note (i)<br>197   |
| Operating profit based on longer-term investment returns    | 30                                                                  | 40                |
| Short-term fluctuations in investment returns               | (7)                                                                 | (7)               |
| Amortisation of acquisition accounting adjustmentsnote (ii) | (3)                                                                 | (4)               |
| Profit before tax                                           | 20                                                                  | 29                |

## Notes

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

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

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

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

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

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

## (c) Agreement to sell Japan Life business

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

The Japan Life business has been classified as held for sale in these consolidated financial statements in accordance with IFRS 5, 'Non-current assets held for sale and discontinued operations'. Consistent with its classification as held for

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

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

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

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

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

### D2 Domestication of the Hong Kong branch business

On 1 January 2014, following consultation with policyholders of PAC and regulators and court approval, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. On an IFRS basis, approximately £12.6 billion of assets, £12.3 billion of liabilities (including policyholder liabilities of £10.2 billion and £1.7 billion of unallocated surplus) and £0.3 billion of shareholders' funds (for the excess assets of the transferred non-participating business) have been transferred.

The costs of enabling the domestication in 2013 were £35 million. Within the Group's supplementary analysis of profit, these costs have been presented as a separate category of items excluded from operating profit based on longer-term investment returns as shown in note B1.1.

### D3 Contingencies and related obligations

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

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

D4 Post Balance sheet events

Final dividend

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

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

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

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

Consolidated income statement

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



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| Diluted                                                                                           | 50.8p                                                          | -                      | -       | 1.9p   | 52.7p                    |
|---------------------------------------------------------------------------------------------------|----------------------------------------------------------------|------------------------|---------|--------|--------------------------|
|                                                                                                   | 2012 £m                                                        |                        |         |        |                          |
|                                                                                                   | As reported<br>under<br>previous<br>accounting<br>requirements | Effect of IFRS changes |         |        | After<br>IFRS<br>changes |
|                                                                                                   | IFRS 10                                                        | IFRS 11                | IAS 19R |        |                          |
| Total revenue, net of reinsurance                                                                 | 55,476                                                         | 52                     | (1,090) | -      | 54,438                   |
| Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance | (45,953)                                                       | -                      | 715     | 94     | (45,144)                 |
| Acquisition costs and other expenditure                                                           | (6,335)                                                        | (52)                   | 220     | (145)  | (6,312)                  |
| Share of profit from joint ventures and associates, net of related tax*                           | -                                                              | -                      | 135     | -      | 135                      |
| Profit before tax (being tax attributable to shareholders' and policyholders' returns)            | 3,188                                                          | -                      | (20)    | (51)   | 3,117                    |
| Less tax charge attributable to policyholders' returns                                            | (378)                                                          | -                      | 2       | 6      | (370)                    |
| Profit before tax attributable to shareholders                                                    | 2,810                                                          | -                      | (18)    | (45)   | 2,747                    |
| Total tax charge attributable to policyholders and shareholders                                   | (991)                                                          | -                      | 20      | 17     | (954)                    |
| Adjustment to remove tax charge (credit) attributable to policyholders' returns                   | 378                                                            | -                      | (2)     | (6)    | 370                      |
| Tax charge attributable to shareholders' returns                                                  | (613)                                                          | -                      | 18      | 11     | (584)                    |
| Profit for the year attributable to equity holders of the Company                                 | 2,197                                                          | -                      | -       | (34)   | 2,163                    |
| Earnings per share (in pence)                                                                     |                                                                |                        |         |        |                          |
| Based on profit attributable to the equity holders of the Company:                                |                                                                |                        |         |        |                          |
| Basic                                                                                             | 86.5p                                                          | -                      | -       | (1.4)p | 85.1p                    |
| Diluted                                                                                           | 86.4p                                                          | -                      | -       | (1.4)p | 85.0p                    |

\*The effect of change from IFRS 11 in the table above includes the reclassification of the Group's share of profit from its investments in associates into the line for Share of profit from joint ventures and associates, net of related tax.

These investments were already on the equity method accounting prior to 2013 but their results were previously included within the Investment return included with total Revenue.

Consolidated statement of comprehensive income and statement of changes in equity

|                                                                                                                                                                      | 2013 £m                                                        |                        |         |      |                          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|------------------------|---------|------|--------------------------|
|                                                                                                                                                                      | As reported<br>under<br>previous<br>accounting<br>requirements | Effect of IFRS changes |         |      | After<br>IFRS<br>changes |
|                                                                                                                                                                      | IFRS 10                                                        | IFRS 11                | IAS 19R |      |                          |
| Profit for the year                                                                                                                                                  | 1,298                                                          | -                      | -       | 48   | 1,346                    |
| Exchange movements on foreign operations and net investment hedges, net of related tax                                                                               | (255)                                                          | -                      | -       |      | (255)                    |
| Net unrealised valuation on securities of US insurance operations classified as available-for-sale net of amortisation of deferred acquisition costs and related tax | (1,034)                                                        | -                      | -       | -    | (1,034)                  |
| Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, net of related tax                                                   | -                                                              | -                      | -       | (48) | (48)                     |

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|                                         |        |   |   |   |        |
|-----------------------------------------|--------|---|---|---|--------|
| Total comprehensive income for the year | 9      | - | - | - | 9      |
| Net increase in shareholders' equity    | (709)  | - | - | - | (709)  |
| At beginning of year                    | 10,359 | - | - | - | 10,359 |
| At end of year                          | 9,650  | - | - | - | 9,650  |

|                                                                                                                                                                      | 2012 £m                                            |                   |         |                       |        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|-------------------|---------|-----------------------|--------|
|                                                                                                                                                                      | As reported under previous accounting requirements | Effect of IFRS 10 | IFRS 11 | After IAS 19R changes |        |
| Profit for the year                                                                                                                                                  | 2,197                                              | -                 | -       | (34)                  | 2,163  |
| Exchange movements on foreign operations and net investment hedges, net of related tax                                                                               | (216)                                              | -                 | -       | -                     | (216)  |
| Net unrealised valuation on securities of US insurance operations classified as available-for-sale net of amortisation of deferred acquisition costs and related tax | 387                                                | -                 | -       | -                     | 387    |
| Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, net of related tax                                                   | -                                                  | -                 | -       | 34                    | 34     |
| Total comprehensive income for the year                                                                                                                              | 2,368                                              | -                 | -       | -                     | 2,368  |
| Net increase in shareholders' equity                                                                                                                                 | 1,795                                              | -                 | -       | -                     | 1,795  |
| At beginning of year                                                                                                                                                 | 8,564                                              | -                 | -       | -                     | 8,564  |
| At end of year                                                                                                                                                       | 10,359                                             | -                 | -       | -                     | 10,359 |

Consolidated statement of financial position

|                                                         | 31 Dec 2013 £m                                     |                   |         |                       |         |
|---------------------------------------------------------|----------------------------------------------------|-------------------|---------|-----------------------|---------|
|                                                         | As reported under previous accounting requirements | Effect of IFRS 10 | IFRS 11 | After IAS 19R changes |         |
| <b>Assets</b>                                           |                                                    |                   |         |                       |         |
| Intangible assets attributable to shareholders          | 6,837                                              | -                 | (81)    | -                     | 6,756   |
| Intangible assets attributable to with-profits funds    | 249                                                | -                 | -       | -                     | 249     |
| Reinsurers' share of insurance contract liabilities     | 6,846                                              | -                 | (8)     | -                     | 6,838   |
| Other non-investment and non-cash assets                | 8,038                                              | 21                | (128)   | -                     | 7,931   |
| Investments of long-term business and other operations: |                                                    |                   |         |                       |         |
| Investment properties                                   | 12,015                                             | -                 | (538)   | -                     | 11,477  |
| Investments accounted for using the equity method       | 100                                                | -                 | 709     | -                     | 809     |
| Financial investments:                                  |                                                    |                   |         |                       |         |
| Loans                                                   | 11,755                                             | 830               | (19)    | -                     | 12,566  |
| Equity securities and portfolio holdings in unit trusts | 120,974                                            | 547               | (1,299) | -                     | 120,222 |
| Debt securities                                         | 134,278                                            | 139               | (1,512) | -                     | 132,905 |
| Other investments                                       | 6,291                                              | (1)               | (25)    | -                     | 6,265   |
| Deposits                                                | 12,563                                             | (3)               | (347)   | -                     | 12,213  |
| Total other assets                                      | 8,128                                              | (125)             | (302)   | -                     | 7,701   |
| Total assets                                            | 328,074                                            | 1,408             | (3,550) | -                     | 325,932 |

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|                                                                                            |         |       |         |           |
|--------------------------------------------------------------------------------------------|---------|-------|---------|-----------|
| <b>Liabilities</b>                                                                         |         |       |         |           |
| Policyholder liabilities and unallocated surplus of with-profits funds                     | 289,173 | -     | (3,159) | - 286,014 |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds | 4,167   | 1,111 | -       | - 5,278   |
| Total other liabilities                                                                    | 25,083  | 297   | (391)   | - 24,989  |
| Total liabilities                                                                          | 318,423 | 1,408 | (3,550) | - 316,281 |

|                              |         |       |         |           |
|------------------------------|---------|-------|---------|-----------|
| <b>Equity</b>                |         |       |         |           |
| Shareholders' equity         | 9,650   | -     | -       | - 9,650   |
| Non-controlling interests    | 1       | -     | -       | - 1       |
| Total equity                 | 9,651   | -     | -       | - 9,651   |
| Total equity and liabilities | 328,074 | 1,408 | (3,550) | - 325,932 |

31 Dec 2012 £m

|                                                         | As reported under previous accounting requirements | Effect of IFRS changes |         |                            |
|---------------------------------------------------------|----------------------------------------------------|------------------------|---------|----------------------------|
|                                                         |                                                    | IFRS 10                | IFRS 11 | IAS 19R After IFRS changes |
| <b>Assets</b>                                           |                                                    |                        |         |                            |
| Intangible assets attributable to shareholders          | 5,736                                              | -                      | (90)    | - 5,646                    |
| Intangible assets attributable to with-profits funds    | 256                                                | -                      | -       | - 256                      |
| Reinsurers' share of insurance contract liabilities     | 6,859                                              | -                      | (5)     | - 6,854                    |
| Other non-investment and non-cash assets                | 7,492                                              | 25                     | (113)   | - 7,404                    |
| Investments of long-term business and other operations: |                                                    |                        |         |                            |
| Investment properties                                   | 10,880                                             | -                      | (326)   | - 10,554                   |
| Investments accounted for using the equity method       | 113                                                | -                      | 522     | - 635                      |
| Financial investments:                                  |                                                    |                        |         |                            |
| Loans                                                   | 11,821                                             | 930                    | (8)     | - 12,743                   |
| Equity securities and portfolio holdings in unit trusts | 99,958                                             | 172                    | (1,504) | - 98,626                   |
| Debt securities                                         | 140,103                                            | 146                    | (1,342) | - 138,907                  |
| Other investments                                       | 7,900                                              | (323)                  | (30)    | - 7,547                    |
| Deposits                                                | 12,653                                             | (3)                    | (402)   | - 12,248                   |
| Total other assets                                      | 6,482                                              | (121)                  | (137)   | 6,224                      |
| Total assets                                            | 310,253                                            | 826                    | (3,435) | - 307,644                  |

|                                                                                            |         |     |         |           |
|--------------------------------------------------------------------------------------------|---------|-----|---------|-----------|
| <b>Liabilities</b>                                                                         |         |     |         |           |
| Policyholder liabilities and unallocated surplus of with-profits funds                     | 271,363 | -   | (3,100) | - 268,263 |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds | 4,345   | 800 | -       | - 5,145   |
| Total other liabilities                                                                    | 24,181  | 26  | (335)   | - 23,872  |
| Total liabilities                                                                          | 299,889 | 826 | (3,435) | - 297,280 |

|                              |         |     |         |           |
|------------------------------|---------|-----|---------|-----------|
| <b>Equity</b>                |         |     |         |           |
| Shareholders' equity         | 10,359  | -   | -       | - 10,359  |
| Non-controlling interests    | 5       | -   | -       | - 5       |
| Total equity                 | 10,364  | -   | -       | - 10,364  |
| Total equity and liabilities | 310,253 | 826 | (3,435) | - 307,644 |

Consolidated statement of cash flows

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

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

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

Segment disclosure – profit before tax

2013 £m

Under After

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

|                                                          | Under<br>previous<br>accounting<br>requirements | 2012 £m<br>Effect of IFRS<br>changes<br>IFRS 11 IAS 19R | After<br>IFRS<br>changes |
|----------------------------------------------------------|-------------------------------------------------|---------------------------------------------------------|--------------------------|
| Operating profit based on longer-term investment returns |                                                 |                                                         |                          |
| Asia operations:                                         |                                                 |                                                         |                          |
| Asia insurance operations:                               |                                                 |                                                         |                          |
| Before reclassification of held for sale                 |                                                 |                                                         |                          |
| Japan Life business                                      | 913                                             | (9)                                                     | -                        |

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

Additional Unaudited IFRS Financial Information

I(a): Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver

This schedule classifies the Group's pre-tax operating earnings from long-term insurance operations into the underlying drivers of those profits, using the following categories:

i Spread income represents the difference between net investment income (or premium income in the case of the UK annuities new business) and amounts credited to certain policyholder accounts. It excludes the operating investment return on shareholder net assets, which has been separately disclosed as expected return on shareholder assets.

ii Fee income represents profits driven by net investment performance, being asset management fees that vary with the size of the underlying policyholder funds net of investment management expenses.

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

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

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

vi Acquisition costs and administration expenses represent expenses incurred in the year attributable to shareholders. It excludes items such as restructuring costs and Solvency II costs which are not included in the segment profit for insurance as well as items that are more appropriately included in other source of earnings lines (eg investment expenses are netted against investment income as part of spread income or fee income as appropriate).

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

Analysis of pre-tax IFRS operating profit by source

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

| 2012 £m          |            |             |     |     |             |       |       |
|------------------|------------|-------------|-----|-----|-------------|-------|-------|
|                  | As         | Asia        | US  | UK  | Unallocated | Total |       |
|                  | previously | Adjustments |     |     |             |       |       |
|                  | reported   | notes       |     |     |             |       |       |
|                  | (ii),(iii) |             |     |     |             |       |       |
| Spread income    | 106        | (13)        | 93  | 702 | 266         | -     | 1,061 |
| Fee income       | 141        | -           | 141 | 875 | 61          | -     | 1,077 |
| With-profits     | 39         | -           | 39  | -   | 272         | -     | 311   |
| Insurance margin | 594        | (5)         | 589 | 399 | 39          | -     | 1,027 |

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|                                                                |       |      |       |       |       |       |         |
|----------------------------------------------------------------|-------|------|-------|-------|-------|-------|---------|
| Margin on revenues                                             | 1,453 | (14) | 1,439 | -     | 216   | -     | 1,655   |
| Expenses:                                                      |       |      |       |       |       |       |         |
| Acquisition costs                                              | (903) | -    | (903) | (972) | (122) | -     | (1,997) |
| Administration expenses                                        | (583) | 13   | (570) | (537) | (128) | -     | (1,235) |
| DAC adjustments                                                | (28)  | 12   | (16)  | 442   | (8)   | -     | 418     |
| Expected return on shareholder assets                          | 43    | -    | 43    | 55    | 107   | -     | 205     |
| Gain on China Life (Taiwan) shares                             | 51    | -    | 51    | -     | -     | -     | 51      |
| Long-term business operating profit                            | 913   | (7)  | 906   | 964   | 703   | -     | 2,573   |
| Asset management operating profit                              | 75    | (6)  | 69    | 39    | 371   | -     | 479     |
| GI commission                                                  | -     | -    | -     | -     | 33    | -     | 33      |
| Other income and expenditure note (i)                          | -     | -    | -     | -     | -     | (565) | (565)   |
| Total operating profit based on longer-term investment returns | 988   | (13) | 975   | 1,003 | 1,107 | (565) | 2,520   |

Notes

- (i) Including restructuring and Solvency II implementation costs.
- (ii) The analysis excludes the results of the held for sale life insurance business of Japan. The results of Japan Life business excluded in 2013 were: profit of £3 million (2012: loss of £2 million).
- (iii) The Group has adopted new accounting standards on joint arrangements as described in Section A2. The only impact of the resulting change on the analysis above is to deduct the associated tax expense from the joint ventures' operating profit by treating it as an administration expense. This contributed to an additional expense, as follows:

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

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

Margin analysis of long-term insurance business

The following analysis expresses certain of the Group's sources of operating profit as a margin of policyholder liabilities or other suitable driver. Details of the Group's average policyholder liability balances are given in note (iii).

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



|                  |       |       |
|------------------|-------|-------|
| Operating profit | 2,950 | 2,573 |
|------------------|-------|-------|

## Notes

- (i) The ratio for acquisition costs is calculated as a percentage of APE including with-profits sales. Acquisition costs include only those relating to shareholder-backed business.
- (ii) Margin represents the operating return earned in the year as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus.
- (iii) For UK and Asia, opening and closing policyholder liabilities have been used to derive an average balance for the year, as a proxy for average balances throughout the year. The calculation of average liabilities for Jackson is derived from month-end balances throughout the year as opposed to opening and closing balances only. Average liabilities for spread income are based on the general account liabilities to which spread income attaches. In addition, for REALIC (acquired in 2012), which are included in the average liability to calculate the administration expense margin, the calculation excludes the liabilities reinsured to third parties prior to the acquisition by Jackson. Average liabilities are adjusted for business acquisitions and disposals in the year.
- (iv) The Group has adopted new accounting standards on joint arrangements as described in note A2. The only impact of the resulting change on the analysis above is to deduct the associated tax expense from the joint ventures' operating profit by treating it as an administration expense. The impact of this change is explained in note (iii), to the 'Analysis of pre-tax IFRS operating profit by source' table earlier in this section. All other lines continue to include the Group's share of the relevant part of the joint ventures' pre-tax operating profit.
- (v) The 2013 analysis excludes the results of the held for sale life insurance business of Japan in both the individual profit and average liability amounts shown in the table above. The comparative results have been presented on a consistent basis.

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

## Notes

- (i) The ratio for acquisition costs is calculated as a percentage of APE including with-profits sales. Acquisition costs include only those relating to shareholder-backed business.
- (ii) The Group has adopted new accounting standards on joint arrangements as described in note A2. The only impact of the resulting change on the analysis above is to deduct the associated tax expense from the joint ventures' operating profit by treating it as an administration expense. The impact of this change is explained in note (iii) to

the 'Analysis of pre-tax IFRS operating profit by source' table earlier in this section. All other lines continue to include the Group's share of the relevant part of the joint ventures' pre-tax operating profit.

- (iii) The analysis excludes the 2012 and 2013 results of the life insurance business of Japan in both the individual profit and the average liability amounts shown in the table above.
- (iv) Opening and closing policyholder liabilities, adjusted for corporate transactions, have been used to derive an average balance for the year, as a proxy for average balances throughout the year.

Analysis of Asia operating profit drivers

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

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

Notes

- (i) The ratio for acquisition costs is calculated as a percentage of APE.
- (ii) The calculation of average liabilities for Jackson is derived from month-end balances throughout the year as opposed to opening and closing balances only. Average liabilities for spread income are based on the general account liabilities to which spread income attaches. Average liabilities used to calculate the administrative expense margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson.

Analysis of US operating profit drivers:

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

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

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

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|       |             |       |       |     |       |       |       |     |     |
|-------|-------------|-------|-------|-----|-------|-------|-------|-----|-----|
|       | Decelerated |       |       | 82  | 82    |       |       | 56  | 56  |
| Total |             | 1,844 | (914) | 313 | 1,243 | 1,494 | (972) | 442 | 964 |

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

Notes

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

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

Analysis of UK operating profit drivers:

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

The ratio above expresses the percentage of shareholder acquisition costs as a percentage of total APE sales. It is therefore impacted by the level of with-profit sales in the year. Acquisition costs as a percentage of shareholder-backed new business sales were 32 per cent in 2013 (2012: 32 per cent).

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Administration expenses at £124 million are £4 million lower than for 2012 due to lower project spend in the first half of the year.

- Expected return on shareholder assets has increased from £107 million in 2012 to £134 million in 2013 principally due to improved investment returns in the year and higher surplus assets.

I(b): Asia operations – analysis of IFRS operating profit by territory

Operating profit based on longer-term investment returns for Asia operations are analysed as follows:

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

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

Notes

(i) Analysis of operating profit between new and in-force business

The result for insurance operations comprises amounts in respect of new business and business in-force as follows:

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

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

†

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

The strain reflects the aggregate of the pre-tax regulatory basis strain to net worth after IFRS adjustments for deferral of acquisition costs and deferred income where appropriate.

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

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

(iii) To facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the held for sale Japan Life business are not included within the long-term business operating profit for Asia. The 2012 comparative results have also been adjusted. The Japan Life business contributed a profit of £3 million in 2013 (2012: loss of £(2) million).

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

|                                                          | 2013 £m                      |                                        |        |       | Total   |
|----------------------------------------------------------|------------------------------|----------------------------------------|--------|-------|---------|
|                                                          | M&G Investments<br>note (ii) | Eastspring<br>Investments<br>note (ii) | PruCap | US    |         |
| Operating income before performance-related fees         | 863                          | 215                                    | 121    | 362   | 1,561   |
| Performance-related fees                                 | 25                           | 1                                      | -      | -     | 26      |
| Operating income (net of commission) note (i)            | 888                          | 216                                    | 121    | 362   | 1,587   |
| Operating expense note (i)                               | (505)                        | (134)                                  | (75)   | (303) | (1,017) |
| Share of associate's results                             | 12                           | -                                      | -      | -     | 12      |
| Group's share of tax on joint ventures' operating profit | -                            | (8)                                    | -      | -     | (8)     |
| Operating profit based on longer-term investment returns | 395                          | 74                                     | 46     | 59    | 574     |
| Average funds under management                           | £233.8 bn                    | £61.9 bn                               |        |       |         |
| Margin based on operating income*                        | 37 bps                       | 35 bps                                 |        |       |         |
| Cost / income ratio**                                    | 59%                          | 62%                                    |        |       |         |

|                                                  | 2012 £m                      |                                              |        |       | Total |
|--------------------------------------------------|------------------------------|----------------------------------------------|--------|-------|-------|
|                                                  | M&G Investments<br>note (ii) | Eastspring<br>Investments<br>note (ii),(iii) | PruCap | US    |       |
| Operating income before performance-related fees | 734                          | 201                                          | 120    | 296   | 1,351 |
| Performance-related fees                         | 9                            | 2                                            | -      | -     | 11    |
| Operating income (net of commission) note (i)    | 743                          | 203                                          | 120    | 296   | 1,362 |
| Operating expense note (i)                       | (436)                        | (128)                                        | (69)   | (257) | (890) |
| Share of associate's results                     | 13                           | -                                            | -      | -     | 13    |

|                                                          |           |          |    |    |     |
|----------------------------------------------------------|-----------|----------|----|----|-----|
| Group's share of tax on joint ventures' operating profit | -         | (6)      | -  | -  | (6) |
| Operating profit based on longer-term investment returns | 320       | 69       | 51 | 39 | 479 |
| Average funds under management                           | £205.1 bn | £55.0 bn |    |    |     |
| Margin based on operating income*                        | 36 bps    | 37 bps   |    |    |     |
| Cost / income ratio**                                    | 59%       | 64%      |    |    |     |

(i) Operating income and expense includes the Group's share of contribution from Joint Ventures (but excludes any contribution from associates). In the income statement as shown in note B2 of the IFRS financial statements, these amounts are netted and tax deducted and shown as a single amount.

(ii) M&G and Eastspring Investments can be further analysed as follows:

|        | M&G                                              |          |         |      |            |        | Eastspring Investments                           |         |        |            |        |      |         |      |            |
|--------|--------------------------------------------------|----------|---------|------|------------|--------|--------------------------------------------------|---------|--------|------------|--------|------|---------|------|------------|
|        | Operating income before performance related fees |          |         |      |            |        | Operating income before performance related fees |         |        |            |        |      |         |      |            |
|        | Margin                                           |          | Margin  |      | Margin     |        | Margin                                           |         | Margin |            | Margin |      |         |      |            |
|        | of                                               |          | of      |      | of         |        | of                                               |         | of     |            | of     |      |         |      |            |
| Retail | FUM*                                             | Institu- | tional+ | FUM* | Total FUM* | Retail | FUM*                                             | tional+ | FUM*   | Total FUM* | Retail | FUM* | tional+ | FUM* | Total FUM* |
| £m     | bps                                              | £m       | bps     | £m   | bps        | £m     | bps                                              | £m      | bps    | £m         | bps    | £m   | bps     | £m   | bps        |
| 2013   | 550                                              | 89       | 313     | 18   | 863        | 37     | 2013                                             | 127     | 60     | 88         | 22     | 215  | 35      |      |            |
| 2012   | 438                                              | 91       | 297     | 19   | 734        | 36     | 2012                                             | 118     | 64     | 83         | 24     | 201  | 37      |      |            |

\*Margin represents operating income before performance related fees as a proportion of the related funds under management (FUM). Monthly closing internal and external funds managed by the respective entity have been used to derive the average. Any funds held by the Group's insurance operations which are managed by third parties outside of the Prudential Group are excluded from these amounts.

\*\* Cost/income ratio represents cost as a percentage of operating income before performance related fees.

† Institutional includes internal funds.

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

I(d): Holding company cash flow

|                                       | 2013 £m | 2012 £m |
|---------------------------------------|---------|---------|
| Net cash remitted by business units:  |         |         |
| UK net remittances to the Group       |         |         |
| UK Life fund paid to the Group        | 206     | 216     |
| Shareholder-backed business:          |         |         |
| Other UK paid to the Group            | 149     | 101     |
| Group invested in UK                  | -       | (4)     |
| Total shareholder-backed business     | 149     | 97      |
| Total UK net remittances to the Group | 355     | 313     |
| US remittances to the Group           | 294     | 249     |
| Asia net remittances to the Group     |         |         |
| Asia paid to the Group:               |         |         |

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

\* Including central finance subsidiaries.

I(e): Funds under management

(a) Summarynote (i)

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

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

Notes

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

(ii) External funds shown above as at 31 December 2013 of £143.3 billion (2012: £121.4 billion) comprise £148.2 billion (2012: £133.5 billion) of funds managed by M&G and Eastspring Investments as shown in note (c) below



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less £4.9 billion (2012: £12.1 billion) that are classified within Prudential Group's funds. The £148.2 billion (2012: £133.5 billion) investment products comprise £143.9 billion (2012: £129.5 billion) as published in the New Business schedules plus Asia Money Market Funds of £4.3 billion (2012: £4.0 billion).

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

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

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

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

(c) Investment products – external funds under management

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

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

Note

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

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

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

|                                     | 2013 £bn | 2012 £bn |
|-------------------------------------|----------|----------|
| Eastspring Investments              |          |          |
| External funds under managementnote | 22.2     | 21.6     |
| Internal funds under management     | 37.7     | 36.5     |
| Total funds under management        | 59.9     | 58.1     |

Note

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

## II Economic capital position

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

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

| 31 December 2013<br>£ billion | Economic capital position1 |
|-------------------------------|----------------------------|
| Available capital             | 18.5                       |
| Economic Capital Requirement  | 7.2                        |

|                         |      |
|-------------------------|------|
| Surplus                 | 11.3 |
| Economic solvency ratio | 257% |

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

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

#### Methodology

In line with Solvency II, for the Group's European and Asian life business, and holding companies, the available capital is the value of assets in excess of liabilities. The key components of available capital are the market value of assets, insurance technical provisions (calculated as the sum of best estimate liabilities plus a risk margin) and other liabilities. Subordinated-debt forms part of available capital, rather than being treated as a liability, since this debt is subordinated to policyholder claims.

As a general principle, both assets and liabilities are recognised at the value at which they could theoretically be transferred to a third party in an arms' length transaction. On the asset side of the balance sheet, assets are mostly held at IFRS fair value. However, adjustments are required to IFRS values to eliminate intangible items such as goodwill and deferred acquisition costs and to take account of economic assets which are excluded from the current IFRS balance sheet such as the present value of future with-profits shareholder transfers.

The best estimate liability is calculated by taking the average of future risk-adjusted best estimate cashflows, taking into account the time value of money and the relative liquidity of those liabilities. The best estimate liability allows for the value of options and guarantees embedded in existing contracts as well as the value of future discretionary benefits payable to policyholders. Realistic management actions and policyholder behaviour are allowed for where relevant. In addition, since capital requirements are only derived to cover risks over a one year horizon, a risk margin is added to the best estimate liability to cover the cost of ceding liabilities to a third party after one year, assuming a 6 per cent per annum cost of capital, in line with Solvency II requirements.

The Economic Capital Requirement measures the potential reduction in the value of available capital over a one year time horizon, in an adverse 1-in-200 probability event, consistently with the Solvency II Directive. This allows for diversification effects between different risk-types and between entities. No restrictions on the economic value of overseas surplus have been allowed for in assessing the capital position at Group level.

Prudential's US insurance entities are included in the economic capital position on a local RBC basis under the assumption of US equivalence and the assumed permitted use of the 'deduction and aggregation' method. This is in line with our view of the most likely outcome of Solvency II given the agreement reached in the Omnibus II Directive. The contribution of US insurance entities to the Group surplus is that in excess of 250 per cent of the US RBC Company Action Level, which is in line with the level at which we measure both the Group's IGD surplus and the Group's reported free surplus amount. In line with the draft Solvency II requirements under the 'deduction and aggregation' method, no diversification benefit is allowed for between US insurance entities and other parts of the Group.

The contribution of Japan to the Group surplus has been set equal to the 'held for sale' accounting value of £48m, pending completion of the sale. The impact of the domestication of the Hong Kong branch, which became effective on 1 January 2014, is not allowed for in these economic capital results, but is estimated to have a negative impact on the Group solvency ratio of -4 percentage points, mainly due to a loss of diversification in the risk margin following separation of the Hong Kong business into a subsidiary.

Consistently with evolving Solvency II requirements, the Group calculation also includes all non-insurance entities, including asset management companies, Prudential Capital and holding companies, as follows:

- asset managers are included in line with existing sectoral capital rules, and Prudential Capital is included on a Basel basis, which follows the expected Solvency II treatment;
- defined benefit pension schemes are included using international accounting standards and, in addition, a capital requirement is added; and
- holding companies are measured on a Solvency II basis, as if they were insurance companies, in line with draft Solvency II rules.

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

- (i) the liability discount rate for UK annuities, which is currently set by applying a 'liquidity premium' in addition to the risk-free rate. This liquidity premium addition reflects the long term buy-and-hold nature of the assets backing UK annuity liabilities, which are therefore not directly exposed to changes in market credit spreads, but instead to long term default risk over the term of the assets. This liquidity premium will be replaced with the corresponding Solvency II 'Matching Adjustment' when the rules and interpretation relating to this Solvency II calculation are clarified;
- (ii) the impact of transitional arrangements on technical provisions, for which no allowance has been made in the economic capital position, but which may apply under Solvency II (although the use of this transitional is subject to regulatory approval and the extent to which it is permitted is likely to depend on the final Solvency II capital position); and
- (iii) the credit risk adjustment to the risk free rate, which is currently set at 10 basis points, consistent with the specification in Quantitative Impact Study 5, but where discussions are ongoing at a European level as part of the process to agree the more detailed Solvency II rules.

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

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

#### Assumptions

The key assumptions required for the economic capital calibration are:

- (i) assumptions used to derive non-market related best estimate liability cash flows, which are based on EEV best estimate assumptions;
- (ii)

- assumptions used to derive market related best estimate liability cash flows, which are based on market data at the valuation date where this data is reliable and comes from a deep and liquid market, or on appropriate extrapolation methodologies where markets are not sufficiently liquid to be reliable;
- (iii) assumptions underlying the calculation of the best estimate liability in respect of dynamic management actions and policyholder behaviour;
  - (iv) assumptions underlying the risk models used to calculate the 1-in-200 level capital requirements for the Economic Capital Requirement which are set using a combination of historic market, demographic and operating experience data and expert judgement; and
  - (v) assumptions on the dependencies between risks, which are calibrated using a combination of historic data and expert judgement.

The risk-free curve at which best estimate liability cash flows are discounted is based on market swap rates (with the exception of Vietnam where no liquid swap market exists and government bond yields are therefore used), with a deduction of 10 basis points to allow for a 'credit risk adjustment' to swap rates. In addition, a liquidity premium is added to the liability discount rate for UK annuities, in both the base balance sheet and in the stressed conditions underlying the Economic Capital Requirement. In the absence of a Matching Adjustment calibration, the liquidity premium has been derived by reference to existing Solvency I allowances and a range of other industry benchmarks. The allowances vary by fund reflecting the nature of the respective asset portfolios and the extent of asset-liability cashflow matching, which are also likely to be key inputs into the Solvency II Matching Adjustment calculation. The resulting liquidity premium allowances are summarised in the table below. The final Solvency II discount curve is subject to considerable uncertainties and may vary significantly from these assumptions.

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

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

#### Reconciliation of IFRS to economic available capital

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

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

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

The key differences between the two metrics are:

£0.6 billion represents the adjustment required to the Group's shareholders' funds in order to convert Jackson's contribution from an IFRS basis to the local statutory valuation basis which underpins the US Risk Based Capital regime;

- £2.7 billion due to the removal of DAC and goodwill from the IFRS balance sheet;
- £3.8 billion due to the addition of subordinated debt which is treated as available capital on an economic basis but as a liability under IFRS;
- £5.8 billion due to differences in insurance valuation requirements between economic capital and IFRS, with available capital partially capturing the economic value of in-force business which is excluded from IFRS; offset to some extent by the inclusion of a risk margin which is not required under IFRS;
- £4.1 billion due to the inclusion of the value of future shareholder transfers from with-profits business on the economic balance sheet in the UK and Asia, which is excluded from the determination of the Group's IFRS shareholders' funds; and
- £1.3 billion due to the impact on the valuation of deferred tax assets and liabilities resulting from the other valuation differences noted above.

Analysis of movement in the economic capital position

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

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

<sup>2</sup> Based on the Group's Solvency II internal model which has not been reviewed or approved by the Prudential Regulation Authority.

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

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

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

#### Analysis of Group Economic Capital Requirement

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

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

<sup>2</sup>Based on the Group's Solvency II internal model which has not been reviewed or approved by the Prudential Regulation Authority.

The Group's most material risk exposures are to financial markets, in particular to equities and credit spreads, which we hold to generate a higher return on capital over the long-term. The Group also has material insurance risk exposures including longevity risk from UK annuities, lapse risk across a wide range of products, and mortality and morbidity risk mainly arising from protection products written in Asia. These risks diversify strongly with market risks, even after allowing for market-related policyholder behaviour, thereby increasing the return on capital which can be earned from the balanced mix of risks. A brief description of the most material risks is set out below.

¶The Group's exposure to equities mainly arises from UK shareholder transfers linked to policyholder funds (partially offset by economic equity hedges) and from future fund management charges on unit linked funds in Asia. The equity exposure arising from Jackson's variable annuity business is mostly hedged.

¶The Group also has significant exposure to credit risk, mainly from the UK annuity portfolio and from Jackson's fixed annuity credit portfolio. Credit exposures across the Group are carefully monitored and managed as part of the Group's risk management framework.

¶The Group is exposed to movements in yields (interest rates); while falling interest rates increase the risks arising from policyholder guarantees in with-profits funds and variable annuities, falling interest rates also increase the value of future insurance profits.

¶The most material insurance risk exposures arise from UK longevity risk, and lapse, mortality and morbidity risk in Asia.

¶The Group is also exposed to expense and operational risk, which is closely monitored and managed through internal control processes.

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

Sensitivity testing of Group economic solvency position

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

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

These sensitivity results demonstrate the resilience of the economic capital position following large falls in equity markets, sizeable reductions in yields and a severe credit event.

The adverse impact of falling equity markets mainly results from a reduction in the value of with-profits shareholder transfers and future fund management charges in the UK and Asia. Equity hedging reduces the impact of these exposures and a dynamic equity hedging programme is also in place to manage the equity risk arising in Jackson's variable annuities business.

A fall in yields has a material adverse impact on Group surplus which largely arises from a decrease in the value of future with-profits shareholder transfers and an increase in the size of risk margins. Falling yields also increases the value of the Group's external debt, reducing the Group surplus. However, these impacts are partially offset by an increase in the value of future insurance profits and changes in the value of hedging assets.

Widening credit spreads adversely impacts on the annuity business in the UK since this is deemed to represent an increase, to some extent, in the expected level of future defaults. Jackson is not exposed to credit spread widening on a US RBC basis but an increase in defaults in the Jackson credit book would have a negative impact on the Group capital position and is reflected in the credit stress test above.

Statement of independent review

The methodology, assumptions and overall result have been subject to examination by KPMG LLP.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.



Date 12 March 2014

PRUDENTIAL PUBLIC LIMITED COMPANY

By: /s/ Nic Nicandrou

Nic Nicandrou  
Chief Financial Officer