

PRUDENTIAL PLC
Form 20-F
April 08, 2014
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As filed with the Securities and Exchange Commission on 8 April 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

.. REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR (G) OF THE SECURITIES
EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the fiscal year ended 31 December 2013

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

OR

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Commission File Number: 1-15040

PRUDENTIAL PUBLIC LIMITED COMPANY

(Exact Name of Registrant as Specified in its Charter)

England and Wales

(Jurisdiction of Incorporation)

12 Arthur Street,

London EC4R 9AQ, England

(Address of Principal Executive Offices)

David Martin

Head of Financial Accounting

Prudential plc

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London EC4R 9AQ, England

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(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing 2 Ordinary Shares, 5 pence par value each	New York Stock Exchange
Ordinary Shares, 5 pence par value each	New York Stock Exchange* New York Stock Exchange

**6.75% Perpetual Subordinated Capital Securities
Exchangeable at the Issuer's Option into
Non-Cumulative Dollar Denominated Preference
Shares**

**6.50% Perpetual Subordinated Capital Securities
Exchangeable at the Issuer's Option into
Non-Cumulative Dollar Denominated Preference
Shares**

New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

**The number of outstanding shares of each of the issuer's classes of capital or common stock as of 31
December 2013 was:**

2,560,381,736 Ordinary Shares, 5 pence par value each

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web sites, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

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U.S. GAAP International Financial Reporting Standards as issued by
the International Accounting Standards Board Other
If Other has been checked in response to the previous question, indicate by check mark which financial statement item
the registrant has elected to follow: Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2
of the Exchange Act). Yes No

*Not for trading, but only in connection with the registration of American Depositary Shares.

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As used in this document, unless the context otherwise requires, the terms "Prudential", the "Group", "we", "us" and "our" refer to Prudential plc, together with its subsidiaries, while the terms "Prudential plc", the "Company" or the "parent company" each refer to Prudential plc.

Limitations on Enforcement of US Laws against Prudential, its Management and Others

Prudential is an English public limited company. Most of its directors and executive officers are resident outside the United States, and a substantial portion of its assets and the assets of such persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons or to enforce against them or Prudential in US courts judgments obtained in US courts predicated upon the civil liability provisions of the federal securities laws of the United States. We believe that there may be doubt as to the enforceability in England and Wales, in original actions or in actions for enforcement of judgments of US courts, of liabilities predicated solely upon the federal securities laws of the United States.

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The following table sets forth selected consolidated financial data for Prudential for the periods indicated. Certain data is derived from Prudential's audited consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. As at 31 December 2013, there were no unendorsed standards effective for the years presented below affecting the consolidated financial information of Prudential and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to Prudential. Accordingly, the selected consolidated financial data presented below that is derived from Prudential's audited consolidated financial statements is derived from audited consolidated financial statements prepared in accordance with IFRS as issued by the IASB. This table is only a summary and should be read in conjunction with Prudential's consolidated financial statements and the related notes included elsewhere in this document, together with Item 5, Operating and Financial Review and Prospects.

Income statement data

	Year ended 31 December					
	2013 \$m⁽¹⁾	2013 £m	2012 £m⁽³⁾	2011 £m⁽³⁾	2010 £m⁽³⁾	2009 £m⁽³⁾
Gross premium earned	50,554	30,502	29,113	24,837	23,610	19,525
Outward reinsurance premiums	(1,091)	(658)	(491)	(417)	(349)	(323)
Earned premiums, net of reinsurance	49,463	29,844	28,622	24,420	23,261	19,202
Investment return	33,723	20,347	23,931	9,361	21,662	26,813
Other income	3,620	2,184	1,885	1,711	1,539	1,143
Total revenue, net of reinsurance	86,806	52,375	54,438	35,492	46,462	47,158
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	(71,523)	(43,154)	(45,144)	(28,706)	(39,687)	(40,474)
Acquisition costs and other expenditure	(11,371)	(6,861)	(6,032)	(4,717)	(4,692)	(4,463)
Finance costs: interest on core structural borrowings of shareholder financed operations	(506)	(305)	(280)	(286)	(257)	(209)
Remeasurement of carrying value of Japan Life business classified as held for sale	(199)	(120)				
Loss on sale of Taiwan agency business						(559)
Total charges, net of reinsurance	(83,599)	(50,440)	(51,456)	(33,709)	(44,636)	(45,705)
	244	147	135	76	64	29

Share of profits from joint ventures and associates, net of related tax						
Profit before tax (<i>being tax attributable to shareholders and policyholders returns</i>) ⁽²⁾	3,451	2,082	3,117	1,859	1,890	1,482
Tax (charge) credit attributable to policyholders returns	(741)	(447)	(370)	7	(607)	(829)
Profit before tax attributable to shareholders	2,710	1,635	2,747	1,866	1,283	653
Tax (charge) credit attributable to shareholders returns	(479)	(289)	(584)	(415)	43	(15)
Profit from continuing operations after tax	2,231	1,346	2,163	1,451	1,326	638
Discontinued operations (net of tax)						(14)
Profit for the year	2,231	1,346	2,163	1,451	1,326	624

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	2013 ⁽¹⁾ (In \$m, except Share Information)	2013	2012 ⁽³⁾	2011 ⁽³⁾	2010 ⁽³⁾	2009 ⁽³⁾
Statement of financial position data			In £m, except Share Information			
Total assets	540,200	325,932	307,644	270,018	256,330	224,291
Total policyholder liabilities and unallocated surplus of with-profits funds	474,040	286,014	268,263	233,538	221,895	194,089
Core structural borrowings of shareholder financed operations	7,684	4,636	3,554	3,611	3,676	3,394
Total liabilities	524,204	316,281	297,280	261,411	248,765	218,418
Total equity	15,996	9,651	10,364	8,607	7,565	5,873

Other data

Based on profit (loss) for the year attributable to the equity holders of the Company:

Basic earnings per share (in pence)	87.5¢	52.8p	85.1p	57.1p	52.4p	24.9p
Diluted earnings per share (in pence)	87.3¢	52.7p	85.0p	57.0p	52.3p	24.8p
Dividend per share declared and paid in reporting period (in pence) ⁽⁶⁾	50.6¢	30.52p	25.64p	25.19p	20.17p	19.20p
Equivalent cents per share ⁽⁷⁾		50.58¢	40.68¢	40.39¢	30.15¢	30.62¢
Market price per share at end of period ⁽⁹⁾	2,220.9¢	1,340.0p	865.5p	638.5p	668.0p	640.0p
Weighted average number of shares (in millions)		2,548	2,541	2,533	2,524	2,501

New business:

Single premium sales ⁽⁵⁾⁽⁸⁾	38,080	22,976	22,358	18,889	18,177	14,438
New regular premium sales ⁽⁴⁾⁽⁵⁾⁽⁸⁾	3,525	2,127	1,959	1,792	1,667	1,401
Gross investment product contributions ⁽⁵⁾	190,664	115,038	96,961	89,707	106,969	96,057
Funds under management	734,228	443,000	406,000	352,000	340,000	290,000

- (1) Amounts stated in US dollars in the 2013 US dollar column have been translated from pounds sterling at the rate of \$1.6574 per £1.00 (the noon buying rate in New York City on 31 December 2013).
- (2) This measure is the formal profit (loss) before tax measure under IFRS but is not the result attributable to shareholders. See Presentation of results before tax in note A3.1 to Prudential's consolidated financial statements in Item 18 for further explanation.
- (3) As of 1 January 2013 the Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefit accounting standard. Accordingly, the 2009 to 2012 comparative figures have been restated from those previously published for the retrospective application of the change, as described in note A2 to Prudential's consolidated financial statements in Item 18.
- (4) New regular premium sales are reported on an annualised basis, which represents a full year of instalments in respect of regular premiums irrespective of the actual payments made during the year.
- (5) The new business premiums in the table shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not, and are not intended to be, reflective of premium income recorded in the IFRS income

statement. Internal vesting business is classified as new business where the contracts include an open market option.

The details shown above for new business include contributions for contracts that are classified under IFRS 4 Insurance Contracts as not containing significant insurance risk. These products are described as investment contracts or other financial instruments under IFRS. Contracts included in this category are primarily certain unit-linked and similar contracts written in UK insurance operations and Guaranteed Investment Contracts and similar funding agreements written in US operations.

Investment products included in the table for funds under management above are unit trust, mutual funds and similar types of retail fund management arrangements. These are unrelated to insurance products that are classified as investment contracts under IFRS 4, as described in the preceding paragraph, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business.

- (6) Under IFRS, dividends declared after the balance sheet date in respect of the prior reporting period are treated as a non-adjusting event. The appropriation reflected in the statement of changes in equity, therefore, includes the final dividend in respect of the prior year. Parent company dividends relating to the reporting period were an interim dividend of 9.73p per share in 2013 (2012: 8.40p, 2011: 7.95p) and a final dividend of 23.84p per share in 2013 (2012: 20.79p, 2011: 17.24p).
- (7) The dividends have been translated into US dollars at the noon buying rate on the date each payment was made.
- (8) The new business premiums shown, for the 2009-2010 comparative figures, exclude the new business premiums from the Group's Japanese insurance subsidiary, which ceased selling new business with effect from 15 February 2010.
- (9) Market prices presented are the closing prices of the shares on the London Stock Exchange on the last day of trading for each indicated period.

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Under UK company law, Prudential may pay dividends only if distributable profits of the holding company are available for that purpose. Distributable profits are accumulated, realised profits not previously distributed or capitalised less accumulated, realised losses not previously written off, on the applicable GAAP basis. Even if distributable profits are available, under UK law Prudential may pay dividends only if the amount of its net assets is not less than the aggregate of its called-up share capital and undistributable reserves (such as, for example, the share premium account) and the payment of the dividend does not reduce the amount of its net assets to less than that aggregate. For further information about the holding company refer to Schedule II. The financial information in Schedule II has been prepared under UK GAAP reflecting the legal basis of preparation of the Company's separate financial statements as distinct from the IFRS basis that applies to the Company's consolidated financial statements.

As a holding company, Prudential is dependent upon dividends and interest from its subsidiaries to pay cash dividends. Many of its insurance subsidiaries are subject to regulations that restrict the amount of dividends that they can pay to the Company. These restrictions are discussed in more detail in Item 4, Information on the Company Supervision and Regulation of Prudential UK Supervision and Regulation Regulation of Insurance Business Distribution of Profits and With-profits Business and Item 4, Information on the Company Supervision and Regulation of Prudential US Supervision and Regulation General .

Historically, Prudential has declared an interim and a final dividend for each year (with the final dividend being paid in the year following the year to which it relates). Subject to the restrictions referred to above, Prudential's directors have the discretion to determine whether to pay an interim dividend and the amount of any such interim dividend but must take into account the Company's financial position. The directors have discretion to recommend payment of a final dividend, such recommendation to be approved by ordinary resolution of the shareholders. The approved amount may not exceed the amount recommended by the directors.

The following table shows certain information regarding the dividends per share that Prudential declared for the periods indicated in pence sterling and converted into US dollars at the noon buying rate in effect on each payment date. Interim dividends for a specific year now generally have a record date in August and a payment date in September of that year, and final dividends now generally have a record date in the following March/April and a payment date in the following May.

Year	Interim Dividend	Interim Dividend	Final/Second	Final/Second
	(pence)	(US Dollars)	Interim* Dividend	Interim* Dividend
			(pence)	(US Dollars)
2009	6.29	0.1011	13.56	0.1976
2010	6.61	0.1039	17.24	0.2818
2011	7.95	0.1221	17.24	0.2706
2012	8.40	0.1362	20.79	0.3143
2013	9.73	0.1558	23.84	

* The dividend of 13.56 pence for 2009 was paid as a second interim dividend. All other dividends shown in this column of the table are final dividends.

The Board proposes to rebase the full year dividend upwards by 4.38 pence, due to the strong and sustained operational and financial performance of the Group, evidenced by the achievement of all of the Group's demanding

2013 Growth and Cash Objectives. The directors recommend a final dividend of 23.84 pence per share (2012: 20.79 pence), which brings the total dividend for the year to 33.57 pence, representing an increase of 15 per cent over 2012.

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

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Although the Board has been able to recommend three upward rebases in the last four years, the Group's dividend policy remains unchanged. The Board will maintain its focus on delivering a growing dividend from this new higher base, which will continue to be determined after taking into account the Group's financial flexibility and the Board's assessment of opportunities to generate attractive returns by investing in specific areas of the business. The Board believes that in the medium term a dividend cover of around two times is appropriate.

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Prudential publishes its consolidated financial statements in pounds sterling. References in this document to US dollars, US\$, \$ or ¢ are to US currency, references to pounds sterling, £, pounds, pence or p are to UK currency (100 pence to each pound) and references to euro or ¤ are to the single currency adopted by the participating members of the European Union. The following table sets forth for each year the average of the noon buying rates on the last business day of each month of that year, as certified for customs purposes by the Federal Reserve Bank of New York, for pounds sterling expressed in US dollars per pound sterling for each of the five most recent fiscal years. Prudential has not used these rates to prepare its consolidated financial statements.

Year ended 31 December	Average rate
2009	1.62
2010	1.54
2011	1.61
2012	1.59
2013	1.56

The following table sets forth the high and low noon buying rates for pounds sterling expressed in US dollars per pound sterling for each of the previous six months:

	High	Low
October 2013	1.62	1.59
November 2013	1.64	1.59
December 2013	1.66	1.63
January 2014	1.66	1.63
February 2014	1.67	1.63
March 2014	1.67	1.65

On 4 April 2014 the latest practicable date prior to this filing, the noon buying rate was £1.00 = \$1.66

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Risk Factors

A number of factors (risk factors) affect Prudential's operating results and financial condition and, accordingly, the trading price of its shares. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The information given is as of the date of this document, is not updated, and any forward-looking statements are made subject to the reservations specified below under Forward-Looking Statements .

Risks relating to Prudential's business

Prudential's businesses are inherently subject to market fluctuations and general economic conditions

Prudential's businesses are inherently subject to market fluctuations and general economic conditions. Uncertainty or negative trends in international economic and investment climates could adversely affect Prudential's business and profitability. Since 2008 Prudential has operated against a challenging background of periods of significant volatility in global capital and equity markets, interest rates and liquidity, and widespread economic uncertainty. Government interest rates also remain at or near historic lows in the US, the UK and some Asian countries in which Prudential operates. These factors have, at times during this period, had a material adverse effect on Prudential's business and profitability.

In the future, the adverse effects of such factors would be felt principally through the following items:

investment impairments or reduced investment returns, which could impair Prudential's ability to write significant volumes of new business and would have a negative impact on its assets under management and profit;

higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses;

failure of counterparties to transactions with Prudential or, for derivative transactions adequate collateral not being in place;

estimates of the value of financial instruments being difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time); and

increased illiquidity also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline.

Global financial markets are subject to uncertainty and volatility created by a variety of factors, including concerns over sovereign debt, general slowing in world growth from subdued or slowdown in demand and the timing and scale of quantitative easing programmes of central banks. Upheavals in the financial markets may affect general levels of economic activity, employment and customer behaviour. For example, insurers may experience an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance

premiums. The demand for insurance products may also be adversely affected. If sustained, this environment is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on Prudential's business and profitability. New challenges related to market fluctuations and general economic conditions may continue to emerge.

For some non-unit-linked investment products, in particular those written in some of the Group's Asian operations, it may not be possible to hold assets which will provide cash flows to match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets where regulated surrender values are set with reference to the interest rate environment prevailing at the time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. While this residual asset/liability

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mismatch risk can be managed, it cannot be eliminated. Where interest rates in these markets remain lower than interest rates used to calculate surrender values over a sustained period, this could have an adverse impact on Prudential's reported profit.

In the US, fluctuations in prevailing interest rates can affect results from Jackson which has a significant spread-based business, with the majority of its assets invested in fixed income securities. In particular, fixed annuities and stable value products written by Jackson expose Prudential to the risk that changes in interest rates, which are not fully reflected in the interest rates credited to customers, will reduce spread. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. Declines in spread from these products or other spread businesses that Jackson conducts, and increases in surrenders levels arising from interest rate rises, could have a material impact on its businesses or results of operations.

Jackson also writes a significant amount of variable annuities that offer capital or income protection guarantees. The value of these guarantees is affected by market factors including interest rates, equity levels, bond spreads and volatility. There could be market circumstances where the derivatives that Jackson enters into to hedge its market risks may not fully cover its exposures under the guarantees. The cost of the guarantees that remain unhedged will also affect Prudential's results.

Jackson hedges the guarantees on its variable annuity book on an economic basis and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate economic result. In particular, for Prudential's Group IFRS reporting, the measurement of the Jackson variable annuity guarantees is typically less sensitive to market movements than for the corresponding hedging derivatives, which are held at market value. However, depending on the level of hedging conducted regarding a particular risk type, certain market movements can drive volatility in the economic results which may be less significant under IFRS reporting.

A significant part of the profit from Prudential's UK insurance operations is related to bonuses for policyholders declared on with-profits products, which are broadly based on historical and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns. This profit could be lower in a sustained low interest rate environment.

Prudential is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio

Prudential is subject to the risk of potential sovereign debt credit deterioration on the amounts of sovereign debt obligations held in its investment portfolio. In recent years, rating agencies have downgraded the sovereign debt of some countries. There is a risk of further downgrades.

Investing in sovereign debt creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of states or monarchs) in the countries in which the issuers are located and the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and Prudential may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, and the

political constraints to which the sovereign debtor may be subject.

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Moreover, governments may use a variety of techniques, such as intervention by their central banks or imposition of regulatory controls or taxes, to devalue their currencies' exchange rates, or may adopt monetary and other policies (including to manage their debt burdens) that have a similar effect, all of which could adversely impact the value of an investment in sovereign debt even in the absence of a technical default. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issuers.

In addition, if a sovereign default or other such events described above were to occur, other financial institutions may also suffer losses or experience solvency or other concerns, and Prudential might face additional risks relating to any debt of such financial institutions held in its investment portfolio. There is also risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be affected, as might counter party relationships between financial institutions. If a sovereign were to default on its obligations, or adopt policies that devalue or otherwise alter the currencies in which its obligations are denominated this could have a material adverse effect on Prudential's financial condition and results of operations.

Prudential is subject to the risk of exchange rate fluctuations owing to the geographical diversity of its businesses

Due to the geographical diversity of Prudential's businesses, Prudential is subject to the risk of exchange rate fluctuations. Prudential's operations in the US and Asia, which represent a significant proportion of operating profit based on longer-term investment returns and shareholders' funds, generally write policies and invest in assets denominated in local currencies. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential's consolidated financial statements upon translation of results into pounds sterling. This exposure is not currently separately managed. The currency exposure relating to the translation of reported earnings could impact on financial reporting ratios such as dividend cover, which is calculated as operating profit after tax on an IFRS basis, divided by the current year interim dividend plus the proposed final dividend. The impact of gains or losses on currency translations is recorded as a component of shareholders' funds within other comprehensive income. Consequently, this could impact on Prudential's gearing ratios (defined as debt over debt plus shareholders' funds).

Prudential conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates

Changes in government policy, legislation (including tax) or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates, which in some circumstances may be applied retrospectively, may adversely affect Prudential's product range, distribution channels, profitability, capital requirements and, consequently, reported results and financing requirements. Also, regulators in jurisdictions in which Prudential operates may change the level of capital required to be held by individual businesses or could introduce possible changes in the regulatory framework for pension arrangements and policies, the regulation of selling practices and solvency requirements. Furthermore, as a result of interventions by governments in response to recent financial and global economic conditions, it is widely expected that there will continue to be a substantial increase in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transaction structure and enhanced supervisory powers.

Current EU directives, including the EU Insurance Groups Directive (IGD) require EU financial services groups to demonstrate net aggregate surplus capital in excess of solvency requirements at the group level in respect of shareholder-owned entities. The test is a continuous requirement, so that Prudential needs to maintain a higher amount of regulatory capital at the group level than otherwise necessary in respect of some of its individual businesses to

accommodate, for example, short-term movements in global foreign exchange rates,

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interest rates, deterioration in credit quality and equity markets. The EU is also developing a new prudential regulatory framework for insurance companies, referred to as Solvency II. The approach is based on the concept of three pillars. Pillar 1 consists of the quantitative requirements, for example, the amount of capital an insurer should hold. Pillar 2 sets out requirements for the governance and risk management of insurers, as well as for the effective supervision of insurers. Pillar 3 focuses on disclosure and transparency requirements.

The Solvency II Directive covers valuation, the treatment of insurance groups, the definition of capital and the overall level of capital requirements. A key aspect of Solvency II is that the assessment of risks and capital requirements are intended to be aligned more closely with economic capital methodologies, and may allow Prudential to make use of its internal economic capital models, if approved by the Prudential Regulation Authority (PRA). The Solvency II Directive was formally approved by the Economic and Financial Affairs Council in November 2009 although its implementation was delayed pending agreement on a directive known as Omnibus II which, once adopted, will amend certain aspects of the Solvency II Directive. In November 2013, representatives from the European Parliament, the European Commission and the Council of the European Union reached an agreement on the Omnibus II Directive, which is currently expected to be adopted in early 2014. As a result, Solvency II is now expected to be implemented as of 1 January 2016, although the European Commission and the European Insurance and Occupational Pensions Authority (EIOPA) are continuing to develop the detailed rules that will complement the high-level principles of the Solvency II and Omnibus II Directives, which are not currently expected to be finalised until mid-2015. Further, the effective application of a number of key measures incorporated in the Omnibus II Directive, including the provisions for third-country equivalence, is expected to be subject to supervisory judgement and approval. As a result there is a risk that the effect of the measures finally adopted could be adverse for Prudential, including potentially a significant increase in the capital required to support its business and that Prudential may be placed at a competitive disadvantage to other European and non-European financial services groups.

Currently there are also a number of other global regulatory developments which could impact the way in which Prudential is supervised in its many jurisdictions. These include the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in the US, the work of the Financial Stability Board (FSB) on Global Systemically Important Insurers (G-SIIs) and the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) being developed by the International Association of Insurance Supervisors (IAIS).

The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States that, among other reforms to financial services entities, products and markets, may subject financial institutions designated as systemically important to heightened prudential and other requirements intended to prevent or mitigate the impact of future disruptions in the US financial system. The full impact of the Dodd-Frank Act on Prudential's businesses is not currently clear, as many of its provisions have a delayed effectiveness and/or require rulemaking or other actions by various US regulators over the coming years.

In July 2013 the FSB announced the initial list of nine insurance groups that have been designated as G-SIIs. This list included Prudential as well as a number of its competitors. The designation as a G-SII is likely to lead to additional policy measures being applied to the designated group. Based on a policy framework released by the IAIS concurrently with the initial list, these additional policy measures will include enhanced group-wide supervision. This enhanced supervision is intended to commence immediately and will include the development by July 2014 of a Systemic Risk Management Plan (SRMP) under supervisory oversight and implementation thereafter and, by the end of 2014, a group Recovery and Resolution Plan (RRP) and Liquidity Risk Management Plan (LRMP). The G-SII regime also introduces two types of capital requirements, the first, a Basic Capital Requirement (BCR), designed to act as a minimum group capital requirement and the second, a higher loss absorption (HLA) requirement for conducting non-traditional insurance and non-insurance activities. The IAIS released a consultation paper on the BCR in December 2013 and Prudential will participate in the field testing of the proposals (expected in the first half of

2014). Prudential is monitoring the development of, and the potential impact of, the framework of policy measures and engaging with the PRA on the implications of this designation.

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The IAIS currently expects to finalise the BCR and HLA proposals by November 2014 and the end of 2015 respectively. Implementation of the regime is likely to be phased in over a period of years with the BCR expected to be introduced between 2015 and 2019. The HLA requirement will apply from January 2019 to the insurance groups identified as G-SIIs in November 2017.

ComFrame is also being developed by the IAIS to provide common global requirements for the supervision of insurance groups. The framework is designed to develop common principles and standards for group supervision and so may increase the focus of regulators in some jurisdictions. It is also expected to include some prescriptive requirements, including an Insurance Capital Standard (ICS). A revised draft ComFrame proposal was released for consultation in October 2013. The IAIS will undertake a field testing exercise from 2014 to 2018 to assess the impact of the quantitative and qualitative requirements proposed under ComFrame. ComFrame is expected to be implemented in 2019.

Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise where Prudential, along with other companies, may be required to make such contributions.

The Group's accounts are prepared in accordance with current International Financial Reporting Standards (IFRS) applicable to the insurance industry. The International Accounting Standards Board (IASB) introduced a framework that it described as Phase I, which permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In July 2010, the IASB published its first Exposure Draft for its Phase II on insurance accounting, which would introduce significant changes to the statutory reporting of insurance entities that prepare accounts according to IFRS. A revised Exposure Draft was issued in June 2013. It remains uncertain whether the proposals in the Exposure Draft will become the final IASB standard. The timing of the changes taking effect is uncertain but not expected to be before 2018.

Any changes or modification of IFRS accounting policies may require a change in the future results or a retrospective adjustment of reported results.

The resolution of several issues affecting the financial services industry could have a negative impact on Prudential's reported results or on its relations with current and potential customers

Prudential is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally. These actions could involve a review of types of business sold in the past under acceptable market practices at the time, such as the requirement in the UK to provide redress to certain past purchasers of pension and mortgage endowment policies, changes to the tax regime affecting products and regulatory reviews on products sold and industry practices, including, in the latter case, lines of business it has closed.

Regulators are increasingly interested in the approach that product providers use to select third party distributors and to monitor the appropriateness of sales made by them. In some cases, product providers can be held responsible for the deficiencies of third-party distributors.

In the US, federal and state regulators have focused on, and continue to devote substantial attention to, the mutual fund, fixed index annuity and insurance product industries. This focus includes new regulations in respect of the suitability of sales of certain products such as alternative investments. As a result of publicity relating to widespread perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms.

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In Asia, regulatory regimes are developing at different speeds, driven by a combination of global factors and local considerations. There is a risk that new requirements are introduced that challenge current practices, or are retrospectively applied to sales made prior to their introduction.

Litigation, disputes and regulatory investigations may adversely affect Prudential's profitability and financial condition

Prudential is, and may be in the future, subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of Prudential's businesses and operations that are specific to Prudential, or that are common to companies that operate in Prudential's markets. Legal actions and disputes may arise under contracts, regulations (including tax) or from a course of conduct taken by Prudential, and may be class actions. Although Prudential believes that it has adequately provided in all material aspects for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought, other sanctions that might be applicable and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome could, from time to time, have an adverse effect on Prudential's reputation, results of operations or cash flows.

Prudential's businesses are conducted in highly competitive environments with developing demographic trends and continued profitability depends on management's ability to respond to these pressures and trends

The markets for financial services in the UK, US and Asia are highly competitive, with several factors affecting Prudential's ability to sell its products and continued profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance, historical bonus levels, developing demographic trends and customer appetite for certain savings products. In some of its markets, Prudential faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates or claims-paying ratios. Further, heightened competition for talented and skilled employees and agents with local experience, particularly in Asia, may limit Prudential's potential to grow its business as quickly as planned.

In Asia, the Group's principal competitors in the region are international financial companies, including global life insurers such as Allianz, AXA, AIA, and Manulife and multinational asset managers such as J.P. Morgan Asset Management, Schroders, HSBC Global Asset Management and Franklin Templeton. In a number of markets, local companies have a very significant market presence.

Within the UK, Prudential's principal competitors include many of the major retail financial services companies and fund management companies including, in particular, Aviva, Legal & General, Lloyds Banking Group, Standard Life, Schroders, Invesco Perpetual and Fidelity.

Jackson's competitors in the US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies such as AIG, AXA Financial Inc., Hartford Life Inc., Prudential Financial, Lincoln National, MetLife and TIAA-CREF.

Prudential believes competition will intensify across all regions in response to consumer demand, technological advances, the impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures.

Downgrades in Prudential's financial strength and credit ratings could significantly impact its competitive position and damage its relationships with creditors or trading counterparties

Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in Prudential's products, and as a

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result its competitiveness. Downgrades in Prudential's ratings, as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns, could have an adverse effect on its ability to market products; retain current policyholders; and on the Group's financial flexibility. In addition, the interest rates Prudential pays on its borrowings are affected by its credit ratings, which are in place to measure the Group's ability to meet its contractual obligations.

Prudential's long-term senior debt is rated as A2 by Moody's, A+ by Standard & Poor's and A by Fitch. These ratings have a stable outlook.

Prudential's short-term debt is rated as P-1 by Moody's, A-1 by Standard & Poor's and F1 by Fitch.

The Prudential Assurance Company Limited's financial strength is rated Aa2 (negative outlook) by Moody's, AA (stable outlook) by Standard & Poor's and AA (stable outlook) by Fitch.

Jackson's financial strength is rated AA by Standard & Poor's and Fitch, A1 by Moody's, and A+ by AM Best. These ratings have a stable outlook.

In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition.

Adverse experience in the operational risks inherent in Prudential's business could have a negative impact on its results of operations

Operational risks are present in all of Prudential's businesses, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events. Prudential's business is dependent on processing a large number of transactions across numerous and diverse products, and is subject to a number of different legal and regulatory regimes. Further, because of the long-term nature of much of the Group's business, accurate records have to be maintained for significant periods.

These factors, among others, result in significant reliance on and require significant investment in IT, compliance and other operational systems, personnel and processes. In addition, Prudential outsources several operations, including a significant part of its UK back office and customer-facing functions as well as a number of IT functions, resulting in reliance upon the operational processing performance of its outsourcing partners.

Although Prudential's IT, compliance and other operational systems and processes incorporate controls designed to manage and mitigate the operational risks associated with its activities, there can be no assurance that such controls will always be effective. For example, although Prudential has not experienced a material failure or breach in relation to its legacy and other IT systems and processes to date, it has been, and likely will continue to be, subject to computer viruses, attempts at unauthorised access and cyber-security attacks.

Prudential's legacy and other IT systems and processes, as with operational systems and processes generally, may be susceptible to failure or breaches. Such events could, among other things, harm Prudential's ability to perform necessary business functions, result in the loss of confidential or proprietary data (exposing it to potential legal claims and regulatory sanctions) and damage its relationships with its business partners and customers. Similarly, any weakness in the administration systems or actuarial reserving processes could have an impact on its results of operations during the effective period.

Prudential has not experienced or identified any operational risks in its systems or processes during 2013, which have subsequently caused, or are expected to cause, a significant negative impact on its results of operations.

Adverse experience relative to the assumptions used in pricing products and reporting business results could significantly affect Prudential's results of operations

Prudential needs to make assumptions about a number of factors in determining the pricing of its products, setting reserves, for reporting its capital levels and the results of its long-term business operations. For example,

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the assumption that Prudential makes about future expected levels of mortality is particularly relevant for its UK annuity business. In exchange for a premium equal to the capital value of their accumulated pension fund, pension annuity policyholders receive a guaranteed payment, usually monthly, for as long as they are alive. Prudential conducts rigorous research into longevity risk, using data from its substantial annuitant portfolio. As part of its pension annuity pricing and reserving policy, Prudential's UK business assumes that current rates of mortality continuously improve over time at levels based on adjusted data and models from the Continuous Mortality Investigations (CMI) as published by the Institute and Faculty of Actuaries. If mortality improvement rates significantly exceed the improvement assumed, Prudential's results of operations could be adversely affected.

A further example is the assumption that Prudential makes about future expected levels of the rates of early termination of products by its customers (persistence). This is particularly relevant to its lines of business other than its UK annuity business. Prudential's persistence assumptions reflect recent past experience for each relevant line of business. Any expected deterioration in future persistence is also reflected in the assumption. If actual levels of future persistence are significantly lower than assumed (that is, policy termination rates are significantly higher than assumed), the Group's results of operations could be adversely affected.

Another example is the impact of epidemics and other effects that cause a large number of deaths. Significant influenza epidemics have occurred three times in the last century, but the likelihood, timing, or the severity of future epidemics cannot be predicted. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemics could have a material impact on the Group's loss experience.

In common with other life insurers, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity levels and trends, policy surrender rates, investment performance and impairments, unit cost of administration and new business acquisition expense.

As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments

The Group's insurance and investment management operations are generally conducted through direct and indirect subsidiaries.

As a holding company, Prudential's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper. Certain of the subsidiaries are restricted by applicable insurance, foreign exchange and tax laws, rules and regulations that can limit the payment of dividends, which in some circumstances could limit the ability to pay dividends to shareholders or to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group.

Prudential operates in a number of markets through joint ventures and other arrangements with third parties (including in China and India), involving certain risks that Prudential does not face with respect to its consolidated subsidiaries

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures (including in China and India). For the Group's joint venture operations, management control is exercised jointly with the venture participants. The level of control exercisable by the Group depends on the terms of the joint venture agreements, in particular, the allocation of control among, and continued co-operation between, the joint venture participants. Prudential may face financial, reputational and other exposure (including regulatory censure) in the event that any of

its joint venture partners fails to meet its obligations under the joint venture, encounters financial difficulty, or fails to comply with local regulation or international standards such as those for the prevention of financial crime. In addition, a significant proportion of the Group's product distribution is

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carried out through arrangements with third parties not controlled by Prudential and is dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements or material failure in controls (such as those for the prevention of financial crime) could adversely affect the results of operations of Prudential.

Prudential's Articles of Association contain an exclusive jurisdiction provision

Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings by a shareholder (in its capacity as such) against Prudential and/or its directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service provider. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

Changes in tax legislation may result in adverse tax consequences

Tax rules, including those relating to the insurance industry, and their interpretation, may change, possibly with retrospective effect, in any of the jurisdictions in which Prudential operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation could affect Prudential's financial condition and results of operations.

Forward-Looking Statements

This document may contain forward-looking statements with respect to certain of Prudential's plans and its goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential's beliefs and expectations and including, without limitation, statements containing the words may, will, should, continue, aims, estimates, projects, believes, intends, plans, seeks and anticipates, and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty. A number of important factors could cause Prudential's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, future market conditions, including fluctuations in interest rates and exchange rates and the potential for a sustained low-interest rate environment, and the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives related to the financial crisis and the effect of the European Union's Solvency II requirements on Prudential's capital maintenance requirements; the impact of continuing designation as a Global Systemically Important Insurer or G-SII; the impact of competition, economic growth, inflation, and deflation; experience in particular with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; and the impact of legal actions and disputes. These and other important factors may for example result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Further discussion of these and other important factors that could cause Prudential's actual future financial condition or performance or other indicated results to differ, possibly materially, from those anticipated in Prudential's forward-looking statements can be found under the Risk Factors heading of this annual report, as well as under the Risk Factors heading of any subsequent Prudential Half Year Financial Report furnished to the US Securities and Exchange Commission on Form 6-K.

Any forward-looking statements contained in this document speak only as of the date on which they are made. Prudential may also make or disclose written and/or oral forward-looking statements in reports filed with or

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furnished to the US Securities and Exchange Commission, the UK Prudential Regulation Authority and Financial Conduct Authority or other regulatory authorities, as well as in its annual report and accounts to shareholders, proxy statements, offering circulars, registration statements, prospectuses and, prospectus supplements, press releases and other written materials and in oral statements made by directors, officers or employees of Prudential to third parties, including financial analysts. All such forward-looking statements are qualified in their entirety by reference to the factors discussed under the **Risk Factors** heading of this document, as well as under the **Risk Factors** heading of any subsequent Prudential Half Year Financial Report furnished to the US Securities and Exchange Commission on Form 6-K. These factors are not exhaustive as Prudential operates in a continually changing business environment with new risks emerging from time to time that it may be unable to predict or that it currently does not expect to have a material adverse effect on its business. Prudential expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST listing rules or other applicable laws and regulations.

EEV Basis, New Business Results and Free Surplus Generation

In addition to IFRS basis results, Prudential's filings with the UK Listing Authority, the Stock Exchange of Hong Kong, the Singapore Stock Exchange and Group Annual Reports include reporting by Key Performance Indicators (KPIs). These include results prepared in accordance with the European Embedded Value (EEV) Principles and Guidance issued by the Chief Financial Officers (CFO) Forum of European Insurance Companies, New Business and Free Surplus Generation measures.

The EEV basis is a value-based method of reporting in that it reflects the change in the value of in-force long-term business over the accounting period. This value is called the shareholders' funds on the EEV basis which, at a given point in time, is the value of future cash flows expected to arise from the current book of long-term insurance business plus the net worth (based on statutory solvency capital or economic capital where higher and free surplus) of Prudential's life insurance operations. Prudential publishes its EEV results semi-annually in the UK, Hong Kong and Singapore markets.

New Business results are published quarterly and are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. New business results are categorised as single premiums and annual regular premiums. New business results are also summarised by annual premium equivalents (APE) which are calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts. The amounts are not, and are not intended to be, reflective of premium income recorded in the IFRS income statement. EEV basis new business profits and margins are also published quarterly.

Underlying free surplus generation is used to measure the internal cash generation by our business units. For the insurance operations it represents amounts maturing from the in-force business during the period less investment in new business and excludes other non-operating items. For asset management it equates to post-tax IFRS operating profit based on longer-term investment returns for the period.

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Item 4. Information on the Company

Business Of Prudential

Overview and Summary of Strategy

Overview

Prudential is the parent company of the Prudential group (the Prudential Group or the Group). The Group is an international financial services group, with significant operations in Asia, the United States and the United Kingdom. It has been in existence for over 160 years, serves around 23 million insurance customers and has £ 443 billion in assets under management (as at 31 December 2013). Prudential is not affiliated with Prudential Financial, Inc. or its subsidiary, The Prudential Insurance Company of America.

Prudential is structured around four main business units: Prudential Corporation Asia (incorporating the asset management business, Eastspring Investments), Jackson, Prudential UK insurance operations and M&G. These are supported by central functions which are responsible for Prudential strategy, cash and capital management, leadership development and succession, reputation management and other core group functions.

Prudential Corporation Asia has operations in Hong Kong, Malaysia, Singapore, Indonesia and other Asian countries. Its core business is health, protection, either attached to a life policy or on a standalone basis, other life insurance (including participating business) and mutual funds. It also provides selected personal lines property and casualty insurance, group insurance, institutional fund management and consumer finance (Vietnam only). The product range offered is tailored to suit the individual country markets. Insurance products are distributed mainly through an agency sales force together with selected banks, while the majority of mutual funds are sold through banks and brokers. Joint venture partners are mandatory in some markets, as reflected in Prudential's life insurance operations in China (through its joint venture with CITIC) and in India (through its joint venture with ICICI) and Prudential's Takaful business in Malaysia (through its joint venture with Bank Simpanan Nasional). In the fund management business, Prudential has joint venture operations in India (through its joint venture with ICICI), China (through its joint venture with CITIC) and Hong Kong (through its joint venture with Bank of China International).

As at 31 December 2013, Prudential Corporation Asia had:

over 12 million insurance customers with life and fund management operations in 13 markets;

distribution through 15,700 active bank branches across Asia with relationships including Standard Chartered Bank (SCB), United Overseas Bank Limited (UOB) and joint venture partners ICICI in India and CITIC in China;

one of the largest networks of tied agents in Asia; and

consistently high brand recognition, outperforming many other financial services companies and had received multiple awards for its customer service. Prudential was in the top three for market share of new business in

China, India, Indonesia, Malaysia, Singapore, the Philippines and Vietnam⁽¹⁾. In the United States, Prudential offers a range of products through Jackson, including fixed annuities (fixed interest rate annuities, fixed index annuities and immediate annuities), variable annuities and institutional products (including guaranteed investment contracts and funding agreements). Although Jackson historically also offered traditional life insurance products; it discontinued new sales of life insurance products effective 1 August 2012. Jackson distributes these products through independent insurance agents; independent broker-dealers; regional broker-dealers; wirehouses; registered investment advisers; and banks, credit unions and other financial institutions.

⁽¹⁾ Source: Based on formal (competitors' results release, local regulators and insurance associations) and informal (including industry exchange) market share data. Ranking based on new business (APE). Malaysia including Takaful sales at 100%. Private sector only for India. China ranking amongst foreign joint ventures only.

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Jackson also offers fee-based separately managed accounts and investment products through Curian Capital, LLC, which is Jackson's registered investment adviser.

As at 31 December 2013, in the United States, Jackson:

was among the 13 largest life insurance companies in terms of general account assets⁽²⁾;

was a top player in US variable annuities⁽³⁾;

was once again awarded the Highest Customer Satisfaction by Industry award for the eighth successive year from Service Quality Measurement Group; and

was once again rated as a World Class service provider for the eighth successive year by Service Quality Measurement Group.

In the United Kingdom, Prudential is structured into Prudential UK & Europe (comprising the insurance operations) and M&G (the UK and European fund manager of the Group) and offers a range of retail financial products and services, including long-term insurance and asset accumulation and retirement income products (life insurance, pensions and pension annuities), retail investment and unit trust products, and fund management services. Prudential in the United Kingdom primarily distributes these products through financial advisers, partnership agreements with other financial institutions, and direct marketing, by telephone, mail, internet and face-to-face advisers.

As at 31 December 2013, Prudential UK & Europe:

was one of the market leaders in the individual annuity market and the with-profits market⁽⁴⁾; and

had total company assets of £163 billion on the balance sheet, comprising £95 billion within the with-profits sub fund, £61 billion within shareholder-backed business and £7 billion in the Scottish Amicable Insurance Fund.

As of 31 December 2013, M&G, which is the UK and European fund manager of the Prudential Group;

had responsibility for £244 billion of investment on behalf of both internal and external clients; and

has been recognised for its investment performance with numerous awards, including the European Pensions Awards of 2013 Investment Manager of the Year, Fixed Income Manager of the Year and Property Manager of the Year.

Group Strategy Overview

Our strategy is designed to create sustainable economic value for our customers and our shareholders. It is focused on three long-term opportunities:

- a. The significant protection gap in Asia;
- b. The transition of US baby boomers into retirement; and
- c. The UK savings gap and ageing population in need of returns and income.

We believe that in order to do well for our shareholders we must first do good for our customers. Hence, customers are at the centre of our operating principles.

(2) Source: Third Quarter 2013 SNL Financial

(3) Source: Morningstar Annuity Research Center (MARC) Third Quarter 2013 Sales Report[®]. © Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

(4) Source: Association of British Insurers (ABI)

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Our products are designed to provide peace of mind to our customers, whether that be in relation to saving for retirement or insuring against the risks of illness, death or to their long life. Satisfied customers are a key driver of our growth as they become our advocates, recommending our products and services to their friends and families.

Distribution plays a key role in our ability to reach, attract and retain these valued customers across our regions. Building out and diversifying our distribution platform in order to reach a growing customer base will help ensure that we fully capitalise on the opportunities available to us in each of our regions.

Implementing our strategy

Our strategy is underpinned by a set of key operating principles

Balanced metrics and disclosures

We aim to have clarity and consistency internally and externally in the performance indicators that drive our businesses. Alongside this we develop our financial disclosures to enable our external stakeholders to fairly assess our long-term performance. We have three objectives:

(i) To demonstrate how we generate profits under the different accounting regimes; for example, in the IFRS sources of earnings disclosures within Item 5. Operating and Financial Review and Prospects Summary Consolidated Results and Basis of Preparation of Analysis ;

(ii) To show how we think about capital allocation via a number of metrics that highlight the returns we generate on capital invested in new business, including internal rates of return, payback periods and new business profitability; and

(iii) To highlight the cash generation of our business, which over time is the ultimate measure of performance.

Disciplined capital allocation

We rigorously allocate capital to the highest-return product and geographical locations with the shortest payback periods, in line with our risk appetite. This has had a positive and significant impact, so that over the last five years, new business capital investment has declined slightly, while new business profits have increased substantially. This has, in turn, transformed the capital dynamics of our Group: for example, the free capital generated from our existing life and asset management operations has increased substantially as against five years ago. This transformation enabled our business operation to remit £1,341 million to the Group, nearly double the level of remittance five years ago.

Proactive risk management

Balance *sheet* strength and proactive risk management enable us to make good our promises to customers and are therefore key drivers of long-term value creation and relative performance. We have continuously strengthened our capital position since 2008, in spite of the financial crisis and the challenging macroeconomic environment that followed. Management actions that have been taken over this period include:

- (i) The sale of our capital-intensive Taiwan agency business in 2009, improving our IGD capital position;

- (ii) The establishment of £1.9 billion of credit default reserves⁽⁵⁾ in the UK annuity business; and

- (iii) Controlling sales of US variable annuities in a manner which appropriately balances value, volume, capital generation and balance sheet risk.

⁽⁵⁾ On a statutory (Pillar I) basis

Table of Contents**Company Address and Agent**

Prudential plc is a public limited company incorporated on 1 November 1978, and organised under the laws of England and Wales. Refer to Item 10, Additional information Memorandum and Articles of Association for further information on the constitution of the Company.

Prudential's registered office is Laurence Pountney Hill, London EC4R 0HH, England (telephone: +44 20 7220 7588). Prudential's agent in the United States for purposes of Item 4 of this annual report on Form 20-F is Jackson National Life Insurance Company, located at 1 Corporate Way, Lansing, Michigan 48951, United States of America.

Significant Subsidiaries

The table below sets forth Prudential's significant subsidiaries.

	Main activity	Country of incorporation
The Prudential Assurance Company Limited	Insurance	England and Wales
Prudential Annuities Limited*	Insurance	England and Wales
Prudential Retirement Income Limited (PRIL)*	Insurance	Scotland
M&G Investment Management Limited*	Asset management	England and Wales
Jackson National Life Insurance Company*	Insurance	US
Prudential Assurance Company Singapore (Pte) Limited*	Insurance	Singapore
PT Prudential Life Assurance*	Insurance	Indonesia

* Owned by a subsidiary undertaking of the Company.

The Company has 100 per cent of the voting rights of the subsidiaries except the Indonesian subsidiary, where the Company has 94.6 per cent of the voting rights attaching to the aggregate of the shares across the types of capital in issue. The percentage of equity owned is the same as the percentage of the voting power held.

Each subsidiary operates mainly in its country of incorporation, except for PRIL, which operates mainly in England and Wales.

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Asian Business

Life Insurance

Introduction

Asia's economic transformation has generated material increases in personal wealth and has created significant demand for products that provide solutions to individuals' financial planning needs.

Asia (excluding Japan) is leading the world in terms of GDP growth. Over the next five years it is expected to generate US\$5.5 trillion of new GDP⁽⁶⁾, more than the US and the other advanced economies combined.

Economic growth is translating into the rapid increase of the Asian middle class. Between 2009 and 2020 it is estimated that there will be over 1.2 billion people who will have been elevated from rural subsistence to urban lifestyles. Families are getting smaller, life expectancies are lengthening and the incidence of chronic diseases is increasing significantly.

As people move into the middle class, their increased wealth and higher income provide the opportunity to make financial plans. Typically the first stage is to provide protection for the family and establish a regular savings plan through a life insurance policy.

Social welfare provisions vary by market but generally fall well below the levels people need to sustain their lifestyles in the event of a personal tragedy such as the diagnosis of a critical illness. Also, while basic medical services may be provided by the state, there can be a high level of out of pocket expenses, creating demand for financial solutions to significantly improve an individual's experience through access to private medical services. Therefore, critical illness and medical riders are popular additions to life insurance policies.

Traditionally Asians would have relied on their children to provide for them in their retirement, but increasingly people are making their own financial provisions and life insurance policies are a popular part of a retirement plan.

Once the savings and protection solutions are in place there is the opportunity to invest. Single premium insurance policies are also important in more developed markets and it is also likely that customers will increasingly seek access to different asset classes through mutual funds as their wealth grows and financial needs become more sophisticated.

Although Prudential has been operating in Asia for over eighty years we began building our business in earnest in 1994 with the establishment of Prudential Corporation Asia (PCA). Since then PCA has entered new markets, added considerable agency scale and launched bank distribution, developed product capabilities particularly unit linked and built a customer centric brand anchored on the tag line "Always Listening, Always Understanding".

Today PCA is focused on leveraging this platform to grow in a disciplined way for the benefit of our customers, shareholders and communities. Success is defined by metrics that ensure we deliver both volume and value

Each market is unique and our overarching regional strategy is very specifically tailored to the opportunities that reflect the many differences in each country including its stage of economic development, cultural preferences, regulation, the competitive landscape and our own risk appetite.

Markets with highly attractive economic and demographic characteristics represent the greatest potential for us at present we collectively term the "Sweet Spot" and comprise Indonesia, Hong Kong, Singapore, Malaysia, Vietnam,

Thailand and the Philippines. We have strong market positions in all of them, including five countries where we have the leading market share.

⁽⁶⁾ Prudential estimates based on IMF data October 2013

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The life insurance markets in India and China, while attractive in terms of scale, are more challenging for non-domestic life insurers to participate in. Working within these constraints, PCA has two of the market leading joint ventures in these countries and is very well placed as these markets continue to develop.

Since 2008 we have de-emphasised Korea and Taiwan as the mass life insurance markets are currently driven by product and distribution options that are not attractive to us and consequently we have concentrated on developing successful niche positions. In 2013 we announced our intention to sell our Japanese life business, PCA Life Insurance Co. Ltd., subject to regulatory approvals. However, the mutual fund industries in these markets are highly attractive and through Eastspring Investments, we are able to take advantage of exciting growth opportunities.

We also continue to plan for the longer term by selectively investing in new countries where we see opportunities based on positive demographic trends. Our new life business in Cambodia has made a good start and the relationship with our distribution partner Acelda Bank is working well. We have also opened a representative office in Myanmar.

Distribution

PCA is well positioned in terms of its scale and diversity of distribution. Prudential's team of almost 460,000 agents produce a majority of sales while the remainder comes mainly from partnership distribution agreements that include access to 15,700 active bank branches throughout the region. At the core of our distribution model is our appreciation of the importance of face-to-face interaction and the need to provide customers with high quality advice.

Our success with agency is driven by a relentless focus on quality and professionalism starting with the initial recruitment and training. We actively manage agency activity and agency productivity.

We have exclusive distribution agreements with a number of banks including SCB and UOB. In 2013 we also added Thanachart Bank, significantly increasing our distribution reach in Thailand. Success in bancassurance depends on the ability to activate relationships quickly and focus on long term customer solutions through in-branch, face-to-face advice based selling.

On 12 March 2014, the Group announced that it had entered into a new agreement expanding the term and geographic scope of our strategic pan-Asian bancassurance partnership with Standard Chartered PLC. The new 15-year agreement, which covers 11 markets and will commence on 1 July 2014, deepens a relationship that was first established in 1998 and has become the most successful and enduring pan-regional bancassurance partnership in Asia.

Under the terms of the new agreement, a wide range of Prudential's life insurance products will be exclusively distributed through Standard Chartered branches in 9 markets – Hong Kong, Singapore, Indonesia, Thailand, Malaysia, the Philippines, Vietnam, India and Taiwan – subject to applicable regulations in each country. In China and South Korea, Standard Chartered will distribute Prudential's life insurance products on a preferred basis. Prudential and Standard Chartered have also agreed to explore additional opportunities to collaborate, in due course, elsewhere in Asia and in Africa, subject to existing exclusivity arrangements and regulatory restrictions.

Products

The life insurance products offered by Prudential in Asia include with-profits (participating) and non-participating term, whole life and endowment and unit-linked policies often combined with protection riders and typically with regular premium payments. Prudential in Asia also offers health, disablement, critical illness and accident cover to supplement its core life products.

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Our product portfolio is centred around providing a robust financial safety net to customers at a reasonable cost. The product mix reflects this with around 1/3 of premiums directed to Health and Protection products, 1/3 to unit linked products and 1/3 to Participating products. This profile shows that we are de-risking our customers' lives whilst also de-risking the business from the shareholders' perspective.

It is part of our strategy to focus on regular premium products which allow our customers to invest over the long term and smooth the impact of timing on their investment returns. We aim to make most of our sales as regular premiums and the proportion of regular premium has been consistently high, which ensures the profitability and resilience of our growing in-force book. Although single premium products can provide appropriate opportunities for customers with lump sums, we believe that regular premium policies with protection riders best meet the majority of our customers' needs.

Unit-linked products combine savings with protection, with the cash value of the policy depending on the value of the underlying unitised funds. At the end of 2013, Prudential is offering unit-linked products in all markets except Cambodia. However, given the recent volatility in the financial markets, we have seen a shift towards non-linked products. With unit-linked products, shareholders receive the profits arising from managing the policy, its investments and the insurance risk. Policyholders within the underlying unitised fund receive investment gains.

Participating products provide savings with protection where the basic sum assured can be enhanced by a profit share (or bonus) from the underlying fund as determined at the discretion of the insurer. Policyholder and insurer share the profits from participating policies (typically in a 90:10 ratio) in the same way as with-profits business in the UK.

Non-participating products offer savings with protection where the benefits are guaranteed or determined by a set of defined market-related parameters. Accident and health products provide mortality or morbidity benefits and include health, disablement, critical illness and accident cover. These products are commonly offered as supplements to main life policies, but can also be sold separately. The profits from accident and health and non-participating products come from any surplus remaining after paying policy benefits.

In Malaysia and Indonesia, Prudential also offers life insurance policies that comply with Islamic principles known as Takaful. The main principles are that policyholders co-operate amongst themselves for the common good, uncertainty is eliminated in respect of subscription and compensation and there is no investment in prohibited areas such as gambling or alcohol.

In addition to providing value directly to our customers through our products and services, we aim to provide wider benefits to the community where we operate.

During 2013, Prudential extended its highly successful children's financial literacy programme, Cha-Ching; for example, this has now been adopted in the Philippines as part of the school curriculum.

In April 2013, the Prudence Foundation, announced a series of 4 multi-country programmes in partnership with Save the Children and Plan International with two main objectives: to enable communities to better cope with disasters and to help children receive a better start to their education through the First Read initiative. More than 170,000 people in Cambodia, Indonesia, the Philippines, Thailand and Vietnam are expected to benefit from these programmes over a three-year period.

In November 2013, the Philippines suffered one of the worst disasters in its history, Typhoon Haiyan. Prudential have mobilised resources and committed to provide US\$2 million (£1.25 million) to the immediate disaster relief and longer-term community-rebuilding efforts.

Table of Contents***New Business Premiums***

In 2013, total sales of insurance products were £4,047 million, up 22 per cent from 2012 (£3,308 million). Of this amount, regular premium insurance sales increased 10 per cent to £1,911 million and single premium insurance sales increased 36 per cent to £2,136 million.

The following table shows Prudential's Asian life insurance new business premiums by territory for the periods indicated. In this table, Other Countries includes Thailand, the Philippines, Vietnam and Cambodia.

Single premiums	2013 £m	2012 £m	2011 £m
Singapore	571	399	371
Hong Kong	326	157	180
Malaysia	114	98	79
Taiwan	102	172	217
Korea	311	94	71
China (Prudential's 50% interest in joint venture with CITIC)	114	37	46
Indonesia	303	359	250
India (Prudential's 26% interest in joint venture with ICICI)	34	67	135
Other countries	261	185	107
Total	2,136	1,568	1,456
Regular premiums	2013 £m	2012 £m	2011 £m
Singapore	304	261	198
Hong Kong	455	380	313
Malaysia	197	208	215
Taiwan	107	138	126
Korea	82	86	94
China (Prudential's 50% interest in joint venture with CITIC)	71	53	54
Indonesia	445	410	338
India (Prudential's 26% interest in joint venture with ICICI)	100	96	88
Other countries	150	108	88
Total	1,911	1,740	1,514
Total	4,047	3,308	2,970

Eastspring Investments

Eastspring Investments, Prudential's asset management business in Asia, has two types of client, Prudential's Asia, UK and US life companies and also has a broad base of third-party retail and institutional clients. It has recently extended its distribution reach to the US and Europe. Eastspring Investments was awarded the Best Asset Management Company of the Year South-east Asia at The Asset Triple A Investor and Fund Management Awards 2013. Eastspring

Investments also received multiple accolades for its investment capabilities, including five fund managers across four markets were rated top 10 2013 Most Astute Investors in Asian currency bonds by The Asset Benchmark Research and the business in Malaysia was also named Best Group in Equity by The Edge Lipper Malaysia Fund Awards 2014.

Distribution

In order to capitalise on the sizeable opportunities in Asia's retail financial services market, Eastspring Investments maintained its focus on building a strong third-party customer retail franchise. The customer

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proposition is driven by Eastspring Investments' investment capabilities, which enable it to develop innovative product suites, and distribute them through diverse channels including regional banks, local banks, private banks, and securities houses and an internal sales force.

The mutual fund industry continues to diversify its investments, with expectations for a significant increase in net flows over the coming years. Bank distribution continues to be important in most markets in Asia, with Prudential having established strong relationships with both regional and local banks and placing significant emphasis on providing good service. Prudential's Asian asset management business is also growing its third party institutional and pension fund management business.

Products

Eastspring Investments offers mutual fund investment products in India, Taiwan, Japan, Singapore, Malaysia, Hong Kong, Korea, Vietnam, China and Indonesia, thus enabling customers to participate in debt, equity and money market investments across the region.

Markets in Asia remained challenging in 2013. Equity funds struggled to gain traction due to poor investor sentiment in the face of weak macroeconomic signals. Fixed income and regular yield products remained in favour.

Net flows and funds under management

Eastspring Investments levies transaction charges (initial and surrender depending on the type of fund and the length of the investment) and also a service charge based on assets under management. The charges vary by country and fund, with money market style funds generally having the lowest charges and equity funds the highest.

Total funds under management (FUM) reached £59.9 billion at the end of 2013 (2012: £58.1 billion; 2011: £50.3 billion) representing a 3 per cent increase from a year ago on the back of strong net inflows and positive market movements offset by currency weakness compared to sterling, while net third party inflows (excluding MMF) of £1,575 million were driven by net inflows in India, Japan, Taiwan and Korea.

US Business

Prudential conducts its US insurance operations through Jackson National Life Insurance Company (Jackson) and its subsidiaries, including Curian Capital, LLC (Curian), a registered investment adviser. The US operations also include PPM America, Inc. (PPMA), Prudential's US internal and institutional investment management operation, and National Planning Holdings, Inc. (NPH), Prudential's US affiliated independent broker dealer network. As at 31 December 2013, Prudential's US operations had more than 4.2 million policies and contracts in effect and PPMA managed approximately £62.9 billion of assets. In 2013, new business premiums totaled £15,712 million.

Jackson

Jackson is a leading provider of retirement income and savings solutions in the mass and mass-affluent segments of the US market, primarily to retirees and those planning for retirement. It offers tools that help people plan for their retirement, and offers products with specialised features and guarantees to meet customers' needs. By seeking to add value to both the representatives who sell Jackson products, and to their customers, Jackson has built a strong position in the US retirement savings and income market with an almost seven-fold increase in variable annuity sales over the past decade. Over the same period, Jackson improved its total annuity market share from 2.5 per cent in 2003 to 10.4 per cent in 2013 and moved from 13th in total annuity sales to 1st(7).

(7) Source: Third Quarter 2013 Life Insurance and Market Research Association.

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Jackson's strategy remains focused on providing value to its customers and driving shareholder value while operating within a conservative risk management framework. This approach has enabled Jackson to successfully navigate the significant macroeconomic and financial market challenges of the last six years and ensured a continuation of strong performance in 2013.

Jackson's long-term strategy consists of capitalising on the profitable growth opportunities created by the demands for retirement income products due to the demographic transitions within the world's largest retirement market. Jackson takes a disciplined approach to this opportunity by leveraging its distinctive distribution capabilities and asset liability management expertise to offer prudently priced annuity products aligned with its risk appetite. Jackson continues to see strong consumer demand for its products and will continue to drive product innovation as a way of meeting the needs of customers and generating shareholder value. With a long-term focus on balancing the needs of multiple stakeholders, Jackson has forged a solid reputation among advisers for financial stability, innovative products solutions and market leading wholesale support. Jackson's relentless pursuit of excellence has earned it a leading position within the industry.

In 2013, Jackson delivered higher retail sales than in 2012 and had modest production of institutional sales. Retail annuity net flows benefited from increased sales and low levels of surrender activity.

We believe that Jackson continues to be one of the most efficient operations within the US life insurance market in terms of statutory general expenses to average assets. This efficiency has been delivered while maintaining world class standards of customer service for Jackson's contract holders.

NPH is Jackson's affiliated independent broker dealer network. The business is comprised of four broker dealer firms, including INVEST Financial Corporation, Investment Centers of America, Inc, National Planning Corporation and SII Investments, Inc. NPH continues to grow its business and revenue per representative. By utilising high-quality, state-of-the-art technology, NPH provides advisers the tools they need to operate their practices more efficiently. At the same time, through its relationship with NPH, Jackson continues to benefit from an important retail distribution outlet, while also receiving valuable insight into the needs of financial advisers and their clients.

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

Products

Jackson develops and distributes products that address the retirement needs of its customers through various market cycles. These include variable annuities, fixed interest rate annuities, fixed index annuities, immediate annuities and separately managed accounts. As would be expected in the current historically low interest rate environment, variable annuities continue to outsell fixed rate products. The main attraction of a variable annuity product is the optional lifetime guarantee where customers can access a stream of payments with downside protection while still being able to invest in a broad range of assets as well as the benefit of tax deferral on the investment growth within the product. The breadth of Jackson's product offering, strength of its distribution relationships and its ability to maintain financial stability through the crisis and remain as a consistent presence within the market has resulted in Jackson being the number one⁽⁸⁾ writer of variable annuities in the US.

(8)

Based on total annuity sales, LIMRA US Individual Annuities Sales Survey Participants Report as of 30 September 2013.

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The following table shows total new business premiums in the United States by product line and distribution channel for the periods indicated. Total new business premiums include Jackson's deposits for investment contracts with limited or no life contingencies.

	Year Ended 31 December		
	2013	2012	2011
By Product			
Annuities			
Fixed annuities			
Fixed interest rate	533	550	441
Fixed index	907	1,094	934
Immediate	22	31	31
Variable annuities	13,380	12,445	10,909
Total	14,842	14,120	12,315
Life insurance	2	17	29
Institutional products			
GICs, funding agreements and Federal Home Loan Bank of Indianapolis (FHLBI) funding agreements	868	379	237
Total	15,712	14,516	12,581
By Distribution Channel			
Independent broker dealer	8,717	8,319	7,471
Bank	3,053	2,705	2,135
Regional broker dealer	2,527	2,421	2,075
Independent insurance agents	546	682	643
Institutional products	868	379	237
Captive agents	1	10	20
Total	15,712	14,516	12,581

Of the total new business premiums of £15,712 million in 2013 (2012: £14,516 million; 2011: £12,581 million), £14,842 million (2012: £14,125 million; 2011: £12,325 million) were single premiums, £2 million (2012: £12 million; 2011: £19 million) were regular premiums and £868 million (2012: £379 million; 2011: £237 million) were institutional product premiums.

Annuities**Fixed Annuities****Fixed Interest Rate Annuities**

In 2013, fixed interest rate annuities accounted for 3 per cent (2012: 4 per cent) of total new business premiums and 10 per cent (2012: 13 per cent) of policy and contract liabilities of the US operations. Fixed interest rate annuities are primarily deferred annuity products that are used for asset accumulation in retirement planning and for providing income in retirement. They permit tax-deferred accumulation of funds and flexible payout options.

The contract holder of a fixed interest rate annuity pays Jackson a premium, which is credited to the contract holder's account. Periodically, interest is credited to the contract holder's account and in some cases administrative charges are deducted from the contract holder's account. Jackson makes benefit payments at a future date as specified in the policy based on the value of the contract holder's account at that date. On more than 84 per cent (2012: 83 per cent) of in-force business, Jackson may reset the interest rate on each contract anniversary, subject to a guaranteed minimum, in line with state regulations. When the annuity matures, Jackson

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either pays the contract holder the amount in the contract holder account or begins making payments to the contract holder in the form of an immediate annuity product. This latter product is similar to a UK annuity in payment.

At 31 December 2013, Jackson had fixed interest rate annuities totalling £11.2 billion (US\$18.5 billion) (2012: £11.7 billion (US\$19.0 billion)) in account value with minimum guaranteed rates ranging from 1.0 per cent to 5.5 per cent and a 3.05 per cent average guaranteed rate (2012: 1.0 per cent to 5.5 per cent and a 3.09 per cent average guaranteed rate).

Fixed interest rate annuities are subject to early surrender charges for the first six to nine years of the contract. In addition, the contract may be subject to a market value adjustment at the time of surrender. During the surrender charge period, the contract holder may cancel the contract for the surrender value. Jackson's profits on fixed interest rate annuities arise primarily from the spread between the return it earns on investments and the interest credited to the contract holder's account, less expenses. The fixed interest rate annuity portfolio could be impacted by the continued low interest rate environment as lower crediting rates could result in increased surrenders and lower sales if customers seek alternative investment opportunities.

Approximately 50 per cent (2012: 50 per cent) of the fixed interest rate annuities Jackson wrote in 2013 provide for a market value adjustment (MVA) that could be positive or negative on surrenders in the surrender period of the policy. This formula-based adjustment approximates the change in value that assets supporting the product would realise as interest rates move up or down. The minimum guaranteed rate is not affected by this adjustment. While the MVA feature minimizes the surrender risk associated with certain fixed interest rate annuities, Jackson still bears a portion of the surrender risk on policies without this feature, and the investment risk on all fixed interest rate annuities.

Fixed Index Annuities

Fixed index annuities accounted for 6 per cent (2012: 7 per cent) of total new business premiums in 2013 and 7 per cent (2012: 8 per cent) of Jackson's policy and contract liabilities. Fixed index annuities vary in structure, but generally are deferred annuities that enable the contract holder to obtain a portion of an equity-linked return (based on participation rates and caps) but provide a guaranteed minimum return. These guaranteed minimum rates are generally set at 1.0 per cent to 3.0 per cent on index funds. Jackson had fixed index annuities allocated to index funds totalling £6.1 billion (US\$10.2 billion) (2012: £5.6 billion (US\$9.2 billion)) in account value with minimum guaranteed rates on index accounts ranging from 1.0 per cent to 3.0 per cent and a 1.85 per cent average guaranteed rate (2012: 1.0 per cent to 3.0 per cent and a 1.82 per cent average guarantee rate). Jackson also offers fixed interest accounts on some fixed index annuity products. Fixed interest accounts on fixed index annuities totalled £1.5 billion (US\$2.5 billion) (2012: £1.5 billion (US\$2.3 billion)) in account value with minimum guaranteed rates ranging from 1.0 per cent to 3.0 per cent and a 2.56 per cent average guaranteed rate (2012: 1.0 per cent to 3.0 per cent and a 2.53 per cent average guarantee rate).

Jackson's profit arises from the investment income earned and the fees charged on the contract, less the expenses incurred, which include the costs of hedging the equity component of the interest credited to the contract. Fixed index annuities are subject to early surrender charges for the first five to 12 years of the contract. During the surrender charge period, the contract holder may cancel the contract for the surrender value.

Jackson hedges the equity return risk on fixed index products using futures and options linked to the relevant index as well as through offsetting equity exposure in the variable annuity product. The cost of these hedges is taken into account in setting the index participation rates or caps. Jackson bears the investment risk and a portion of the surrender risk on these products.

Table of Contents**Immediate Annuities**

In 2013, immediate annuities accounted for less than one per cent (2012: less than one per cent) of total new business premiums and one per cent (2012: one per cent) of Jackson's policy and contract liabilities. Immediate annuities guarantee a series of payments beginning within a year of purchase and continuing over either a fixed period of years and/or the life of the contract holder. If the term is for the life of the contract holder, then Jackson's primary risks are mortality and reinvestment risk. This product is generally used to provide a guaranteed amount of income for contract holders and is used both in planning for retirement and in retirement itself. The implicit interest rate on these products is based on the market conditions that exist at the time the policy is issued and is guaranteed for the term of the annuity.

Variable Annuities

In 2013, variable annuities accounted for 85 per cent (2012: 86 per cent) of total new business premiums and 65 per cent (2012: 60 per cent) of Jackson's policy and contract liabilities. Variable annuities are deferred annuities that have the same tax advantages and payout options as fixed interest rate and fixed index annuities. They are also used for asset accumulation in retirement planning and to provide income in retirement.

The contract holder can allocate the premiums between a variety of variable sub-accounts with a choice of fund managers and/or a guaranteed fixed interest rate option. The contract holder's premiums allocated to the variable accounts are held apart from Jackson's general account assets, in a separate account, which is analogous to a unit-linked fund. The value of the portion of the separate account allocated to variable sub-accounts fluctuates with the underlying investments. Variable annuities are subject to early surrender charges for the first four to nine years of the contract. During the surrender charge period, the contract holder may cancel the contract for the surrender value. Jackson offers one variable annuity that has no surrender charges.

At 31 December 2013, Jackson had fixed interest rate accounts within variable annuities totalling £4.2 billion (US\$7.0 billion) (2012: £4.3 billion (US\$7.0 billion)) in account value with minimum guaranteed rates ranging from 1.0 per cent to 3.0 per cent and a 1.85 per cent average guaranteed rate (2012: 1.0 per cent to 3.0 per cent and a 1.89 per cent average guarantee rate).

Jackson offers a choice of guaranteed benefit options within its variable annuity product portfolio, which customers can elect and pay for. These include the guaranteed minimum death benefits (GMDB), which guarantee that, upon death of the owner, the beneficiary receives a minimum value regardless of past market performance. These guaranteed death benefits might be expressed as the return of original premium, the highest past anniversary value of the contract, or as the original premium accumulated at a fixed rate of interest. In addition, there are three other types of guarantees: guaranteed minimum withdrawal benefits (GMWB), guaranteed minimum accumulation benefits (GMAB) and guaranteed minimum income benefits (GMIB). GMWBs provide a guaranteed return of the principal invested by allowing for periodic withdrawals that are limited to a maximum percentage of the initial premium. One version of the GMWBs provides for a minimum annual withdrawal amount that is guaranteed for the contract holder's life without annuitisation. GMABs generally provide a guarantee for a return of a certain amount of principal after a specified period. Jackson stopped offering the GMAB in 2011. GMIBs provide for a minimum level of benefits upon annuitisation regardless of the value of the investments underlying the contract at the time of annuitisation. Jackson no longer offers GMIBs, with existing coverage being substantially reinsured with an unaffiliated reinsurer.

As the investment return on the separate account assets is attributed directly to the contract holders, Jackson's profit arises from the fees charged on the contracts, less the expenses incurred, which include the costs of hedging and eventual payment of any guaranteed benefits. In addition to being a profitable book of business in its own right, the

variable annuity book also provides an opportunity to utilise the offsetting equity risk among various lines of business to effectively manage Jackson's equity exposure. Jackson believes that the internal management of equity risk coupled with the utilisation of external derivative instruments where necessary, continues to provide a cost-effective method of managing equity exposure.

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Profits in the variable annuity book of business will continue to be subject to the impact of market movements on both sales and allocations to the variable accounts and the effects of the economic hedging programme. Hedging is conducted based on an economic approach so the nature and duration of the hedging instruments, which are recorded at fair value through the income statement, will fluctuate and produce some accounting volatility.

Jackson launched Elite Access in March 2012. Elite Access is a variable annuity without guarantees, offering customers tax deferred growth and access to a wide range of alternative investments. Less than two years after its launch, Elite Access is the eighth best-selling variable annuity product in the US. As of third quarter 2013, Jackson offers three of the top ten best-selling variable annuity products in the industry.

The success of Elite Access has helped increase the diversification of Jackson's product mix with a substantial portion of its 2013 variable annuities sales not featuring living benefit guarantees. Sales of variable annuities with living benefit guarantees are at their lowest since 2008.

Aggregate distribution of account values

The table below shows the distribution of account values for fixed annuities (fixed interest rate and fixed index) and variable annuities fixed options within the range of minimum guaranteed interest rates as described above as at 31 December 2013 and 2012:

Minimum guaranteed interest rates annuities	Account value £m	
	2013	2012
1.0%	3,012	2,534
> 1.0% - 2.0%	8,349	8,374
> 2.0% - 3.0%	8,867	9,174
> 3.0% - 4.0%	1,163	1,236
> 4.0% - 5.0%	1,460	1,518
> 5.0% - 5.5%	197	209
Total	23,048	23,045

Life Insurance***Background***

Jackson's life insurance products accounted for less than one per cent (2012: less than one per cent) of the total new business premiums and 14 per cent (2012: 15 per cent) of Jackson's policy and contract liabilities in 2013. Jackson discontinued new sales of life insurance products effective 1 August 2012, but increased its life insurance products book when it acquired REALIC in September 2012. Life products include term life and interest sensitive life (universal life and variable universal life.) Term life provides protection for a defined period and a benefit that is payable to a designated beneficiary upon death of the insured. Universal life provides permanent individual life insurance for the life of the insured and includes a savings element. Variable universal life is a type of life insurance policy that combines death benefit protection with the ability for the contract holder account to be invested in separate account funds. Jackson's life insurance book has delivered consistent profitability, driven primarily by positive mortality and persistency experience.

Aggregate distribution of account values

At 31 December 2013, Jackson had interest-sensitive life business in force with total account value of £5.7 billion (US\$9.5 billion) (2012: £6.0 billion (US\$9.7 billion)), with minimum guaranteed interest rates ranging from 2.5 per cent to 6.0 per cent with a 4.65 per cent average guaranteed rate (2012: 2.5 per cent to 6.0 per cent)

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with a 4.67 per cent average guaranteed rate). The table below shows the distribution of the interest-sensitive life business account values within this range of minimum guaranteed interest rates as at 31 December 2013 and 2012:

Minimum guaranteed interest rates	Account value £m	
	2013	2012
> 2.0% - 3.0%	182	183
> 3.0% - 4.0%	2,182	2,141
> 4.0% - 5.0%	1,908	2,097
> 5.0%	1,456	1,550
Total	5,728	5,971

Institutional Products

Institutional products consist of traditional guaranteed investment contracts (GICs), funding agreements (including agreements issued in conjunction with Jackson's participation in the US Federal Home Loan Bank of Indianapolis (FHLBI) programme) and medium-term note funding agreements. In 2013, institutional products accounted for 6 per cent (2012: 3 per cent) of total new business premiums and 3 per cent (2012: 3 per cent) of Jackson's policy and contract liabilities. Jackson sold no institutional products during 2011, as available capital was directed to support higher margin variable annuity sales. In 2013 and 2012, Jackson re-entered the institutional market on a limited and selective basis, taking advantage of high returns available at particular times during the year. The GICs are marketed by the institutional products department to defined contribution pension and profit sharing retirement plans. Funding agreements are marketed to institutional investors, including corporate cash accounts and securities lending funds, as well as money market funds, and are issued to the FHLBI in connection with its programme. Jackson makes its profit on the spread between the yield on its investments and the interest rate credited to contract holders.

Traditional Guaranteed Investment Contracts

Under a traditional GIC, the contract holder makes a lump sum deposit. Interest is paid on the deposited funds, usually on a quarterly basis. The interest rate paid is fixed and is established when the contract is issued.

Traditional GICs have a specified term, usually two to three years, and typically provide for phased payouts. Jackson tailors the scheduled payouts to meet the liquidity needs of the particular retirement plan. If deposited funds are withdrawn earlier than scheduled, an adjustment is made that approximates a market value adjustment.

Jackson sells GICs to retirement plans, in particular 401(k) plans. The traditional GIC market is extremely competitive, due in part to competition from synthetic GICs, which Jackson does not sell.

Funding Agreements

Under a funding agreement, the contract holder either makes a lump sum deposit or makes specified periodic deposits. Jackson agrees to pay a rate of interest, which may be fixed but which is usually a floating short-term interest rate linked to an external index. Interest is paid quarterly to the contract holder. The average term for the funding agreements is one to two years. At the end of the specified term, contract holders may re-deposit the principal in another funding agreement.

Typically, brokerage accounts and money market mutual funds are required to invest a portion of their funds in cash or cash equivalents to ensure sufficient liquidity to meet their customers' requirements. The funding agreements permit termination by the contract holder on seven to 90 days notice, and thus qualify as cash equivalents for the clients' purposes. In 2013 and 2012, there were no funding agreements terminable by the contract holder with less than 90 days notice.

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Jackson is a member of the FHLBI. Membership allows Jackson access to advances from FHLBI that are collateralised by mortgage related assets in Jackson's investment portfolio. These advances are in the form of funding agreements issued to FHLBI.

Medium Term Note Funding Agreements

Jackson has also established European and global medium-term note programs. The notes offered may be denominated in any currency with a fixed or floating interest rate. Notes are issued to institutional investors by a special purpose vehicle and are secured by funding agreements issued by Jackson. In September 2013, Jackson's medium-term note program re-opened with sales of £224 million.

Distribution and Marketing

Jackson distributes products in all 50 states of the United States and in the District of Columbia, although not all products are available in all states. Operations in the state of New York are conducted through a New York insurance subsidiary. Jackson markets its retail products primarily through advice based distribution channels, including independent agents, independent broker-dealer firms, regional broker-dealers, and wirehouses, banks and registered investment advisers. Through August 2012, Jackson also marketed life insurance and fixed annuity products through its captive insurance agency.

Jackson focuses on independent distribution systems and supports its network of independent agents and advisers with education and training programs.

Jackson's distribution teams set it apart from competitors within the markets in which Jackson competes. Jackson's wholesaling force is the largest in the industry, supporting thousands of advisers across multiple channels and distribution outlets. Jackson's wholesalers provide extensive training to these advisers.

Independent Agents and Broker Dealers

Jackson's subsidiary, Jackson National Life Distributors, LLC (JNLD), is the primary marketing and distribution organisation for Jackson's annuities. The fixed annuity products are distributed through independent agents located throughout the United States. These approximately 20,000 appointed insurance agents or brokers at 31 December 2013, who also may represent other companies, are supported with marketing materials and multi media presentations to help advisers choose the right solutions for their clients' individual financial situations. JNLD generally deals directly with writing agents and brokers thereby eliminating intermediaries, such as general agents. This distribution channel has enabled Jackson to generate significant volumes of business on a low, variable cost basis.

JNLD's wholesalers meet directly with independent broker dealers and financial planners and are supported by an extensive internal sales staff. At 31 December 2013, Jackson had active selling agreements with independent broker dealer organisations throughout the United States providing access to more than 64,500 appointed agents. Jackson provides training for its broker dealers and also provides them with product information and sales materials.

Regional Broker Dealers

JNLD's Regional Broker Dealer (RBD) team provides dedicated service and support to regional brokerage firms and wirehouses. Regional broker dealers are a hybrid between independent broker dealers and wirehouses. Like representatives who work for wirehouses, financial representatives at regional broker dealers are actual employees of the firm. However, unlike wirehouses, RBD firms have limited institutional investment banking services. The RBD

team develops relationships with regional firms throughout the US and provides customised materials and support to meet their specialised advisory needs.

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Jackson's RBD team also provides support for the wirehouse channel, which produced £1.9 billion of premium in 2013.

Jackson's RBD team supports more than 36,400 representatives in regional broker dealers and wirehouses.

Banks, Credit Unions and Other Financial Institutions

Jackson's Institutional Marketing Group distributes annuity products through banks, credit unions and other financial institutions and through third party marketing organisations that serve these institutions. Jackson is a leading provider of annuities offered through banks and credit unions and at 31 December 2013 had access to more than 34,500 financial institution representatives through existing relationships with banks and credit unions. Jackson has established distribution relationships with medium sized regional banks, which it believes are unlikely to develop their own insurance product capability.

Independent Broker Dealers

Jackson's retail distribution is managed by Prudential's independent broker dealer network, NPH, which is described in more detail above. NPH had more than 3,500 registered representatives at the end of 2013.

Institutional Products Department

Jackson markets its institutional products through its institutional products department. It has direct contacts with banks, municipalities, asset management firms and direct plan sponsors. Institutional products are distributed and marketed through intermediaries to these groups.

Captive Agency

In connection with the acquisition of Life of Georgia in 2005, Jackson established the JNL Southeast Agency (JNLSA), the company's first captive agency since 1970. JNLSA was formed to help retain the Life of Georgia book of business and to create a new distribution channel for Jackson's life insurance. In conjunction with Jackson's withdrawal from retail life insurance sales, this agency was terminated in 2012.

Registered Investment Adviser

As described above, Curian is Jackson's registered investment adviser channel.

The registered investment adviser industry began as a service offered to very high net worth investment clients, focusing on platforms rather than specific products, and providing institutional quality management, custom portfolios and tax services. The industry has evolved to offer personalised investment advice, high-quality money management, good returns and reasonable costs to a broader range of clients.

Curian's sales, not included in Jackson's premiums and deposits, totalled £1,747 million and £1,550 million in 2013 and 2012, respectively.

Factors Affecting Pricing of Products and Asset Liability Management

Jackson prices products based on a variety of assumptions including, but not limited to, mortality, investment yields, expenses and contract holder behavior. Pricing is influenced by Jackson's objectives for return on capital and by

competition. Although Jackson includes a profit margin in the price of its products, the variation between the assumptions and actual experience can result in the products being more or less profitable than originally assumed. This variation can be significant.

Jackson designs its interest sensitive products and conducts its investment operations to match closely the duration of the assets in its investment portfolio with the annuity, life, and guaranteed investment contract

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product obligations. Jackson seeks to achieve a target spread between what it earns on its assets and what it pays on its liabilities by investing principally in fixed-rate securities. Jackson also enters into options and futures contracts to hedge equity related movements in its products.

Jackson segregates its investment portfolio for certain investment management purposes, and as part of its overall investment strategy, into four portfolios: life and fixed annuities without market value adjustment, fixed annuities with market value adjustment, fixed index annuities and institutional liabilities. The portfolios backing life and fixed annuities with and without market value adjustments and the fixed index annuities have similar characteristics and differ primarily in duration. The portfolio backing the institutional liabilities has its own mix of investments that meet more limited duration tolerances. Consequently, the institutional portfolio is managed to permit less interest rate sensitivity and has limited exposure to mortgage backed securities. At 31 December 2013, three per cent of the institutional portfolio was invested in residential mortgage backed securities.

The fixed-rate products may incorporate surrender charges, market value adjustments, two-tiered interest rate structures or other limitations relating to when policies can be surrendered for cash, in order to encourage persistency. As of 31 December 2013, 65 per cent of Jackson's fixed annuity reserves had surrender penalties or other withdrawal restrictions. Substantially all of the institutional portfolio had withdrawal restrictions or market value adjustment provisions.

Fixed index annuities issued by Jackson also include an equity component that is hedged using equity options and futures contracts issued on the corresponding exchange. The equity component of these annuities constitutes an embedded derivative under IAS 39 Financial Instruments: Recognition and Measurement that is carried at fair value, as are other derivative instruments.

Guaranteed benefits issued by Jackson in connection with the sales of variable annuity contracts expose Jackson to equity risk as the benefits generally become payable when equity markets decline and contract values fall below the guaranteed amount. As discussed previously, the liability for certain of these benefits are carried at fair value under IAS 39 with changes in fair value recorded in income. Jackson hedges the tail risk associated with the equity exposure using equity options and futures contracts, which are also carried at fair value under IAS 39. Jackson seeks to hedge the economic risk associated with these contracts and, therefore, has not explicitly hedged its fair value risk. In addition, certain benefits have mortality risk and are therefore precluded from being carried at fair value. As a result of these factors, the income statement may include a timing mismatch related to changes in fair value. However, as demonstrated during the economic crisis, subsequent rebound and recent volatility in the equity markets, Jackson's hedges have effectively operated as designed.

Reserves

Except for certain non-insurance deposit-type accounts and as allowed under IFRS, Jackson uses reserves established on a grandfathered US GAAP basis as the basis for consolidation into Prudential's IFRS accounts.

For the fixed and variable annuity contracts and institutional products, the reserve is the contract holder's account value. For the immediate annuities, reserves are determined as the present value of future policy benefits. Mortality assumptions are based on the 1983 Individual Annuitant Mortality Table and the Annuity 2000 Mortality Table for newer issues. Interest rate assumptions currently range from one per cent to five and a half per cent.

The IFRS accounting for guarantees on Jackson's variable annuity contracts has a mixed measurement approach due to requirements of the accounting guidance. GMWB not for life contract features are fair valued under IAS 39 and current US GAAP for embedded derivatives, with a capping feature to prevent early anticipation of expected fees for

guarantees. However, the GMDB and GMWB for life blocks of business are accounted for under US GAAP guidance related to valuing life-contingent guarantees, which does not, and is not intended to, fair value the liabilities.

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For the traditional term life contracts, reserves for future policy benefits are determined using the net level premium method and assumptions as to mortality, interest, policy persistency and expenses. Mortality assumptions generally range from 25 per cent to 175 per cent of the 1975-1980 Basic Select and Ultimate tables, depending on underwriting classification and policy duration. Interest rate assumptions range from two and one half per cent to six per cent. Persistency and expense assumptions are based on Jackson's experience.

For the interest sensitive and single premium life contracts, reserves approximate the contract holder's account value.

Reinsurance

Jackson reinsures portions of the coverage provided by its life insurance products with other insurance companies under agreements of indemnity reinsurance. Indemnity reinsurance agreements are intended to limit a life insurer's maximum loss on a large or unusually hazardous risk or to obtain a greater diversification of risk for the life insurer. Indemnity reinsurance does not discharge the original insurer's primary liability to the insured. Jackson's reinsured business is ceded to numerous unaffiliated reinsurers and the amount of reserves ceded to any one reinsurer is not material to Jackson's overall financial position. Typically, the reinsurers have an AM Best Co rating of A or higher.

As a condition to the REALIC acquisition and after receipt of all required regulatory approvals, REALIC entered into three retrocession reinsurance agreements with Swiss Re. Pursuant to these reinsurance agreements, REALIC ceded to Swiss Re on a 100 per cent coinsurance basis certain blocks of business written or assumed by REALIC. The effective date of the three retrocession agreements was 1 July 2012. In addition and pursuant to these reinsurance agreements, Jackson holds certain assets, primarily in the form of policy loans and fixed maturities, as collateral. This collateral is reported as a funds held liability. The three retrocession agreements are further collateralized (total collateral exceeds the reinsurance recoverable) by Swiss Re assets held in trust accounts.

At 31 December 2013, Jackson's largest amount ceded to one reinsurer totalled £4.4 billion, which is primarily related to the retrocession reinsurance arrangements.

Jackson typically ceded 90 per cent of level premium term products. Jackson discontinued new sales of life insurance products effective 1 August 2012.

Jackson cedes the guaranteed minimum income benefit previously offered on variable annuities to an unaffiliated reinsurer.

Policy administration

Jackson provides a high level of administrative support for both new and existing contract holders. Jackson's ability to implement new products quickly and provide quality customer service is supported by integrated computer systems that issue and administer complex life insurance and annuity contracts. Jackson continues to develop its fixed and variable annuity administration systems to enhance the service capabilities for both new and existing customers. The REALIC business is currently administered by several third party administrators.

PPM America

PPMA is Prudential's US institutional investment management operation, with its primary offices in Chicago and New York. PPMA manages assets for Prudential's US, UK and Asian affiliates. PPMA provides affiliated and unaffiliated institutional clients with investment services including managing assets for separate accounts, US mutual funds and similar foreign pooled investment vehicles, a collateralised loan obligation and private equity funds. PPMA's strategy

is focused on managing existing assets effectively, maximising the benefits derived from synergies with our international asset management affiliates, and leveraging investment management capabilities across the Group. PPMA also pursues third-party mandates on an opportunistic basis.

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UK Business

Introduction

As at 31 December 2013, Prudential's UK business was structured into two business units, each focusing on its respective target customer markets. The Prudential's UK business units are Prudential UK & Europe (Prudential UK&E, being the insurance operations) and M&G (being the asset management business).

In 2013, Prudential's UK business generated new business insurance premiums of £5,341 million and gross investment inflows of £40,832 million. At 31 December 2013, M&G had £244 billion of funds under management.

Prudential UK & Europe business overview

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

With a pedigree stretching back more than 165 years the Prudential UK business has built the foundation of the Group's iconic brand and its cash, capital and credit ratings performance. Our approach in the UK is driven by a focus on providing long-term value to our customers based on our longevity experience, multi-asset investment capabilities and our financial strength. Our long-standing trusted brand favourably positions us to help risk-averse customers save with confidence and then to translate their accumulated wealth into dependable retirement income, through our range of market leading with-profits and annuity products. Our strong brand franchise has also been central to our successful health and protection associates PruHealth and PruProtect.

We focus on those areas of the market where we are able to bring superior value to our customers and where we enjoy a competitive advantage, primarily in with-profits and annuities.

We continue to focus on meeting customer needs:

offering a range of ways to do business with us: through intermediaries; through our Prudential Financial Planning partners providing advice to customers in their homes; or by telephone and internet;

innovative products such as our Income Choice Annuity which provides an alternative to the traditional fixed income annuity and is especially attractive in a low-interest rate environment;

our market leading PruFund investment range with optional guarantees to suit customers' attitude to risk; and

continuing to improve our service year-on-year for both customers and intermediaries. Prudential UK&E's focus on continuing to deliver excellent customer service was recognised at the 2013 Financial Adviser Service

Awards, where we retained our two 5-Star ratings in the Life & Pensions and Investment categories. During 2013 we commenced sales operations in Poland, one of Europe's fastest-growing economies, which has an expanding middle class and high savings rates. We have made a good start to the business, building an agency sales network of 481 financial planning consultants across 12 branches. The agency sales network will continue to be rolled out to other major Polish cities and towns during 2014.

In March 2014, the UK Government announced that from 2015 individuals over the age of 55 would be able to draw down their pension funds subject to income tax only at marginal rates on three-quarters of the funds, thereby removing the effective requirement to purchase an annuity. The implications of this proposed change are as yet uncertain, but may result in a significant reduction in consumer demand for new pension annuity business

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in the UK market. Prudential UK&E's approach is to provide market-based solutions that give consumers choice and flexibility in the ways they save and draw down income in retirement and it intends to work with the government, regulators and other industry participants to seek to ensure that the new pensions system that emerges from the consultation period produces better outcomes for British savers. Alongside other market participants, we anticipate a disruption to sales, which could be significant, in the individual annuities market as the industry works with government to define the new pensions system. See also the UK & Europe Products and profitability Pension Products section below.

Prudential UK&E will continue to focus on its core strengths of with-profits and retirement solutions while utilising its highly regarded brand franchise in order to help its consumers transfer their accumulated wealth into dependable retirement income.

UK&E Products and profitability

Prudential UK&E's long-term products consist of life insurance, pension products and pension annuities. In common with other UK long-term insurance companies, Prudential UK&E's products are structured as either with-profits (or participating) products, or non-participating products including annuities in payment and unit-linked products. Depending on the structure, the level of shareholders' interest in the value of policies and the related profit or loss varies.

With-profits policies are supported by a with-profits sub-fund and can be single premium (for example, Onshore Bonds) or regular premium (for example, certain pension products). Prudential UK&E's primary with-profits sub-fund is part of The Prudential Assurance Company Limited (PAC)'s long-term fund. The return to shareholders on virtually all Prudential UK&E's with-profits products is in the form of a statutory transfer to PAC shareholders' funds. This is analogous to a dividend from PAC's long-term fund, and is dependent upon the bonuses credited or declared on policies in that year. Prudential's with-profits policyholders currently receive 90 per cent of the distribution from the main with-profits sub-fund as bonus additions to their policies, while shareholders receive 10 per cent as a statutory transfer.

We have a competitive advantage in with-profits and we are confident that demand will remain strong as customers continue to seek products which mitigate the volatility of the market, while still providing a steady return over the medium to long-term. In addition to our customers, our shareholders also continue to benefit from the steady performance of our with-profits based products and the cash they generate. The performance of our with-profits fund has allowed us to add an estimated £2 billion to with-profits policies in the year and policyholders will typically see year-on-year increases of between 5 per cent and 8 per cent in accumulating with-profits policy values over the past year.

The Defined Charge Participating Sub-Fund (DCPSF) forms part of the PAC long-term fund. It comprises the accumulated investment content of premiums paid in respect of the defined charge participating with-profits business issued in France and the defined charge participating with-profits business reassured into PAC from Prudential International Assurance plc and Canada Life (Europe) Assurance Ltd. It also includes the portfolio of with-profits annuity policies acquired from Equitable Life in 2007. All profits in this fund accrue to policyholders in the DCPSF.

The profits from almost all of the new non-participating business accrue solely to shareholders. Such business is written in the non-profit sub-fund within PAC's long-term fund, or in various shareholder-owned direct or indirect subsidiaries. The most significant of these is Prudential Retirement Income Limited (PRIL), which writes conventional annuities including all new conventional annuities arising from vesting deferred annuity and personal pension policies in the with-profits sub-fund of PAC. There is also a substantial volume of in-force non-participating

business in PAC s with-profits sub-fund and that fund s wholly owned subsidiary Prudential Annuities Limited (PAL), which is closed to new business. Profits from this business accrue to the with-profits sub-fund (WPSF). On 31 October 2012, we reinsured substantively all of the long-term insurance business of PAL to the WPSF.

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The traditional life insurance product offered by UK life insurance companies was a long-term savings product with a life insurance component. The life insurance element conferred tax advantages that originally distinguished the traditional life insurance products offered in the United Kingdom from the savings products offered by banks, building societies and unit trust companies. The gradual reduction of these tax advantages and increasing sales of single premium life products has resulted in the distinction between life insurance and other long-term savings products becoming less important. Pension products remain tax-advantaged within certain limits.

Prudential UK&E has a well-established individual annuity business, sourced from maturing pension policy customers. The strength of our with-profits proposition also continues to drive good external demand for our Income Choice Annuity, which offers customers relatively attractive returns in the current sustained low interest rate environment, with the potential for income growth.

Prudential UK&E provides a comprehensive range of risk managed investments, including with-profits bonds and pensions, which continue to outperform competitors' propositions. We will continue to develop our with-profits proposition, enhancing the range of investment choices available to policyholders and developing our presence in the Individual Savings Accounts (ISA) market.

Distribution

Retail financial services products are distributed face to face through independent financial advisers (IFAs) and restricted advisers, or directly by mail, telephone and over the internet. IFAs dominate the advice market and offer products from a range of insurance companies selected from the whole of the market. Restricted advisers do not need to select from the whole market and are typically tied to a single insurer or a small panel of insurers. Direct and e-commerce distribution methods are generally non-advised and therefore operate on a lower-cost basis than other distribution channels. Accordingly, products distributed directly are generally aimed at more simple financial planning needs.

The former FSA's review of the retail distribution marketplace called the Retail Distribution Review (RDR) came into force on 31 December 2012. One of the main aims of the RDR was to increase the level of professionalism within the financial advice market. Prudential supports this aim.

The changes implemented increase the clarity with which advisory firms describe their services and charges. They stipulate that the adviser must be paid by the customer. Providers are no longer permitted to pay commission on new sales of retail investment products. Comparable rules have been introduced for group pensions business. Sales of protection business and general insurance can still attract commission. The changes have also significantly increased the requirements for firms who seek to describe themselves as independent.

The advent of RDR has seen a significant structural shift away from the traditional routes to market such as bancassurance, which when combined with the reduction in the number of financial advisers operating in the UK, has resulted in lower access to advice, particularly for customers from lower wealth demographics. Our exposure to bancassurance was limited and we prepared well in anticipation of these changes through strengthening relationships with our chosen distribution partners and setting up our direct advice service, Prudential Financial Planning (PFP). We are strongly placed to remain a key and active provider in our chosen markets. The long term impact of the RDR remains uncertain but as expected FCA figures confirm that a drop in UK adviser numbers of around 20 per cent took place in the two year lead-up to RDR but then stabilised through 2013. The higher threshold to remain independent has seen an increased trend towards advisory firms moving to restricted advice models and the popularity of this model is expected to continue to grow. Typically these models see adviser firms limiting their range to smaller number of products and providers. Prudential is well placed in such models with distribution agreements already in

place with a number of major advice firms.

Following the implementation of the RDR, retail investment sales in the market were generally down in 2013, although this was reflective in part of particularly strong market figures for retail investments in the second half

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of 2012 as advisers placed business ahead of the RDR changes. However, the effect of this reduction on the total Life and Pensions market has largely been offset by the impact of auto-enrolment in the group pensions market, which has driven large volumes of top line sales.

The Financial Conduct Authority's Thematic Review into the UK annuity market, which ran throughout 2013, concluded in February 2014 with the announcement that it was launching a competition market study. Market studies are the FCA's main tool for examining competition issues in the markets it regulates and allow it to look more broadly at a market to analyse how competition works today, and how it might develop. We continue to support both regulatory and other initiatives to improve consumer experience and outcomes.

In 2011-2013, Prudential UK&E's new business premiums by channels are as follows:

	Year Ended 31 December £m		
	2013	2012	2011
Individual Annuities:			
Direct & Partnerships	284	297	328
Intermediated	488	653	241
Internal Vesting*	1,305	1,456	1,223
Total Individual Annuities	2,077	2,406	1,792
Other Products:			
Direct & Partnerships	673	642	654
Intermediated	2,315	2,922	2,244
Wholesale	275	408	336
Total Other Products	3,263	3,972	3,234
DWP Rebates	1	115	104
Total New Business Premiums	5,341	6,493	5,130

*Internal vesting business is classified as new business where the contracts include an open market option.

Direct and Partnerships

The direct distribution channel is primarily charged with increasing revenue from existing Prudential UK&E customers and retention of our existing customer base. Direct distribution channels include the telephone, mail and internet, and focus on annuities, investments, and protection and health products. Prudential UK&E's direct advice service, Prudential Financial Planning (PFP), continues to establish its presence, focusing primarily on the financial planning needs of our existing direct customer base. By the end of 2013, two years from launch, adviser numbers reached 196.

Partnerships are primarily arrangements with other insurers whereby we offer our annuity products to their vesting pension customers.

In March 2013, the ABI code of conduct on retirement choices came into force and was implemented by Prudential. The code is designed to help customers make the most appropriate choices at retirement.

Intermediaries

In 2013 Prudential UK&E consolidated its position with major intermediary firms and maintained strong sales volumes through this channel in a challenging market. Alongside this, Prudential UK&E continues to work closely with its distribution partners in the development of their business models for the post-RDR environment and remains well placed to support the new emerging models which distributors are introducing to deal with the commercial challenges of RDR.

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In the Wholesale market, Prudential UK&E's aim is to continue to participate selectively in bulk and back-book buyouts using its financial strength, superior investment track record, annuitant mortality risk assessment and servicing capabilities. In line with this opportunistic approach, three bulk annuity buy-in insurance agreements were signed in 2013 totalling £276 million of new business premiums. Prudential UK&E will continue to maintain a strict focus on value and only participate in capital-efficient transactions that meet its return on capital requirements.

UK Business Units***Long-term Products***

Prudential's long-term products in the United Kingdom consist of life insurance, pension products and pensions annuities. The following table shows Prudential UK&E's new business insurance and investment premiums by product line for the periods indicated. New business premiums include deposits for policies with limited or no life contingencies. Prudential UK&E also distributes life insurance products, primarily investment bonds, in other European countries and has start-up business in Poland which primarily sells with-profits savings and protection products. The volume of such business is relatively small and is included in the table below.

	Year Ended 31 December £m		
	2013	2012	2011
Pension annuities	2,077	2,406	1,792
Corporate pensions	281	459	399
Onshore bonds	1,754	2,276	1,779
Other products	953	946	824
Wholesale	276	408	336
Total new business premiums	5,341	6,495	5,130

Of the total new business premiums of £5,341 million (2012: £6,495 million; 2011: £5,130 million), £5,129 million (2012: £6,286 million; 2011: £4,871 million) were single premiums and £212 million (2012: £207 million; 2011: £259 million) were regular premiums.

Pension Annuities

Prudential UK&E offers individual conventional immediate annuities that are either fixed or retail price indexed (referred to as RPI), where annuity payments are guaranteed from the outset, or with-profits annuities, where annuity payments are variable dependent on the investment performance of underlying assets but with an income floor.

A total of £2,077 million of individual annuities were sold in 2013. Of this total, £1,305 million was sold through internal vesting, that is existing Prudential UK&E customers with maturing pension policies. The other £772 million were sold to new customers, typically individuals with a pension maturing with another provider who chose Prudential UK&E to provide their annuity. Prudential UK&E's immediate annuity products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump sum capital payment. No surrender value is available under any of these products. The primary risks to Prudential UK&E from immediate annuity products, therefore, are mortality improvements and credit risk.

Conventional Annuities

Prudential UK&E's conventional annuities include level (non-increasing), fixed increase and RPI annuities. Prudential UK&E's fixed increase annuities incorporate automatic increases in annuity payments by fixed amounts over the policyholder's life. The RPI annuities provide for a regular annuity payment to which an

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additional amount is added periodically based on the increase in the UK Retail Prices Index. In 2013, sales of RPI annuities were £112 million (including £104 million of bulk annuities). In 2013, sales of level and fixed increase conventional annuities amounted to £1,401 million (including £172 million of bulk annuities).

With-profits Annuities

Prudential UK&E's with-profits annuities combine the income features of annuity products with the investment smoothing features of with-profits products and enable policyholders to obtain equity-type returns over time. In 2009, Prudential UK&E launched the Income Choice Annuity, which allows customers to choose an income between a defined maximum and minimum level, with the option of re-setting this every year. It also provides an opportunity for pension income to grow based on the returns of the with-profits fund. Through this product, Prudential UK&E brings its product development strengths to bear while also capitalising on people's need for protection from inflation through increasingly long periods of retirement.

Prudential is one of only a few companies in the United Kingdom which are active in the with-profits annuities market and has been operating in this market since 1991. In 2013, Prudential UK&E's premiums for this business were £839 million. Prudential UK&E had new business market share of investment linked annuities of 83 per cent in the first nine months of 2013⁽⁹⁾.

Pension Products

Prudential UK&E provides both corporate and individual pension products. Corporate pension products are discussed below whilst individual pension products are discussed under *Other Products*. Pension products are tax advantaged long-term savings products that comply with rules established by the HM Revenue and Customs (*HMRC*) and are designed to supplement state provided pensions.

These products provide policyholders with a number of options at retirement. From age 55 onwards, policyholders may elect to use part or all of their maturity benefits to purchase a pension annuity, they may choose to draw-down funds without purchasing an annuity (currently subject to a number of rules and restrictions on the amount able to be drawn down each year which will be removed in 2015) (see *Prudential UK & Europe business overview* section above), they may delay taking any benefits, or take a combination of these options. They are also permitted to take a portion as a tax-free lump sum.

For products with drawdown features, the investment risk remains with the policyholder, payments are not guaranteed, and tend to cost more to administer. In the past, this has meant that the option to drawdown tended to apply mainly to more sophisticated policyholders and to larger retirement funds. While the rules governing access to pension savings are to be changed and consumers will have more choice and flexibility in how they access their retirement income draw-downs from pension savings that are greater than the tax-free lump sum will be taxable at the individual's marginal tax rate. The extent to which consumer behaviour will change and the degree of market dislocation are unclear, but could be significant.

Prior to retirement, these products typically have minimal mortality risk to Prudential UK&E and are primarily considered investment products. An exception is where a guaranteed annuity option (*GAO*) has been offered on the product, with an element of risk to Prudential UK&E both in underlying mortality and investment assumptions. Prudential UK&E ceased marketing GAOs in 1987, but for a minority of corporate pension schemes GAOs still apply for new members. Excluding policies written in the closed Scottish Amicable Insurance Fund (*SAIF*) which is described in detail below, current liabilities for this type of business make up less than one per cent of the with-profits sub-fund as at 31 December 2013.

Many of the pension products Prudential UK&E offers are with-profits products or offer the option to have all or part of the contributions allocated to a with-profits fund. Where funds invested in the with-profits fund are withdrawn prior to the pension date specified by the policyholder, Prudential UK&E may apply a market value adjustment to the amount paid out. The remaining pension products are non-participating products, which include unit-linked products.

⁽⁹⁾ Source: ABI

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Corporate Pensions

There are two categories of corporate pension products: defined benefit and defined contribution. Prudential UK&E has an established defined benefit plan client base covering the small to medium-sized employer market. Prudential UK&E's defined contribution client base ranges from small unlisted companies to some of the largest companies in the United Kingdom as well as a number of clients in the public sector (in particular where Prudential UK&E offers the Additional Voluntary Contribution (AVC) facility). Additional Voluntary Contribution plans enable employees to make additional pension contributions, either regularly or as a lump sum, to supplement their occupational pension plans. Prudential UK&E administers corporate pensions for over 600,000 scheme members sponsored by some of the UK's largest employers and has also built a very strong position in the provision of with-profits AVC arrangements. Prudential UK&E provides AVCs to 69 of the 99 Local Government Authorities in England & Wales.

Defined benefit plans and products have previously dominated the corporate pensions market in terms of funds under management. In recent years, however, most new plans established have been defined contribution products. In addition, there is an increasing trend among companies to close defined benefit plans to new members or to convert existing schemes from defined benefit to defined contribution in order to stabilise or reduce potential pension liabilities.

Prudential UK&E offers group unit-linked policies and with-profits policies to the corporate pensions market. Prudential UK&E's defined contribution products are AVC plans, Group Money Purchase plans, Group Personal Pension plans, Group Stakeholder Pension plans and Executive Pension plans.

In addition, Prudential UK&E has a Company Pension Transfer Plan (or Bulk S32), designed to accept benefits from both defined benefit and defined contribution pension schemes which are winding up (ceasing to exist or being replaced by a new type of scheme). Prudential UK&E also has the facility to accept enhanced transfers from deferred members of a corporate's defined benefit pensions scheme into Prudential UK&E Personal Pension plan where the member has received advice from an independent financial adviser (often called an enhanced transfer value exercise).

From 2012, individuals who are not already in a pension scheme, who are over 21 and below retirement age and whose earnings are over a minimum amount have had to be automatically enrolled in a pension scheme by their employer, who will be required to make contributions. These requirements were applied first to larger employers and will be rolled out gradually to medium-sized and smaller employers.

Onshore Bonds

Prudential UK&E offers customers a range of investment funds to meet different risk and reward objectives. Prudential UK&E's main onshore bond product wrapper is the Prudential Investment Plan (PIP). Through this plan, based on a single premium with no fixed term, customers have the option to invest in the with-profits fund through PruFund or in a range of unit-linked investment funds.

PIP also gives financial advisers the opportunity to choose from different external fund management groups and the flexibility to make changes to portfolio and asset allocation over time. In 2013, sales of the unit-linked option within on-shore bond wrappers, including PIP were £164 million.

Prudential Dynamic Portfolios, launched in 2010, offer advisers a choice of portfolio options to match a client's risk/reward profile as an alternative to building an individual portfolio.

Prudential UK&E offers a unitised and smoothed with-profits investment fund entitled PruFund, which is designed to provide increased transparency and smoothed investment returns to the customer with a choice of Cautious, Growth or risk-managed funds. PruFund also offers clients an optional guarantee on the initial

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investment in either the Cautious or Growth funds with a term from six to eight years depending on the client's requirements. PruFund is available across Prudential UK&E's range of tax wrappers including individual pensions, income drawdown and onshore and offshore bonds. In 2013, total new business premiums attributable to PruFund, including new business through PIP, was £1,180 million.

With-profits bonds aim to provide capital growth over the medium to long term, and access to a range of investment sectors without the costs and risks associated with direct investment into these sectors. Capital growth for the policyholder on with-profits bonds apart from PruFund is achieved by the addition of reversionary or annual bonuses, which are credited to the bond on a daily basis from investment returns achieved within PAC's long-term with-profits fund, offset by charges and expenses incurred in the fund. A final bonus may also be added when the bond is surrendered. PruFund delivers growth through a published expected growth rate, updated quarterly, and a transparent formulaic smoothing mechanism. In contrast the capital return on unit-linked bonds directly reflects the movement in the value of the assets underlying those funds. When funds invested in PAC's long-term with-profits fund are either fully or partially withdrawn, PAC may apply a market value adjustment to the amount paid out.

The sales growth across Prudential UK&E's with-profits range has been achieved on the back of sustained strong investment performance in its Life Fund over a number of years, reflecting the benefits of its diversified investment policy. Prudential believes that this market will continue to see further growth as investors turn to trusted and financially strong brands and products offering an element of capital protection.

Other Products

Other products comprise individual pensions, income drawdown, offshore bonds, healthcare, life insurance and equity release mortgages.

Individual Pensions

Prudential UK&E's individual pension range offers unit-linked and unitised with-profits products, including products that meet the criteria of the UK government's stakeholder pension program.

The stakeholder pension is intended for individuals earning enough to be able to afford to make contributions to a pension but who are not currently doing so. The introduction of stakeholder pensions has had implications for, among other things, how Prudential UK&E designs, administers and charges for and distributes pension products. The most significant requirements involve capped charges and a low minimum contribution which must be accepted by the provider. The UK government has capped charges at 1.5 per cent per annum of the policyholder account balance for stakeholder pensions for the first ten years, decreasing to 1 per cent thereafter, which is below the charges on personal pension products previously offered by the UK pensions industry.

In previous years Prudential UK&E provided individual personal pension products through the DWP Rebate arrangement. Under this arrangement, individuals could elect to contract out of the UK's State Second Pension (S2P) administered by the UK Department of Work and Pensions and could designate a pension provider, such as Prudential UK&E, to receive rebates. These rebates represented the amount that would otherwise have been paid into S2P. The option to contract out was removed from April 2012 and no further contributions will be received, although Prudential will continue to administer in-force policies.

Income Drawdown

Given the UK's historic requirement for compulsory annuitisation by a maximum age (removed in April 2011), an increasingly sophisticated consumer population, and the rising incidence of second careers and semi-retirement as a result of increasing longevity, the market has seen good growth in the bridge between pensions

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and annuities through income drawdown products. These products help customers manage their pensions through the various stages of retirement, and also offer flexibility while providing potential for capital growth. In 2013, Prudential UK&E sold £146 million of income drawdown products.

Offshore Bonds

Prudential UK&E's offshore bond products are the Prudential International Investment Bond and the Prudential International Investment Portfolio offering clients access to a wide range of quoted UK investments. Prudential UK&E's offshore bond sales grew by 40 per cent to £434 million in 2013.

Healthcare

PruHealth was launched in 2004 as a private medical insurance provider and is backed by Prudential and Discovery of South Africa. PruHealth uses the Prudential brand and Discovery's expertise to build branded distribution and innovative product offerings in the private healthcare and protection markets.

Life Insurance Products

Prudential's UK life insurance products are predominantly pure protection (term) products, and include the PruProtect product sold through an associate company. PruProtect's product is focused around a core philosophy of helping people become healthier while protecting and improving the quality of their lives.

Equity Release Mortgage

In November 2009, Prudential UK&E announced the decision to close its equity release operation to new business. Existing customers may, however, still draw down additional funds, subject to their overall borrowing limits.

Wholesale

Wholesale business comprises bulk annuities. Prudential UK&E offers bulk annuities selectively, whereby it manages the assets and accepts the liabilities of a company pension scheme. The volume of Prudential UK&E's bulk annuity sales is unpredictable as the business maintains a very strict focus on value and only participates in capital-efficient transactions that meet its return on capital requirements.

Reinsurance

In view of the size and spread of PAC's long-term insurance fund, there is little need for reinsurance to protect this business. Some limited reinsurance is maintained and treaties relating to annuities, critical illness, permanent health insurance, term insurance and certain unit-linked products are in place.

Reserves

In the United Kingdom, a life insurance company's reserve and other requirements are determined by its Board, with advice from its Actuarial Function Holder, subject to minimum reserve requirements. These minimum reserve requirements are established by the rules and guidance of the PRA.

The reserves are published in annual returns to the PRA. In practice, similar provisions are included in the life insurance company's statutory accounts with limited adjustments. The Actuarial Function Holder must pay due regard

to the fair treatment of policyholders in making recommendations to the company's board. The Actuarial Function Holder is required to report directly to the PRA any serious concerns regarding the company's ability to treat its customers fairly.

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Prudential UK&E's regulatory reserving for with-profits products, as required by UK regulation, takes into account annual bonuses/annual interest credited to policyholders because these are attached to the policies and are guaranteed. Realistic reserves are also calculated for with-profits products under UK regulation. These include an allowance for final bonuses based on the asset share or a prospective valuation of the policies and the cost of guarantees, smoothing and enhancements.

Prudential UK&E reserves for unit-linked products on the basis of the value of the unit fund and additional reserves are held for expenses and mortality where this is required by the contract design.

As well as the reserves, the company's assets must also cover other capital requirements set out in the PRA Prudential Sourcebook. These comprise a with-profits insurance capital component, which is a measure of the difference in the surplus assets on regulatory and realistic bases; a resilience capital requirement for entities other than PAC, which makes prudent allowance for potential future adverse movements in investment values; and the long-term insurance capital requirement, which must be held by all EU insurance companies. See Financial Strength of PAC's Long-term Fund for further information on solvency and Realistic Financial Strength Reporting for further information on realistic reporting.

Financial strength of PAC's with-profits fund

The PAC's with-profits fund is supported by a large inherited estate, with the free assets of the with-profits fund valued at approximately £8 billion (as at 31 December 2013), on a regulatory realistic basis. This provides the working capital required to support the fund for the long-term benefit of current and future policyholders. The strength of the with-profits fund offers strong policyholder protection and assists in generating positive returns for both policyholders and shareholders.

The table below shows the change in the investment mix of PAC's main with-profits fund:

	2013 %	2012 %	2011 %
UK equities	19	17	24
International equities	17	17	10
Property	14	12	13
Fixed Interest	41	44	44
Cash and other asset classes	9	10	9
Total	100	100	100

The with-profits sub-fund earned a return of 10.3 per cent before tax in 2013 on investments covering policyholder liabilities. The with-profits sub-fund has delivered investment returns of 178.3 per cent over 15 years for policyholder asset shares in the fund, compared with the FTSE All-share index (total return) of 119.3 per cent over the same period (figures are to 31 December 2013, before tax and charges).

Realistic Financial Strength Reporting

In accordance with the PRA Prudential Sourcebook, PAC has to demonstrate solvency on a realistic valuation basis as well as the regulatory basis. In the aggregate, the basis has the effect of placing a value on the liabilities of UK with-profits contracts that reflects the amounts expected to be paid based on the current value of investments held by

the with-profits funds and current circumstances.

This basis makes companies' financial health more transparent to policyholders, intermediaries and regulators alike, and enables more informed choices to be made by policyholders. The PAC long-term with-profits sub-fund is strong with the inherited estate (free assets) measured on a realistic basis, valued at approximately £8 billion at the end of 2013 before deduction for the risk capital margin.

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In line with PRA requirements, PAC produces an Individual Capital Assessment (Pillar II) which is an assessment of the economic capital required to ensure that there is a high likelihood that the company can meet its liabilities as they fall due.

Shareholders Interests in Prudential UK&E s Long-term Insurance Business

In common with other UK long-term insurance companies, Prudential UK&E s products are structured as either with-profits products or non-participating (including unit-linked) products. With-profits policies are supported by a with-profits fund. Prudential UK&E s primary with-profits fund is part of PAC s long-term fund. For statutory and management purposes, PAC s long-term fund consists of a number of sub-funds in which shareholders and policyholders have varying interests.

With-profits Products

With-profits products provide an equity-type return to policyholders through bonuses that are smoothed . There are two types of bonuses: annual and final . Annual bonuses, often referred to as reversionary bonuses, are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular product. Unlike annual bonuses, final bonuses are only guaranteed until the next bonus declaration. Final bonuses are only credited on a product s maturity or surrender or on the death of the policyholder. Final bonuses can represent a substantial portion of the ultimate return to policyholders.

With-profits products provide benefits that are generally either the value of the premiums paid, less charges and fees and with the addition of declared bonuses, or the guaranteed death benefit with the addition of declared bonuses. Smoothing of investment returns is an important feature of with-profits products. It is designed to reduce the impact of fluctuations in investment return from year to year and is accomplished predominantly through the level of final bonuses declared.

The return to Prudential s shareholders in respect of with-profits business Prudential UK&E writes is an amount equal to up to one-ninth of the value of the bonuses Prudential UK&E credits or declares to policyholders in that year. Prudential UK&E has a large block of in-force with-profits business with varying maturity dates that generates a relatively stable stream of shareholder profits from year to year.

PAC s board of directors, with the advice of its Actuarial Function Holder and its With-Profits Actuary, determines the amount of annual and final bonuses to be declared each year on each group of contracts.

When determining policy payouts, including final bonuses, PAC follows an actuarial practice of considering asset shares for specimen policies. Asset shares broadly reflect the value of premiums paid in respect of a policy accumulated at the investment return on the assets PAC notionally attributes to the policy. In calculating asset shares, PAC takes into account the following items:

the cost of mortality risk and other guarantees (where applicable),

the effect of taxation,

management expenses, charges and commissions,

the proportion of the amount determined to be distributable to shareholders and

the surplus arising from surrenders, non-participating business included in the with-profits fund and other miscellaneous sources.

However, Prudential UK&E does not take into account the surplus assets of the long-term fund, or investment return earned on them, in calculating asset shares. Asset shares are used in the determination of final bonuses together with treating customers fairly, the need to smooth claim values and payments from year to year and competitive considerations.

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Prudential UK&E is required by UK law and regulation to consider the fair treatment of its customers in setting bonus levels. The concept of treating customers fairly is established by statute but is not defined. In practice, it provides one of the guiding principles for decision-making in respect of with-profits products.

The overall return to policyholders is an important competitive measure for attracting new business. The ability to declare competitive bonuses depends, in part, on the financial strength of PAC's long-term fund, enabling it to maintain high levels of investment in equities and real estate, if it wishes to do so. Equities and real estate have historically over the long-term provided a return in excess of fixed interest securities.

In 2013, PAC declared a total surplus of £2,134 million (2012: £2,210 million) from PAC's primary with-profits sub-fund, of which £1,922 million (2012: £1,990 million) was added to with-profits policies and £212 million (2012: £220 million) was distributed to shareholders. These amounts included annual bonus rates of 2.0 per cent for Prudence Bond and 2.0 per cent for personal pensions.

The closed Scottish Amicable Insurance Fund (SAIF) declared total bonuses in 2013 of £475 million compared to £541 million in 2012. Shareholders have no interest in profits from the SAIF fund, although they are entitled to the investment management fees paid by this business. For greater detail on the SAIF fund, see The SAIF sub-fund and accounts below.

Surplus Assets in PAC's Long-term With-profits Fund

The assets of the main with-profits sub-fund within the long-term fund of PAC comprise the amounts that it expects to pay out to meet its obligations to existing policyholders and an additional amount used as working capital. The amount payable over time to policyholders from the with-profits sub-fund is equal to the policyholders' accumulated asset shares plus any additional payments that may be required by way of smoothing or to meet guarantees. The balance of the assets of the with-profits sub-fund is called the inherited estate and has accumulated over many years from various sources.

The inherited estate, as working capital, enables Prudential UK&E to support with-profits business by providing the benefits associated with smoothing and guarantees, by providing investment flexibility for the fund's assets, by meeting the regulatory capital requirements that demonstrate solvency and by absorbing the costs of significant events or fundamental changes in its long-term business without affecting the bonus and investment policies. The size of the inherited estate fluctuates from year to year depending on the investment return and the extent to which it has been required to meet smoothing costs, guarantees and other events.

Depletion of Surplus Assets and Shareholders' Contingencies

As a proprietary insurance company, PAC is liable to meet its obligations to policyholders even if the assets of the long-term funds are insufficient to do so. The assets, represented by the unallocated surplus of with-profits funds, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers (the excess assets) in the long-term funds could be materially depleted over time by, for example, a significant or sustained equity market downturn, costs of significant fundamental strategic change or a material increase in the pension mis-selling provision. In the unlikely circumstance that the depletion of the excess assets within the long-term fund was such that the Group's ability to satisfy policyholders' reasonable expectations was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the long-term funds to provide financial support.

In 1998, Prudential stated that deducting personal pensions mis-selling costs from the inherited estate of the with-profits sub-fund would not impact its bonus or investment policy and it gave an assurance that if this unlikely event were to occur, it would make available support to the fund from shareholder resources for as long as the situation continued, so as to ensure that policyholders were not disadvantaged. The assurance was designed to protect both existing policyholders at the date it was announced, and policyholders who subsequently purchased policies while the pension mis-selling review was continuing.

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This review was completed on 30 June 2002. The assurance will continue to apply to any policy in force at 31 December 2003, both for premiums paid before 1 January 2004, and for subsequent regular premiums (including future fixed, retail price index or salary related increases and Department of Work and Pensions rebate business). The assurance has not applied to new business issued since 1 January 2004. New business in this context consists of new policies, new members to existing pension schemes plus regular and single premium top-ups, transfers and switches to existing arrangements. The maximum amount of capital support available under the terms of the assurance will reduce over time.

The bonus and investment policy for each type of with-profits policy is the same irrespective of whether or not the assurance applies. Hence removal of the assurance for new business has had no impact on policyholder returns.

Prudential and Prudential Assurance Company Limited have put in place intra-group arrangements to formalise circumstances in which capital support would be made available by Prudential (including in the scenarios referred to in pension mis-selling review above). While Prudential considers it unlikely that such support will be required, the arrangements are intended to provide additional comfort to Prudential Assurance Company Limited and its policyholders.

In addition, Prudential has put in place intra-group arrangements to formalise undertakings by Prudential to the regulators of the Hong Kong subsidiaries, which from 1 January 2014, contain the domesticated branch business from PAC as noted in note D2 to the consolidated financial statements in Item 18 regarding their solvency levels. In addition, the scheme of transfer of the Hong Kong branch includes short-term support arrangements between Prudential and PAC to underpin similar arrangements between PAC and the newly domesticated business. It is considered unlikely that support will need to be provided under these arrangements.

The SAIF Sub-fund and Accounts

The SAIF sub-fund is a ring-fenced sub-fund of PAC's long-term fund and was formed following the acquisition of the mutual Scottish Amicable Life Assurance Society in 1997. No new business may be written in SAIF, although regular premiums are still being paid on policies in-force at the time of the acquisition and top-ups are permitted on these policies.

This fund is solely for the benefit of those Scottish Amicable Life Assurance Society policyholders whose policies were transferred to SAIF. Shareholders have no interest in the profits of this fund, although they are entitled to the investment management fees paid on this business. The brand name and rights to profit on new business were transferred to a new PAC subsidiary, Scottish Amicable Life plc, which operated for the benefit of shareholders.

SAIF with-profits policies contain minimum levels of guaranteed benefit to policyholders. In addition, as mentioned below, certain pensions products have guaranteed annuity rates at retirement. Should the assets of SAIF be inadequate to meet the guaranteed benefit obligations of the policyholders of SAIF, the PAC long-term fund would be liable to cover any such deficiency in the first instance.

Non-participating Business

The majority of Prudential-branded non-participating business is written in the non-profit sub-fund of PAC's long-term fund or in subsidiaries owned by PAC. Since mid-2004, Prudential UK&E has written the majority of its new non-profit annuity business through Prudential Retirement Income limited (PRIL), from which the profits are attributed solely to shareholders. Prior to that time, certain non-profit annuity business was written through Prudential Annuities Limited (PAL), which is wholly owned by PAC's with-profits fund. The profits on this business are

attributable to the fund and not to shareholders, although indirectly shareholders get one-ninth of additional amounts paid to policyholders through the declaration of bonuses.

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The unit-linked business written by PAC and Prudential International Assurance is written with capital provided by shareholders.

Guaranteed Annuities

Prudential used to sell guaranteed annuity products in the United Kingdom and held a technical provision of £36 million as at 31 December 2013, within the main with-profits fund to honour guarantees on these products. PAC's main exposure to guaranteed annuities in the United Kingdom is through SAIF and a provision of £328 million was held in SAIF as at 31 December 2013, to honour the guarantees. As SAIF is a separate sub-fund of PAC's long-term business fund, wholly attributable to the policyholders of the fund, the movement in this provision has no impact on shareholders.

M&G

M&G is the UK and European fund manager of the Prudential Group with responsibility for investments on behalf of both internal and external clients.

Across its chosen markets, M&G serves the needs of both retail and institutional investors. Retail clients favour pooled funds such as open-ended investment companies (OEICs) which they buy directly from M&G or more typically through an intermediary such as an independent financial adviser or discretionary fund manager. Institutional clients, such as pension funds and local authorities, invest in multiple ways, from segregated mandates through to pooled funds. They are often attracted to investment strategies originally developed by M&G for Prudential's long-term insurance funds.

In the retail market M&G operates a range of UK-domiciled funds which are now distributed across Europe and Asia. Today, clients outside the UK account for more than a third of M&G's retail assets under management.

In the institutional market, M&G seeks to leverage investment strategies which have been developed originally for Prudential's insurance funds in order to attract external business.

Today M&G is an international asset manager with operations in 18 countries and retail products which are distributed in 20 jurisdictions.

Through its proven ability to convert investment performance into significant fund flows, M&G is able to increase its exposure to rising markets and so maximise revenue from the long-term stock of funds under management.

The pillars of M&G's business that support this approach are:

People an environment that attracts, fosters and retains talented individuals

Performance an investment-led business focused on the delivery of long-term returns through active investment management

Innovative investment ideas which meet client needs and a proven ability to convert these ideas into significant fund flows

Diversification by asset class, client type, fund and investment strategy and country

A committed focus on long-term investment returns means that the interests of M&G and its customers are always aligned, whether clients are individual savers, institutional investors or the funds of Prudential's insurance operations.

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M&G has a strong investment brand, built over decades and based on a reputation for honesty, innovation and a commitment to building long-term wealth for our investors.

Since launching the UK's first open-ended fund in 1931, we have brought a succession of new investment strategies to the retail and institutional markets.

Recent investment success stories include the M&G Optimal Income Fund, one of the first truly global flexible bond funds for retail investors. The fund has attracted £17.3 billion of assets since its launch in 2006. Similarly, the M&G Global Dividend Fund, which invests in companies around the world that consistently grow their dividends, has reached £8.9 billion in five years.

Recent innovations for institutional third-party clients have focused on investment strategies to manage long-term inflation-linked liabilities. M&G successfully runs the M&G Secured Property Income Fund, a portfolio of long-lease properties with inbuilt inflation-related rental streams, which draws upon our combined real estate and fixed income investment experience. This Fund, which has total investor commitments of over £2.1 billion, has delivered an annualised return of 7.4 per cent above RPI over the 5 years to end 31 December 2013. It had a record year in 2013 in terms of transaction activity, completing on nine transactions with a total end value of £625 million. Of this amount, £235 million were developments, thus demonstrating the Fund's ability to take on sizeable development financings – an area in which the banks have reduced their activities. This brings the Fund's development transaction total to £370 million over the life of the fund to date.

Diversification

M&G has pursued business diversification across:

- (i) asset class: expertise across equities, fixed income, real estate and mixed-asset strategies;
- (ii) client type: retail customers and institutional clients including pension funds, sovereign wealth funds, and Prudential's own long-term insurance funds;
- (iii) investment strategy: Over 60 pooled retail funds covering domestic, global and emerging market strategies, 13 of which have funds under management of over £1 billion. Institutional clients benefit from a wide-range of pooled and/or segregated fixed income, equity and real estate strategies; and
- (iv) country: M&G is an international asset manager with operations in 18 countries. Retail products are distributed in 20 jurisdictions with over a third of Retail funds under management sourced from outside the UK.

M&G's investment expertise spans all the principal asset classes – equities, fixed income, and property – so that we can always offer investment solutions to our clients as market conditions and investor sentiment change.

Equities: Our fund managers have the freedom to develop their own investment approaches. Their main strength lies in stock selection, focusing on fundamental company analysis. M&G's size and standing enables our fund managers to develop an effective dialogue with the management teams of the companies in which they invest.

Fixed Income: M&G is one of Europe's largest fixed income investors. Our fund managers benefit from one of the region's largest and most experienced in-house credit research teams, whose knowledge covers the full range of fixed income investment, from the management of sovereign debt and corporate bond portfolios, through to leveraged finance, real estate finance, direct lending and infrastructure.

Real Estate: M&G Real Estate is a leading global property investor and manager covering all major real estate sectors. We actively manage our assets, drawing on our long heritage of expertise and knowledge and our extensive network of contacts. This approach enables the business to identify and capitalise on attractive investment opportunities. During 2013 M&G returned to the UK residential property market for the first time in 30 years with a £105 million investment in London housing.

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The following table shows funds managed by M&G at the dates indicated.

	At 31 December £bn		
	2013	2012	2011
Retail fund management	67	55	44
Institutional fund management	59	57	48
Internal fund management	118	116	109
Total	244	228	201

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Group Risk Framework

Risk Management

Introduction

As a provider of financial services the management of risk lies at the heart of our business and effective risk management capabilities represent a key source of competitive advantage for the Group. We generate shareholder value by selectively taking exposure to risks that are adequately rewarded and that can be appropriately quantified and managed. We retain material risks only where consistent with our risk appetite and risk-taking philosophy, that is: (i) they contribute to value creation; (ii) adverse outcomes can be withstood; and (iii) we have the capabilities, expertise, processes and controls to manage them.

The control procedures and systems established within the Group are designed to manage rather than eliminate the risk of failure to meet business objectives. They can only provide reasonable and not absolute assurance against material misstatement or loss and focus on aligning the levels of risk-taking with the achievement of business objectives.

Group Risk Framework

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

Risk governance

(Unaudited)

Our Group Risk Framework requires that all our businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Group. The framework is based on the concept of three lines of defence comprising risk taking and management, risk control and oversight and independent assurance.

Primary responsibility for strategy, performance management and risk control lies with the Board, which has established the Group Risk Committee to assist in providing leadership, direction and oversight in respect of the Group's significant risks, and with the Group Chief Executive and the chief executives of each of the Group's business units.

Risk taking and the management thereof forms the first line of defence and is facilitated through both the Group Executive Committee and the Balance Sheet and Capital Management Committee.

Risk control and oversight constitutes the second line of defence, and is achieved through the operation of the Group-Executive Risk Committee and its sub-committees which monitor and keep risk exposures under regular review. These committees are supported by the Group Chief Risk Officer, with functional oversight provided by Group Risk, Group Compliance and Group Security.

Group Risk has responsibility for establishing and embedding a capital management and risk oversight framework and culture consistent with our risk appetite that protects and enhances the Group's embedded and franchise value. Group Compliance provides verification of compliance with regulatory standards and informs the Board, as well as the Group's management, on key regulatory issues affecting the Group. Group Security is responsible for developing and delivering appropriate security measures with a view to protecting the Group's staff, physical assets and intellectual property.

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Risk appetite and limits

(Audited)

The extent to which we are willing to take risk in the pursuit of our objective to create shareholder value is defined by a number of risk appetite statements, operationalised through measures such as limits, triggers and indicators. These appetite statements and measures are approved by the Board on recommendation of the Group Risk Committee and are subject to annual review.

We define and monitor aggregate risk limits based on financial and non-financial stresses for our earnings volatility, liquidity and capital requirements as follows:

Earnings volatility: the objectives of the limits are to ensure that:

- a. the volatility of earnings is consistent with the expectations of stakeholders;
- b. the Group has adequate earnings (and cash flows) to service debt, expected dividends and to withstand unexpected shocks; and
- c. earnings (and cash flows) are managed properly across geographies and are consistent with funding strategies.

The two measures used to monitor the volatility of earnings are EEV operating profit and IFRS operating profit, although EEV and IFRS total profits are also considered.

Liquidity: the objective is to ensure that the Group is able to generate sufficient cash resources to meet financial obligations as they fall due in business as usual and stressed scenarios.

Capital requirements: the limits aim to ensure that:

- a. the Group meets its internal economic capital requirements;
- b. the Group achieves its desired target rating to meet its business objectives; and
- c. supervisory intervention is avoided.

The two measures used are the EU Insurance Groups Directive (IGD) capital requirements and internal economic capital requirements. In addition, capital requirements are monitored on both local statutory and future Solvency II regulatory bases.

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We also define risk appetite statements and measures (ie limits, triggers, indicators) for the major constituents of each risk type as categorised and defined in the Group Risk Framework, where appropriate. These appetite statements and measures cover the most significant exposures to the Group, particularly those that could impact our aggregate risk limits. The Group Risk Framework risk categorisation is shown in the table below.

Category	Risk type	Definition
Financial risks	Market risk	The risk of loss for the Group's business, or of adverse change in the financial situation, resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.
	Credit risk	The risk of loss for the Group's business or of adverse change in the financial position, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event (eg downgrade or spread widening).
	Insurance risk	The risk of loss for the Group's business or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of a number of insurance risk drivers. This includes adverse mortality, longevity, morbidity, persistency and expense experience.
	Liquidity risk	The risk of the Group being unable to generate sufficient cash resources or to meet financial obligations as they fall due in business as usual and stress scenarios.
Non-financial risks	Operational risk	The risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events other than those covered by business environment risk.
	Business environment risk	Exposure to forces in the external environment that could significantly change the fundamentals that drive the business's overall strategy.
	Strategic risk	Ineffective, inefficient or inadequate senior management processes for the development and implementation of business strategy in relation to the business environment and the Group's capabilities.

Our risk appetite framework forms an integral part of our annual business planning cycle. The Group Risk Committee is responsible for reviewing the risks inherent in the Group's business plan and for providing the Board with input on the risk/reward trade offs implicit therein. This review is supported by the Group Risk function, which uses submissions by business units to calculate the Group's aggregated position (allowing for diversification effects between business units) relative to the aggregate risk limits.

Risk policies

(Audited)

Risk policies set out specific requirements for the management of, and articulate the risk appetite for, key risk types. There are policies for credit, market, insurance, liquidity, operational and tax risk, as well as dealing controls. They form part of the Group Governance Manual, which was developed to make a key contribution to the sound system of internal control that we are expected to maintain under the UK Corporate Governance Code and the Hong Kong Code on Corporate Governance Practices. Group Head Office and business units confirm that they have implemented the necessary controls to evidence compliance with the Group Governance Manual.

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Risk culture

(Unaudited)

We work to promote a responsible risk culture in three main ways:

- a. by the leadership and behaviours demonstrated by management;
- b. by building skills and capabilities to support management; and
- c. by including risk management (through the balance of risk with profitability and growth) in the performance evaluation of individuals.

The remuneration strategy at Prudential is designed to be consistent with its risk appetite, and the Group Chief Risk Officer advises the Group Remuneration Committee on adherence to our risk framework and appetite.

Risk reporting

(Unaudited)

An annual top-down identification of our top risks assesses the risks that have the greatest potential to impact the Group's operating results and financial condition. The management information received by the Group Risk Committees and the Board is tailored around these risks, and it also covers ongoing developments in other key and emerging risks. A discussion of the key risks, including how they affect our operations and how they are managed, follows below.

Key risks

Market risk

(i) Investment risk

(Audited)

In Prudential UK&E investment risk arises from the assets in the with-profits fund. This risk impacts the shareholders' interest in future transfers and is driven predominantly by equities in the fund as well as by other investments such as property and bonds. The fund's large inherited estate, estimated at £8.0 billion as at 31 December 2013 (31 December 2012: £7.0 billion), can absorb market fluctuations and protect the fund's solvency. The inherited estate is partially protected against falls in equity markets through an active hedging policy.

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

In Jackson, investment risk arises in relation to the assets backing the policies. In the case of the spread business, including fixed annuities, these assets are generally bonds. For variable annuities business, these assets include

equities as well as other assets such as bonds. In this case the impact on the shareholder comes from value of future mortality and expense fees, and additionally from guarantees embedded in variable annuity products. Shareholders exposure to these guarantees is mitigated through a hedging programme, as well as reinsurance. Further measures have been undertaken including re-pricing initiatives and the introduction of variable annuities without guarantees. Furthermore, it is our philosophy not to compete on price; rather, we seek to sell at a price sufficient to fund the cost it incurs to hedge or reinsure its risks and to achieve an acceptable return.

The Jackson IFRS shareholders equity and US statutory capital are sensitive to the effects of policyholder behaviour on the valuation of GMWB guarantees. Jackson hedges the guarantees on its variable annuity book on

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an economic basis and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate economic result. In particular, under Prudential's Group IFRS reporting, the measurement of the Jackson variable annuity guarantees is typically less sensitive to market movements than the corresponding hedging derivatives, which are held at market value. However, depending on the level of hedging conducted regarding a particular risk type, certain market movements can drive volatility in the economic result which may be less significant under IFRS reporting.

(ii) Interest rate risk

(Audited)

Long-term rates have declined over recent periods in many markets, falling to historic lows. Products that we write are sensitive to movements in interest rates, and while we have already taken a number of actions to de-risk the in-force business as well as re-price and restructure new business offerings in response to historically low interest rates, persistently low rates may impact policyholders' savings patterns and behaviour.

Interest rate risk arises in our UK business from the need to match cash flows for annuity payments with those from investments; movements in interest rates may have an impact on profits where durations are not perfectly matched. As a result, we aim to match the duration of assets and liabilities as closely as possible and the position is monitored regularly. The with-profits business is exposed to interest rate risk as a result of underlying guarantees. Such risk is largely borne by the with-profits fund but shareholder support may be required in extremis.

In Asia, exposure to interest rate risk arises from the guarantees of some non-unit-linked investment products. This exposure arises because it may not be possible to hold assets which will provide cash flows to match exactly those relating to policyholder liabilities. While this residual asset/liability mismatch risk can be managed, it cannot be eliminated.

Jackson is exposed to interest rate risk in its fixed, fixed index and variable annuity books. Movements in interest rates can influence the cost of guarantees in such products, in particular the cost of guarantees may increase when interest rates fall. Interest rate risk across the entire business is managed through the use of interest rate swaps and interest rate options.

(iii) Foreign exchange risk

(Audited)

We principally operate in Asia, the US and the UK. The geographical diversity of our businesses means that we are inevitably subject to the risk of exchange rate fluctuations. Our international operations in the US and Asia, which represent a significant proportion of our operating profit and shareholders' funds, generally write policies and invest in assets denominated in local currency. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in our consolidated financial statements when results are expressed in UK sterling.

We retain revenues locally to support the growth of our business and capital is held in the local currency of the business to meet local regulatory and market requirements, accepting the balance sheet translation risks this can produce. However, in cases where a surplus arising in an overseas operation supports Group capital or where a significant cash remittance is due from an overseas subsidiary to the Group, this exposure is hedged where we believe it is economically optimal to do so. We do not have appetite for significant shareholder exposures to foreign exchange

risks in currencies outside the local territory. Currency borrowings, swaps and other derivatives are used to manage exposures.

Table of Contents**Credit risk**

(Audited)

We invest in fixed income assets in order to match policyholder liabilities and enter into reinsurance and derivative contracts to mitigate various types of risk. As a result, we are exposed to credit and counterparty credit risk across our business. We employ a number of risk management tools to manage credit risk, including limits defined on an issuer/counterparty basis as well as on average credit quality, and collateral arrangements in derivative transactions. The Group Credit Risk Committee oversees credit and counterparty credit risk across the Group.

(i) Debt and loan portfolio

(Audited)

Our UK business is primarily exposed to credit risk in the shareholder backed portfolio, where fixed income assets represent 33 per cent or £26.8 billion of our exposure. Credit risk arising from £48.0 billion of fixed income assets is largely borne by the with-profits fund, although shareholder support may be required should the with-profits fund become unable to meet its liabilities. Our UK business is exposed to a lesser extent to £7.2 billion of fixed income assets in our unit-linked business.

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

Credit risk arises in the general account of our US business, where £30.3 billion of fixed income assets back shareholder liabilities including those arising from fixed annuities, fixed index annuities and life insurance. Included in the portfolio are £2.3 billion of commercial mortgage-backed securities and £1.8 billion of residential mortgage-backed securities, of which £0.9 billion (52 per cent) are issued by US government sponsored agencies.

The shareholder owned debt and loan portfolio of the Group's asset management operations of £2.0 billion as at 31 December 2013 is principally related to Prudential Capital operations. Prudential Capital generates revenue by providing bridging finance, managing investments and operating a securities lending and cash management business for the Prudential Group and our clients.

Further details of the composition of our debt portfolio, and exposure to loans, can be found in the IFRS financial statements.

(ii) Group sovereign debt and bank debt exposure

(Audited)

Sovereign debt⁽¹⁰⁾ represented 15 per cent or £10 billion of the debt portfolio backing shareholder business at 31 December 2013 (31 December 2012: 15 per cent or £10.2 billion). 44 per cent of this was rated AAA and 92 per cent investment grade (31 December 2012: 38 per cent AAA, 92 per cent investment grade). At 31 December 2013, the Group's total holding in continental Europe shareholder sovereign debt⁽¹⁰⁾ was £531 million. 78 per cent of this was AAA rated (31 December 2012: 79 per cent AAA rated). Shareholder exposure to the Eurozone sovereigns of Italy and Spain is £54 million (31 December 2012: £52 million). We do not have any sovereign debt exposure to Greece, Cyprus, Portugal or Ireland.

Our bank exposure is a function of our core investment business, as well as of the hedging and other activities undertaken to manage our various financial risks. Given the importance of our relationship with our banks, exposure to the banking sector is a key focus of management information provided to the Group risk committees and the Board.

⁽¹⁰⁾ Excludes Group's proportionate share in Joint Ventures and unit-linked assets and holdings of consolidated unit trusts and similar funds.

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The exposures held by the shareholder-backed business and with-profits funds in sovereign debt and bank debt securities at 31 December 2013 are given in Note C3.3(b) to the consolidated financial statements in Item 18.

(iii) Counterparty credit risk

(Audited)

We enter into a variety of exchange traded and over-the-counter derivative financial instruments, including futures, options, forward currency contracts and swaps such as interest rate swaps, inflation swaps, cross-currency swaps, swaptions and credit default swaps.

All over-the-counter derivative transactions, with the exception of some Asian transactions, are conducted under standardised International Swaps and Derivatives Association Inc master agreements and we have collateral agreements between the individual Group entities and relevant counterparties in place under each of these master agreements.

Our exposure to derivative counterparty and reinsurance counterparty credit risk is managed using an array of risk management tools, including a comprehensive system of limits. Where appropriate, we reduce our exposure, purchase credit protection or make use of additional collateral arrangements to control our levels of counterparty credit risk.

Insurance risk

(Audited)

The processes of determining the price of our products and reporting the results of our long-term business operations require us to make a number of assumptions. In common with other industry players, the profitability of our businesses depends on a mix of factors including mortality and morbidity levels and trends, persistency, investment performance, unit cost of administration and new business acquisition expenses.

We continue to conduct research into longevity risk using data from our substantial annuity portfolio. The assumptions that we make about future expected levels of mortality are particularly relevant in our UK annuity business. The attractiveness of transferring longevity risk (via reinsurance and other external solutions) is regularly evaluated. These are used as risk management tools where it is appropriate and attractive to do so.

Morbidity risk is mitigated by appropriate underwriting and use of reinsurance. Our morbidity assumptions reflect our recent experience and expectation of future trends for each relevant line of business.

Our persistency assumptions reflect recent experience for each relevant line of business, and any expectations of future persistency. Persistency risk is mitigated by appropriate training and sales processes and managed proactively post sale. Where appropriate, allowance is also made for the relationship either assumed or historically observed between persistency and investment returns, and for the resulting additional risk.

Liquidity risk

(Audited)

Our parent company has significant internal sources of liquidity which are sufficient to meet all of its expected requirements for the foreseeable future without having to make use of external funding. In aggregate the Group has

£2.1 billion of undrawn committed facilities, expiring between 2015 and 2018. In addition, the Group has access to liquidity via the debt capital markets. We also have in place an unlimited commercial paper programme and have maintained a consistent presence as an issuer in this market for the last decade. Liquidity uses and sources have been assessed at the Group and at a business unit level under base case and stressed assumptions. The liquidity resources available and the subsequent Liquidity Coverage Ratio are regularly monitored and we have assessed these to be sufficient.

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Operational risk

(Unaudited)

We are exposed to operational risk through the course of running our business. We are dependent on the successful processing of a large number of transactions, utilising various legacy and other IT systems and platforms, across numerous and diverse products. We also operate under the ever evolving requirements set out by different regulatory and legal regimes (including tax), as well as utilising a significant number of third parties to distribute products and to support business operations.

Our IT, compliance and other operational systems and processes incorporate controls that are designed to manage and mitigate the operational risks associated with our activities. Although we have not experienced a material failure or breach in relation to our legacy and other IT systems and processes to date, we have been, and likely will continue to be, subject to computer viruses, attempts at unauthorised access and cyber security attacks.

We have an operational risk management framework in place that facilitates both the qualitative and quantitative analysis of operational risk exposures. The output of this framework, in particular management information on key operational risk and control assessments, scenario analysis, internal incidents and external incidents, is reported by the business units and presented to the Group Operational Risk Committee. This information also supports business decision-making and lessons-learned activities, the ongoing improvement of the control environment, and determination of the adequacy of our corporate insurance programme.

Global regulatory risk

(Unaudited)

Global regulatory risk is considered a key risk and is classified as a business environment risk under the Group Risk framework risk categorisation.

The European Union (EU) is developing a new prudential regulatory framework for insurance companies, referred to as Solvency II. The Solvency II Directive, which sets out the new framework, was formally approved by the Economic and Financial Affairs Council in November 2009 although its implementation was delayed pending agreement on a directive known as Omnibus II which, once adopted, will amend certain aspects of the Solvency II Directive. The new approach is based on the concept of three pillars – minimum capital requirements, supervisory review of firms – assessments of risk, and enhanced disclosure requirements.

Specifically, Pillar 1 covers the quantitative requirements around own funds, valuation rules for assets and liabilities and capital requirements. Pillar 2 provides the qualitative requirements for risk management, governance and controls, including the requirement for insurers to submit an Own Risk and Solvency Assessment which will be used by the regulator as part of the supervisory review process. Pillar 3 deals with the enhanced requirements for supervisory reporting and public disclosure.

A key aspect of Solvency II is that the assessment of risks and capital requirements are intended to be aligned more closely with economic capital methodologies and may allow us to make use of our internal economic capital models if approved by the Prudential Regulation Authority.

In November 2013, representatives from the European Parliament, the European Commission and the Council of the European Union reached an agreement on the Omnibus II Directive, which is currently expected to be adopted in early

2014. As a result, Solvency II is now expected to be implemented as of 1 January 2016, although the European Commission and the European Insurance and Occupational Pensions Authority are continuing to develop the detailed rules that will complement the high-level principles of the Solvency II and Omnibus II Directives, which are not currently expected to be finalised until mid-2015.

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There is significant uncertainty regarding the final outcome from this process. In particular, certain detailed aspects of the Solvency II rules relating to the determination of the liability discount rate for UK annuity business remain to be clarified and our capital position is sensitive to these outcomes. Further, the effective application of a number of key measures incorporated in the Omnibus II Directive, including the provisions for third-country equivalence, are expected to be subject to supervisory judgement and approval. There is a risk that the effect of the measures finally adopted could be adverse for us, including potentially a significant increase in the capital required to support our business and that we may be placed at a competitive disadvantage to other European and non-European financial services groups. We are actively participating in shaping the outcome through our involvement in industry bodies and trade associations, including the Chief Risk Officer and Chief Financial Officer Forums, together with the Association of British Insurers and Insurance Europe.

Having assessed the requirements of Solvency II, an implementation programme was initiated with dedicated teams to manage the required work across the Group. The activity of the local Solvency II teams is coordinated centrally to achieve consistency in the understanding and application of the requirements. We are continuing our preparations to adopt the regime when it comes into force on 1 January 2016 and are undertaking in parallel an evaluation of the possible actions to mitigate its effects. We regularly review our range of options to maximise the strategic flexibility of the Group. This includes consideration of optimising our domicile as a possible response to an adverse outcome on Solvency II.

Over the coming months we will remain in regular contact with the Prudential Regulation Authority as we continue to engage in the pre-application stage of the approval process for the internal model. In addition, we are engaged in the Prudential Regulation Authority's Individual Capital Adequacy Standards Plus (ICAS+) regime, which is enabling our UK insurance entities to leverage the developments made in relation to the Solvency II internal model for the purpose of meeting the existing ICAS regime.

Currently there are also a number of other global regulatory developments which could impact the way in which we are supervised in our many jurisdictions. These include the Dodd-Frank Act in the US, the work of the Financial Stability Board on Global Systemically Important Insurers (G-SIIs) and the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) being developed by the International Association of Insurance Supervisors (IAIS).

The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States that, among other reforms to financial services entities, products and markets, may subject financial institutions designated as systemically important to heightened prudential and other requirements intended to prevent or mitigate the impact of future disruptions in the US financial system. The full impact of the Dodd-Frank Act on our businesses is not currently clear. However, many of its provisions have a delayed effectiveness and/or require rulemaking or other actions by various US regulators over the coming years.

In July 2013 the Financial Stability Board announced the initial list of nine insurance groups that have been designated as G-SIIs. This list included Prudential as well as a number of our competitors. The designation as a G-SII is likely to lead to additional policy measures being applied to the designated group. Based on a policy framework released by the IAIS concurrently with the initial list, these additional policy measures will include enhanced group-wide supervision. This enhanced supervision is intended to commence immediately and will include the development by July 2014 of a Systemic Risk Management Plan under supervisory oversight and implementation thereafter and by the end of 2014, a group Recovery and Resolution Plan and Liquidity Risk Management Plan. The G-SII regime also introduces two types of capital requirements, the first, a Basic Capital Requirement, designed to act as a minimum group capital requirement and the second, a Higher Loss Absorption requirement for conducting non-traditional insurance and non-insurance activities. The IAIS released a consultation paper on the Basic Capital Requirement in

December 2013 and we will participate in the field testing of the proposals (expected in the first half of 2014). We are monitoring the development of, and the potential impact of, the framework of policy measures and engaging with the Prudential Regulation Authority on the implications of this designation. The IAIS currently expects to finalise the Basic Capital Requirement and

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Higher Loss Absorption proposals by November 2014 and the end of 2015 respectively. Implementation of the regime is likely to be phased in over a period of years with the Basic Capital Requirement expected to be introduced between 2015 and 2019. The Higher Loss Absorption requirement will apply from January 2019 to the insurance groups identified as G-SIIs in November 2017.

ComFrame is also being developed by the IAIS to provide common global requirements for the supervision of insurance groups. The framework is designed to develop common principles for supervision and so may increase the focus of regulators in some jurisdictions. It is also currently expected that some prescriptive requirements, including group capital requirements will be included in the framework. A revised draft ComFrame proposal was released for consultation in October 2013. The IAIS will undertake a field testing exercise from 2014-2018 to assess the impacts of the quantitative and qualitative requirements proposed under ComFrame. ComFrame is expected to be implemented in 2019.

Risk factors

(Unaudited)

Our disclosures covering risk factors can be found in this document. See Item 3, **Key Information Risk Factors**.

Risk mitigation and hedging

(Unaudited)

We manage our actual risk profile against our tolerance of risk. To do this, we maintain risk registers that include details of the risks we have identified and of the controls and mitigating actions we employ in managing them. Any mitigation strategies involving large transactions such as a material derivative transaction involving shareholder business are subject to review at Group level before implementation.

We use a range of risk management and mitigation strategies. The most important of these include: adjusting asset portfolios to reduce investment risks (such as duration mismatches or overweight counterparty exposures); using derivatives to hedge market risks; implementing reinsurance programmes to manage insurance risk; implementing corporate insurance programmes to limit the impact of operational risks; and revising business plans where appropriate.

Capital management

Regulatory capital (IGD)

(Audited)

Prudential is subject to the capital adequacy requirements of the European Union Insurance Groups Directive (IGD) as implemented by the Prudential Regulation Authority in the UK. The IGD capital surplus represents the aggregated surplus capital (on a Prudential Regulation Authority consistent basis) of the Group's regulated subsidiaries less the Group's borrowings. No diversification benefit is recognised.

Our capital position remains strong. We have continued to place emphasis on maintaining the Group's financial strength through optimising the balance between writing profitable new business, conserving capital and generating cash. We estimate that our IGD capital surplus is £5.1 billion at 31 December 2013 (before taking into account the

2013 final dividend), with available capital covering our capital requirements 2.8 times. This compares to a capital surplus of £5.1 billion at the end of 2012 (before taking into account the 2012 final dividend), albeit this was calculated on a different basis.

The movements in 2013 mainly comprise:

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

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Subordinated-debt issuance of £1.1 billion.
Offset by:

The impact of the Thanachart acquisition cost, net of IGD contribution, £0.3 billion;

Reduction in respect of Jackson IGD of £1.2 billion, as described below;

Reduction in the shareholders' interest in future transfers from the UK's with-profits fund asset allowance (as discussed below) of £0.2 billion;

Final 2012 dividend of £0.5 billion and interim 2013 dividend of £0.3 billion;

External financing costs and other central costs, net of tax, of £0.6 billion; and

Negative impact arising from foreign exchange movements of £0.1 billion.

IGD surplus represents the accumulation of surpluses across all of our operations based on local regulatory minimum capital requirements with some adjustments, pursuant to the requirements of Solvency I. The calculation does not fully adjust capital requirements for risk nor does it capture the true economic value of assets. Global regulatory developments, such as Solvency II and ComFrame, aim to ensure that the calculation of regulatory surplus evolves over time into a more meaningful risk sensitive measure.

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

(Unaudited)

In March 2013, we agreed with the PRA to amend the calculation of the contribution Jackson makes to the Group's IGD⁽¹¹⁾ surplus. Until then, the contribution of Jackson to the reported IGD was based on an intervention level set at 75 per cent of US Risk Based Capital Company Action Level. Post this change, the contribution of Jackson to IGD surplus now equals the surplus in excess of 250 per cent of Company Action Level. This is more in line with the level at which we have historically reported free surplus, which had been set at 235 per cent of Company Action Level, and which has been raised to 250 per cent in the first half of 2013 to align with IGD. In the absence of an agreed Solvency II approach, we believe that this change makes the IGD surplus a more meaningful measure and one that is more closely aligned with economic reality. The revised IGD surplus calculation has no impact on the way that the US business is managed or regulated locally. The impact of this change when it was introduced in March 2013, was a reduction in IGD surplus of £1.2 billion.

We continue to have further options available to manage available and required capital. These could take the form of increasing available capital (for example, through financial reinsurance) or reducing required capital (for example, through the mix and level of new business) and the use of other risk mitigation measures such as hedging and reinsurance. A number of such options were utilised through the last financial crisis in 2008 and 2009 to enhance the Group's IGD surplus. One such arrangement allowed the Group to recognise a proportion of the shareholders' interest in future transfers from the UK's with-profits business and this remained in place, contributing £0.4 billion to the IGD at 31 December 2012. We are phasing this out in two equal steps, reducing the credit taken to £0.2 billion from January 2013 and we expect to take zero credit from January 2014.

⁽¹¹⁾ Jackson previously reported IGD on an intervention level set at 75 per cent of US Risk Based Capital Company Action level (CAL). In March 2013 it was agreed with the PRA that going forward Jackson's IGD will be reported on an intervention level set at 250 per cent of CAL.

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

Stress testing

(Unaudited)

As at 31 December 2013, stress testing of our IGD capital position to various events has the following results:

An instantaneous 20 per cent fall in equity markets from 31 December 2013 levels would reduce the IGD surplus by £50 million;

A 40 per cent fall in equity markets (comprising an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period) would reduce the IGD surplus by £250 million;

A 100 basis points reduction (subject to a floor of zero) in interest rates would reduce the IGD surplus by £50 million; and

Credit defaults of ten times the expected level would reduce IGD surplus by £600 million.

We believe that the results of these stress tests, together with our strong underlying earnings capacity, our established hedging programmes and our additional areas of financial flexibility, demonstrate that we are in a position to withstand significant deterioration in market conditions.

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

Economic capital position

(Unaudited)

Following provisional agreement on the Solvency II Omnibus II Directive on 13 November 2013, Solvency II is now expected to come into force on 1 January 2016. Therefore our economic capital results are based on outputs from our Solvency II internal model. Although the Solvency II and Omnibus II Directives, together with draft Level 2

Delegated Acts , provide a viable framework for the calculation of Solvency II results, there remain material areas of uncertainty and in many areas the Group's methodology and assumptions are subject to review and approval by the PRA , the Group's lead regulator. We do not expect to submit our Solvency II internal model to PRA for approval until 2015 and therefore the economic capital position disclosed below should not be interpreted as output from an approved internal model.

At 31 December 2013 the Group has an economic capital⁽¹²⁾ surplus of £11.3 billion (2012: £8.8 billion) and an economic solvency ratio of 257 per cent (2012:215 per cent) before taking into account the 2013 final dividend.

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

Model changes of £0.1 billion: a positive impact to Group surplus arising from a number of modelling enhancements and refinements;

Operating experience of £2.1 billion: generated by in-force business, new business written in 2013, the beneficial impact of management actions taken during 2013 to de-risk the business, and small impacts from non-market assumption changes and non-market experience variances over the year; and

⁽¹²⁾ The methodology and assumptions used in calculating the economic capital result are set out in Item 5, Other results based information .

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Non-operating experience of £0.9 billion: mainly arising from positive market experience during 2013.
Offset by:

Other capital movements of £0.6 billion: a reduction in surplus from the acquisition of Thanachart Life and the preparation for sale of the Japanese business, the negative impact of exchange rate movements, an increase in surplus from new subordinated-debt issuances and a reduction in surplus due to dividend payments in 2013. These results are based on outputs from our current Solvency II internal model, assessed against a draft set of rules and with a number of key working assumptions. Further explanation of the underlying methodology and assumptions are set out in note II of Additional unaudited financial information. By disclosing economic capital information at this stage, the Directors of Prudential plc are seeking to provide an indication of the potential outcome of Solvency II based on the Group's current interpretation of the draft rules. An update of the capital position based on the Solvency II internal model will be reported annually going forward and will evolve to reflect changes to the Solvency II rules, on-going refinements to our internal model calibrations, and feedback from the PRA on Prudential's approach to implementing this new capital regime. Against this background of uncertainty, it is possible that the final outcome of Solvency II could result in a fall in the Group solvency ratio, relative to the results shown above.

Stress testing

(Unaudited)

At 31 December 2013, stress testing the economic capital position gives the following results and demonstrates the Group's ability to withstand significant deteriorations in market conditions:

An instantaneous 20 per cent fall in equity markets would reduce surplus by £0.3 billion but increase the economic solvency ratio to 260 per cent;

An instantaneous 40 per cent fall in equity markets would reduce surplus by £1.0 billion but increase the economic solvency ratio to 258 per cent;

A 100 basis points reduction in interest rates (subject to a floor of zero) would reduce surplus by £1.3 billion and reduce the economic solvency ratio to 225 per cent;

A 100 basis points increase in interest rates would increase surplus by £0.8 billion and increase the economic solvency ratio to 284 per cent; and

A 100 basis points increase in credit spreads would reduce surplus by £1.3 billion and reduce the economic solvency ratio to 254 per cent.

Capital allocation

(Unaudited)

Our approach to capital allocation is to attain a balance between risk and return, investing in those businesses that create shareholder value. In order to efficiently allocate capital, we measure the use of, and the return on, capital.

We use a variety of metrics for measuring capital performance and profitability, including traditional accounting metrics and economic returns. Capital allocation decisions are supported by this quantitative analysis, as well as strategic considerations.

The economic framework measures risk adjusted returns on economic capital, a methodology that ensures meaningful comparison across the Group. Capital utilisation, return on capital and new business value creation are measured at the product level as part of the business planning process.

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Risk Governance

Principles and objectives

Risk is defined as the uncertainty that Prudential faces in successfully implementing its strategies and objectives. This includes all internal or external events, acts or omissions that have the potential to threaten the success and survival of Prudential.

The control procedures and systems established within the Group are designed to manage rather than eliminate the risk of failure to meet business objectives. They can only provide reasonable and not absolute assurance against material misstatement or loss and focus on aligning the levels of risk-taking with the achievement of business objectives.

Material risks will only be retained where this is consistent with Prudential's risk appetite framework and its philosophy towards risk-taking. The Group's current approach is to retain such risks where doing so contributes to value creation and the Group is able to withstand the impact of an adverse outcome, and has the necessary capabilities, expertise, processes and controls to appropriately manage the risk.

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Risk objectives

In keeping with this philosophy, the Group has five objectives for risk and capital management which are as follows:

1. Framework	2. Monitoring	3. Control	4. Communication	5. Culture
Design, implement and maintain a capital management and risk oversight framework, which is consistent with the Group's risk appetite and philosophy towards risk taking	Establish a no surprises risk management culture by identifying the risk landscape, assessing and monitoring risk exposures and understanding change drivers	Implement suitable risk mitigation strategies and remedial actions where exposures are deemed inappropriate, and to manage the response to potentially extreme events	Effectively communicate the Group's risk, capital and profitability position to both internal and external stakeholders	Foster a risk management culture, providing quality assurance and facilitating the sharing of best practice

Prudential's risk governance framework requires that all of the Group's businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Group. The framework is based on the concept of three lines of defence comprising risk-taking and management, risk control and oversight and independent assurance. The diagram below outlines the Group-level framework.

Primary responsibility for strategy, performance management and risk control lies with the Board, which has established the Risk Committee to assist in providing leadership, direction and oversight in respect of the Group's significant risks, and with the Group Chief Executive and the chief executives of each of the Group's business units.

RISK MANAGEMENT THE FIRST LINE OF DEFENCE

Risk taking and the management thereof forms the first line of defence and is facilitated through both the Group Executive Committee and the Balance Sheet and Capital Management Committee.

*Group Executive Committee**(GEC)*

Purpose:

Supports the Group Chief Executive in the executive management of the Group and is comprised of the chief executives of each of the Group's major business units, as well as a number of functional specialists.

Meets: Usually fortnightly

*Balance Sheet and Capital Management Committee**(BSCMC)*

Purpose:

Supports the Chief Financial Officer in the management of the Group's balance sheet, as well as providing oversight to the activities of Prudential Capital, which undertakes the treasury function for the Group. The BSCMC is comprised of a number of functional specialists.

Meets: Monthly

RISK OVERSIGHT THE SECOND LINE OF DEFENCE

Risk control and oversight constitutes the second line of defence, and is achieved through the operation of a number of Group-level risk committees, chaired by either the Chief Financial Officer or the Group Chief Risk Officer, which monitor and keep risk exposures under regular review.

Table of Contents*Group Executive Risk Committee**(GERC)*

Purpose: Oversees the Group's risk exposures, including market, credit, liquidity, insurance and operational risks, and also monitors the Group's capital position.

Reports to: Group Chief Executive

Meets: Monthly

<i>Technical Actuarial Committee (TAC)</i>	<i>Group Credit Risk Committee (GCRC)</i>	<i>Group Operational Risk Committee (GORC)</i>	<i>Group Compliance Committee (GCC)</i>	<i>Solvency II Technical Oversight Committee (STOC)</i>
Purpose:	Purpose:	Purpose:	Purpose:	Purpose:
Sets the methodology for valuing Prudential's assets, liabilities and capital requirements under Solvency II and the Group's internal economic capital basis.	Reviews the Group's investment and counterparty credit risk positions.	Overseas the Group's operational risk exposures.	Oversees the effectiveness of risk and capital management for all financial and non-financial risks faced by Prudential Group and has responsibility to consider Group-wide regulatory compliance risks and controls. Responsibility for these risks has moved to the GORC from January 2014.	Provides ongoing technical oversight and advice to the Board and executive in respect of their duties with regard to the Group's Internal Model.
Reports to: GERC	Reports to: GERC	Reports to: GERC	Reports to: GERC	Reports to: GERC
Meets: Usually monthly and more often as required	Meets: Monthly	Meets: Quarterly	Meets: Every two months	Meets: Usually ten times annually

The Group-level risk committees are supported by the Group Chief Risk Officer, with functional oversight provided by Group Security, Group Compliance and Group Risk. Group Security is responsible for developing and delivering appropriate security measures with a view to protecting the Group's staff, physical assets and intellectual property. Group Compliance provides verification of compliance with regulatory standards and informs the Board, as well as

management, on key regulatory issues affecting the Group. Group Risk has responsibility for establishing and embedding a capital management and risk oversight framework and culture consistent with Prudential's risk appetite that protects and enhances the Group's embedded and franchise value.

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INDEPENDENT ASSURANCE THE THIRD LINE OF DEFENCE

Group-wide Internal Audit (GwIA)

The third line of defence comprises the Group-wide Internal Audit function, which provides independent and objective assurance to the Board, Audit and Risk Committees and the Group Executive Committee, to protect the assets, sustainability and reputation of the organisation.

Reporting

The Risk Committee is provided with regular reports on the activities of the risk function and, where it affects the results of the assurances under the Turnbull compliance statement, the Audit Committee also receives appropriate reporting from the same function. Reports to the Committee include information on the activities of the Group Executive Risk Committee, the Group Operational Risk Committee, the Group Credit Risk Committee, the Solvency II Technical Oversight Committee, the Technical Actuarial Committee and the Group Compliance Committee, as well as reports from Group-wide Internal Audit.

The Group's capital position and overall position against risk limits are reviewed regularly by the Group Executive Risk Committee, the Committee and the Board. Key economic capital metrics, as well as risk-adjusted profitability information, are included in the business plans which are reviewed by the Group Executive Risk Committee, the Committee and the Board.

Routine internal reporting by the business units varies according to the nature of the business, with each business unit responsible for ensuring that its risk reporting framework meets both the needs of the respective business unit and the standards set by the Group Risk function. Clear escalation criteria and processes are in place for the timely reporting of risks and incidents by business units to the various Group-level risk committees and, where appropriate, the Board. Each business unit reviews the risks inherent in their business operations as part of the annual preparation of their business plan, and subsequently these opportunities and risks are regularly reviewed against business objectives with Group Risk. The impact of large transactions or divergences from the agreed business plan are also reviewed and reported by Group Risk.

Investments

General

The overall financial strength of Prudential and the results, both current and future, of the insurance business are in part dependent upon the quality and performance of the various investment portfolios in the United Kingdom, the United States and Asia.

Table of Contents**Prudential's Total Investments**

The following table shows Prudential's insurance and non-insurance investments, net of derivative liabilities, at 31 December 2013. In addition, at 31 December 2013 Prudential had £143.3 billion of external funds under management. Assets held to cover linked liabilities relate to unit-linked and variable annuity products. In this table, investments are valued as set out in note A3.1 to the consolidated financial statements in Item 18.

At 31 December 2013 £m

	UK Insurance	US Insurance	Asia Insurance	Total Insurance	Asset Management	Other	Total	Less: assets to cover linked liabilities and external unit holders^(b)	Group excluding assets to cover linked liabilities and external unit holders
Investment properties	11,448	28	1	11,477			11,477	(2,709)	8,768
Investments accounted for using the equity method	449		268	717	92		809		809
Financial investments:									
Loans	4,173	6,375	922	11,470	1,096		12,566		12,566
Equity securities	39,745	66,008	14,383	120,136	65	21	120,222	(84,780)	35,442
Debt securities	82,014	30,292	18,554	130,860	2,045		132,905	(15,230)	117,675
Other investments	4,603	1,557	41	6,201	61	3	6,265	(120)	6,145
Deposits	11,252		896	12,148	65		12,213	(1,022)	11,191
Total financial investments	141,787	104,232	34,796	280,815	3,332	24	284,171	(101,152)	183,019
Total investments	153,684	104,260	35,065	293,009	3,424	24	296,457	(103,861)	192,596
Derivative liabilities	(804)	(515)	(58)	(1,377)	(112)	(200)	(1,689)	28	(1,661)
Total investments	152,880	103,745	35,007	291,632	3,312	(176)	294,768	(103,833)	190,935

(a) Investments held by asset management operations are further split in note C2.4 to the consolidated financial statements in Item 18.

(b) Prudential's Group statement of financial position includes the line by line investments of unit-linked and the consolidated unit-trusts and similar funds. In the table above, these amounts have been deducted in deriving the underlying investments in the right-hand column.

The disclosure below has been provided on a consistent basis as that included in previous Form 20-F submissions, with analysis focusing on the investments attributable to shareholders and consequently excluding those held to cover linked liabilities or attributable to unit holders of consolidated unit trusts and similar funds.

In addition to the detail provided below further analysis is included in the consolidated financial statements, in accordance with IFRS 7 Financial Instruments: Disclosures . The further analysis is included in notes C2 and C3 to Prudential s consolidated financial statements in Item 18.

Table of Contents**Prudential's Average Investment Return**

The following table shows the income from the investments of Prudential's operations, net of derivative liabilities, by asset category for the periods indicated. This table does not include investment income from assets held to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds. Average investment return has been calculated using the average of opening and closing balances for the appropriate asset.

	Year Ended 31 December					
	2013		2012*		2011*	
	Average investment return	Amount £m	Average investment return	Amount £m	Average investment return	Amount £m
Investment properties						
Net investment income	5.2%	477	5.4%	512	5.7%	557
Net realised investment (losses) gains	(0.1)%	(6)	0.9%	81	(1.0)%	(101)
Net unrealised investment (losses) gains	4.1%	376	(0.6)%	(57)	3.6%	354
Ending assets		8,768		9,459		9,516
Investments accounted for using the equity method						
Ending assets		809		635		516
Loans						
Net investment income	6.5%	787	4.6%	500	4.7%	442
Net realised investment (losses) gains	(0.2)%	(21)	(0.3)%	(37)	0%	1
Net unrealised investment gains	0.2%	19	(0.6)%	(62)	0.5%	46
Ending assets		12,566		11,813		9,706
Equity securities						
Net investment income	2.6%	929	2.4%	841	2.9%	995
Net realised investment gains	3.8%	1,354	7.4%	2,570	4.4%	1,505
Net unrealised investment gains (losses)	4.9%	1,766	(0.3)%	(99)	(11.5)%	(3,959)
Ending assets		35,442		36,517		32,925
Debt securities						
Net investment income	4.4%	5,188	4.7%	5,213	5.0%	5,168
Net realised investment gains (losses)	1.1%	1,299	3.0%	3,396	2.0%	2,038
Net unrealised investment gains (losses)	(3.7)%	(4,308)	1.1%	1,189	2.7%	2,776
Ending assets		117,675		116,605		107,540
Other investments (including derivative liabilities)						
Net investment income	12.5%	597	1.8%	514	9.8%	394
Net realised investment (losses) gains	(25.5)%	(1,218)	(7.2)%	(340)	0.6%	23
Net unrealised investment (losses) gains	(4.6)%	(218)	13.1%	620	8.6%	347
Ending assets, net of derivative liabilities		4,484		5,078		4,408
Deposits						
Net investment income	0.8%	85	0.9%	90	0.9%	78
Ending assets		11,191		10,819		8,826
Total						

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Net investment income	4.2%	8,063	4.2%	7,670	4.5%	7,634
Net realised investment gains (losses)	0.7%	1,408	3.1%	5,670	2.0%	3,466
Net unrealised investment gains (losses)	(1.2)%	(2,365)	0.9%	1,591	(0.3)%	(436)
Ending assets, net of derivative liabilities		190,935		190,926		173,437

* The 2012 and 2011 comparatives have been adjusted from those previously published for the retrospective application of new accounting standards described in note A2 to Prudential's consolidated financial statements in Item 18.

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Prudential's Insurance Investment Strategy and Objectives

Prudential's insurance investments support a range of businesses operating in many geographic areas. Each of the operations formulates a strategy based on the nature of its underlying liabilities, its level of capital and its local regulatory requirements.

Internal funds under management

Prudential manages 73 per cent of its group funds principally through its fund management businesses, M&G in the UK, PPM America in the United States and Eastspring Investments in Asia. The remaining 27 per cent of the Group's funds mainly relate to assets held to back unit-linked, unit trust and variable annuity liabilities.

In each of the operations, local management analyses the liabilities and determines asset allocation, benchmarks and permitted deviations from these benchmarks appropriate for its operation. These benchmarks and permitted deviations are agreed with internal fund managers, who are responsible for implementing the specific investment strategy through their local fund management operations.

Investments Relating to UK Insurance Business

Strategy

In the UK, Prudential tailors its investment strategy for long-term business, other than unit-linked business, to match the type of product a portfolio supports. The primary distinction is between with-profits portfolios and non-participating portfolios, which include the majority of annuity portfolios. Generally, the objective is to maximise returns while maintaining investment quality and asset security and adhering to the appropriate government regulations.

Consistent with the product nature, in particular regarding guarantees, the with-profits fund's investment strategy emphasises a well-diversified equity portfolio (containing some international equities), real estate (predominantly in the UK), UK and international fixed income securities and cash.

For Prudential's UK pension annuities business and other non-participating business the objective is to maximise profits while ensuring stability by closely matching the cash flows of assets and liabilities. To achieve this matching, the strategy is to invest in fixed income securities of appropriate maturity dates.

For Prudential's unit-linked business, the primary objective is to maximise investment returns subject to following an investment policy consistent with the representations Prudential has made to its unit-linked product policyholders.

Table of Contents**Investments**

The following table summarises the total investments, net of derivative liabilities, of the UK insurance business at 31 December 2013.

At 31 December 2013 £m

	SAIF	PAC with- profits fund	Other	Total	Less: assets to cover linked liabilities and external unit holders ^(a)	Total excluding assets to cover linked liabilities and external unit holders
Investment properties	456	8,804	2,188	11,448	(2,709)	8,739
Investment accounted for using the equity method		383	66	449		449
Financial investments:						
Loans	96	2,728	1,349	4,173		4,173
Equity securities	2,060	21,767	15,918	39,745	(14,114)	25,631
Debt securities	3,340	44,715	33,959	82,014	(8,070)	73,944
Other investments	315	3,986	302	4,603	(100)	4,503
Deposits	694	8,488	2,070	11,252	(764)	10,488
Total financial investments	6,505	81,684	53,598	141,787	(23,048)	118,739
Total investments	6,961	90,871	55,852	153,684	(25,757)	127,927
Derivative liabilities	(10)	(498)	(296)	(804)	28	(776)
Total investment, net of derivative liabilities	6,951	90,373	55,556	152,880	(25,729)	127,151

(a) Please refer to the notes in the total Group investments table.

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The following table shows additional analysis of the investments relating to Prudential's UK insurance business, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, at 31 December 2013. The 'Other' column includes investments relating to solvency capital of unit-linked funds and investments relating to non-life long-term business.

	At 31 December 2013 £m					
	With- Profits	PRIL	SAIF	Other	Total	Total %
Investment properties	6,881	1,194	456	208	8,739	6.9
Investments accounted for using the equity method	383			66	449	0.4
Financial investments:						
Loans:						
Mortgage loans	1,173	182	10	1,161	2,526	
Policy loans	7		5		12	
Other loans	1,548	4	81	2	1,635	
Total loans and receivables	2,728	186	96	1,163	4,173	3.3
Equity securities:						
United Kingdom:						
Listed	10,793	1	1,026	76	11,896	
Unlisted	765		6		771	
Total United Kingdom	11,558	1	1,032	76	12,667	10.0
International:						
United States	1,566		150		1,716	
Europe (excluding the United Kingdom)	6,120		459		6,579	
Japan	965		105	1	1,071	
Pacific (excluding Japan)	1,735		143	7	1,885	
Other	1,541		171	1	1,713	
Total international	11,927		1,028	9	12,964	10.2
Total equity securities	23,485	1	2,060	85	25,631	20.2
Debt securities:						
UK government	2,331	2,072	96	534	5,033	
US government	1,414		196	1	1,611	
Other	40,076	21,448	3,048	2,728	67,300	
Total debt securities	43,821	23,520	3,340	3,263	73,944	58.1
Other investments:						
Other financial investments	2,818		228	1	3,047	

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Derivative assets	1,084	285	87		1,456	
Total other investments	3,902	285	315	1	4,503	3.5
Deposits	8,489	849	694	456	10,488	8.2
Total investments	89,689	26,035	6,961	5,242	127,927	100.6
Derivative liabilities	(487)	(188)	(10)	(91)	(776)	(0.6)
Total investment, net of derivative liabilities	89,202	25,847	6,951	5,151	127,151	100.0

Table of Contents*Equity Securities*

Prudential's UK insurance operations, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, had £25,631 million invested in equities at 31 December 2013. Most of these equities support Prudential Assurance's with-profits fund and the SAIF fund, both of which are managed using the same general investment strategy.

The following table shows the geographic spread of this equity portfolio by market value in accordance with the policies described in note A3.1 to the consolidated financial statements in Item 18.

	At 31 December 2013	
	Market Value £m	%
United Kingdom	12,667	49.4
United States	1,716	6.7
Europe (excluding United Kingdom)	6,579	25.7
Japan	1,071	4.2
Pacific (excluding Japan)	1,885	7.4
Other	1,713	6.6
Total	25,631	100.0

The UK equity holdings are well diversified. Prudential held equities in 374 UK companies at 31 December 2013. The ten largest holdings in UK equities at 31 December 2013 amounted to £3,685 million, accounting for 14 per cent of the total UK equity holdings of £25,631 million supporting the UK insurance operations. The following table shows the market value of the ten largest holdings in UK equities at 31 December 2013.

	At 31 December 2013	
	Market Value £m	Percentage of Total UK equities
Vodafone Group	577	2.3
BP	542	2.1
GlaxoSmithKline	444	1.7
HSBC Holdings	393	1.5
British American Tobacco	383	1.5
Royal Dutch Shell	340	1.3
Rio Tinto	335	1.3
Diageo	251	1.0
BT	235	0.9
Rolls Royce	185	0.7
Total	3,685	14.3

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A wide variety of industry sectors are represented in Prudential's equity portfolio. At 31 December 2013, within the £12,667 million in UK equities supporting the UK insurance operations, Prudential had £10,629 million, or 83.9 per cent of the holdings, invested in ten industries. The following table shows the primary industry concentrations based on market value of the portfolio of UK equities relating to the UK insurance business at 31 December 2013.

	At 31 December 2013	
	Market Value £m	Percentage of total UK equities
Banks	2,184	17.3
Oil & gas producers	1,737	13.8
Pharmaceuticals & biotechnology	1,262	10.0
Mobile telecommunications	956	7.5
Mining	888	7.0
Support services	838	6.6
Financial services	779	6.1
Travel & leisure	697	5.5
Media	690	5.4
Tobacco	598	4.7
Total	10,629	83.9

Debt Securities

At 31 December 2013, of the debt securities held by the UK insurance operations, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, 97.8 per cent were issued by corporations and overseas governments other than the US, 6.8 per cent were issued or guaranteed by the UK government and 2.2 per cent were issued or guaranteed by the US government. These guarantees relate only to payment and, accordingly, do not provide protection against fluctuations in market price that may occur during the term of the fixed income securities.

The following table shows the market value of the debt securities portfolio by maturity at 31 December 2013, in accordance with the policies described in note A3.1 to the consolidated financial statements in Item 18.

	At 31 December 2013	
	Market Value £m	%
Securities maturing:		
Within one year	879	1.2
Over one year and up to five years	13,567	18.3
Over five years and up to ten years	16,121	21.8
Over ten years and up to fifteen years	11,413	15.4
Over fifteen years	31,964	43.3
Total debt securities	73,944	100.0

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The following table shows debt securities by rating:

	At 31 December 2013	
	Market Value £m	%
S&P AAA	8,025	10.9
S&P AA+ to AA-	9,360	12.7
S&P A+ to A-	19,001	25.7
S&P BBB+ to BBB-	15,176	20.5
S&P Other	2,992	4.0
	54,554	73.8
Moody s Aaa	2,095	2.8
Moody s Aa1 to Aa3	5,308	7.2
Moody s A1 to A3	2,014	2.7
Moody s Baa1 to Baa3	1,101	1.5
Moody s Other	126	0.2
	10,644	14.4
Fitch	534	0.7
Other	8,212	11.1
Total debt securities	73,944	100.0

In the table above, Standard & 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. 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. Further information is provided in note C3.3 to the consolidated financial statements in Item 18.

Real Estate

At 31 December 2013, Prudential's UK insurance operations, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, had £8,739 million of investments in real estate. The following table shows the real estate portfolio by type of investment. The real estate investments are shown at market value in accordance with the policies described in note A3.1 to the consolidated financial statements in Item 18.

	At 31 December 2013	
	Market Value £m	%
Office buildings	3,460	39.5
Shopping centers/commercial	3,572	40.9
Retail warehouses/industrial	1,360	15.6

Development	84	1.0
Other	263	3.0
Total	8,739	100.0

Approximately 52.7 per cent of the UK held real estate investment is located in London and Southeast England with 42.7 per cent located throughout the rest of the UK and the remaining 4.6 per cent located overseas.

Table of Contents**Investments Relating to Prudential's US Insurance Business****Strategy**

The investment strategy of the US insurance operations, for business other than the variable annuity business, is to maintain a diversified and largely investment grade debt securities portfolio that maintains a desired investment spread between the yield on the portfolio assets and the rate credited on policyholder liabilities. Interest rate scenario testing is continually used to monitor the effect of changes in interest yields on cash flows, the present value of future profits and interest rate spreads.

The investment portfolio of the US insurance operations consists primarily of debt securities, although the portfolio also contains investments in mortgage loans, policy loans, common and preferred stocks, derivative instruments, cash and short-term investments and miscellaneous other investments.

Investments

The following table shows total investments, net of derivative liabilities, relating to the US insurance operations at 31 December 2013.

	31 December 2013 £m		
	Variable annuity separate account assets	Fixed annuity, GIC and other business	Total
Investment properties		28	28
Financial investments:			
Loans		6,375	6,375
Equity securities	65,681	327	66,008
Debt securities		30,292	30,292
Other investments		1,557	1,557
Deposits			
Total financial investments	65,681	38,551	104,232
Total investments	65,681	38,579	104,260
Derivative liabilities		(515)	(515)
Total investment, net of derivative liabilities	65,681	38,064	103,745

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The following table further analyses the investments, net of derivative liabilities of the US insurance operations, excluding the separate account investments supporting the variable annuity business, at 31 December 2013.

	31 December 2013	
	£m	%
Non-institutional		
Investment properties	28	0.1
Loans	6,042	15.9
Equity securities	270	0.7
Debt Securities		
Corporate securities	20,397	53.6
Government securities	3,318	8.7
Residential mortgage backed securities	1,655	4.3
Commercial mortgage backed securities	2,127	5.6
Other debt securities	482	1.3
Total debt securities	27,979	73.5
Other investments	1,398	3.7
Derivative liabilities	(367)	(1.0)
Total non-institutional	35,350	92.9
Institutional		
Loans	333	0.9
Equity securities	57	0.1
Debt Securities		
Corporate securities	1,873	4.9
Government securities	12	
Residential mortgage backed securities	105	0.3
Commercial mortgage backed securities	212	0.6
Other debt securities	111	0.3
Total debt securities	2,313	6.1
Other investments	159	0.4
Derivative liabilities	(148)	(0.4)
Total institutional	2,714	7.1
Total		
Investment properties	28	0.1
Loans	6,375	16.8
Equity securities	327	0.8
Debt Securities		

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Corporate securities	22,270	58.5
Government securities	3,330	8.7
Residential mortgage backed securities	1,760	4.6
Commercial mortgage backed securities	2,339	6.2
Other debt securities	593	1.6
Total debt securities	30,292	79.6
Other investments	1,557	4.1
Derivative liabilities	(515)	(1.4)
Total	38,064	100.0

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Under IFRS, for the insurance operations, debt securities are shown at fair value and loans are at amortised cost (with the exception of certain policy loans which are held to back liabilities for funds withheld under reinsurance arrangement, which are also accounted on a fair value basis). Equity securities and investment properties are shown at fair value. The fair value of unlisted securities is estimated by Jackson using independent pricing services or analytically determined values.

*Debt Securities**Corporate Securities*

At 31 December 2013, the US insurance operations had £22,270 million of corporate securities representing 57.7 per cent of the US insurance operations total investments excluding separate account investments. Of the £22,270 million, £18,875 million consisted of debt securities that are publicly traded or trade under Rule 144A under the Securities Act of 1933, as amended (Rule 144A) and £3,395 million consisted of investments in non-Rule 144A privately placed fixed income securities.

Rule 144A is a 1990 United States Securities and Exchange Commission (SEC) rule that facilitates the resale of privately placed securities that are without SEC registration to qualified institutional investors. The rule was designed to develop a more liquid and efficient institutional resale market for unregistered securities.

For statutory reporting in the US, debt securities are classified into six quality categories specified by the Securities Valuation Office of the National Association of Insurance Commissioners (NAIC). The categories range from Class 1 (the highest) to Class 6 (the lowest). Performing securities are designated as Classes 1 to 5. Securities in or near default are designated Class 6. Securities designated as Class 3, 4, 5 and 6 are non-investment grade securities. Generally, securities rated AAA to A by nationally recognised statistical ratings organisations are reflected in Class 1, BBB in Class 2, BB in Class 3 and B and below in Classes 4 to 6. If a designation is not currently available from the NAIC, Jackson's investment adviser, PPM America, provides the designation for the purposes of disclosure below.

The following table shows the quality of the publicly traded and SEC Rule 144A debt securities by NAIC classifications:

NAIC designation:	2013		2012	
	Carrying value £m	% of total	Carrying value £m	% of total
1	7,254	38	7,575	39
2	10,658	56	11,096	56
3	664	4	681	3
4	275	2	315	2
5	21		27	
6	3		5	
	18,875	100	19,699	100

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The following table shows the quality of the non-SEC Rule 144A private placement portfolio by NAIC classifications:

NAIC designation:	2013		2012	
	Carrying value £m	% of total	Carrying value £m	% of total
1	1,299	38	1,392	39
2	2,025	60	2,067	59
3	58	2	66	2
4	2		3	
5	11		14	
6				
	3,395	100	3,542	100

Residential Mortgage-Backed Securities

At 31 December 2013, the US insurance operations had £1,760 million of residential mortgage-backed securities, representing 4.6 per cent of US insurance operations total investments, excluding separate account investments. At 31 December 2013, of the £1,760 million, 1.5 per cent of this total were rated AAA. (Standard & Poor's ratings have been used where available and for securities where Standard & Poor's ratings are not immediately available, those produced by Moody's and then Fitch have been used as an alternative).

The primary investment risk associated with residential mortgage-backed securities is that a change in the interest rate environment or other economic conditions could cause payment of the underlying obligations to be made slower or quicker than was anticipated at the time of their purchase. If interest rates decline, then this risk is called "pre-payment risk" and the underlying obligations will generally be repaid quicker when the yields on reinvestment alternatives are lower. Alternatively, if interest rates rise, the risk is called "extension risk" and the underlying obligations will generally be repaid slower when reinvestment alternatives offer higher returns. Residential mortgage-backed securities offer additional yield to compensate for these risks. The US operations can manage pre-payment risk, in part, by reducing crediting rates on its products.

Commercial Mortgage-Backed Securities

At 31 December 2013, the US insurance operations had £2,339 million of commercial mortgage-backed securities, representing 6.1 per cent of US insurance operations total investments, excluding separate account investments. 42.6 per cent of this total were rated AAA (Standard & Poor's ratings have been used where available and for securities where S&P ratings are not immediately available, those produced by Moody's and then Fitch have been used as an alternative). Due to the structures of the underlying commercial mortgages, these securities do not present the same pre-payment or extension risk as residential mortgage-backed securities.

Other Debt Securities

At 31 December 2013, the US insurance operations had £593 million of other debt securities, representing 1.5 per cent of US insurance operations total investments, excluding separate account investments.

Loans

At 31 December 2013, loans totaled £6,375 million, representing 16.5 per cent of US insurance operations total investments, excluding separate account investments. Of the total, £3,671 million related to commercial mortgage loans and £2,704 million to policy loans. Of the £3,671 million policy loans, £1,887 million were held

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to back the liabilities for funds withheld under reinsurance arrangement attaching to the purchase of REALIC in 2012.

Commercial Mortgage Loans

At 31 December 2013, commercial mortgage loans represented 9.5 per cent of US insurance operations total investments excluding separate account investments. The average loan size is £6.5 million, collateralised by properties located in the United States.

Jackson has addressed the risk of these investments by building a portfolio that is diverse both in geographic distribution and property type.

The property types are mainly industrial, multi-family residential, suburban office, retail and hotel. The breakdown of the market value by property type is as follows:

	31 December 2013 %
Industrial mortgage loans	28.4
Multi-family residential mortgage loans	29.9
Retail mortgage loans	18.8
Suburban office mortgage loans	12.6
Hotel mortgage loans	9.0
Other loans	1.3
Total	100.0

The following table shows the geographic split of the collateral for these loans:

	31 December 2013 %
California	12.0
Florida	9.2
Georgia	6.3
Illinois	5.8
Texas	10.0
Other (sum of all states < 5% each)	56.7
Total	100.0

Commercial mortgages generally involve more credit risk than residential mortgages due to several factors, including larger loan size, general and local economic conditions, local real estate conditions and the credit quality of the underlying tenants for the properties. Jackson's investment policy and strict underwriting standards are designed to reduce these risks while maintaining attractive yields. In contrast to residential mortgage loans, commercial mortgage loans have minimal or no pre-payment and extension risk.

Policy Loans

Policy loans represented 7.0 per cent of US insurance operations total investments, excluding separate account investments at 31 December 2013. Policy loans are fully secured by individual life insurance policies or annuity policies and are contractual arrangements made under the policy. As described above, £1,887 million out of the £2,704 million policy loans were held to back the liabilities for funds withheld under reinsurance arrangement attaching to the purchase of REALIC in 2012.

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Equity securities supporting US insurance operations, excluding separate account investments, totaled £327 million at 31 December 2013.

Other

Other financial investments of £1,557 million, representing 4.0 per cent of US insurance operations total investments, excluding separate account investments at 31 December 2013 were made up of £791 million of limited partnership interests and derivative assets of £766 million.

The largest investment in the limited partnerships category is a £123 million interest in the PPM America Private Equity Fund. The remainder of this category consists of diversified investments in 165 other partnerships managed by independent money managers that generally invest in various equity and fixed income loans and securities.

Investments Relating to Asian Insurance Business

Prudential's Asian insurance operations' investments, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, largely support the business of Prudential's Singapore, Hong Kong, Malaysia, and Japan operations.

The following table shows Asia's investments, net of derivative liabilities, at 31 December 2013. In this table, investments are valued in accordance with the policies described in note A3.1 to the consolidated financial statements in Item 18.

	31 December 2013 £m				Less: assets to cover linked liabilities and external unit holders ^(a)	Total excluding assets to cover linked liabilities and external unit holders	%
	With-profits business	Unit-linked assets	Other	Total			
Investment properties			1	1		1	
Investments accounted for using the equity method			268	268		268	1.2
Financial investments:							
Loans	522		400	922		922	4.0
Equity securities	4,538	9,274	571	14,383	(4,985)	9,398	41.6
Debt securities	9,736	2,451	6,367	18,554	(7,160)	11,394	50.5
Other investments	8	21	12	41	(20)	21	0.1
Deposits	304	260	332	896	(258)	638	2.8
Total financial investments	15,108	12,006	7,682	34,796	(12,423)	22,373	99.0

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Total investments	15,108	12,006	7,951	35,065	(12,423)	22,642	100.2
Derivative liabilities	(40)	(2)	(16)	(58)		(58)	(0.2)
Total investment, net of derivative liabilities	15,068	12,004	7,935	35,007	(12,423)	22,584	100.0

(a) Please refer to notes in the total Group investments table.

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Prudential manages interest rate risk in Asia by matching liabilities with fixed interest assets of the same duration to the extent possible. Asian fixed interest markets however generally have a relatively short bond issue term, which makes complete matching challenging. A large proportion of the Hong Kong liabilities are denominated in US dollars and Prudential holds US fixed interest securities to back these liabilities.

Debt Securities

The following table shows rating categorisation of the debt security investments of Prudential Corporation Asia's long-term insurance fund, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, at 31 December 2013.

	31 December 2013	
	Market Value £m	%
S&P AAA	584	5.1
S&P AA+ to AA	3,772	33.1
S&P A+ to A	1,314	11.5
S&P BBB+ to BBB	858	7.5
S&P Other	821	7.2
	7,349	64.4
Moody's Aaa	1,313	11.5
Moody's Aa1 to Aa3	76	0.7
Moody's A1 to A3	86	0.8
Moody's Baa1 to Baa3	189	1.7
Moody's Other	31	0.3
	1,695	15
Fitch	573	5
Other*	1,777	15.6
Total debt securities	11,394	100.0

* Further information is provided in note C3.3 to the consolidated financial statements in item 18.

Equity Securities

The following table shows a geographic analysis of equity security investments of Asia's long-term insurance fund, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, at 31 December 2013.

31 December 2013

	Market Value £m	%
Hong Kong	4,500	47.9
Singapore	4,114	43.7
Taiwan	421	4.5
Malaysia	278	3.0
Other	85	0.9
Total	9,398	100.0

Description of Property Corporate Property

As at 31 December 2013, Prudential's UK headquartered businesses occupied approximately 50 properties in the United Kingdom, Europe and India. These properties are primarily offices with some ancillary storage facilities.

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Prudential's global headquarters is located in London and is held on a freehold basis. Of the remainder, the most significant are offices in London and Reading in England, Stirling in Scotland and Mumbai in India. The property in Stirling is held on a freehold basis, and is leased by the business from PAC's long-term fund. The rest of the properties occupied by Prudential's UK based businesses, in the UK and India, are held leasehold. Elsewhere in Europe, 21 of the properties are occupied leasehold and the rest (eleven) are short-term serviced offices. The leasehold properties range in size from 500 to 125,000 sq. ft. Overall, the UK, Europe and Mumbai occupied property portfolio totals approximately 816,000 sq. ft.

Prudential's UK headquartered businesses also hold one surplus owned property and approximately 42 surplus leasehold properties in the United Kingdom, spread geographically throughout the country. This surplus accommodation (ie not occupied by the Group but including amounts sublet) totals approximately 384,000 sq. ft. There is also one surplus land holding in the United Kingdom, of 43 acres. A high proportion of the surplus estate has been sublet to third party occupiers generating income for the Group to cover this overhead. As at 31 December 2013 vacancy within the surplus estate stood at 64,000 sq. ft.

In the United States, Prudential owns Jackson National Life's executive and principal administrative office located in Michigan. Prudential owns a total of seven facilities in Lansing, Michigan, which total approximately 595,000 sq. ft. Prudential also leases premises in Michigan, Colorado, Tennessee, California, Illinois, New York, New Jersey, Georgia, Florida, Wisconsin, Massachusetts, Connecticut, New Hampshire, Pennsylvania, Texas and North Dakota for certain of its operations. Prudential holds 30 operating leases with respect to office space, throughout the United States. The leasehold properties range in size from 500 to 180,000 sq. ft. In the United States, Prudential owns and leases a total of approximately 1,210,000 sq. ft. of property. In addition to the owned and leased properties, Prudential also owns a total of 287 acres of surplus land. This property is all located in Lansing, Michigan.

Prudential's United States headquartered business also sublets three surplus office properties in Lansing, Michigan, totaling approximately 22,500 sq. ft., located in one of its owned properties.

In Asia, Prudential owns or leases properties principally in Hong Kong, Singapore, Malaysia, Indonesia, Thailand, Philippines, China (50 per cent joint venture), Taiwan, Japan, Vietnam, India (26 per cent joint venture). Korea, United Arab Emirates and Cambodia.

Within these countries, Prudential owns 35 property assets, ranging from office space to land holdings. The breakdown of these owned assets by country is as follows:

Malaysia: six owned assets All office space totaling 12,315 sq. ft.

Philippines: two owned assets All office space totaling 4,278 sq. ft.

Singapore: one owned asset Office space totaling 11,883 sq. ft.

Taiwan: sixteen owned assets All surplus land holdings totaling 30,137 sq. ft.

Thailand: ten owned assets All surplus land holdings totaling 72,109 sq. ft.

Prudential has (excluding India but including the China joint venture), a total of 495 operating leases, (external and intercompany leases), totaling approximately 4.33 million square feet of property.

In India, Prudential holds a minority stake (26 per cent) with ICICI in a joint venture which holds the property interests. The property is occupied by the ICICIPru Life and ICICIPru AMC businesses. The holding comprises approximately 700 leased properties, totaling approximately 1.2 million sq. ft. There is one owned and occupied asset comprising approximately 40,000 sq. ft. in Mumbai.

Prudential Corporation Asia's real estate strategy moving forward involves consolidation of its existing property portfolio to support its local business strategies throughout the region, to take advantage of opportunities in the regional markets in securing long term cost savings for the business while maintaining competitive advantage.

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The United States headquartered business is constructing an additional 260,000 sq. ft. of owned office space adjoining its principal offices in Lansing, Michigan, which will be occupied from 2016 onwards. There have been no other property transactions subsequent to 31 December 2013 which would have a material impact on the financial position of Prudential.

Prudential believes that its facilities are suitable for the conduct of its businesses. We periodically review our space requirements and may acquire or lease new space as needed to accommodate any future needs of our businesses. Prudential's operating leases have no material commercial value.

In summary, Prudential owns 18 properties which it also occupies and which are accounted for as owner occupied. These properties are comprised of nine in Asia, two in the UK and seven in the US. ICICIPru also owns and occupies one property in India. The total value of Prudential's owner occupied properties at 31 December 2013 was £308 million. This represents less than 0.1 per cent of Prudential's total assets.

Prudential is the lessee under 562 operating leases used as office accommodation, comprising 495 leases held by the Asian business, 30 leases held by the US business and 37 leases held by the UK businesses. For the UK based businesses, Prudential holds 11 short-term serviced offices.

Investment Interests

Prudential also holds interests in properties within its investment portfolios accounted for as investment property. At 31 December 2013 the total value of investment properties was £11,477 million and comprised 545 properties held by the UK, 6 held by the US and 1 held by the Asia business. In total they comprised 3.5 per cent of Prudential's total assets. The UK business' holdings account for over 99 per cent by value of the total investment properties.

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Competition

General

There are other significant participants in each of the financial services markets in which Prudential operates. Its competitors include both mutual and stock financial companies. In addition, regulatory and other developments in many of Prudential's markets have blurred traditional financial service industry lines and opened the market to new competitors and increased competition. In some of the Prudential's markets, other companies may have greater financial resources, allowing them to benefit from economies of scale, and may have stronger brands than Prudential does in that market.

The principal competitive factors affecting the sale of Prudential's products in its chosen markets are:

price and yields offered,

financial strength and ratings,

commission levels, charges and other expenses,

range of product lines and product quality,

brand strength, including reputation and quality of service,

distribution channels,

investment management performance and

historical bonus/contract enhancement and bonus interest levels.

An important competitive factor is the ratings Prudential receives in some of its target markets, most notably in the United States, from recognised rating organisations. The intermediaries with whom the Prudential works, including financial advisers, tied agents, brokers, wholesalers and financial institutions consider ratings as one factor in determining which provider to purchase financial products from.

Prudential offers different products in its different markets in Asia, the United Kingdom and the United States and, accordingly, faces different competitors and different types of competition in these markets. In all of the markets in which Prudential operates, its products are not unique and, accordingly, it faces competition from market participants who manufacture a varying range of similar and identical products.

Asia

The competitive landscape across the Asia Pacific region differs widely by geographical market, reflecting differing levels of market maturity and regulation. Prudential's competitors include both the subsidiaries of global life insurers and local domestic (including state-owned) entities. Subsidiaries of global life insurance groups that operate in the Asia Pacific region tend to operate in multiple markets in the region, and some currently have top five market shares in a small number of markets. The majority of local domestic life insurers in the Asia Pacific region remain focused on their core home markets. The developed and liberalised markets of Hong Kong and Singapore are dominated by subsidiaries and branches of global life insurance groups. The developing markets in South East Asia such as Indonesia, Vietnam and the Philippines also see a high level of participation by global life insurance groups. The large and relatively mature markets of Korea and Taiwan are dominated by local domestic insurers. In certain countries with continued foreign ownership restrictions (such as China and India), the life insurance markets are dominated by local domestic insurers or by joint venture entities between global insurance groups and local companies.

The global life insurers that are Prudential's competitors in the Asia Pacific region include AIA, Allianz, Aviva, AXA, and Manulife. Other competitors relevant in some of Prudential's key markets include HSBC Life in Hong Kong, Hanwha Life (formerly Korea Life), Kyobo Life and Samsung Life in Korea, Thai Life in Thailand,

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Great Eastern in Singapore and Malaysia, and China Life, China Pacific and Ping An in China. Prudential's principal competitors in respect of its fund management operations across the region largely comprise multinational asset manager such as J.P. Morgan Asset Management, Schroders, HSBC Global Asset Management, Franklin Templeton, Fidelity Worldwide Investment and Aberdeen Asset Management.

United States

Prudential's insurance operations in the United States operate under the Jackson brand. Prudential is not affiliated with Prudential Financial, Inc. or its subsidiary, The Prudential Insurance Company of America.

Jackson's competitors in the United States include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies. National banks, in particular, may become more significant competitors in the future for insurers who sell annuities, due to current legislation, court decisions and regulatory actions. Jackson's principal life insurance company competitors in the United States include AIG, Hartford Life, Prudential Financial, MetLife, Lincoln National, AXA Financial, TIAA-CREF and Allianz.

Jackson does not have a career agency sales force to distribute its annuity products in the United States and, consequently, competes for distributors such as banks, broker-dealers and independent agents.

United Kingdom

Prudential's principal competitors include many of the major retail financial services and fund management companies operating in the United Kingdom. These companies include Aviva, Legal & General, Standard Life, Friends Life, Scottish Widows, Aegon, AXA, Just Retirement, Zurich Financial Services, Fidelity, Invesco Perpetual, Jupiter, Threadneedle, Schroders and BlackRock. Prudential competes with other providers of financial products to be included on financial advisors' panels of preferred providers.

Intellectual Property

Prudential conducts business under the Prudential, Jackson, M&G and Eastspring Investments brand names and logos. It is also the registered owner of over 100 domain names, including www.prudential.co.uk, www.prudentialcorporation-asia.com, www.jackson.com, www.mandg.co.uk, www.eastspringinvestments.com and www.pru.co.uk.

Prudential does not operate in the United States under the Prudential name and there have been long-standing arrangements between it and Prudential Financial, Inc. and its subsidiary, the Prudential Insurance Company of America, relating to their respective uses of the Prudential name. Under these arrangements Prudential Financial Inc has the right to use the Prudential name in the Americas and certain parts of the Caribbean, Japan, Korea and Taiwan and Prudential has the right to use the name everywhere else in the world although third parties have rights to the name in certain countries.

Legal Proceedings

Prudential

Prudential and its subsidiaries are involved in various litigation matters. While an adverse ruling in any individual case may not in itself be material to Prudential, if applied across all similar cases, the potential liabilities may be more significant. Although the outcome of such matters cannot be predicted with certainty, management believes that the

ultimate outcome of such litigation will not have a material adverse effect on the group's financial condition, results of operations or cash flows.

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Jackson

Jackson is involved as a defendant in various litigation matters, including class action and other litigation substantially similar to class action and other litigation pending against many life insurance companies in respect of allegations of misconduct in the sale and administration of insurance products. Jackson generally accrues a liability for legal contingencies with respect to pending litigation once management determines that the contingency is probable and estimable. Accordingly, at 14 March 2014 Jackson had recorded an accrual of £14 million for litigation matters (31 December 2013: £14 million). Management, based on developments to date, believes that the ultimate disposition of the litigation matters is not likely to have a material impact on Jackson's financial condition or results of operations.

Sources

Throughout this annual report, Prudential describes the position and ranking of its overall business and individual business units in various industry and geographic markets. The sources for such descriptions come from a variety of conventional sources generally accepted as relevant business indicators by members of the financial services industry. These sources include information available from the Annuity Specs, Asia Asset Management Magazine, Asosiasi Asuransi Jiwa Indonesia, Association of British Insurers, Association of Vietnamese Insurers, Association of Unit Trusts and Investment Funds, Fitch, Hong Kong Federation of Insurers, Hong Kong Office of the Commissioner of Insurance, HSBC Global Research, Insurance Regulatory and Development Authority of India, Insurance Services Malaysia Berhad, Investment Management Association, Life Insurance Marketing and Research Association (LIMRA), Life Insurance Association of Malaysia, Life Insurance Association of Singapore, Life Insurance Association of Taiwan, Lipper Inc., Morningstar, Moody's, Nielsen Net Ratings, Propriety Research, Service Quality Management Group, SNL Financial, Standard & Poor's, Thai Life Assurance Association, The Asset Benchmark Research, The Advantage Group, The Asset, Townsend and Schupp and UBS.

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SUPERVISION AND REGULATION OF PRUDENTIAL

Supervision and Regulation

Prudential's principal insurance and investment operations are in Asia, the United Kingdom (UK), and the United States (US). Accordingly, it is subject to applicable Asian, UK and US insurance and other financial services regulation which is discussed below.

Until 1 April 2013, the UK Financial Services Authority (the FSA) was Prudential's lead supervisor for the purposes of the EU's Insurance Groups Directive (the IGD) and played a principal role in assessing and ensuring the adequacy of Prudential's solvency and financial stability on a Group-wide basis. The FSA has now been replaced in this role by the Prudential Regulation Authority (the PRA) as part of reforms to the UK regulatory architecture and this role in supplementary Group-level supervision will also be enhanced under the new EU solvency framework, Solvency II. Both of these developments are discussed further below.

As well as coordinating EU-level local regulators in the context of the IGD, as both Prudential's parent company and a significant proportion of its global insurance operations are in the UK, the PRA plays (and the FSA also played) an important coordinating role in regulatory initiatives at a global level. This role is less formal than within the EU and depends principally on the various memoranda of understanding signed with non-EU regulators, including in the US and Asia. In consequence, although the PRA's role as a lead supervisor does not restrict the role of individual local regulators or override the local insurance and other financial services regimes described in the following sections, the PRA's rules and its regulatory agenda impact Prudential's operations globally.

Moreover, because the UK regulatory framework is considerably shaped and influenced by regulations, directives and subsidiary legislation and rules emanating from the EU, the significant Group-wide impact of such rules may, at times, result in legal and regulatory developments in the EU (including the evolving Solvency II framework discussed below) in turn having a significant impact on the business and operations of the Group as a whole.

Global Regulatory Developments and Trends

There are a number of ongoing policy initiatives and regulatory developments at a global level which are having, and will continue to have, an impact on the way Prudential is supervised. These include the work of the Financial Stability Board (FSB) (an international body established to coordinate, develop and promote effective regulatory, supervisory and other financial sector policies in the interests of financial stability) and the work of standard-setting institutions such as the International Association of Insurance Supervisors (IAIS).

The IAIS has various initiatives which are detailed in this section. On 18 July 2013, the IAIS published a methodology for identifying Global Systemically Important Insurers (G-SIIs), and a set of policy measures that will apply to them, which the FSB endorsed. Groups designated as a G-SII will be subject to additional regulatory requirements, including enhanced supervision, development of a Systemic Risk Management Plan (SRMP) and Recovery & Resolution Plan (RRP) and capital requirements. The FSB designated Prudential as a G-SII on 18 July 2013 and the FSB, in consultation with the IAIS and national authorities, will make a decision on the G-SII status of, and appropriate risk mitigating measures for, major reinsurers in July 2014.

In December 2013, the IAIS issued a consultation document to solicit feedback regarding proposed options for the development of global basic capital requirements (BCR) for G-SIIs. These requirements are expected to apply to G-SIIs from 2015 or shortly thereafter. The development of the BCR, which are to apply to all group activities including non-insurance subsidiaries, is the first step of a long-term project to develop risk-based, group-wide global

capital standards. The second step is the development of higher loss absorbency requirements to apply to G-SIIs, due to be completed by the end of 2015. The third step is the development of a risk-based

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group-wide global insurance capital standard, due to be completed by the end of 2016, and to be applied to internationally active insurance groups (IAIGs) from 2019 after refinement and final calibration in 2017 and 2018.

Similar national and regional efforts to curb systemic risk and promote financial stability are also underway in certain of the jurisdictions in which Prudential operates, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) in the US (further discussed in US Supervision and Regulation Financial services regulatory and legislative issues), and legislation in the European Union related to the financial services industry. The aggregate impact and possible interaction of these regulatory developments is difficult to determine at this stage.

The Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) is also being developed by the IAIS. ComFrame is concerned with the on-going supervision of large and complex internationally active insurance groups (IAIGs) and is not focused on whether an insurance group presents risk to the global financial system, which is the focus of the IAIS work on G-SIIs. ComFrame is a set of common principles for supervision of IAIGs designed to assist supervisors and regulators in addressing risks that arise from insurance groups with operations in multiple jurisdictions. On 9 October 2013 the IAIS published a consultation on the latest draft of ComFrame and announced a commitment to develop, as part of ComFrame, a risk-based global insurance capital standard (ICS) by 2016. The IAIS plans to undertake a field testing exercise from 2014 to 2018 to assess the impact of the quantitative and qualitative requirements proposed under ComFrame. Comframe is expected to be implemented in 2019.

At the national level, regulation and supervisory practice is evolving rapidly as regulators seek to strengthen their regimes in light of the lessons of the financial crisis and the influence of international standards (eg IAIS). The following points are discussed in greater detail in the regional sections below, but are worth noting here due to the global impact.

In the UK, the FSA was abolished and replaced by the PRA and the Financial Conduct Authority (FCA), two new authorities which, as discussed further below, have different powers and objectives to those of the FSA. Following the agreement of the Omnibus II Directive at the end of 2013, and its adoption by the European Parliament on 11 March 2014, regulatory attention is expected to refocus back on compliance with Solvency II, which is expected to be implemented in the UK on 1 January 2016.

The regulatory environment continues to evolve in Asia, where economics in the region are in various phases of maturity. In general (though there are exceptions), regulators in developing economies continue to build the regulatory framework relevant to their level of economic development. The IAIS Insurance Core Principles (ICP), which provides a globally accepted framework for the supervision of the insurance sector and ComFrame evolution are expected to create continued development in both prudential and conduct regulations over the next two to three years, particularly in the emerging markets of Asia. Regulatory standards are generally being raised, and insurance companies operating in Asia are finding themselves subject to increasing regulatory supervision and scrutiny. In general, the pace of regulatory developments has increased since 2008 in most markets, particularly in relation to risk capital, consumer protection and governance requirements. This increased regulatory pressure will continue as Asian regulators begin to take on board the new IAIS standards, which is expected to translate into an accelerating trend around a sharper focus on risk management systems and a requirement to hold more capital to manage asset and liability positions. This is not a specific Asia risk.

UK Supervision and Regulation**The Financial Services and Markets Act 2000**

Prudential's insurance and investment businesses in the UK are regulated under the Financial Services and Markets Act 2000 (FSMA 2000). In addition, those businesses are subject to various UK laws (for example, the Data Protection Act 1998 in relation to the processing of customer data and various Pension Acts) some of which

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require the relevant Prudential entity to be licensed or registered. There have been extensive amendments to the FSMA 2000 regime as a result of the Financial Services Act 2012 and the legal cutover to a new regulatory regime on 1 April 2013, described below.

New regulatory regime

Until 1 April 2013, the FSA was the single regulator for all authorised persons carrying on regulated activities in the financial services sector and was empowered to make rules and issue guidance in relation to a wide sphere of activity, encompassing the governance, conduct of business and prudential supervision of firms. From 1 April 2013, the FSA ceased to exist and was replaced by:

The PRA, which oversees macro-prudential regulation of deposit-takers, insurers and some systemically important investment firms; and

The FCA, which is responsible for conduct of business regulation of all authorised firms and the prudential regulation of firms not regulated by the PRA. The FCA has also inherited the majority of the FSA's market regulatory functions (excluding certain functions which sit with the Bank of England).

Transition to the new regulatory regime principally involved the allocation of the FSA's functions and responsibilities between the PRA and FCA, although the PRA and FCA have also been vested with some additional functions to those exercised previously by the FSA. In discharging their respective functions, the PRA and FCA have separate objectives as defined in FSMA 2000. The general objective of the PRA is to promote the safety and soundness of PRA-authorised persons. The PRA also has an insurance objective, which is to contribute to the securing of an appropriate degree of protection for those who are or may become policyholders. The strategic objective of the FCA is to ensure that the relevant markets that it regulates function properly. The FCA has three operational objectives: to secure an appropriate degree of protection for consumers; to protect and enhance the integrity of the UK financial system; and to promote effective competition in the interests of consumers.

The substantive content of the FSA's macro-prudential and conduct of business regulation prior to 1 April 2013, including that discussed below under Main features of regulation applicable to Prudential's insurance and investment business, was not materially affected as a result of the legal cutover, although the substantive content of that regulation (and its interpretation) is expected to evolve differently given the altered statutory objectives and regulatory approaches of the PRA and the FCA.

The approach of the PRA and FCA

Close and regular contact between the PRA and FCA and senior management and those performing controlled functions remains a feature of the UK regulatory regime following 1 April 2013. Although the Advanced Risk Response Operating Framework (ARROW) process previously employed by the FSA has not been adopted by either regulator, both regulators have continued to focus on risk, but with their approaches informed by separate statutory objectives and pursued through distinct supervisory programmes.

To meet its objectives, the FCA's supervision model is based on three pillars: a Firm Systemic Framework (FSF), involving preventative work through structured conduct assessment of firms; event-driven work covering issues which occur outside a firm's assessment cycle; and thematic reviews focused on particular sectors of the market aimed at product issues which the FCA identifies as driving poor outcomes for consumers or endangering market integrity. The

FSF involves Prudential being subject to, amongst other initiatives, a business model and strategy analysis (BMSA) to establish which assessment areas to prioritise over a two-year cycle.

The FCA divides the firms it supervises into one of four conduct classifications (C1to C4) based on a combination of a measure of a firm s potential impact on FCA objectives and the number of retail customers a

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firm has, with C1 being the highest risk. Prudential has been categorised as C2, the second highest risk category. Additionally, as a group also regulated by the PRA with subsidiaries that are prudentially regulated by the FCA, Prudential has been assigned one of four prudential classifications (P1 to P4). Members of the Group that the PRA prudentially regulates have been categorised as P1 as they are considered prudentially critical.

The PRA is weighting its supervision towards those issues and those insurers that, in its judgment, pose the greatest risk to its statutory objectives, conducting its assessment work on a continuous cycle.

Both the PRA and FCA have sought to adopt a more judgment-led approach to supervision while also being more forward-looking in relevant judgments by assessing firms not just against current risks, but also against those which could plausibly arise in the future. The approach of both the PRA and the FCA is also principles-based, placing less reliance on technical rules. The PRA and FCA have indicated that this approach will result in a much more intrusive and proactive approach to supervision. The PRA has indicated that for significant firms such as Prudential, it will conduct detailed analysis of their business models including, in the case of an insurer, forming its own projection of the insurer's ability to generate returns and the associated risks. In line with a more interventionist approach, the PRA has indicated that it will require the insurer to change its business model if it believes that mitigating measures alone cannot adequately reduce material risks to safety and soundness and policyholder protection. Both the PRA and the FCA are also placing a significant focus on assessing the governance frameworks and culture that exist within financial firms.

Overview of FSMA 2000 regulatory regime

Principles for Businesses

An authorised firm is subject to a range of ongoing regulatory requirements supervised by the FCA and, for dual-regulated firms, the PRA. These include the requirement to meet at all times specified threshold conditions, which include possession of adequate resources for the carrying on of its business and being fit and proper. Key features of the regime are 11 Principles for Businesses, by which all authorised firms were expected to abide. These cover key areas such as the firm's relationship with the FCA and PRA, the need to conduct business with integrity and the requirement to pay due regard to the interests of customers and treat them fairly.

Main features of regulation applicable to the Prudential's insurance and investment businesses

Supervision of management of authorised firms

The PRA and FCA supervise the management of authorised firms through the approved persons regime, under which any appointment of persons who perform a controlled function, including functions that enable the exercise of significant influence over an authorised firm, must be pre-approved by the PRA or FCA, as applicable. Increasingly the regulators are looking to understand how senior managers discharge their responsibilities and are holding them to account for regulatory failings.

Intervention and enforcement

The FCA and PRA have extensive powers to investigate and intervene in the affairs of an authorised firm as well as extensive enforcement powers.

Certain of these intervention and enforcement powers are additional to those previously exercised by the FSA. For example, the FCA has powers to make temporary product intervention rules, allowing it to block an imminent product

launch or to stop an existing product, and is also able to require firms to withdraw or amend misleading financial promotions with immediate effect. Both the FCA and the PRA can also impose requirements on UK-incorporated unregulated parent undertakings that exert influence over authorised persons. The latter power is of particular potential relevance to the Group given that it is headed by a UK-incorporated unregulated parent undertaking but it remains to be seen how this new power will be used.

Table of Contents***Conduct of Business Rules***

The FCA's Conduct of Business Rules regulate the day-to-day conduct of business standards to be observed by authorised persons in carrying on regulated activities.

The scope and range of obligations imposed on an authorised firm under the Conduct of Business Rules varies according to the scope of its business and the range of its clients. Generally, however, the obligations imposed on an authorised firm by the Conduct of Business Rules will include the need to categorise its clients according to their level of sophistication, provide them with information about the firm, meet certain standards of product disclosure, ensure that promotional materials which it produces are clear, fair and not misleading, assess suitability when advising on certain products, manage conflicts of interest, report appropriately to its clients and provide certain protections in relation to client assets. Additional details of relevance to the insurance and investment businesses are discussed below.

Consumer protection, the Financial Ombudsman Service (FOS) and the Financial Services Compensation Scheme (FSCS)

The consumer protection agenda in the UK is within the remit of the FCA. The FCA's focus is on product scrutiny, sales practices and firms' cultures, including assessment of how remuneration structures affect consumer outcomes. In addition, the FCA has a specific remit to promote competition within the financial services industry.

Authorised firms must have appropriate complaints handling procedures and the principles of complaints handling are defined in the FCA Handbook. However, once these procedures have been exhausted, qualifying complainants may turn to the FOS. The Ombudsman is empowered to order firms to pay fair compensation for loss and damage and may order a firm to take such steps as the Ombudsman determines to be just and appropriate in order to remedy a complaint.

The FSCS is intended to compensate individuals and other groups of eligible claimants, including certain trustees for claims against an authorised firm where the authorised firm is unable or unlikely to be able to meet those claims (generally, when it is insolvent or has gone out of business). Both the PRA and the FCA have rule-making powers for the FSCS and the FSCS is accountable to both regulators.

Financial Crime

The prevention of financial crime is a key element of the FCA's statutory remit to protect the integrity of the UK financial system. The FCA has responsibility for preventing firms from being used as a channel for financial crime. This includes anti-money laundering, sanctions, and anti-bribery and corruption. As one of the lead supervisors of Prudential the FCA has this responsibility for the whole Group. The FCA requires firms to put in place systems and controls to mitigate financial crime, and it examines these as part of its proactive supervision agenda on an ongoing basis. Firms are required to disclose suspicions of money-laundering to the FCA. The FCA can take enforcement action against firms that fail to effectively manage their financial crime risks.

Regulation of insurance business

Most of Prudential's subsidiaries that carry on insurance business in the UK, including PAC, Prudential Annuities Limited, Prudential Retirement Income Limited, Prudential Pensions Limited and Prudential Holborn Life Limited are dual-regulated firms, meaning that they are regulated by the PRA for prudential purposes and by the FCA for conduct purposes. The exceptions are Prudential Distribution Limited, Prudential Financial Planning Limited and Scottish

Amicable ISA Managers Limited, which are regulated by the FCA only due to their business model.

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Conduct of business requirements for insurance business

Authorised firms which advise and sell to retail customers packaged products such as life insurance policies are subject to detailed conduct of business obligations relating to product disclosure, assessment of suitability, the range and scope of the advice which the firm provides, and fee and remuneration arrangements.

The FSA launched the Retail Distribution Review (RDR) in 2006 with the specific aim of addressing shortcomings in the retail investment market. On 31 December 2012, new rules took effect which, *inter alia*:

required changes in how firms offering advice to retail customers present and describe the adviser services that they offer, including limiting the extent to which advisers can hold themselves out as independent ;

banned the payment of commission when a personal recommendation is made and required the adoption of adviser charging , whereby a firm must set and clearly disclose its tariff of charges and where these are to be facilitated by a product provider, required that amount must not be determined by the provider and there must be clear distinction from any product charges;

imposed higher qualification requirements as well as continuing professional development and professional standards on advisers; and

introduced increased reporting requirements on firms in respect of their retail investment advisers.

The changes introduced by the RDR are having a broad-ranging impact on Prudential, and have necessitated significant system changes, affected which products Prudential offers and the pricing of those products, as well as expanded UK regulatory reporting requirements. For further information on RDR, see UK Business Distribution and Item 5, Operating and Financial Review and Prospects Introduction and Overview .

On 31 March 2014 the FCA published its business plan for 2014/15. The plan includes a statement that the FCA will assess whether life insurance firms are operating historic (often termed legacy or heritage) products in a fair way and whether they have adopted strategies that are not in the best interests of existing customers. By way of a separate press release published on 28 March 2014 the FCA clarified that it would be looking at how customers in closed funds are being treated and will be reviewing a representative sample of firms to look at whether they are treating their customers fairly. The release further clarified that it does not intend looking at removing exit fees from policies providing they were compliant at the time and that the review is not of the sales practices for legacy customers. Furthermore the FCA release has confirmed that it is not looking to apply current standards retrospectively, for example on exit charges.

Capital requirements for insurers

As noted above, in order to maintain authorised status under the FSMA 2000, firms must continue to satisfy certain threshold conditions, which, among other things, require firms to have adequate resources for the carrying on of their business. The rules which govern the prudential regulation of insurers are currently found in the General Prudential Sourcebook (GENPRU), Prudential Sourcebook for Insurers (INSPRU) and the Interim Prudential Sourcebook for Insurers (IPRU (INS)) in the PRA Handbook. Solvency II, described further below, will reform prudential regulation

of EU insurers and result in changes to the PRA Handbook.

The PRA's Individual Capital Adequacy Standards (ICAS) require an insurer to prepare and submit to the PRA its own assessment of its capital requirements, known as an individual capital assessment (ICA), based on the risks it faces, and certain minimum requirements discussed below. Where the PRA disagrees with a firm's capital requirement assessment, it may issue the firm with individual capital guidance (ICG), including at times, imposed as a requirement.

Insurance companies must maintain assets sufficient to meet at all times the relevant capital requirements in respect of both long-term insurance and general insurance business undertaken by the company. The calculation

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of such capital requirements is dependent on the type and amount of insurance business a company writes. Under the rules in GENPRU, an insurer must hold capital resources equal at least to the Minimum Capital Requirement (the MCR). Insurers with with-profits liabilities of £500 million or more must hold capital equal to the higher of MCR and the Enhanced Capital Requirement (the ECR). The ECR is intended to provide a more risk responsive and realistic measure of a with-profits insurer's capital requirements, whereas the MCR is broadly speaking equivalent to the previously required minimum margin under the IPRU (INS) and satisfies the current minimum EU standards. The applicability of either the MCR or ECR requirements is evaluated on an entity-by-entity basis.

The ECR is determined as the higher of two separate measurements of the firm's financial resources requirements, reflecting capital as determined by reference to two bases for calculating liabilities (regulatory and realistic), which is referred to as the twin peaks approach. The regulatory basis reflects strict contractual liabilities whereas the realistic basis includes more discretionary but expected benefits, including those required to treat customers fairly.

Long-term business assets and liabilities those assets and liabilities relating to, broadly, life and health insurance policies must be segregated from the assets and liabilities attributable to non-life insurance business or to shareholders. Separate accounting and other records must be maintained and a separate fund must be established to hold all receipts of long-term business.

The extent to which long-term fund assets may be used for purposes other than long-term business is restricted by the rules in INSPRU. Only the established surplus the excess of assets over liabilities in the long-term fund, as determined by an actuarial investigation may be transferred so as to be available for other purposes. Restrictions also apply to the payment of dividends by the insurance company, as described below. The rules in INSPRU require, in addition to the capital requirements referred to above, the maintenance of sufficient assets in the separate long-term insurance fund to cover the actuarially determined value of the insurance liabilities.

The rules also require insurers to undertake reverse stress testing. Reverse stress testing requires firms to work backwards from an assumed point of business model failure, to identify the stress scenarios that could result in such adverse outcomes. Each firm must then consider whether the likelihood of these scenarios, taking into account likely management actions, is consistent with its risk appetite and, if not, must initiate actions to address any inconsistencies.

Actuarial functions

The PRA's rules require every insurance company that carries on long-term business to appoint one or more actuaries to perform the actuarial function in respect of all classes of its long-term insurance business and the with-profits actuary function in respect of all classes of its with-profits business (if any). Alongside the with-profits actuary, and also forming part of the second line of defence from a compliance perspective, the PRA's rules require with-profits businesses to appoint a with-profits committee. This committee is composed of independent persons and acts in an advisory capacity to inform the decision-making of an insurer's governing body and to ensure that the interests of with-profits policyholders are adequately considered. The with-profits committee advises on the appointment of, and works closely with, the with-profits actuary.

The actuary performing the actuarial function must prepare at least annually, a report for the company's directors quantifying the company's long-term liabilities attributable to the insurance company's long-term insurance business, determining the value of any excess over those liabilities of the assets representing the long-term insurance fund and, where any rights of long-term policyholders to participate in profits relate to particular parts of such a fund, a valuation of any excess of assets over liabilities in respect of each of those parts.

The actuary performing the with-profits actuary function must, amongst other responsibilities, advise the firm's management on key aspects of the discretion to be exercised affecting these classes of the with-profits business

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of the firm, and, at least once a year report to the firm's governing body on key aspects (including those aspects of the firm's application of its Principles and Practices of Financial Management (PPFM) on which the advice described above has been given) of the discretion exercised in respect of the period covered by his report. All firms that carry on with-profits business are required to publish the PPFM that are applied in the management of their with-profits funds.

Distribution of profits and with-profits business

Under IPRU (INS), once an allocation of surplus in a with-profits fund has been made to policyholders, no transfer of assets representing any part of a subsequent surplus can be made, to shareholders or otherwise, unless either a defined relevant minimum of the surplus has been allocated to policyholders or a statutory notification procedure has been followed.

There has been considerable public debate about the rights and legitimate expectations of with-profits policyholders to assets forming part of an insurance company's surplus. The FSA confirmed in July 2009 that proprietary life insurance companies will not be able to meet future compensation and redress payments from their with-profits funds, and the FSA confirmed a rule change, meaning that liabilities arising from operational failures (including mis-selling) after the rule came into effect from 31 July 2009 should be met by shareholder funds rather than policyholder funds.

With-profits business

The with-profits business was an area of focus for the FSA, including specifically: the costs charged to a with-profits fund by the firm managing the fund; penalties and charges levied on policyholders who surrender their policies early; the need for funds to be managed with the objective of ensuring that maturity payouts fall within a target range set for the fund; and the provision of information to with-profits policyholders or potential policyholders in a format that they can readily understand.

On 1 April 2012, the FSA introduced further changes to its rules and guidance in a number of areas relevant to the operation of with-profits funds, including in relation to: conflicts of interest with the potential to prejudice with-profits policyholders; the fair treatment of with-profits policyholders in mutually-owned funds; the terms on which new business may be written by with-profits insurers; communications and planning surrounding material reductions in new business; the application of market value reductions; the use of with-profits funds to make strategic investments; the removal of the ability of firms to reattribute excess surplus; rules surrounding reattribution of inherited estates; and changes to the rules surrounding corporate governance.

The PRA and FCA now share responsibility for protecting policyholders' reasonable expectations in relation to with-profits business. The PRA seeks to ensure that any discretionary benefit allocations or other changes with financial implications that the insurer has proposed are compatible with its continued safety and soundness, whereas the FCA has responsibility for monitoring whether the proposed changes are consistent with the insurer's previous communications, the FCA's conduct rules and the overriding obligation to treat customers fairly. The PRA has the power to prevent allocations being made if they would materially impair the firm's safety and soundness.

EU Directives on groups

Prudential is subject to the capital adequacy requirements of the Insurance Groups Directive (IGD), as implemented in the PRA rules. The IGD pertains to groups whose activities are primarily concentrated in the insurance sector.

The PRA, as lead supervisor of Prudential under the IGD, supervises Prudential on a group basis in addition to supervising the UK insurance companies within Prudential individually. This is referred to in the IGD as

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supplementary supervision and encompasses such matters as general supervision over intra-group transactions (including, *inter alia*, loans, guarantees and off-balance sheet transactions, investments, reinsurance, retrocession and cost sharing agreements), group risk management processes and internal control mechanisms, and reporting and accounting procedures. In accordance with the IGD, the PRA requires the calculation of group capital resources on a consolidated basis and requires that such group capital resources be equal to or in excess of Prudential's group capital resources requirement (each as calculated in accordance with INSPRU).

The PRA also plays a coordinating role amongst EU regulators under the IGD. Due to the geographically diverse nature of Prudential's operations, the application of these requirements to Prudential is complex. In particular, for the purposes of calculating the group capital requirement and actual group capital resources under INSPRU, for many of the Asian operations, the assets, liabilities and capital requirements have to be recalculated based on UK regulations as if the companies were directly subject to such regulation.

New EU solvency framework

The European Commission is continuing to develop a new prudential framework for insurance companies, Solvency II, which will repeal and replace the existing Life, Non-life, Re-insurance and IGD directives. The main aim of this framework is to ensure the financial stability of the insurance industry and protect policyholders through solvency requirements better matched to the true risks of the business.

Solvency II adopts a three-pillar approach to prudential regulation, which is similar to the Basel II approach that has already been adopted in the banking sector in Europe.

Although the Solvency II Directive has similarities to the current UK regime set out in GENPRU and INSPRU in terms of its risk-based approach to the calculation of capital requirements and use of capital tiering, there are also many differences both in terms of substance and terminology. For example, while both regimes share the principle of a market consistent valuation of assets and liabilities, there are differences in the detailed valuation methodologies.

A key aspect of Solvency II is the focus on a supervisory review at the level of the individual legal entity. Insurers will be encouraged to improve their risk management processes and will be allowed to make use of internal economic capital models to calculate capital requirements, subject to approval by the PRA. In addition, Solvency II requires firms to develop and embed an effective risk management system as a fundamental part of running the firm.

The new regime will require firms to disclose a considerably greater level of qualitative and quantitative information than under current rules, both to their own supervisor through Regular Supervisory Reporting (RSR) and to the market through the publication of a Solvency and Financial Condition Report (SFCR). This is intended to increase transparency, allowing easier comparison across the industry and enabling supervisors to identify sooner if firms are heading for financial difficulty. In turn, increased transparency is intended to drive market discipline, arising from the reaction of ratings agencies and the capital markets to firms' performance.

Further details on Solvency II and its implications for the Group are set out in Item 4 Group Risk Framework. As described in that section, the previously anticipated implementation date for Solvency II of 1 January 2014 is delayed until 1 January 2016 and this will be confirmed when the Omnibus II Directive is adopted. The deadline for transposing the rules into national law is expected to be shifted to 31 March 2015.

ICAS+ and Internal Model Approval

As the implementation date for Solvency II has been extended, shorter term regulatory efforts have shifted to ensuring that the momentum built towards better risk management over the last few years is not lost during the interim period. Insurers are also seeking to leverage the improved governance, risk management, and capital models they have developed in preparing for Solvency II.

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In the UK, the PRA is allowing firms, such as Prudential, which have been in the internal model approval process (IMAP) to use their Solvency II work to meet, as far as possible, current regulatory requirements under the ICA regime. This has been termed ICAS+ and the PRA will, as part of this, continue to evaluate a firm s IMAP progress for UK elements of its internal capital model and will continue to provide feedback. It is anticipated that the PRA s evaluation will build on its past review activity and, in particular, focus on steps taken to address feedback previously provided by the PRA as part of IMAP. Over the coming months, Prudential will remain in regular contact with the PRA as the Company continues to engage in the pre-application stage of the approval process for the internal model.

On 12 December 2013, the PRA issued a supervisory statement setting out its expectations of firms during the preparatory phase for Solvency II. The statement expands on previous general statements by the PRA and on guidelines issued by the European Insurance and Occupational Pensions Authority (EIOPA), which are intended to ensure different Member States adopt a consistent approach to Solvency II before 2016. The PRA expects the immediate impact of EIOPA s guidelines on firms that the PRA supervises to be relatively limited.

Regulation of investment business

Certain of Prudential s subsidiaries are authorised to carry on investment business and are subject to regulation and supervision under FSMA 2000. Not all subsidiaries are dual regulated by both the PRA and FCA, with some authorised and regulated by the FCA only for both conduct and prudential matters, such as the M&G subsidiaries. UK asset management can also be subject to additional regulation in other jurisdictions in which they operate. For example, certain M&G UK subsidiaries which operate outside of the UK are also subject to regulation by local regulatory authorities.

Conduct of business requirements for investment businesses and the Markets in Financial Instruments Directive (MiFID)

MiFID sets out detailed authorisation and operating conditions for investment firms and regulated markets. In October 2011, the European Commission published proposals to amend MiFID, the MiFID2 Directive and introduce a new Markets in Financial Instruments Regulation (MiFIR). Among other things, the proposals were designed to expand the scope of MiFID in terms of the types of firms and the types of instruments (eg structured deposits and emissions allowances) its requirements encompass. The main impact on the M&G investment management business is in the area of fixed income and derivatives.

It was announced in January 2014 that the European Parliament and the Council of the European Union had reached an agreement on the text of the MiFID2 Directive and MiFIR, but areas of uncertainty remain as the detailed level 2 rules have not been finalised. However, it is proposed that rules on pre-trade transparency should apply to a wider range of instruments than currently the case under MiFID: bonds and derivatives in addition to shares. Asset managers such as M&G will be required to publish quotes received within fifteen minutes. It is also proposed that MiFID2 will restrict the provision of inducements to advisers, which, whilst not as extensive as that introduced by the RDR in the UK (as described above), could result in M&G needing to modify its European adviser charging model. The MiFID2 Directive and MiFIR are expected to take effect at the end of 2016.

Capital requirements for investment businesses

Prior to 1 January 2014, the capital requirements for the UK investment business are contained in the Prudential Standards section of the FSA/FCA Handbook, implementing the requirements of the Capital Requirements Directive (CRD). Since 1 January 2014, the capital requirements for the UK investment businesses implement the requirements of a legislative package known as CRD IV .

CRD IV is made up of the Capital Requirements Regulation, which is directly applicable to firms across the EU, and the Capital Requirements Directive, which was required to have been implemented through national

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measures in individual Member States. The FCA and PRA published policy statements in December 2013 setting out new rules and guidance responsive to the changes made by CRD IV, the majority of which took effect on 1 January 2014.

CRD IV implements the Basel III regulatory framework in the EU. This includes enhanced requirements for quality and quantity of capital, a basis for new liquidity and leverage requirements, new rules for counterparty risk, and new macroprudential standards including a countercyclical capital buffer and capital buffers for systemically important institutions. CRD IV also makes changes to rules on corporate governance, including remuneration, and introduces standardised EU regulatory reporting (referred to as COREP and FINREP). COREP and FINREP require firms to report specified information to their supervisors regarding their own funds, large exposures and financial information.

Alternative Investment Fund Managers Directive (AIFMD)

The AIFMD, a directive designed to regulate the management and marketing of alternative investment funds, including private equity and hedge funds entered into force on 21 July 2011. EU Member States were required to have implemented the AIFMD by 22 July 2013. The AIFMD has not yet been implemented in all 28 EU Member States, although implementation has taken place in the UK. Alternative Investment Fund Managers (AIFMs) need to have applied for authorisation under the AIFMD by 22 July 2014. M&G is running a comprehensive project to ensure that all of its AIFMs meet the requirements of the AIFMD, which are similar to the existing requirements for retail mutual fund managers.

European Market Infrastructure Regulation (EMIR)

The Regulation of the European Parliament and of the Council on OTC derivative transactions, central counterparties (CCPs) and trade repositories, widely known as European Market Infrastructure Regulation, or EMIR, came into force on 16 August 2012. Its key provisions, however, have been taking effect on a phased basis from the beginning of 2013. EMIR's rules are intended to lessen risk and increase transparency within the OTC derivative markets by introducing for most counterparties: (i) a reporting obligation for all derivatives; (ii) a clearing obligation for eligible OTC derivatives; (iii) measures to reduce counterparty credit risk and operational risk for bilaterally cleared OTC derivatives, including through collateral requirements; (iv) common rules for CCPs and for trade repositories; and (v) rules on the establishment of interoperability between CCPs. M&G is running a comprehensive project to implement necessary changes, by the relevant deadlines.

Market Abuse Directive / Regulation (MAD2 / MAR)

Following a review of the EU's Market Abuse Directive (MAD), the European Commission proposed a new Market Abuse Regulation (MAR) and a new Market Abuse Directive (MAD2) in October 2011. The proposals included extending the scope of MAD to new trading venues, determining that attempted manipulation and use of inside information constitute market abuse, and providing for minimum administrative sanctions and criminal liability for more serious market abuse.

MAR was agreed politically in June 2013, although negotiations on minimum levels of sanctions in MAD2 continue. Neither MAD2 nor MAR are likely to be formally adopted until political agreement has been reached on the MiFID2 Directive and MiFIR (for which see the further discussion above). MAD2 and MAR are currently expected to be agreed during 2014 and to enter into effect in 2016. M&G will implement the revised rules once they have been agreed.

Financial Transaction Tax (FTT)

In February 2013, the European Commission proposed a Council Directive implementing a procedure of enhanced cooperation on a common Financial Transaction Tax (FTT) for a sub-group of eleven EU Member States. Although the UK is not one of the participating Member States, under the current proposal, the FTT could

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in certain circumstances apply to transactions in the UK. If a FTT were to be agreed in its current proposed form, M&G may need to review its trading strategy and, from an operational perspective, make changes necessary to comply with any tax collection mechanism established. The FTT remains subject to negotiation and the UK has challenged the legality of a decision of the Council to authorise enhanced cooperation on a common framework of FTT and the scope and objectives of the legislative proposal.

Asian Supervision and Regulation**1. Regulation of insurance business**

Prudential's businesses in Asia are subject to all relevant local regulatory and supervisory schemes. These laws and regulations vary from country to country, but the regulators typically grant (or revoke) licenses and therefore control the ability to operate a business.

Industry regulations are usually widely drawn and include provisions governing both financial matters and the way business is conducted. In general, regulatory regimes will include features governing the registration of agents, the approval of products, asset allocation, minimum capital and the basis for calculating the company's solvency and reserves and the valuation of policyholder liabilities, conditions for outsourcing non-core functions, policyholder and investor protection and regulation of product features, as well as anti-money laundering (AML) and know your client requirements and data protection requirements. Regulatory authorities may also regulate affiliations with other financial institutions, shareholder structures and the injection of capital and payment of dividends. Financial statements and other returns are filed with the regulators. The regulators may also conduct physical inspections of the operations from time to time. A number of jurisdictions across Asia require insurance companies to participate in policyholder protection schemes (ie contribute to a fund to support policyholders in the event of an insurance company failing).

The increasingly extraterritorial approach of certain regulators outside Asia, aimed among other things at protecting financial systems from systemic risks and curbing tax avoidance, could have wider consequences on financial groups in the Asia-Pacific region. For example, firms based outside the US are increasingly being required to comply with certain US originated rules like FATCA (see US Supervision and Regulation Implementation of US Foreign Account Tax Compliance Act (FATCA) provisions below), which will impact on the bancassurance business channel as banks will have to set up separate systems to deal with US customers. The effects of UK anti-bribery legislation have become increasingly significant outside the UK, and Prudential Corporation Asia's (PCA's) business units will be required to adhere to Prudential's group-wide policy designed to comply with the EU Solvency II requirements (although they will not each be required to be compliant on a solo entity basis). Asian regulators are monitoring closely how Solvency II is developed and implemented but are not currently requiring regulated insurance entities to comply.

Certain additional details of the regulatory regimes to which PCA's insurance operations are subject are discussed below:

Hong Kong***Overview***

Prior to 2014, the Hong Kong insurance business operated as a branch of PAC. Accordingly, the branch was indirectly regulated by UK regulators, as a result of The Prudential Assurance Company Limited's requirements to satisfy

relevant UK capital requirements in addition to those of the local laws and regulations. Its insurance operations were directly regulated by the relevant Hong Kong regulators.

The Hong Kong branch received approval from all relevant regulators and legal processes and was domesticated on 1 January, 2014. The domestication created two subsidiaries, Prudential Hong Kong Limited (PHKL) and Prudential General Insurance Hong Kong Limited (PGHK), to separately manage the life and general businesses. Both entities will now solely be regulated by the relevant regulators in Hong Kong.

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The Office of the Commissioner of Insurance (the *OCI*) is currently the regulatory body that administers the Insurance Companies Ordinance (the *ICO*). The Office is headed by the Commissioner of Insurance who has been appointed as the Insurance Authority (the *IA*) for administering the *ICO*. The principal functions of the *IA* are to ensure that the interests of policyholders or potential policyholders are protected and to promote the general stability of the insurance industry, including by authorising insurers to carry on insurance business in Hong Kong, regulating insurers' conduct primarily through the examination of the annual audited financial statements and business returns insurers submit, and development of legislation and guidelines on insurance supervision. A key supervisory responsibility relates to solvency margin requirements contemplated by the *ICO*, as further discussed below.

The Financial Services and Treasury Bureau is in the process of drafting legislation to facilitate the transition to an Independent Insurance Authority (*IIA*) in Hong Kong. In October 2013 a working group was established to ensure a smooth transition to the statutory licensing regime under the *IIA*. Legislation is expected in the foreseeable future to facilitate the establishment of *IIA* by 2015. The branch is also subject to the codes and guidance developed by a self-regulatory body – the Hong Kong Federation of Insurers (the *HKFI*). *HKFI* actively promotes its self-regulatory regime with respect to areas like conduct of insurers and insurance intermediaries, cooling off initiatives, policy replacement and initiative on needs analysis. The Insurance Agents Registration Board of the *HKFI* is responsible for administering the registration and approval of insurance intermediaries of insurance agents, their responsible officers and technical representatives; and handling complaints against them and providing enquiry services to and handling complaints from the public relating to insurance agents.

In addition, the sale of mandatory pension products by agents is regulated by the Mandatory Provident Fund Authority (the *MPFA*), which licenses and supervises the conduct of *MPF* intermediaries.

The Hong Kong business is also regulated by the Hong Kong Securities and Futures Commission (the *SFC*) for its offering of investment linked products.

Capital requirements

Under the *ICO*, an insurer is required to maintain at all times an excess of assets over liabilities of not less than a required solvency margin. The objective is to provide a reasonable safeguard against the risk that the insurer's assets may be inadequate to meet its liabilities arising from unpredictable events, such as adverse fluctuations in its operating results or the value of its assets and liabilities.

For general business insurers, the *ICO* stipulates an absolute minimum solvency margin of HK\$10 million, or HK\$20 million in the case of a composite insurer (ie carrying on both general and long term business) or for an insurer wishing to carry on statutory classes of insurance business. Above these minimum levels, solvency margins are calculated on the basis of the greater of an insurer's relevant premium income (defined as the greater of gross premium income after deduction of reinsurance premium payments or 50 per cent of gross premium income) or relevant outstanding claims (defined as the sum of unexpired risks plus the greater of 50 per cent of claims outstanding before deduction of sums recoverable from reinsurers or the amount of claims outstanding after deduction of sums recoverable from reinsurers).

For long-term business insurers, the *ICO* stipulates an absolute minimum solvency margin of HK\$2 million. Above this minimum level, solvency margins are determined in accordance with the Insurance Companies (Margin of Solvency) Regulation (Chapter 41 F of the Laws of Hong Kong), which sets out a series of calculations to be used depending on the particular class of long-term business involved.

For composite insurers, the ICO stipulates a minimum solvency margin based on the aggregate of the solvency margin required in respect of an insurer's general business and its long-term business, both calculated as described above.

Table of Contents***Taiwan PCA Life Assurance Company Limited****Overview*

PCA Life Assurance Company Limited is licensed to conduct life insurance business in Taiwan.

The Financial Supervisory Commission (FSC) is responsible for regulating the entire financial services industry, including the banking, securities and insurance sectors. The FSC's responsibilities include supervision, examination and investigation. The Insurance Bureau (IB) under the FSC is responsible for the insurance sector. The Financial Examination Bureau (the FEB) under the FSC acts as the executive supervisory authority for the FSC and principally carries out examinations and on-site visits of insurance companies, generally every two years. The Investigation Bureau under the Ministry of Justice is responsible for supervision of anti-money laundering and counter-terrorism financing efforts.

Capital Requirements

The Insurance Act requires all insurance companies to maintain a risk-based capital (RBC) ratio of not less than 200 per cent. The ratio is determined as the adjusted net capital compared against the risk-based capital. This measurement takes into consideration asset, insurance, interest and other relevant risks as required in calculating the capital on a risk-adjusted basis. Any company failing the threshold may be subjected to measures ranging from restrictions in business operations to the withdrawal of business license.

Korea PCA Life Insurance Company Limited*Overview*

PCA Life Insurance Company Limited is authorised to carry on life insurance business in Korea including but not limited to casualty insurance, illness insurance, nursing insurance and incidental business and services related thereto.

Korea's financial supervision structure is composed of the Financial Services Commission (the FSC) and the Financial Supervisory Service (the FSS). As Korea's principal supervisory authority, the FSC is given a broad statutory mandate to carry out three key functions: financial policy formulation, financial institution and market oversight, and anti-money laundering. It also issues regulatory licenses to financial institutions. The Financial Supervisory Service (the FSS) acts as the executive supervisory authority for the FSC and principally carries out examination of financial institutions along with enforcement and other oversight activities as directed or charged by the FSC.

In respect of anti-money laundering, the Korea Financial Intelligence Unit leads the government's anti-money laundering and counter financing of terrorism (CFT) efforts by formulating and implementing AML/CFT policies and regulations, supervising and overseeing financial institutions' compliance to the AML/CFT obligations and collecting and analysing reports filed by financial institutions.

Korean laws permit an insurer to operate only one license (life or non-life) at any one time. In the past, the FSC has been highly interventionist in setting and enforcing rules on the insurance industry. In recent years the FSC has moved away from its interventionist approach, in response to the evolving and liberalised landscape. The most prominent change has been a deregulation in asset management and product design activities. However, in connection with deregulation, the FSC has also sought to strengthen supervision. Additions and amendments to Korean law and regulation aimed at protecting consumers have, amongst other things, resulted in expansion of the scope of concurrent/ancillary businesses which can be conducted by insurance companies, new reporting requirements for

foreign insurers Korean offices, new regulations governing asset management by insurance companies, and updated processes for development of insurance products, prohibitions on corporate insurance agents and corporate insurance brokers from engaging in other business, new additions to the list of acts prohibited when entering into insurance contracts or soliciting consumers and additional and more specific requirements in respect of data protection.

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Capital requirements

A risk-based supervision framework applies to insurers, encompassing an RBC solvency requirement, a risk assessment and application system (RAAS), which assesses insurers' various risks and relevant internal controls, and risk disclosure.

Under the RBC solvency requirement, the ratio of an insurer's available capital to required capital is calculated, and the analysis of equity capital used to determine capital adequacy must take into account market, credit, operational, insurance and interest rate risks, which are not taken into consideration under the solvency margin requirement. The scheme was further revised in 2013 to require the RBC ratio be calculated based on integrated financial statements reflecting assets, liabilities and capital of affiliates and subsidiaries.

In the event an insurer fails to satisfy the applicable capital adequacy requirement and this poses a threat to the financial soundness of that insurer in Korea, the FSC may take corrective action, ranging from issuing a recommendation to an insurer to increase its capital reserves or to restrict its investments in high-risk securities and other assets to issuing an order to an insurer to suspend its business or transfer its business to a third party.

Singapore Prudential Assurance Company Singapore (Pte.) Limited

Overview

Prudential Assurance Company Singapore (Pte.) Limited is registered by the Monetary Authority of Singapore (the MAS) to design and sell both life and general insurance business pursuant to the Singapore Insurance Act.

Under the Singapore Insurance Act, the MAS is responsible for insurance regulation and supervision of insurance companies. MAS regulation covers, among other things, the appointment and training of representatives, maximum tier structure, loans and advances, disciplinary action, product disclosure, sales processes and replacement (switching) of life policies. The MAS also has responsibility for supervising compliance with AML provisions, though suspicious transactions must be notified to the Commercial Affairs Department, an enforcement agency of the Singapore Police Force.

Another relevant regulatory authority for the business is the Central Provident Fund (the CPF) Board, which acts as a trustee of social security savings schemes jointly supported by employees, employers and the government. The CPF Board regulates insurers in the operation of various CPF schemes including the CPF Investment Scheme where CPF monies are used by policyholders to purchase insurance policies such as annuities and investment linked policies.

The MAS and CPF Board have very detailed regulatory frameworks to govern insurance companies and the distribution of insurance products in Singapore.

Capital requirements

Registered insurers in Singapore are subject to an RBC framework. The framework sets out the valuation methodology for assets and liabilities, rules relating to the operations of life insurance funds, capital requirement rules, the role of actuaries, and a set of statutory reporting standards. An insurer has to notify the MAS when it has failed or is likely to fail to comply with the mandated RBC indicators or when a financial resources warning event has occurred or is likely to occur.

A registered insurer is required at all times to maintain a minimum level of paid-up ordinary share capital and to ensure that its financial resources are not less than the greater of the sum of the aggregate of the total risk requirement of all insurance funds established and maintained by the insurer under the Singapore Insurance Act; and where the insurer is incorporated in Singapore, the total risk requirement arising from the assets and liabilities of the insurer that do not belong to any insurance fund established and maintained under the Singapore Insurance Act (including assets and liabilities of any of the insurer's branches located outside Singapore); or a minimum amount of 5 million Singapore Dollars.

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The MAS also has the authority to direct that the insurer satisfy capital adequacy requirements other than those that the insurer is required to maintain under the Singapore Insurance Act if the MAS considers it appropriate.

Malaysia Prudential Assurance Malaysia Berhad

Overview

Prudential Assurance Malaysia Berhad has composite licences to carry on both life and general insurance business in Malaysia.

The Bank Negara Malaysia (BNM) is the central bank of Malaysia and also the regulatory body responsible for supervising and regulating the financial services sector, including the conduct of insurance and Takaful business. BNM places considerable emphasis on fair market conduct by the insurance industry and protection of consumers interests. BNM is also responsible for administering legislation in relation to AML matters. Further, under the Financial Services Act, 2013, BNM now has enhanced powers to enforce sanctions on financial institutions.

In addition, the company is a member of the Life Insurance Association of Malaysia and the General Insurance Association of Malaysia, which are both self-regulated bodies. Resolutions and circulars issued by these associations are binding on the member insurance companies.

The regulatory and supervisory framework of Malaysia entered a new stage of its development with the introduction of the Financial Services Act, 2013 (FSA) on 30 June 2013. The FSA is now the principal legislation governing insurance business in Malaysia. Under this new statutory framework, insurers are required to restructure their lines of business. Composite insurers will be required to establish separate entities or divest one of their lines of business. The regulations also require additional resources to be allocated to address any weaknesses of internal controls within the business. The FSA also places greater accountability on the board of directors and senior management in their management and oversight of the insurer.

The Personal Data Privacy Act 2010 came into force in November 2013, introducing for the first time in Malaysia an omnibus privacy regime. The Anti-Money Laundering and Anti-Terrorism Financing Act is slated to undergo amendments as the country prepares for its next mutual evaluation exercise in 2014.

In November 2013, the BNM released a consultation paper on Life Insurance and Family Takaful Framework , setting out proposals to support the long-term sustainable growth and development of the life insurance and family Takaful industry. The proposals are expected to expand the distribution of life insurance and Takaful and strengthen market conduct. The key proposals include partial removal of operating cost limits offset by caps on allocation rates for unit link products; diversification of distribution by increasing penetration of bancassurance and zero-commission direct marketing; encouraging the establishment of more independent financial advisers by lowering capital requirements; and remuneration of intermediaries based on a Balanced Scorecard system.

Capital requirements

BNM has introduced an RBC framework aimed at improving the risk management practices of insurers. Under the RBC framework, insurers are required to maintain a capital adequacy level that is commensurate with their risk profiles. Each insurer is required to determine the adequacy of the capital available in its insurance and shareholders fund to support the total capital it requires. This serves as a key indicator of the insurer's financial resilience and is used by BNM to determine the need for supervisory interventions.

Under the RBC framework guidelines, the Board of Directors and senior management of an insurer are also expected to identify, monitor and control risks which are not adequately addressed under the framework. An insurer is also expected to manage actively its capital adequacy by taking into account the potential impact of its business strategies on its risk profile and overall financial resilience.

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BNM implemented the internal capital adequacy assessment process (ICAAP) regime for the insurance sector in September 2012. This set out the framework for meeting risk-based capital requirements. The ICAAP is a comprehensive and forward looking assessment which requires insurance companies to consider material risks to demonstrate how they will be linked to their capital management program.

Malaysia (Takaful business) Prudential BSN Takaful Berhad*Overview*

Prudential BSN Takaful Berhad (Prudential Takaful) (a Prudential joint venture with Bank Simpanan Nasional) was the first overseas insurer to be granted a domestic Takaful License in Malaysia.

The Takaful business in Malaysia, like the insurance business discussed above, is also regulated by BNM. In addition, Prudential Takaful is required to be a member of the Malaysian Takaful Association (MTA), an association for Takaful operators that seeks to improve industry self-regulation through uniformity in market practice and to promote a higher level of co-operation.

Takaful in Malaysia is considered to be part of mainstream mercantile law, and is subject to the civil court structure. It is not regulated by Shariah law in Shariah courts. However, the operations of a Takaful Operator (TO) must conform to the rules and requirements of Shariah as regulated in the Islamic Financial Services Act 2013 (IFSA), which came into effect from June 30, 2013, repealing the earlier Takaful Act 1984. The IFSA now provides a comprehensive legal framework that is fully consistent with Shariah in all aspects of regulation and supervision, from licensing to the winding-up of an institution. The IFSA is similar to the FSA issued for conventional insurers. One key implication of the IFSA for joint venture TOs (such as Prudential Takaful) is the requirement to establish a financial holding company. This applies to any company which holds an aggregate interest in shares of more than 50% in a licensed person, or 50% or less in a licensed person but has control over the licensed person (if Bank Negara considers it necessary).

The IFSA recognises the BNM's Shariah Advisory Council (SAC) as the sole authority on Shariah matters. As the reference body and advisor to BNM on Shariah matters, the SAC is also responsible for validating all Takaful products to ensure their compatibility with Shariah principles. A Takaful operator is also required to establish a Shariah advisory body, approved by BNM, to which the SAC will give guidance and advice on operations and business activities.

Capital requirements

The Takaful Operational Framework which came into force on 2 January 2012 strengthens the operational and valuation requirements of Shariah law, such that the paid-up capital requirement is RM100 million. The regulator has also published a new Risk Based Capital framework for Takaful which aims to facilitate sound management of capital, aligned to the Takaful operator's risk profile. Full implementation began in January 2014.

China CITIC-Prudential Life Insurance Company Limited*Overview*

CITIC-Prudential Life Insurance Company Limited (Prudential's joint venture with CITIC in which Prudential has a 50 per cent share) is authorised to conduct life insurance business in China. To date, CITIC-Prudential Life had business across China including the key markets of Guangdong, Beijing, Shanghai, Shenzhen, Hubei, Shandong,

Zhejiang, Jiangsu, Tianjin, Guangxi, Fujian and Hebei.

The body responsible for regulation of the insurance sector is the China Insurance Regulatory Commission (CIRC). CIRC reports directly to the State Council.

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CIRC is authorised to conduct the administration, supervision and regulation of the Chinese insurance market, and to ensure that the insurance industry operates in a stable manner in compliance with the law. CIRC also has local offices in all 31 provinces and selected direct administrative cities and regions across the country which set and administer implementation rules and guidelines in the application of the regulations introduced by CIRC, and which regulate many aspects of the insurance companies' activities within the locations for which they are responsible, including conduct and licensing matters.

CIRC has focused specific attention on the area of risk prevention, with five identified lines of defence against risks, namely internal management and control systems, supervision of solvency adequacy, on-site inspection, fund management regulation and insurance security fund. In response to the global financial crisis, more importance has been attached to the supervision of internal control systems, corporate governance, and market conduct and information disclosure by insurance companies. A classification system has also been developed by the regulator to monitor risks in the industry. Under the system, insurance companies are classified into four groups based on the risk indicators relating to solvency margins, corporate governance, capital management, financial status and market conduct. Different administrative measures may be imposed on different groups.

Market conduct remains a key topic for CIRC with detailed guidelines and rules introduced in 2013 related to the areas of complaint handling and dealing with specific illegitimate sales activities.

The People's Bank of China (PBOC) is entrusted with responsibility and authority to regulate all anti-money laundering activities in China and has actively been developing rules and guidance, requiring insurance companies to abide by the PRC's main AML law and regulations in connection with capital investment, transfers and set-up of new branches, and specify senior management's responsibilities on AML.

Capital requirements

The minimum registered paid-up capital of a foreign invested insurance company is RMB200 million. A similar requirement is imposed on a Chinese branch of a foreign insurance company. Both foreign invested insurance companies and Chinese branches of foreign insurance companies are required to maintain a solvency ratio that is not lower than 100 per cent. Under relevant PRC regulations, the solvency ratio is the ratio of actual capital to the minimum capital requirement applicable to the insurer pursuant to relevant regulations. The actual capital is the difference between the admitted assets and admitted liabilities. The CIRC requires solvency reports to be submitted quarterly, annually or *ad hoc* as required by the CIRC. Where an insurer is not able to meet its solvency requirement, it is required to immediately report to the CIRC.

Thailand Prudential Life Assurance (Thailand) Public Company Limited

Overview

Prudential Life Assurance (Thailand) Public Company Limited (PLT) holds a life insurance license and is authorised to offer life and general insurance products. This also includes an authorisation to offer products with an investment linked feature.

PLT is regulated and supervised by the Office of Insurance Commission (OIC) the independent regulatory organisation handling day-to-day insurance business affairs and reporting to the Ministry of Finance. The OIC has the power to manage and supervise insurance companies, protect insured persons and the general public, implement policies with respect to insurance funds, and regulate the professional conduct, qualifications and licensing of insurance brokers, agents and actuaries.

In respect of AML, all life insurance businesses are also regulated by the Anti-Money Laundering Office (AMLO). All suspicious reporting is to be made to Thailand s Financial Intelligence Unit (FIU).

In the private sector, the Thai Life Assurance Association and the General Insurance Association play an active development role for their membership and support the insurance business as its representative bodies.

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The OIC has a five-year insurance development plan in place covering 2010-2014 that aims to strengthen the Thai insurance system by enhancing standards to meet international norms and to prepare for greater liberalisation in the future. The Bank of Thailand regulations on bancassurance came into effect in January 2013. Under these regulations banks are required to ensure that staff distributing insurance products possess the relevant competence around product knowledge, enhanced disclosure of product yields and the prohibition of bundling insurance products with bank products.

Key regulatory developments in 2013 have been the introduction of draft regulations on audit and internal controls and draft regulations of governance. These draft regulations aim to strengthen the management and oversight of insurance companies. Key proposals include mandating more independent directors in the various governance for a and prescribing terms of conduct for audit committee members.

Capital requirements

Life insurers are required by law to maintain capital funds at the greater of two per cent of their insurance reserve or 50 million Thai Baht, but the OIC requires insurers to maintain capital funds of at least 150 per cent of this amount. An insurer that fails to maintain capital funds in line with OIC guidelines and does not take corrective action to address the deficiency will be subject to sanctions through restrictions on its investment and other business activities.

The 2008 amendments to the Life Insurance Act required the implementation of RBC adequacy tests by 2011. Relating to this the OIC issued guidelines in 2011 requiring audited quarterly RBC returns to be filed with them.

Philippines Pru Life Insurance Corporation of UK*Overview*

Pru Life Insurance Corporation of UK is licensed in the Philippines as a life insurance company and also permitted to offer health, accident and disability insurance.

The Insurance Code of the Philippines, as amended, (Insurance Code) gives the power to supervise and regulate the operations and business of insurance companies to the Insurance Commission (IC). The IC is a government agency under the Department of Finance, and is headed by the Insurance Commissioner. IC regulation and supervision seeks, amongst other things, to ensure that adequate insurance protection is available to the public at a fair and reasonable cost and to ensure the financial stability of the insurance industry so that all legitimate claims of the insured public are met promptly and equitably, and to safeguard the rights and interests of the insured.

Major revisions were made to the Code in 2013 with the two key objectives of allowing the insurance industry to better compete with the banks by removing the need for joint venture arrangement in conducting bancassurance business, and preparing insurance companies for the implementation of ASEAN Free Trade Area (ASEAN) in 2015 by requiring staggered increases in capitalisation.

Capital Requirements

The revised Insurance Code requires new insurance companies to have a paid-up capital of at least Php 1 bn, whilst all existing insurance companies must comply with the staggered increase in net worth of Php 250 m from June 2013 to Php 1.3 bn by the end of 2022. According to the Insurance Code, net worth shall consist of (a) paid-up capital, (b) retained earnings, (c) unimpaired surplus, and (d) revaluation of assets as may be approved by the Insurance Commissioner.

The Insurance Code also provides the President of the Philippines with the authority to order a periodic review every two years of the capital structure set out above to determine the capital adequacy of the local insurance

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industry from and after the integration and liberalisation of the financial services, including insurance, in the ASEAN region. For this purpose, a review committee consisting of representatives from Department of Finance, the Insurance Commission, the National Economic and Development Authority, the Securities and Exchange Commission (of the Philippines) and other agencies which the President may designate shall conduct the review and may recommend to the President to adopt adjustments to the capital requirements of insurance companies.

India ICICI Prudential Life Insurance Company Limited

Overview

ICICI Prudential Life Insurance Company Limited (Prudential's joint venture with ICICI Bank Limited in which Prudential has a 26 per cent share) is authorised to carry on long-term life insurance business in India.

Insurance is subject to federal regulation in India. The Insurance Regulatory & Development Authority (the IRDA) which was set-up under the IRDA Act, 1999, is the regulator for insurance business in India. The IRDA's duties include issuing certificates of registration to insurance companies, protecting the interests of policyholders, and regulating, promoting and ensuring the orderly growth of the insurance industry.

The principal legislation for insurance business is the Insurance Act, 1938. Regulations and guidelines on specific matters have also been notified to carry out the purposes of the Insurance Act and to provide rules and norms for conduct of operations. In relation to AML & CFT requirements, insurers must also adhere to requirements of the Prevention of Money Laundering Act, 2002 and specific guidelines issued by IRDA in this regard. The Financial Intelligence Unit India (FIU-IND) is entrusted with the responsibility of receiving cash/suspicious transaction reports, analyse them and, as appropriate, disseminating valuable financial information to intelligence/enforcement agencies and regulatory authorities.

The company is also a member of the Life Insurance Council, the industry association for life insurance companies.

In October 2012, the cabinet approved an amendment to the Insurance Bill 2008 to raise the Foreign Direct Investment from 26 per cent to 49 per cent, with the increase still pending approval by the Indian Parliament

2013 saw a change at the helm of IRDA following the retirement of the previous IRDA chairman. From a regulatory perspective, the draft regulations on bancassurance and web aggregators issued previously have not been progressed by the IRDA. However, the IRDA has issued regulations which allows banks to operate as insurance brokers. To further expand distribution to rural India, the IRDA has also issued regulations to authorise Common Service Centres to distribute life insurance on a limited basis. Other key developments are the changes to the regulation of linked and non-linked products regulations; and the implementation of a standard proposal for life products (effective April 2014).

In March 2013, the Reserve Bank of India and the IRDA initiated probes into allegations by an online Indian investigative media outlet that sales practices at certain Indian banks (including ICICI Bank) and insurance companies (including ICICI Prudential Life Insurance Company Limited) would have permitted or facilitated money-laundering transactions in violation of local law. In June and July 2013, the RBI and IRDA fined 25 banks for violations of its instructions relating to know your customer and anti-money laundering, including ICICI Bank, although no prima facie evidence of money laundering was found.

Capital Requirements

Every insurer must maintain an excess of assets over liabilities and the Required Solvency Margin (RSM) for an insurer is the higher of Rs.500 million or formulaic calculation of net premium or formulaic calculation of net claims. The Available Solvency Margin (ASM), which is the excess in the policyholder funds and shareholder funds, must be at least 150% of the RSM.

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Indonesia PT. Prudential Life Assurance*Overview*

PT. Prudential Life Assurance is authorised to carry on long-term (for an indefinite period) insurance business in Indonesia. Prudential's operations in Indonesia are authorised to distribute life insurance products based on either conventional or Shariah principles, through agency and bancassurance (including direct marketing) channels. While the regulations for life products based on conventional principles are fully developed (in accordance with current market conditions), the government has promulgated new regulations in relation to life products with Shariah principles.

The Otoritas Jasa Keuangan (OJK) is the regulator responsible for supervising the banking industry, capital markets and the insurance industry. Established as an independent regulator in 2013, the OJK has assumed supervisory responsibility of the non-bank financial institutions from the Ministry of Finance (MOF) and the banking sector from Bank Indonesia (BI). The financial regulatory regime in Indonesia now operates on a twin peaks model with the OJK responsible for micro prudential supervision and BI retaining its macro prudential responsibilities. The local Life Insurance Association (AAJI) continues to act as a conduit between insurers and the MoF and OJK in terms of the development of new regulations and guidelines. Insurance sales forces are licensed by the AAJI. The Syariah Insurance Association (AASI) acts in the similar capacity as AAJI in relation to the Syariah business and is expected to issue guidelines on Syariah insurance licensing in 2014.

The implementation of anti-money laundering controls in the insurance industry is monitored by the Indonesian Financial Transaction Reports and Analysis Center (or *Pusat Pelaporan dan Analisis Transaksi Keuangan* in Indonesian (the PPATK)).

The OJK has undertaken a number of key initiatives to develop and strengthen the financial services industry. In collaboration with the IFC, the OJK has developed a good corporate governance (GCG) roadmap and manual, which it launched in February 2014. The OJK claims the GCG roadmap will help companies improve standards and business efficiency. According to the roadmap, there are five core components that need to be addressed by firms namely, corporate governance framework, shareholders' protection, stakeholders' roles, transparency of information as well as the roles and responsibilities of the board of commissioners and board of directors.

The OJK also issued its first regulation in 2013, relating to consumer protection. Drafts implementing regulations have also been published in 2013 in relation to: information security, complaint handling, financial literacy, responsible marketing, and standardised contracts. These implementing guidelines significantly raise the market conduct of insurers. Key implications include customer-product suitability, enhanced disclosure of product features and facilitation of customer complaints. The implementing guidelines are expected to come into force during the second half of 2014.

Capital Requirements

The minimum capital requirement for insurers who operate in Indonesia was Rp 40 billion, which was increased to Rp 70 billion at the end of 2012 and will increase again to Rp 100 billion by 2014 to encourage tighter market consolidation.

Japan PCA Life Insurance Company Limited (PCA Life Japan)*Overview*

The Financial Services Agency of Japan (the JFSA) regulates insurance companies and other financial institutions. In particular, the Insurance Business Division of the JFSA specifically undertakes the supervision of insurance companies. PCA Life Japan is licensed by the Prime Minister of Japan (who delegates most of the supervisory functions to the JFSA) as a life insurance company. PCA Life Japan ceased underwriting new policyholder contracts from 15 February 2010. On 16 July 2013, Prudential Holdings Limited has reached an

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agreement with SBI Holdings, Inc to sell its closed book life insurance business in Japan, PCA Life Insurance Co, Ltd, for US\$85 million. The proposed transaction is subject to regulatory approval.

Capital Requirements

The Insurance Business Law requires insurance companies to demonstrate financial soundness by maintaining a solvency margin ratio of greater than 200% and a positive adjusted net capital balance. Any insurance companies failing to comply will be subject to administrative actions including business suspension.

Vietnam Prudential Vietnam Assurance Private Limited

Overview

Prudential Vietnam Assurance Private Limited is licensed and regulated by the Ministry of Finance of Vietnam (the MoF) as a life insurance company. An insurance company is not permitted to operate both life and non-life insurance at the same time, except in the case of a life insurance company that offers personal health and protection care insurance as a supplement to life insurance.

The Insurance Division of the MoF specifically undertakes the supervision of insurance companies. The fundamental principles of the operation of insurance companies are set out in the Insurance Business Law.

Generally, the Insurance Business Law and its guiding regulations focus on administrative supervision of insurance operations. In practice, the Insurance Business Law reserves most of its items for insurance contracts (that is, for the terms and conditions of policies) in order to protect policyholders' interests. Furthermore, the MoF has issued the new regulation on bankruptcy procedures for insurers, securities and financial institutions in late 2008 to allow it to take timely intervention to control the solvency of insurance companies.

Anti-money laundering controls in the insurance industry are monitored by the Anti-Money Laundering Department under the Banking Inspection, State Bank of Vietnam.

Capital Requirements

10 out of the 11 Life insurance companies in Vietnam are foreign-owned, and influenced by the need to have funds of at least 600 billion dong (US \$31 million) in capital a requirement beyond the reach of most Vietnamese owned companies.

Cambodia Prudential Cambodia

The company was granted in-principle approval in June 2012 to establish life insurance operations in Cambodia and received its full operating licence from the Ministry of Economy and Finance (MEF) on 31 December 2012 and started selling life insurance policies in January 2013.

The Insurance Division of the Financial Industry Department, a division of the MEF, is the insurance regulator.

Insurance activities are principally governed under the Insurance Law, which came into effect in 2000, and the Sub-Decree on Insurance, which was adopted by the Government in September 2001. Specific guidelines on aspects of insurance operations and corporate governance have also been notified by the MEF.

Capital Requirements

A life insurance company is required to have a minimum capital of International Monetary Fund (IMF) special drawing rights (SDR) 5 million Cambodian Riel (SDR 10 million Riel for a composite insurance company). Insurers must maintain a deposit with the National Treasury, equivalent to 10 per cent of registered capital, and also a solvency margin determined on the basis of years of operation and net premium income.

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2. Regulation of investment and funds businesses and other regulated operations

Prudential conducts investment and fund businesses through subsidiaries or joint ventures in the following countries in Asia through Eastspring Investments: Hong, Kong, Japan, Korea, Taiwan, The People's Republic of China, India, Singapore, Malaysia, Dubai, Vietnam and Indonesia. Eastspring Investments also has offices in the United States and Europe. All operations are authorised and licensed by the relevant authorities, or exempted from licensing under the relevant regulations.

All of the relevant authorities generally have broad supervisory and disciplinary powers, including, among others, the power to set minimum capital requirements, to temporarily or permanently revoke the authorisation to carry on regulated business, to suspend registered employees/licensed representatives, and to invoke censures and fines for both the regulated business and its registered employees/licensed representatives. Although the detail of regulation varies, common features of the regulatory regimes in each jurisdiction tend to include investment restrictions, advertising codes, disclosure requirements in prospectuses and/or marketing materials, and requirements to seek unit holders' approvals in certain instances, provision of financial statements and other periodic disclosures to regulators, audits by regulators and so on.

Hong Kong

Products and services offered by Prudential in Hong Kong are regulated under separate statutory regimes by different regulatory bodies, including the Hong Kong Securities and Futures Commission (HKSFC), the Hong Kong Monetary Authority and the Mandatory Provident Fund Schemes Authority (MPFA).

The MPFA regulates the compulsory Mandatory Provident Fund (MPF). In addition, the selling of MPF products by agents is regulated by the MPFA. The MPFA is responsible for the licensing and supervision of trustees who wish to administer MPF schemes and MPF intermediaries.

The Securities and Futures Ordinance (SFO) and other subsidiary legislation govern the key regulatory requirements in Hong Kong relating to licensing requirements for persons carrying out regulated activities, including dealing in securities, advising on securities, fund management, market conduct, disclosure of interests, offering document requirements for securities and products including mutual funds and unit trusts, as well as investment-linked assurance products. The HKSFC is the statutory body responsible for the administration of the SFO and the related subsidiary legislations and rules.

The Hong Kong business is regulated by the HKSFC for its operations relating to investment linked products. It is also registered with the MPFA as a MPF corporate intermediary.

Eastspring Investments (Hong Kong) Limited, incorporated in Hong Kong, is a wholly owned subsidiary of Prudential Plc. It is licensed with the HKSFC and authorised to deal in and advise on securities and undertake asset management activities in Hong Kong. It also holds a QFII (Qualified Foreign Institutional Investors) license issued by the China Securities Regulatory Commission (CSRC). The company is also registered with the Korea Financial Supervisory Service (KFFS) as an offshore investment advisor for investment advisory business and investment discretionary management business. The funds registered in Hong Kong by Eastspring Investments (Hong Kong) are also registered in Macau with the Monetary Authority of Macau.

The Government of the Hong Kong Special Administration Region announced the Personal Data (Privacy) (Amendment) Ordinance which came into effect 1 April 2013.

BOCI-Prudential Asset Management Limited (BOCIP), incorporated in Hong Kong, is a joint venture between Prudential Corporation Holdings Limited (36 per cent) and BOCI Asset Management Limited (64 per cent). BOCIP is licensed by the HKSFC and is authorised to deal in and advise on securities, advise on corporate finance, advise on futures contracts and undertake asset management activities. It is also registered with the MPFA as an MPF corporate intermediary. It also holds a QFII license issued by the CSRC. The investment funds registered in Hong Kong by BOCIP are also registered in Macau with the Monetary Authority of Macau.

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BOCI-Prudential Trustee Limited is a joint venture between Prudential Corporation Holdings Limited (36 per cent) and BOC Group Trustee Company Limited (64 per cent). The company is incorporated in Hong Kong and is an approved trustee under the Mandatory Provident Fund Schemes Ordinance and an associated entity to the BOCIP under the SFO.

Japan

Eastspring Investment Limited (known until February 2012 as PCA Asset Management Limited) is registered with the Kanto Local Finance Bureau under the Financial Services Agency (JFSA) to engage in (a) second financial instruments business, (b) investment management business, (c) investment advisory & agency business and (d) ancillary business under the Financial Instruments and Exchange Act (FIEA)

The company is also a member of the Investment Trusts Association, Japan and the Japan Investment Advisers Association. Both associations are self-regulatory bodies under FIEA. Eastspring Investment Limited is required to comply with the policies and regulations issued by these associations, which are authorised to conduct on and off-site inspection in addition to the inspection conducted by the Securities and Exchange Surveillance Commission which is part of FSA.

Under its registration in respect of the second financial instruments business, the company is permitted to explain products being sold but cannot effect actual sales of Eastspring Investments Limited's funds directly to investors. It does not therefore set up or maintain customer accounts for purposes of investment in Prudential's funds or their settlement, which may only be opened at relevant distributors such as registered financial institutions and type one financial instruments business operators like securities companies.

Korea

Prudential conducts a fund business in Korea through an indirect, wholly-owned subsidiary, Eastspring Asset Management Korea Co. Ltd. The bodies responsible for the regulation of asset management companies, investment advisers and discretionary management companies are the Financial Services Commission (FSC) and its executive arm, the Financial Supervisory Service (FSS).

Traditionally, the FSC in Korea has operated in a prescriptive manner with a significant amount of detailed regulation that asset management companies must comply with. In recent years, the style of regulation of the indirect investment industry has been changing in line with consolidated regulation to govern all sorts of capital market businesses, including brokerage and investment banking, and has been moving towards a principles -based regulatory regime.

Taiwan

The body responsible for regulation of securities investment trust enterprises (SITE), securities investment consulting enterprises (SICE) and discretionary investment businesses is the Securities and Futures Bureau (SFB) under the Financial Supervisory Commission (FSC). The SFB is responsible for promulgating laws, regulations and policies in relation to these business areas.

Eastspring Securities Investment Trust Co. Ltd is registered as a SITE with the FSC. It is compulsory that all SITEs are members of the Securities Investment Trust and Consulting Association (SITCA), a self-regulatory organisation (SRO). SITCA supports the regulatory and administrative operations entrusted to the SFB by adopting self-regulatory rules and overseeing self-regulation by its members, establishing a membership disciplinary framework and carrying out matters that the SFB has authorised it to handle, such as previewing product filing documents before submission

for the SFB's final review. SITCA also acts as liaison between the SFB and its members for matters of business development.

Table of Contents***China***

CITIC-Prudential Fund Management Company Limited, a joint venture between Prudential and CITIC Group (China International Trust and Investment Corporation), is regulated by the China Securities Regulatory Commission (CSRC). The CSRC supervises the establishment of fund management companies (FMCs) and the launch of securities investment funds.

The legislative framework of China's fund industry comprises the China Securities Investment Funds Law (the Fund Law) and a set of ancillary regulations (the Fund Regulations). While the Fund Law and Fund Regulations articulate the rules and requirements which must be adhered to by all FMCs, the supervisory approach of CSRC, to a certain extent, is also principles- based. The Chinese authorities aim to protect the legitimate rights and interests of investors and other relevant parties, and thereby to promote the healthy development of securities investment funds and securities markets. The CSRC has slowly started a process of deregulation. One major deregulation measure in 2010 was to lift the control over product approvals, which enables FMCs to launch more fund products.

The revised Fund Law has been approved and become effective in June 2013. The key changes include registration of hedge funds, which for the first time provide hedge funds opportunity to register with the regulator, as well as having a regulatory framework in place. The changes also allow individual ownership of fund management companies, which will help to diversify the shareholding structure of EMCs and makes ESOP(s) possible as incentive schemes. Lastly, the changes lift personal trading and investment restrictions. The changes to the investment restrictions provide funds with more flexibility in investment activities and offer more opportunity for product innovation. The CSRC also issued related regulations setting forth personal dealing guidelines, fund sales fee management and fund management company management.

India

ICICI Prudential Asset Management Company Limited (AMC), a joint venture between Prudential plc and ICICI Bank Ltd., is approved by the Securities and Exchange Board of India (SEBI) to act as an Investment Manager of ICICI Prudential Mutual Fund (the Fund). The Fund was set up as a Trust sponsored by Prudential (through its wholly owned subsidiary Prudential Corporation Holdings Ltd) and ICICI Bank Ltd. ICICI Prudential Trust Limited (the Trust Company), is the Trustee to the Fund.

Mutual funds in India are comprehensively regulated by SEBI (Mutual Funds) Regulations, 1996, the Indian Trusts Act, 1882, relevant provisions of the Companies Act, 1956, Companies Act, 2013, and other applicable laws. The Ministry of Corporate Affairs in India notified the Companies Act 2013 in September 2013. The new Act of 2013 is not in force in toto, with only 98 sections of the Act having come into force. All mutual funds are required to be in the form of trusts. The trustee functions are carried out by separately established trust companies or boards of trustees. In all cases, the trust deed must be approved by the SEBI. AMC has obtained registration from the SEBI to act as a Portfolio Manager under SEBI (Portfolio Managers) Regulations 1993. AMC under its portfolio management license has also been appointed as the investment manager by the Trust for managing the scheme launched under the ICICI Prudential Venture Capital Fund.

In 2005, SEBI confirmed it had no objection to AMC undertaking Advisory Services to Offshore Funds. AMC has commenced the provision of Advisory Services. Additionally, the AMC has also applied to SEBI seeking approval to act as the investment manager to the funds launched under Securities and Exchange Board of India (Alternative Investments Funds) Regulations, 2012.

ICICI Prudential Venture Capital Fund (VCF) received its registration from SEBI under the SEBI (Venture Capital Funds) Regulations, 1996 (the VCF Regulation s), in March 2012. Subsequently, SEBI notified the industry of the SEBI (Alternative Investment Funds) Regulations, 2012 (AIF Regulations) which repealed the VCF Regulations. However, Regulation 3(2) of the AIF Regulations provides that existing venture capital funds shall continue to be regulated by the VCF Regulations until the existing fund or scheme managed by the fund is

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wound up. In view of the above and considering that the VCF was granted registration prior to the notification of the AIF Regulations, the activity of the VCF continues under the VCF Regulations. Our joint venture in India now has three licences as a result of this, in mutual fund, portfolio management and venture capital.

Singapore

Eastspring Investments (Singapore) Limited (Eastspring Singapore), an indirect wholly owned subsidiary of Prudential plc, is regulated by the Monetary Authority of Singapore (MAS). Eastspring Singapore holds a Capital Markets Services (CMS) license, to conduct the regulated activities of fund management and dealing in securities. In addition, Eastspring Singapore is admitted by the Central Provident Board (CPF) as a Fund Management Company (FMC) under the CPF Investment Scheme (CPFIS) and may manage unit trusts included under the CPFIS. It is also registered to provide certain investment advisory and other services, or able to provide certain such services on an exempt basis, in select other jurisdictions including the United States, South Korea, India, Japan, Australia and Canada.

Prudential Property Investment Management (Singapore) Pte. Ltd. (Prupim SGP) is an indirect wholly-owned subsidiary of Prudential plc. It is a real estate fund management company, and operates in Singapore as an exempt fund manager and exempt financial adviser under the Securities and Futures Act and the Financial Advisers Act respectively. As an exempt fund manager and exempt financial adviser, Prupim SGP provides services to not more than 30 qualified investors (for fund management services) and accredited investors (for financial advisory services).

Malaysia

Eastspring Investments Berhad was incorporated in November 2000 in Malaysia and holds a licence for dealing in securities and fund management. Eastspring Al-Wara Investments Berhad was incorporated in June 2009 in Malaysia and holds a licence for fund management.

Both companies are regulated by the Securities Commission Malaysia (SC), a statutory body formed under the Securities Commission Act 1993, which reports to the Minister of Finance.

The SC on 2 January 2013 published the Capital Markets and Services (Amendment) Act 2012, together with the issuance of several guidelines, which among others, introduce a new approval framework that will facilitate the offering of a broader array of capital market products, and is intended to benefit issuers, intermediaries and investors.

Eastspring Investments Berhad is also an appointed Fund Management Institution for Unit Trust Fund under the Employees Provident Fund s (EPF) Members Investment Scheme. The EPF is a social security institution formed according to the Laws of Malaysia, Employees Provident Fund Act 1991 (Act 452) which provides retirement benefits for members through management of their savings in an efficient and reliable manner.

Dubai

Eastspring Investments Limited (Eastspring Investments Dubai) was incorporated in the Dubai International Financial Centre (DIFC) in September 2006. Eastspring Investments Dubai is an ultimately wholly-owned subsidiary of Prudential Plc. Eastspring Investments Dubai is regulated by the Dubai Financial Services Authority (DFSA), which is the independent regulator for DIFC. Eastspring Investments Dubai holds a license for arranging credit or deals in investments, advising on financial products or credit and has a retail endorsement on its license. The supervisory approach of DFSA, to a large extent, is risk-based.

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Vietnam

Eastspring Investments Fund Management Limited Liability Company (Eastspring Investments Vietnam) was established in May 2005 and operates under a business registration for securities investment fund management and securities portfolio management and securities investment advisory services.

Eastspring Investments Vietnam is regulated by the State Securities Commission of Vietnam (SSC), which is overseen by the Ministry of Finance (MoF). In keeping with its mandate to establish and develop the securities markets, the SSC supervises the organisation, and operation of securities investment funds and fund management companies.

Indonesia

PT Eastspring Investments Indonesia (Eastspring Investments Indonesia) is regulated and supervised by OJK (Indonesian Financial Service Authority). The OJK is responsible for establishing and coordinating an integrated regulatory and supervisory system towards the overall activities in the Indonesian financial sector. Eastspring Investments Indonesia has been licensed as an Investment Manager Company since 25 April 2012 and is therefore authorised to manage collective investment portfolios as well as discretionary portfolios. In addition, Eastspring Investments Indonesia may also act as an investment advisor for the sale or purchase of securities by its clients, but may not receive any financial compensation for this service (due to regulatory restriction).

United States

Eastspring Investments Incorporated (Eastspring Investments USA) was incorporated in the State of Delaware in April 2012 and the business was launched in August 2012. Eastspring Investments USA is an indirect wholly owned subsidiary of Prudential plc.

Eastspring Investments USA is not engaged in providing investment management services directly to investors nor is it engaged in broker-dealer activities. On behalf of its affiliate, Eastspring Investments (Singapore) Ltd. (Eastspring Investments Singapore), Eastspring Investments USA serves as a solicitor as that term is defined under the provisions of the Investment Advisers Act of 1940, as amended (Investment Advisers Act) and the rules thereunder. Eastspring Investments Singapore is registered with the U.S. Securities and Exchange Commission (SEC) as a registered investment adviser, and, although its solicitation activity is regulated under the Investment Advisers Act, Eastspring Investments USA is not required to be separately registered with the SEC.

Certain US states and local governmental bodies may require that individuals engaged in solicitation activity be either registered or otherwise qualify for an exemption to solicit investors in that jurisdiction. Based on its solicitation activity on behalf of Eastspring Investments Singapore, Eastspring Investments USA is subject to the solicitation restrictions and filings of those individual states, as applicable.

Luxembourg

Eastspring Investments (Luxembourg) S.A. is fully licensed by the Luxembourg supervisory authority (ie CSSF) to operate as a management company of undertaking for collective investments in transferable securities (eg UCITS and other type of investment products) since 1 April 2013.

Eastspring Investments (Luxembourg) S.A. meets the organisation and substance requirements of a UCITS management company, insofar as it benefits from a passport and may freely market its activities across Europe (as defined by the EEA). It is authorised to provide asset management services to investment funds, including

administration (eg, daily valuation and accounting) and distribution and marketing of such products.

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Eastspring Investments (Luxembourg) S.A. was appointed in particular to act as management company of Eastspring Investments, a UCITS open-ended investment company organised under the laws of the Grand Duchy of Luxembourg, regulated by the CSSF and passported for sale in many countries, including European and Asian jurisdictions.

Eastspring Investments (Luxembourg) S.A. has been operating a branch based in the UK since September 2013, concentrating sales and marketing activities across Europe. The UK branch of Eastspring Investments (Luxembourg) S.A. falls under the supervision of both FCA and CSSF.

US Supervision and Regulation*Overview*

Prudential conducts its US insurance activities through Jackson, a life insurance company licensed to transact its insurance business in, and which is subject to regulation by and supervision of, the District of Columbia, and 49 of the 50 states. Jackson operates a subsidiary, Jackson National Life Insurance Company of New York, in the state of New York. The extent of any such regulation varies, but most jurisdictions have laws and regulations governing the financial aspects of insurance companies, including standards of solvency, reserves, reinsurance and capital adequacy and the business conduct of insurance companies. In addition, statutes and regulations usually require the licensing of insurers and their agents and the approval of policy forms and related materials. These statutes and regulations in a US insurance company's state of domicile (Michigan in the case of Jackson) also regulate the investment activities of insurers.

Insurance regulatory authorities in all the jurisdictions in which Jackson does business require it to file detailed quarterly and annual financial statements, and these authorities have the right to examine its operations and accounts. In addition, Jackson is generally subject to US federal and state laws and regulations that affect the conduct of its business as well as similar laws and regulations in Canada and the Cayman Islands. New York and Michigan require their state insurance authorities to conduct an examination of an insurer under their jurisdiction at least once every five years. (Jackson has historic small books of business in places such as the Cayman Islands, Puerto Rico, Guam and Argentina and the business is being managed in run off. In addition, Jackson acquired some policies in Canada from its acquisition of Reassure America Life Insurance Company (REALIC) in 2012. Jackson is seeking the transfer of the REALIC licence in Canada.

In 2012, the New York insurance authorities commenced a triennial examination of Jackson National Life of New York for the examination period of 1 January 2009 through 31 December 2011. Michigan insurance authorities commenced an examination of Jackson in 2012 for the period 1 January 2009 through 31 December 2011. Both the New York and Michigan financial exams were finalised in 2013. Jackson has addressed all open issues. Jackson's ability to pay shareholder dividends is limited under Michigan insurance law. The Director of the Michigan Department of Insurance & Financial Services (the Michigan Director of Insurance) may limit, or not permit, the payment of shareholder dividends if the Michigan Director of Insurance determines that an insurer's surplus, as regards policyholders, is not reasonable in relation to its outstanding liabilities and is not adequate to meet its financial needs as required by Michigan insurance law. Jackson must report any shareholder dividends to the Michigan Director of Insurance before they can be paid. In the case of an extraordinary shareholder dividend or distribution, an insurer may not pay the dividend or distribution until 30 days after the Michigan Director of Insurance has received notice of the declaration and has not disapproved, or has approved, the payment within that period. For this purpose, an extraordinary dividend or distribution means any dividend or distribution of cash or other property where the fair market value, together with that of other dividends or distributions that an insurer made within the preceding twelve months, exceeds the greater of 10 per cent of the insurer's surplus, as regards policyholders as of 31 December of the

immediately preceding year, or the net gain from operations of the insurer, not including realised capital gains, for the prior year. In 2011, 2012 and 2013, Jackson paid shareholder dividends to Prudential plc of US\$530.0 million, US\$400.0 million, and US\$470.0 million, respectively.

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State regulators also require prior notice or regulatory approval of changes in control of an insurer or its holding company and of certain material transactions with affiliates. Under New York and Michigan insurance laws and regulations, no person, corporation or other entity may acquire control of an insurance company or a controlling interest in any parent company of an insurance company, unless that person, corporation or entity has obtained the prior approval of the regulator. For the purpose of each of New York and Michigan law, any person acquiring, directly or indirectly, 10 per cent or more of the voting securities of an insurance company is presumed to have acquired control of the company. To obtain approval of any change in control, the proposed acquirer must file an application with the New York Superintendent of Financial Services or the Michigan Director of Insurance, as appropriate. This application requires the proposed acquirer to disclose, among other information, its background, financial condition, the financial condition of its affiliates, the source and amount of funds by which it will effect the acquisition, the criteria used in determining the nature and amount of consideration to be paid for the acquisition, proposed changes in the management and operations of the insurance company and other related matters. The Michigan Director of Insurance can grant an exemption from filing an application if an acquisition does not have the effect of changing or influencing control.

Guaranty associations and similar arrangements

Each of the 50 states of the United States, the District of Columbia and the Commonwealth of Puerto Rico has laws requiring insurance companies doing business within their jurisdictions to participate in various types of guaranty associations or other similar arrangements. These associations and arrangements provide certain levels of protection to policyholders from losses under insurance policies issued by insurance companies that become impaired or insolvent. Typically, these associations levy assessments, up to prescribed limits, on member insurers on a basis that is related to the member insurer's proportionate share of the business in the relevant jurisdiction of all member insurers in the lines of business in which the impaired or insolvent insurer is engaged. Some jurisdictions permit member insurers to recover assessments that they paid through full or partial premium tax offsets, usually over a period of years. Prudential estimated its reserve for future guarantee fund assessments for Jackson to be US\$21.7 million at 31 December 2013. Prudential believes this reserve to be adequate for all anticipated payments for known insolvencies.

Asset valuation reserve

State regulators generally require that insurers establish an asset valuation reserve that consists of two components: a default component to provide for future credit-related losses on fixed income investments and an equity component to provide for losses on all types of equity investments. The asset valuation reserve establishes statutory reserves for fixed maturity securities, equity securities, mortgage loans, real estate, derivative instruments and other invested assets. The reserve is designed to provide for a normalised level of future losses based on the credit rating of each individual investment. The level of reserves is based on both the type of investment and its rating. Contributions to the reserve may result in a reduction in Jackson's unassigned surplus, which, in turn, may reduce funds available for shareholder distributions. The extent of the impact of the asset valuation reserve on Jackson's statutory surplus depends in part on the future composition of the investment portfolio.

Interest maintenance reserve

State regulators generally require that insurers establish an interest maintenance reserve to defer non-credit-related realised capital gains and losses, net of taxes, on fixed income investments (primarily bonds, derivative instruments and mortgage loans) which are amortised into net income over the estimated remaining periods to maturity of the investments sold and to defer material gains or losses, net of taxes, resulting from market value adjustments on policies and contracts backed by assets carried at book value. The extent of the impact of the interest maintenance

reserve on earnings and surplus depends on the amount of future interest rate-related realised capital gains and losses on fixed maturity investments, derivatives and mortgage loans and deferred gains or losses resulting from market value adjustments on policies and contracts backed by assets that are valued at book value.

Table of Contents***The National Association of Insurance Commissioners ratios***

On the basis of statutory financial statements that insurers file with state insurance regulators, the National Association of Insurance Commissioners annually calculates 12 financial ratios to assist state regulators in monitoring the financial condition of insurance companies. A usual range of results for each ratio is used as a benchmark and departure from the usual range on four or more of the ratios can lead to inquiries from individual state insurance departments. The usual range of results is established by the NAIC for each ratio from studies of the ratios for companies that have become insolvent or have experienced financial difficulties in recent years. As at 31 December 2013, none of Jackson's ratios fell outside the usual range.

Policy and contract reserve sufficiency analysis

State insurance laws require life insurance companies to conduct annually an analysis of the sufficiency of its life and annuity reserves. A qualified actuary must submit an opinion that states that the reserves, when considered in the light of the assets that an insurance company holds with respect to such reserves, make good and sufficient provision for the associated contractual obligations and related expenses of the insurance company. If a qualified actuary cannot provide such an opinion, then the insurance company must set up additional reserves by moving funds from surplus. The 2013 opinion has been submitted to the Michigan Department of Insurance & Finance Services without any qualifications.

Jackson's capital and surplus

Michigan insurance law requires Jackson, as a domestic life insurance company, to maintain at least US\$7,500,000 in unimpaired capital and surplus. In addition, insurance companies are required to have sufficient capital and surplus to be safe, reliable and entitled to public confidence.

As a licensed insurer in the District of Columbia and every state but New York, where it operates through a subsidiary, Jackson is subject to the supervision of the regulators of each jurisdiction. In connection with the continual licensing of Jackson, regulators have discretionary authority to limit or prohibit the new issuance of business to policyholders when, in their judgment, the regulators determine that such insurer is not maintaining minimum surplus or capital or if the further transaction of business will be hazardous to policyholders.

As a Michigan domiciled insurer, Jackson is subject to a prescribed accounting practice that, under certain circumstances, allows an insurer to include the value of business acquired as an admitted asset in excess of the amount allowed under NAIC guidance. At 31 December 2013, principally as a result of the acquisition of REALIC, Jackson admitted US\$452.5 million of value of business acquired in excess of the amount allowed under NAIC guidance.

Jackson has received approval from the Michigan Department of Insurance & Financial Services regarding the use of a permitted accounting practice. This permitted practice allows Jackson to carry certain interest rate swaps at book value as if statutory hedge accounting were in place instead of at fair value as would have been otherwise required. The permitted practice is effective 31 December 2013 and expires 1 October 2014 unless extended by the Michigan Director of Insurance. The effects of this permitted practice may not be considered by the company when determining the surplus available for dividends, nor the nature of dividends as ordinary or extraordinary.

Risk-based capital

The National Association of Insurance Commissioners has developed risk-based capital standards for life insurance companies as well as a model act for state legislatures to enact. The model act requires that life insurance companies

report on a risk-based capital formula standard that they calculate by applying factors to various asset, premium and reserve items and separate model based calculations of risk associated primarily with variable annuity products. The risk-based capital formula takes into account the risk characteristics of a

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company, including asset risk, insurance risk, interest rate risk, market risk and business risk. The National Association of Insurance Commissioners designed the formula as an early warning tool to identify potentially inadequately capitalised companies for purposes of initiating regulatory action.

Any state adopting the model act gives the state insurance commissioner explicit regulatory authority to require various actions by, or take various actions against, insurance companies whose adjusted capital does not meet minimum risk-based capital standards. The Michigan Department of Insurance & Financial Services takes into account the National Association of Insurance Commissioners' risk-based capital standards to determine compliance with Michigan insurance law.

At 31 December 2013 the Company's total adjusted capital under the National Association of Insurance Commissioners' definition substantially exceeded Michigan standards.

Regulation of investments

Jackson is subject to state laws and regulations that require diversification of its investment portfolio, limit the amount of investments in certain investment categories such as below investment grade fixed income securities, common stock, real estate and foreign securities and forbid certain other types of investments altogether. Jackson's failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated by the Michigan Director of Insurance as non-admitted assets for purposes of measuring surplus and, in some instances, the Michigan Director of Insurance could require divestiture of non-qualifying investments.

Implementation of US Foreign Account Tax Compliance Act (FATCA) provisions

Although the insurance business is regulated on a State level, US federal tax legislation and rules, including those relating to the insurance industry or insurance products, can have a significant impact on Prudential's business. Tax legislation and rules, and their interpretation, may change, possibly with retrospective effect, and proposals that would affect such changes are debated periodically by the US Congress.

Legislation incorporating provisions referred to as FATCA was passed in the US on 18 March 2010. The legislation and subsequent final regulations released in January 2013, requires Foreign Financial Institutions (FFIs) (such as Prudential plc and many of its subsidiaries) to enter into an FFI agreement, which requires the FFI to undertake due diligence procedures to identify and provide information on accounts held by US persons and US-owned foreign entities, or otherwise face a 30 per cent withholding tax on certain payments made to the FFI. In addition, FFIs that have entered into an FFI agreement may be required to withhold on certain payments made to FFIs that have not entered into an FFI Agreement, account holders who fail to provide sufficient information to classify an account as a US or non-US account, and US account holders who do not agree to the FFI reporting certain account related information to the IRS.

Since 2012, the US Treasury has been negotiating intergovernmental agreements (IGA) with several countries which will result in those countries embedding the FATCA provisions into their domestic law. This development has the added benefit of significantly reducing any withholding obligations on payments by US companies or FFIs to other companies or customers in these IGA countries. On 12 September 2012, the United Kingdom and the United States entered into an IGA which was implemented into UK law as part of the Finance Bill 2013, with related regulations and guidance published in August 2013. Prudential plc will be subject to the information collection and sharing required under this IGA, although non-UK branches of Prudential plc and non-UK subsidiaries of Prudential plc that are FFIs will not be subject to the UK-US IGA. These non-UK branches and subsidiaries will instead be required to either comply with an IGA in their home jurisdictions (if any), or to comply with the FATCA provisions and final

regulations. Any applicable IGA may require compliance with the FATCA provisions and final regulations, as modified by the relevant IGA.

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FATCA will have an impact on many of Prudential's non-US businesses, whether or not based in jurisdictions that have executed IGAs with the US, and will require a review and enhancement of existing practices to ensure FATCA compliance. A Group-wide project has been set up by Prudential to manage the implementation of the new practices. All of Prudential's businesses have established formal project structures to deliver the requirements within the timescales.

The start date for implementation of the FATCA regime, including withholding on certain US source payments and the implementation of certain account diligence procedures, is 1 July 2014 and certain provisions may be further delayed. Complying with the required identification, withholding and reporting obligations is expected to require significant review and focus in an FFI's compliance and reporting framework. We are following developments regarding FATCA closely, and are coordinating with all relevant authorities.

USA Patriot Act

The USA Patriot Act, enacted in 2001, includes numerous provisions designed to fight international money laundering and to block terrorist access to the US financial system. The US Treasury Department has issued a number of regulations implementing the Patriot Act that apply certain of its requirements to financial institutions including broker dealers and insurance companies. Among other things, the regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. Jackson and, to the extent applicable, certain of its affiliates, have established policies and procedures to ensure compliance with the Patriot Act's provisions and the Treasury Department regulations.

Securities laws

Jackson, certain of its affiliates and certain policies and contracts that Jackson issues are subject to regulation under the federal securities laws administered by the US Securities and Exchange Commission (the SEC). The primary intent of these laws and regulations is to protect investors in the securities markets and generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the conduct of business for failure to comply with such laws and regulations and (in the case of broker dealers) to impose capital and related requirements. Jackson may also be subject to similar laws and regulations in the states in which it provides investment advisory services, offers the products described above or conducts other securities-related activities.

Jackson National Asset Management, LLC (JNAM) is registered with the SEC as an investment adviser pursuant to the Investment Advisers Act. JNAM is registered as a transfer agent pursuant to the Securities Exchange Act of 1934, as amended (the Securities Exchange Act). The investment companies (mutual funds) for which JNAM serves as an investment adviser are subject to SEC registration and regulation pursuant to the Securities Act of 1933, as amended (the Securities Act), and the Investment Company Act of 1940, as amended (the Investment Company Act). Certain of the mutual funds advised by JNAM underlie variable products offered by Jackson. In addition, each variable annuity and variable life product sponsored by Jackson is subject to SEC registration and regulation pursuant to the Securities Act and the Investment Company Act, and applicable state insurance and securities laws. Each variable annuity and variable life product is funded under a separate account that is registered with the SEC as a unit investment trust.

Effective 31 December 2012, the U.S. Commodity Futures Trading Commission (CFTC) eliminated an exclusion previously available to the mutual funds advised by JNAM from the definition of a commodity pool under the Commodity Exchange Act (CEA). Consequently, certain of the mutual funds became commodity pools and became subject to the requirements of the CEA and the rules of the CFTC promulgated thereunder. As of January 2013, JNAM is registered as a commodity pool operator with the National Futures Association (NFA) pursuant to CFTC regulations and is acting as a commodity pool operator with respect to the operation of certain of the mutual funds.

The new requirements will require JNAM and the mutual funds to incur additional regulatory compliance and reporting expenses. The effects of these regulatory changes could reduce investment returns or harm the mutual fund's ability to implement its investment strategy.

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Curian Capital, LLC (Curian Capital) is registered with the SEC pursuant to the Investment Advisers Act and is also registered or has filed notice in all applicable states. Curian Capital serves as an investment adviser to certain investment companies. The investment companies (mutual funds) for which Curian Capital serves as an investment adviser are subject to SEC registration and regulation pursuant to the Securities Act and Investment Company Act. Certain of the mutual funds advised by Curian Capital underlie variable products offered by Jackson. In addition, each variable annuity and variable life product sponsored by Jackson is subject to SEC registration and regulation pursuant to the Securities Act and the Investment Company Act, and applicable state insurance and securities laws. Each variable annuity and variable life product is funded under a separate account that is registered with the SEC as a unit investment trust.

As of January 2013, Curian Capital is registered with the NFA as a commodity pool operator pursuant to CFTC regulations and is acting as a commodity pool operator with respect to the operation of certain of the mutual funds. The new requirements will require Curian Capital and the mutual funds to incur additional regulatory compliance and reporting expenses. The effects of these regulatory changes could reduce investment returns or harm the mutual fund's ability to implement its investment strategy.

Curian Clearing, LLC is registered as a broker-dealer with the SEC pursuant to the Securities Exchange Act, and is registered as a broker-dealer in all applicable states. In addition, Curian Clearing, LLC is a member firm of the Financial Industry Regulatory Authority (the FINRA), subject to its supervisory and regulatory requirements.

Jackson National Life Distributors LLC is registered as a broker-dealer with the SEC pursuant to the Securities Exchange Act, and is registered as a broker-dealer in all applicable states. In addition, Jackson National Life Distributors LLC is a member firm of the FINRA, subject to its supervisory and regulatory requirements.

National Planning Holdings, Inc. (NPH) owns four retail broker dealers, being IFC Holdings, Inc. (doing business as INVEST Financial Corporation), (IFC), Investment Centers of America, Inc (ICA), National Planning Corporation (NPC) and SII Investments, Inc. (SII). These entities conduct business as securities broker-dealers, investment advisers, and insurance agencies (or affiliated with insurance agencies), and are licensed and qualified to transact business pursuant to their respective registration or licensure with the SEC, state securities and insurance authorities, and membership with FINRA and the Municipal Securities Rulemaking Board. NPC, SII, and ICA are also registered with the CFTC, and are members of the NFA for purposes of commodities and futures trading.

Prudential also conducts certain of its US institutional investment management activities through PPM America, Inc., which is registered with the SEC as an investment adviser under the Investment Advisers Act. PPM America serves as the investment adviser to Jackson and as the primary institutional investment adviser for certain Prudential subsidiaries, including The Prudential Assurance Company Limited. PPM America also acts as sub-adviser to certain US and foreign advisers affiliated with Prudential with respect to certain US portfolios of accounts or products sponsored or managed by such affiliates, including US mutual funds, UK-based pooled investment vehicles, a Luxembourg-based SICAV, Japanese investment trusts, and other similar vehicles. PPM America also serves as an investment adviser to other affiliated and unaffiliated institutional clients such as CDOs or similar structured vehicles and private investment funds (in which PPM America affiliates such as Prudential UK entities and Jackson are generally investors), and a limited number of other unaffiliated accounts. The US mutual funds for which PPM America serves as sub-adviser are subject to regulation under the Securities Act and the Investment Company Act, and other similar vehicles organised outside of the US may also be subject to regulation under applicable local law.

PPM America and certain of its subsidiaries are subject to various levels of regulation under the federal securities laws that the SEC administers as well as state securities laws. In connection with providing investment advisory services to certain of its clients, PPM America may also be subject to regulation under applicable foreign laws.

To the extent that PPM America or the NPH broker-dealers manage accounts with assets of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), or the Internal Revenue

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Code, they may be subject to certain restrictions imposed by ERISA or the Internal Revenue Code. Such restrictions are summarised in *Employee Benefit Plan Compliance* in the Section below. The US Department of Labor (the Department of Labor) and the US Internal Revenue Service have interpretive and enforcement authority over the applicable provisions of ERISA and the Internal Revenue Code.

Disclosure obligations under the US Securities Exchange Act and in particular under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012

Under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) of the US Securities and Exchange Act of 1934, we are required to disclose certain of our activities and those of our affiliates related to Iran and to persons sanctioned by the United States under programs relating to terrorism and proliferation of weapons of mass destruction that occurred in the twelve-month period covered by this report.

Two of our non-US affiliates have engaged in transactions with persons sanctioned by the United States under Executive Order 13224, relating to terrorism. These transactions were entered into in compliance with laws and regulations applicable to the relevant affiliates. The first individual took out a one-off takaful certificate (a Shariah compliant life policy) with our Malaysian insurance subsidiary in October 2011. It was discovered in March 2012 through automated checking that his name matched various sanctions lists. The policy was for RM600 per month and RM 7,200 was paid for the year in 2013 (equivalent to around US\$182 and US\$2,185, respectively). The matter was reported to the Malaysian governmental sanctions authority, the Bank Negara Malaysia Financial Intelligence Unit, in March 2012. Currently, the said policy has been frozen with no top-up, withdrawal or claims permitted, although regular premium payment is still allowed. The policy is in force, with no claims submitted or any payment made to date.

The second individual is a beneficiary to three life insurance policies in his wife's name, the first taken out in December 2010 and two others taken out in November 2011 with our Indonesian insurance subsidiary. The first policy has a monthly premium of Rp 500,000 (around US\$43) with premiums paid of Rp 6,000,000 paid for the year in 2012 (approximately US\$510). Premiums for the second and third policies were initially for Rp 500,000 per month each with Rp 6,000,000 paid into each policy in 2012. Starting from February 2013, premiums for both policies were changed to Rp 1,000,000 per month (approximately US\$85). The person was identified as a sanctioned individual in July 2012, and the matter was notified to the Indonesian governmental sanctions authority, the Indonesia FIU (PPATK), in August 2012. All three policies remain in force, but payments out will only be made in accordance with applicable law.

As the provisioning of insurance liabilities is undertaken on a portfolio as a whole basis, it is not practical to estimate the 2012 net profits on the contracts referred to above. We do not intend to engage in further new business dealings with these individuals.

In the UK, the Prudential Assurance Company Ltd operates a pension scheme for employees of the UK branch of government-owned Iranian bank. A total of 61 scheme members are receiving benefits, with 21 deferred members. All members are inactive in that no member contributions are being made or were made in 2013 although two payments in were received in September (approved by HM Treasury); £15k from the trustees into a cash fund and £1.9m from the bank into the pension to make good a funding deficit. The scheme is closed to new members. Due to the long term nature of a pension scheme it is not practical to advise the net profit, but the fund value at 31 December 2013 stood at £7,458,011.00. In return for administering the scheme there are standard Prudential scheme charges: an annual fee of £707, plus £11 per member, £57 per quote and a Trustee Accounts charge (£1,847.85). The annual invoice paid on 2 October 2013 was for £3,446.85. In addition to this an Annual Management Charge of 1.25 per cent is reflected in the fund value. The UK governmental sanctions authority, HM Treasury, has been informed of this arrangement and

in 2008 advised us that following an analysis of the deeds, the fund is not owned, held or controlled by the bank. Payments out of the fund have been approved by HM Treasury through a license. There are no plans to discontinue with this contract in light of this license.

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Employee benefit plan compliance

Jackson issues certain types of general account stable value products, such as GICs and funding agreements, to employee benefit plans and to investment vehicles that pool the investments of such plans. Many of these plans are retirement plans that are subject to the fiduciary standards of ERISA and that are tax-qualified under the Internal Revenue Code. As such, Jackson may be subject to certain restrictions imposed by ERISA and taxes imposed by the Internal Revenue Code. These restrictions include:

the requirement under ERISA that fiduciaries must perform their duties solely in the interests of ERISA plan participants and beneficiaries,

the requirements under ERISA that fiduciaries may not engage in conflict of interest transactions, and

the requirements under ERISA that a fiduciary may not cause a covered plan to engage in certain prohibited transactions with certain persons who provide services to the plan or are affiliated with the plan sponsor or a plan service provider.

In general, the Internal Revenue Code imposes taxes on persons involved in certain of the transactions described above.

The Department of Labor and the Internal Revenue Service have interpretive and enforcement authority over the applicable provisions of ERISA and the Internal Revenue Code.

In the instance where an insurer issues a guaranteed benefit policy to a plan, ERISA provides that the insurer need not become a fiduciary with respect to the plan solely as a result of the issuance of the policy. Under Section 401 of ERISA, a guaranteed benefit policy means an insurance policy to the extent such policy provides for benefits the amount of which the insurer guarantees.

In 1993, in *John Hancock Mutual Life Insurance Company v. Harris Trust & Savings Bank*, the US Supreme Court held that a portion of the funds held under a certain type of general account annuity contract did not constitute a guaranteed benefit policy within the meaning of ERISA, a holding which potentially exposes insurers with similar types of contracts to the application of ERISA's fiduciary and prohibited transaction provisions in connection with the management of assets in their general accounts.

Although no assurances can be given, Jackson believes that none of its contracts are of the type to which the holding in *Harris Trust* would be applicable. Moreover, the Department of Labor has issued PTE 95-60, which generally exempts external, unaffiliated investment transactions from ERISA's prohibited transaction provisions. If the *Harris Trust* holding is applied to its contracts, Jackson would be subject to ERISA's fiduciary and prohibited transaction provisions described above.

Products offered by the Company may be owned in accounts subject to regulation by the United States Department of Labor (DOL) or the Internal Revenue Service (IRS) when held in employee benefit plans governed by the Employee Retirement Income Security Act (ERISA), or in individual retirement accounts (IRAs). Rules governing dealing with ERISA or IRA accounts may impact sales of products by the Company, and the Department of Labor is currently in the process of re-proposing a rule that would change the circumstances under which one who works with IRAs would

be considered a fiduciary. Severe penalties may be imposed for breach of duties under ERISA and rules governing IRAs and the Company cannot at this time predict the impact that the Department of Labor's re-proposed rule may have on its operations.

Financial services regulatory and legislative issues

In the US, the Dodd-Frank Act, which represents a comprehensive overhaul of the financial services industry within the United States, was enacted in July 2010. The full impact of the Dodd-Frank Act on Prudential's businesses is not currently clear, however, as many of its provisions have a delayed effectiveness and/or require rulemaking or other actions by various US regulators over the coming years.

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The Dodd-Frank Act vests the Financial Stability Oversight Council (the Council) with the power to designate domestic systemically important nonbank institutions which will be subject to special regulatory supervision and other provisions intended to prevent or mitigate the impact of future disruptions in the US financial system. If Jackson is designated in the US as a systemically important nonbank institution, it may be subject to heightened prudential standards to be administered by the US Federal Reserve Board, including, heightened capital, leverage and liquidity standards, risk management requirements, concentration limits, resolution plans and stress tests, and potential discretionary requirements relating to contingent capital, enhanced public disclosure and short term debt limits. As discussed under the Global Regulatory Developments and trends section, Prudential Group was designated as a G-SII in July 2013, but that is separate to the Dodd-Frank designation.

Dodd-Frank Rules and guidance outlining the manner in which the Council will determine which companies should be so designated in the US were adopted in April 2012. The rules set forth a three-stage process of increasingly in-depth evaluation and analysis, drawing on both qualitative and quantitative information (but preserving significant Council discretion). The rules do not, however, permit a definitive view as to whether Jackson would or would not be designated as systemically important in the US context.

Changes to US law in the Dodd-Frank Act include the creation of a new Federal Insurance Office within the Treasury Department that will, amongst other things, monitor (but not regulate) the insurance industry, and discretionary authority for the SEC to impose a harmonised standard of care for investment advisers and broker dealers which provide personalised advice about securities to retail customers.

In addition, Title VII of the Dodd-Frank Act creates a new regulatory regime for certain derivatives called swaps and security-based swaps. Prudential and Jackson have determined that they are not required to register as swap dealers, security-based swap dealers, major swap participants, or major security-based swap participants under Title VII of the Dodd-Frank Act. However, CFTC regulations requiring that swaps be reported to trade repositories and, in some cases, cleared through registered central counterparties and traded on registered exchanges , may apply to certain derivatives entered into by Jackson and, in some circumstances, may apply to Prudential. Similar rules for security-based swaps, as well as requirements to post margin for uncleared derivatives, have been proposed but not yet implemented.

Certain derivatives instruments, including standardised interest rate swaps and index credit default swaps, are required to be cleared and traded on an exchange. While the transition to exchange-traded derivative instruments may limit counterparty risk, it could increase costs associated with such investments, including transaction and exchange fees. The standardisation of exchange-traded derivative instruments may also limit the ability of Jackson and the mutual funds to customise certain derivative instruments with their counterparties. Exchange-traded derivative instruments may also require Jackson and the mutual funds to post additional collateral or limit the types of collateral that may be used for such transactions, and this may limit the ability of Jackson and the mutual funds to effectively deploy assets in a timely manner.

The timing and the ultimate impact on the management and operations of Prudential and the regulations promulgated, or to be promulgated, pursuant to these statutory provisions, cannot yet be definitively determined.

Proposals to change the laws and regulations governing the financial services industry are frequently introduced in the US Congress, in the state legislatures and before the various regulatory agencies. The likelihood and timing of any proposals or legislation, and the impact they might have on Jackson, its subsidiaries, or other Prudential subsidiaries doing business in the US, cannot be determined at this time.

State legislatures and/or state insurance regulatory authorities frequently enact laws and/or regulations that significantly affect insurers supervised by such authorities. Although the US federal government does not directly regulate the insurance business, federal initiatives may also have an impact on the insurance industry. On 12 December 2013, a report published by the United States Treasury's Federal Insurance Office (FIO) entitled *How to Modernise and Improve the System of Insurance Regulation in the United States*, outlined a series of

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recommendations for modernising insurance prudential and conduct regulation in the U.S. This included identifying areas for greater federal legislation (eg mortgage insurance), enhanced consistency on Risk Based Capital (RBC) requirements and more emphasis on group supervision. Prudential cannot predict whether any federal (or state) legislative initiative to change the nature or scope of the regulation of the insurance industry will be enacted into law.

Federal and state regulators have focused on the mutual fund and variable annuity and insurance product industries including the broker-dealer system. As a result of publicity relating to widespread perceptions of industry abuses, including fraudulent and anti-competitive practices among insurance brokers and mutual funds, there have been numerous regulatory inquiries and proposals for legislative and regulatory actions that could affect the operations and management of market participants. It is difficult to predict at this time whether changes resulting from industry investigations and/or new laws and regulations will affect the Group s insurance or investment management businesses, and, if so, to what degree.

Additional Jurisdictions

The Group has recently invested in businesses located in four new markets: Cambodia, Myanmar, Poland and, most recently, Ghana.

The Group s Cambodia business is detailed under the Asia section above. The Myanmar business unit is not yet fully operational as a business, although Prudential has been awarded a licence to establish a representative office in Yangon, Myanmar in late 2013.

A new sales operation was launched in Poland during 2013 with an agency network expected to be rolled out in the country during 2014. The business is currently offering two simple life and protection products.

In December 2013, Prudential announced the purchase of Ghana s Express Life Co, marking the entry of the firm into the African life insurance market. The purchase was completed in March 2014.

These developments and such incremental regulation remain immaterial at present in terms of the overall business of the Group.

Capital Expenditure and Divestures

Please refer to Item 5 Operating and Financial Review Liquidity and Capital Resources Changes to Group holdings during the period for a discussion of the principal capital expenditures and divestures during the period under review.

Item 4A. Unresolved Staff Comments

None

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Item 5. Operating and Financial Review and Prospects

The following discussion and analysis should be read in conjunction with Prudential's consolidated financial statements and the related notes to Prudential's consolidated financial statements included in this document.

A summary of the critical accounting policies which have been applied to these statements is set forth in the section below entitled "IFRS Critical Accounting Policies".

The results discussed below are not necessarily indicative of the results to be expected in any future periods. This discussion contains forward-looking statements based on current expectations, which involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in these forward-looking statements due to a number of factors, including those set forth in the section below entitled "Principal Factors Affecting Results of Operations" and in Item 3, "Key Information Risk Factors" and elsewhere in this document.

Introduction and Overview

Prudential plc is an international financial services group serving around 23 million insurance customers and with £443 billion of assets under management. We are listed on stock exchanges in London, Hong Kong, Singapore and New York.

Prudential is a leading international life insurer in Asia, with life and/or asset management operations in 14 markets and serving the emerging middle class families of the region's powerhouse economies. We have built a high performing platform with effective multichannel distribution, a product portfolio centred on regular savings and protection, award winning customer services and a well-respected brand.

Jackson is one of the largest life insurance companies in the US, providing retirement savings and income solutions aimed at the 77 million baby-boomers. Founded 50 years ago, Jackson has a long and successful record of providing advisors with the products, tools and support to design effective retirement solutions for their clients.

Prudential UK delivers value for the Group through a relentless focus on the life and pensions needs of the age cohorts where wealth is most heavily concentrated. Our expertise in areas such as longevity, risk management and multi-asset investment, together with our financial strength and highly respected brand, means that the business is strongly positioned to continue pursuing a value-driven strategy built around our core strengths in with-profits and annuities⁽¹³⁾.

M&G has been investing money for individual and institutional clients for over 80 years. M&G has grown to be one of Europe's largest retail and institutional fund managers by developing its enduring expertise in active investment. M&G has a conviction-led and long-term approach to investment, believing the best returns are delivered for clients through active management by developing a deep understanding of the companies and organisations in whose equities, bonds or property M&G invests.

Summary of Performance

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

The Group's strategy remains unchanged and is focused on capturing three significant opportunities across our three geographic markets (i) in Asia, the significant and growing protection needs of the emerging middle

⁽¹³⁾ See Item 4 Information on the Company Business of Prudential UK Business Prudential UK&Europe business overview for information on the 2014 UK Budget announcement.

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class, particularly in our sweet spot markets of South-east Asia; (ii) in the US, the financial needs of the baby-boomers as they transition into retirement and (iii) in the UK, meeting the savings and retirement income needs of an ageing population. Our disciplined execution of this strategy has continued to drive profitable growth and higher cash generation, underlining our commitment to delivering both Growth and Cash .

Our Group IFRS operating profit⁽¹⁵⁾ based on longer-term investment returns increased by 17 percent during the year to £2,954 million (2012: £2,520 million). Asia life operating profit⁽¹⁵⁾ was up 17 percent⁽¹⁵⁾ to just over a landmark £1 billion, with collective double-digit growth from our four largest operations of Hong Kong, Singapore, Indonesia and Malaysia and increasingly material contributions from some of our smaller but fast-growing businesses such as the Philippines, Thailand and Vietnam. On an underlying basis⁽¹⁴⁾, Asia life IFRS operating profit was up 20 percent⁽¹⁶⁾. US life IFRS operating profit increased 29 percent to £1,243 million (2012: £964 million), reflecting our focus on driving fee income from our variable annuity business and a full year's contribution of insurance income from REALIC. UK life IFRS operating profit was broadly in line with the prior year at £706 million (2012: £703 million) despite lower business volumes. M&G delivered record operating profit of £395 million (2012: £320 million), an increase of 23 per cent, reflecting continued strong third-party net inflows combined with favourable market movements in the period, which together have increased external funds under management by £14 billion to £126 billion (2012: increase of £20 billion to £112 billion).

Asia

Operational highlights for 2013 reflect our continued focus on our sweet spot markets, where the macro-economic, demographic, competitive and regulatory environments enable us to capitalise on our strengths and use multiple distribution channels to provide long-term savings and protection solutions to our customers. These same positive long-term drivers underpin our strong financial performance in 2013, with Asia IFRS operating profit up 16 per cent to £1,075 million (2012: £924 million⁽¹⁵⁾⁽¹⁶⁾ and cash remitted to Group 17 per cent higher at £400 million (2012: £341 million).

Sales performance has been strong throughout the year. Sales through the agency channel were higher, with increases in active manpower and improvements in productivity contributing broadly equally. Sales through bank partnerships grew, excluding those from E-Sun, where we have chosen not to provide low-margin guaranteed products. Looking at our performance within the region, in Hong Kong our agency force continues to excel. We delivered an increase in agent productivity, with our with-profits and enhanced protection products proving to be especially popular. Our multi-channel distribution in Singapore is particularly effective, with increases in agency activity and productivity, coupled with very strong bancassurance partners in Standard Chartered Bank (SCB), United Overseas Bank (UOB) and Maybank. We continue to expand our agency force rapidly in Indonesia, with overall sales increasing. As expected, we have seen average case sizes decline as we extend our reach outside Jakarta. However, over time with increasing urbanisation, our first-mover advantage driven by our continued distribution expansion in upcoming cities and towns will drive long-term profitable growth. Malaysia sales were up excluding top-up products which we have described to de-emphasise deliberately.

Our other smaller sweet spot markets have also delivered excellent results. In the Philippines we have grown agency activity and in Vietnam we have improved productivity. In Thailand, the Thanachart bancassurance

(14)

Underlying basis is calculated at constant exchange rate. Constant exchange rate results are calculated by translating prior year results using current period foreign currency exchange rates ie current period average rates for the income statement and current period closing rate for the balance sheet.

- (15) The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards as discussed in note A2 to the consolidated financial statements in Item 18. In addition, following its reclassification as held for sale during 2013, operating results exclude the results of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis.
- (16) Excluding the 2012 one-off gain of £51 million from the sale of the Group's holding in China Life Insurance Company of Taiwan.

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relationship is progressing well in the first eight months of its operations. In Cambodia, where we launched in January 2013, our new life business has made a good start and the relationship with our distribution partner ACLEDA Bank is working well. We have also opened a representative office in Myanmar.

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

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

The beneficial impact of higher interest rates, primarily in Hong Kong, was offset by the weakening of some Asian currencies relative to UK sterling, primarily the Indonesian rupiah. There has clearly been downward pressure on some of our Asian currencies relative to UK sterling. We believe that the economic fundamentals of these economies remain very attractive in the long term and that the tensions observed currently will actually contribute to the long-term stabilisation and growth of these economies by improving their trade balances and ultimately their current account balances. We remain focused on managing each of our businesses at the local level and on their performance in local currency, which is more indicative of their true performance and of their actual long-term growth potential.

Life IFRS operating profit based on longer-term investment returns was £1,001 million, up 17 per cent^{(17),(18)}, making a positive start towards our 2017 IFRS objective (described further in Item 5 Introduction and Overview 2013 and 2017 Objectives below).

Eastspring Investments saw net third-party inflows of £1.6 billion⁽¹⁹⁾, down on the half year mainly due to market volatility in the second half. Total funds under management (including money market funds) were up 3 per cent on the prior year (10 per cent on a constant currency basis) with net inflows and positive market movements being offset by currency weakness relative to UK sterling. IFRS profits were up 7 per cent and reflect discipline in cost management in challenging market conditions.

The long-running project to domesticate the Hong Kong branch of the Prudential Assurance Company has been successfully completed on 1 January 2014.

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

US

The US has delivered a strong performance in 2013, maintaining its disciplined approach to new business and management of the in-force book, while also improving its capital position. Total US IFRS operating profit

- (17) The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards as discussed in note A2 to the consolidated financial statements in Item 18. In addition, following its reclassification as held for sale during 2013, operating results exclude the results of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis.
- (18) Excluding the 2012 one-off gain of £51 million from the sale of the Group's holding in China Life Insurance Company of Taiwan.
- (19) Excluding money market funds

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increased 30 per cent to £1,302 million (2012: £1,003 million). Life IFRS operating profit in 2013 increased by 29 per cent, to £1,243 million, driven by higher fee income as a result of on-going positive flows and appreciation in average account values, as well as a first full year's contribution from REALIC. Reflecting the cash-generative nature of Jackson's business and capital formation during the year, cash remitted to the Group totalled £294 million, exceeding the 2013 objective of £260 million.

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

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

Fixed annuity sales remained relatively flat compared to 2012, while fixed index annuity sales decreased.

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

Jackson's strategy is unchanged. We continue to price new business on a conservative basis, targeting value over volume, and our financial market hedging remains focused on optimising the economics of our exposures, therefore accepting a degree of volatility in our accounting results where they are not aligned with the underlying economics. This approach has enabled Jackson to deliver significant profitable growth across the cycle while maintaining a strong balance sheet. Since 2008 Jackson has remitted over US\$1.8 billion of cash to the Group, demonstrating that Jackson's recent growth is quickly translating into profits and into cash, the ultimate metric of our successful strategy.

UK and Europe

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

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We continue to manage our UK business by focusing on our strengths in individual annuities and with-profits products⁽²⁰⁾. The combined financial strength and investment performance track record of Prudential's UK with-profits fund provides a key source of differentiation in a competitive market. The performance of our with-profits fund in 2013 has allowed us to add an estimated £2 billion to with-profits policies in the year and policyholders will typically see year-on-year increases of between 5 per cent and 8 per cent in accumulating with-profits policy values over the past year. Total bonus payments are expected to top £2.0 billion in 2014.

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

In individual annuities, market volumes declined 15 per cent during the year⁽²¹⁾ against a strong comparative, due to increased activity in 2012 prior to the introduction of Gender Neutral Pricing and the Retail Distribution Review. Our annuity sales sourced from internal vestings decreased as more customers are opting to defer their retirement date, the effect of which is partly offset by higher average fund values. The proportion of our internal customers who chose a Prudential annuity remained in line with 2012. Overall sales from individual annuities were lower than in 2012.

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

In the wholesale market, we have continued our selective participation in bulk annuities based on strict return criteria and using our financial strength, superior investment track record, extensive mortality risk assessment experience and servicing capabilities.

IFRS life operating profit was in line with 2012 at £706 million (2012: £703 million).

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

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

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

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

M&G

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

US weighed heavily on investor sentiment.

⁽²⁰⁾ See Item 4 Information on the Company Business of Prudential UK Business Prudential UK&Europe business overview for information on the 2014 UK Budget announcement.

⁽²¹⁾ Source: Q4 2013 ABI APE Market Data.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The business remains focused on delivering excellent investment performance and service to its clients while continuing to seek diversification by both asset class and geography.

2013 and 2017 Objectives

As with other aspects of this annual report the following discussion contains forward-looking statements that involve inherent risks and uncertainties. Prudential's actual future financial condition or performance or other indicated results may differ materially from those indicated in any such forward-looking statement due to a number of important factors (including those discussed under Item 3 Risk factors in this filing). See the discussion under the heading Forward-looking statements in Item 3.

2013 Growth and Cash Objectives

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

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

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

At full year 2012, we more than doubled Asia's 2009 IFRS operating profit from £465 million to £988 million as previously published (2013 objective: £930 million), achieving this objective a year earlier than planned;

We also exceeded Asia's 2013 cash objective of £300 million, delivering £341 million at full year 2012, again achieving this objective a year earlier than planned;

At the half year stage in 2013, we achieved two further objectives: delivering cumulative net cash remittances to the Group of almost £4.1 billion over the three and a half year period from 2010 against our end-2013 target level of £3.8 billion;

Also at the half year stage in 2013, our US business remitted £294 million to Group, exceeding its 2013 cash remittance objective of £260 million; and

Lastly, as announced at the investor conference in December 2013, the UK achieved its 2013 cash remittance objective of £350 million by remitting £355 million to the Group.

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

2017 objectives

The objectives assume exchange rates and economic assumptions made by Prudential in calculating the EEV basis supplementary information for the half year ended 30 June 2013, and are based on current (at December 2013) regulatory and solvency regimes applicable across the Group. The objectives assume that the current (at December 2013) EEV, IFRS and free surplus methodology will be applicable over the period.

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

- (i) Asia Underlying Free Surplus Generation⁽²²⁾ of £0.9 billion to £1.1 billion in 2017 (2012: £484 million)
- (ii) Asia life and asset management pre-tax IFRS operating profit to grow at a compound annual rate of at least 15 per cent over the period 2012 – 2017 to reach at least £1,858 million in 2017 (2012: £924 million⁽²³⁾)
- (iii) Group Underlying Free Surplus Generation of at least £10 billion cumulatively over the four-year period from 2014 to end- 2017.

At the end of 2013, we have made an encouraging start towards achieving two of these 2017 objectives.

Summary of Capital and Risk Management

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

With greater visibility on the potential outcome of Solvency II, we are reporting an estimated internal model⁽²⁴⁾ Solvency II Group surplus of £11.3 billion (2012: £8.8 billion), which is equivalent to a Group Solvency II ratio of 257 per cent (2012: 215 per cent). This estimate is based on an assumption of US equivalence, with no restrictions being placed on the Solvency II value of overseas surplus, and using our internal model, which has not yet been reviewed or approved by the Prudential Regulation Authority (PRA).

In July 2013, Prudential plc was listed by the Financial Stability Board as one of nine companies to be designated as a Global Systemically Important Insurer. Prudential is monitoring the development of and the potential impact of the framework of policy measures and engaging with the PRA on the implication of this designation.

(22)

Underlying free surplus generated comprises underlying free surplus generated from long-term business (net of investment in new business) and that generated from asset management operations. The 2012 comparative is based on the retrospective application of new and amended accounting standards and excludes the one-off gain of £51 million from the sale of the Group's holding in China Life Insurance Company of Taiwan.

⁽²³⁾ Asia 2012 IFRS operating profit of £924 million is based on the retrospective application of new and amended accounting standards, and excludes the one-off gain of £51 million from the sale of the Group's holding in China Life Insurance Company of Taiwan.

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Outlook

In 2013, we have delivered a strong performance.

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

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

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

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

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

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

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

Principal factors affecting Prudential's results of operations

Prudential's results of operations are affected, to a greater or lesser degree, by a variety of factors, including demographics, general economic and market conditions, government policy and regulation and exchange rate

(24) The methodology and assumptions used in calculating the economic capital result are set out in the Other results based information section. The economic solvency ratio is based on the Group's Solvency II internal model which will be subject to Prudential Regulation Authority review and approval before its formal adoption in 2016. We do not expect to submit our Solvency II internal model to the Prudential Regulation Authority for approval until 2015 and therefore these economic capital disclosures should not be interpreted as outputs from an approved internal model.

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fluctuations, as discussed in greater detail below. In addition, changes in interest rates and returns from equity, real estate and other investments as well as volatility in these items may affect Prudential's profitability.

Please refer to Introduction and Overview, Item 3. Key Information Risk Factors and Item 4. Information on the Company Business of Prudential for additional discussion of factors that may impact Prudential's results of operations.

General economic and market conditions

Prudential's results of operations are impacted by general economic and market conditions and are sensitive to the pace of and extent of changes in equity markets and interest rates, as well as the changes in behaviour of individuals and institutions that these changes in economic and market conditions may cause. Particular features of relevance to the Prudential's geographic areas of operations are shown below:

Asia

Asia (excluding Japan) is leading the world in terms of GDP growth. Over the next five years it is expected to generate US\$5.5 trillion⁽²⁵⁾ of new Gross Domestic Product (GDP), more than the US and the other advanced economies combined.

Economic growth is translating into the rapid increase of the Asian middle class. Between 2009 and 2020 it is estimated that there will be over 1.2 billion people who will have been elevated from rural subsistence to urban lifestyles. Families are getting smaller, life expectancies are lengthening and the incidence of chronic diseases is increasing significantly.

As people move into the middle class, their increased wealth and higher income provide the opportunity to make financial plans. Typically the first stage is to provide protection for the family and establish a regular savings plan through a life insurance policy.

Social welfare provisions vary by market but generally fall well below the levels people need to sustain their lifestyles in the event of a personal tragedy such as the diagnosis of a critical illness. Also, while basic medical services may be provided by the state, there can be a high level of out of pocket expenses, creating demand for financial solutions to significantly improve an individual's experience through access to private medical services. Therefore, critical illness and medical riders are popular additions to life insurance policies.

Traditionally Asians would have relied on their children to provide for them in their retirement, but increasingly people are making their own financial provisions and life insurance policies are a popular part of a retirement plan.

Once the savings and protection solutions are in place there is the opportunity to invest. Single premium insurance policies are also important in more developed markets and it is also likely that customers will increasingly seek access to different asset classes through mutual funds as their wealth grows and financial needs become more sophisticated.

United States

The United States is the world's largest retirement savings market with total assets in the annuity sector of over \$2.5 trillion⁽²⁶⁾. Each year, many of the 77 million baby-boomers reach retirement age, which is triggering a

(25) Prudential estimates based on IMF data October 2013

(26) According to LIMRA, US Individual Annuities Survey Participants report Q3 2013

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shift from savings accumulation to retirement income generation of more than US\$10 trillion⁽²⁷⁾ of accumulated wealth over the next decade. This demographic transition constitutes a significant opportunity for those companies that are able to provide the baby-boomers with long-term retirement solutions.

In 2013, the US economy began to see early signs of improvements, with unemployment rates steadily decreasing, and the housing market continuing to show signs of recovery. Reflecting this, S&P 500 Index rose 30 per cent, its best performance since a 31 per cent jump in 1997, and longer-dated Treasury yields also began to climb in 2013 ahead of the reduction in the Federal Reserve's quantitative easing program. While interest rates remained well below historical averages at year-end, an upward move in Treasury yields, if sustained, would be beneficial to the financial performance of the US insurance industry.

We continue to see significant shifts in market share amongst the larger annuity participants. Jackson's market share of annuities with living benefits has remained relatively steady, while some larger players have consciously pulled back, and others are now re-entering the market. We have also seen a general trend of product changes in this market that have reduced investment flexibility and/or increased fees for optional benefits. Several insurers with challenging legacy blocks of variable annuity business continue to implement policy changes to help mitigate the risk of their back book of business, including fee increases on older benefits, changes to the availability of investment options, subsequent premium restrictions on in force contracts and buy back offers to their existing policyholders. Despite positive demographic trends, these activities have the potential to lead to overall contraction in the industry, and likely further market share adjustments, as customers and distributors seek insurers that offer consistency, stability and financial strength.

Spread-based products written by Jackson are principally for fixed interest rate annuities. Sales of life business, including interest sensitive life products, were discontinued in the second half of 2012. Jackson also writes fixed index annuities and institutional business that are spread-based products. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the contract holder liabilities and the amounts that are credited to contract holders in the form of benefit increases, subject to minimum crediting rates.

In general, Jackson's results are significantly affected by fluctuations in economic and market conditions, especially interest rates, credit conditions and equity markets. The profitability of Jackson's spread-based business depends in large part on its ability to manage interest rate exposure, as well as the credit and other risks inherent in its investment portfolio. Jackson designs its US products and manages the investments and liabilities to reduce overall interest rate sensitivity. This has the effect of moderating the impact on Prudential's results of changes in prevailing interest rates.

Jackson's exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. Changes in interest rates, either upward or downward, including changes in the difference between the levels of prevailing short-term and long-term rates, can expose Jackson to the risk of not earning anticipated spreads. For example, if interest rates increase and/or competitors offer higher crediting rates, withdrawals on annuity contracts may increase as contract holders seek higher investment returns elsewhere. In response, Jackson could (i) raise its crediting rates to stem withdrawals, decreasing its spread; (ii) sell assets which may have depressed values in a high interest rate environment to fund policyholder payments, creating realised investment losses; or (iii) pay out from existing cash which would otherwise have been invested and earned interest at the higher interest rates.

Conversely, if interest rates decrease, withdrawals from annuity contracts may decrease relative to original expectations, creating more cash than expected to be invested at lower rates. Jackson may have the ability to lower the rates it credits to contract holders as a result, but may be forced to maintain crediting rates for competitive reasons or because there are minimum interest rate guarantees in certain contracts. In either case, the spread earned by Jackson

would be compressed.

(27) Source: US Census Bureau

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The majority of assets backing the spread-based business are invested in fixed income securities. Jackson actively manages its investment and derivative portfolio, considering a variety of factors, including the relationship between the expected duration of its assets and its liabilities.

Recent periods have been characterised by low interest rates. The current low interest rate environment is likely to be prolonged. A prolonged low interest rate environment may result in a lengthening of maturities of the contract holder liabilities from initial estimates, primarily due to lower policy lapses. As interest rates remain at low levels, Jackson may also have to reinvest the cash it receives as interest or proceeds from investments that have matured or that have been sold at lower yields, reducing its investment margins. Moreover, borrowers may prepay or redeem the securities in its investment portfolio with greater frequency in order to borrow at lower market rates, which exacerbates this risk.

The majority of Jackson's fixed interest rate annuities and life products were designed with contractual provisions that allow crediting rates to be re-set annually subject to minimum crediting rate guarantees. Therefore, on new business written, as well as on in-force business above minimum guarantees, Jackson has adjusted, and will continue to adjust, crediting rates in order to maintain targeted interest rate spreads. Lowering crediting rates helps to mitigate the effect of spread compression but the spreads could still decline as Jackson is typically only entitled to reset the crediting rates at limited pre-established intervals and the re-setting is subject to the guaranteed minimum rates. As at 31 December 2013, approximately 87 per cent of Jackson's fixed interest rate annuities and interest-sensitive life business account values correspond to crediting rates that are at the minimum guaranteed interest rates (2012: 87 per cent). Tabular disclosures are provided in note C4.2(b) to the consolidated financial statements in Item 18 on the distribution of the account values of these businesses within the range of their contractual minimum guaranteed interest rates. The tables demonstrate that approximately 71 per cent (2012: 70 per cent) of Jackson's combined fixed interest rate annuities and interest sensitive life business account values of £20 billion (2012: £20 billion) have contractual minimum rates of 3 per cent or less.

Jackson's expectation for future spreads is also an important component in the amortisation of deferred acquisition costs. Significantly lower spreads may cause it to accelerate amortisation, thereby reducing total IFRS profit in the affected reporting period. Low market interest rates could also reduce Jackson's return on investments that are held to support the company's capital. In addition, changes in interest rates will affect the net unrealised gain or loss position of Jackson's available-for-sale fixed income securities which is reported as a component of other comprehensive income. Further information on the factors affecting the pricing of products and asset liability management of Jackson is provided in Item 4. Information on the Company Business of Prudential US Business .

In addition to the impact on Jackson's spread product profitability, a prolonged period during which interest rates remain at levels lower than those anticipated in its pricing may also result in greater costs associated with certain of Jackson's product features which guarantee benefits and higher costs for derivative instruments used to hedge certain of its product risks. Reflecting these impacts in recoverability and loss recognition testing under U.S. GAAP as grandfathered under IFRS may require Jackson to accelerate the amortisation of DAC as noted above, as well as to increase required reserves for future contract holder benefits. In addition, certain statutory capital and reserve requirements are based on formulas or models that consider interest rates, and a prolonged period of low interest rates may increase the statutory capital Jackson is required to hold as well as the amount of assets it must maintain to support statutory reserves.

Accordingly, without active management, a prolonged low interest rate environment may materially affect Jackson's financial position, results of operations and cash flows. However, Jackson has and continues to proactively adapt its asset-liability management, hedging programme, product design and pricing and crediting rate strategies to mitigate the downward pressures created by the prolonged low interest rate environment.

The sensitivity of Jackson's IFRS basis profit or loss and shareholders' equity to changes in interest rates is provided in note C7.3 to the consolidated financial statements in Item 18.

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The profitability of Jackson's fee-based business depends in large part on its ability to manage equity market risk. As the investment return on the separate account assets is attributed directly to the contract holders, Jackson's profit arises from the fees charged on the contracts, less the expenses incurred, which include the costs of guarantees. In addition to being a profitable book of business in its own right, the variable annuity book also provides an opportunity to utilise the offsetting equity risk among various lines of business to manage Jackson's equity exposure in a cost-effective fashion. Jackson believes that the internal management of equity risk coupled with the utilisation of external derivative instruments where necessary, continues to provide a cost-effective method of managing equity exposure. Profits in the variable annuity book of business will continue to be subject to the impact of market movements both on sales and allocations to the variable accounts and the effects of the economic hedging program. While Jackson hedges its risk on an economic basis, the nature and duration of the hedging instruments, which are recorded at fair value through the income statement, will fluctuate and produce some accounting volatility.

Jackson continues to believe that, on a long-term economic basis, its equity exposure remains well managed.

United Kingdom

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

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

In the UK we focus on those areas of the market where we are able to bring superior value to our customers and where we enjoy a competitive advantage, primarily in with-profits and annuities.

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

In the UK, where Prudential's with-profits fund invests in debt and other fixed income securities, equity securities and real estate, shareholders' profits under IFRS are strongly related to the bonuses it declares. The most important influences on the bonus rates are the overall rate of return earned on investments and Prudential's expectation of future investment returns. Further information on with-profits products is provided in Item 5 *Basis of Profits*, *With-Profits Products* and *Bonus Rates* below. In addition, shareholders' profits under IFRS are significantly influenced by the contribution from the growing shareholder backed annuity business. The key factors affecting the profitability of this business are described in note C4.2 to the consolidated financial statements in Item 18.

Government policy and regulation

Changes in government policy or regulation applying to companies in the financial services and insurance industries in any of the jurisdictions in which Prudential operates, particularly in Asia, the United Kingdom and

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the United States, may adversely affect the result of its operations. These include possible changes in the tax treatment of financial products and services, government pension arrangements and policies, the regulation of selling practices and solvency standards.

These changes may affect Prudential's existing and future business by, for example, causing customers to cancel existing policies, requiring Prudential to change its range of products and services, redesign its technology or other systems, retrain staff, pay increased tax or incur other costs.

In Asia, each market has evolved its own regulatory regime depending on the heritage of the industry, experiences and developmental priorities. Regulators across the region are generally keen to promote the growth of the life insurance industry as they appreciate the social utility of providing financial security to individuals and the way insurers channel unproductive cash savings into long term investments in the economy. However, they are imposing higher standards on the industry and monitoring compliance more actively, with increasing focus on the quality of advice distributors provide and the suitability of the products offered. Although assessments of solvency can vary considerably market by market, there is increasing convergence on risk based calculations.

In the US, the financial services industry continues to deal with a multitude of emerging regulatory initiatives in response to the financial crisis. Many of these broader financial services initiatives specifically impact the insurance industry. Within the insurance industry, we are seeing evolving supervisory structures, new global group supervision standards, focus on the reduction of systemic risk, amplified focus on enterprise risk management as well as initiatives in the area of financial reporting. While discussions are clearly still underway across many initiatives, this is resulting in significant resources being expended across the industry. Finding the appropriate path through all of the regulatory changes remains a challenge.

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

These new developments represent major changes to the way business is conducted in a number of areas of the markets in which we operate in the UK, and impact not only insurance and investments providers, but also distributors and consumers.

Further details on the regulatory supervision which Prudential is subject to in the UK and internationally are provided in Item 4 – Information on the Company – Supervision and Regulation .

See also Item 4 – Information on the Company – Business of Prudential – UK Business – Prudential UK&Europe business overview for information on the 2014 UK Budget announcement.

Exchange rates

Due to the geographical diversity of Prudential's businesses, it is subject to the risk of exchange rate fluctuations. Prudential's international operations in Asia, the United States and Europe, which represent a significant proportion of total group income and expenses, generally write policies and invest in the same local currency, which although

limiting the effect of exchange rate fluctuations on local operating results, can lead to fluctuations in Prudential's consolidated financial information upon translation of results into pounds sterling. Please refer to Item 4 Information on the Company Business of Prudential Group Risk Framework Financial Risks Foreign Exchange Risk, Item 5 Other results based information Foreign currency source of IFRS key metrics and Notes C7.2, C7.3 and C7.4 to the consolidated financial statements in Item 18 for additional information on the impact of foreign currency fluctuations on the Group.

Table of Contents**IFRS Critical Accounting Policies**

Prudential's discussion and analysis of its financial condition and results of operations are based upon Prudential's consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB and as endorsed by the EU. EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. As at 31 December 2013, there were no unendorsed standards effective for the three years ended 31 December 2013 affecting the consolidated financial information of Prudential and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to Prudential. Accordingly, Prudential's financial information for the three years ended 31 December 2013 is prepared in accordance with IFRS as issued by the IASB. Prudential adopts mandatory requirements of new or altered EU-adopted IFRS standards when required, and may consider earlier adoption where permitted and appropriate in the circumstances.

The preparation of these financial statements requires Prudential to make estimates and judgements that affect the reported amounts of assets, liabilities, and revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, Prudential evaluates its estimates, including those related to long-term business provisioning and the fair value of assets.

Critical accounting policies are defined as those that are reflective of significant judgements and uncertainties, and potentially give rise to different results under different assumptions and conditions. Prudential believes that its critical accounting policies are limited to the policies referenced below which are described further in the notes to the consolidated financial statements in Item 18.

Critical accounting policies	Reference to the disclosure notes in Item 18
Classification of insurance and investment contracts	A3.1(c)
Measurement of policyholder liabilities and unallocated surplus of with-profits fund	A3.1(d)
Measurement and presentation of derivatives and debt securities of US insurance operations	A3.1(j)(v)
Presentation of results before tax	A3.1(k)
Segmental analysis of results and earnings distributable to shareholders	A3.1(m)
The critical accounting policies referenced above are critical for those that relate to the Group's shareholder-financed business. In particular this applies for Jackson which is the largest shareholder-backed business in the Group. The policies are not critical in respect of the Group's with-profits business. This distinction reflects the basis of recognition of profit and accounting treatment of unallocated surplus of with-profits funds as a liability, as described elsewhere in these financial statements.	

In determining the measurement of the Group's assets and liabilities and in preparing financial statements, more generally, estimates and judgements are required. The critical aspects are set out below by reference to and discussed in the following accounting policies and other notes to the consolidated financial statements in Item 18.

Critical accounting estimates and assumptions	Reference to the disclosure notes in Item 18

Classification of insurance and investment contracts	A3.1(c)
Measurement of policyholder liabilities	A3.1(d); C4.2 and C7
Measurement of deferred acquisition costs	A3.1(f); and C4.2
Determination of fair value of financial investments	A3.1(j)(ii)
Determining impairment related to financial assets	A3.1(j)(iii)
Additional quantitative information on the impairment and realised gains/losses recognised on the available-for-sale debt securities of US insurance operations	C3.5(d)
Additional quantitative information on the movement in the statement of financial position value of the available-for-sale debt securities of US insurance operations and those which are in a gross unrealised loss position.	C3.3(b)(ii)

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The following table shows Prudential's consolidated total profit for the years indicated.

	Year Ended 31 December £m		
	2013	2012*	2011*
Total revenue, net of reinsurance	52,375	54,438	35,492
Total charges, net of reinsurance	(50,440)	(51,456)	(33,709)
Share of profits from joint ventures and associates, net of related tax	147	135	76
Profit before tax (<i>being tax attributable to shareholders and policyholders returns</i>)**	2,082	3,117	1,859
Tax attributable to policyholders' returns	(447)	(370)	7
Profit before tax attributable to shareholders	1,635	2,747	1,866
Tax charge	(736)	(954)	(408)
Less: tax attributable to policyholders' returns	447	370	(7)
Tax charge attributable to shareholders' returns	(289)	(584)	(415)
Profit for the year	1,346	2,163	1,451

* The 2012 and 2011 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2 to Prudential's consolidated financial statements in Item 18.

** 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. See Presentation of results before tax under IFRS Critical Accounting Policies section above for further explanation.

Under IFRS, the pre-tax GAAP measure of profits is profit before policyholder and shareholder taxes. This measure is not relevant for reflecting pre-tax results attributable to shareholders for two reasons. Firstly, this profit measure represents the aggregate of pre-tax results attributable to shareholders and a pre-tax amount attributable to policyholders. Secondly, the amount is determined after charging the transfer to the liability for unallocated surplus, which in turn is determined in part by policyholder taxes borne by the ring-fenced with-profits funds. It is noted that this circular feature is specific to with-profits funds in the UK, and other similarly structured overseas funds, and should be distinguished from other products, which are referred to as with-profits and the general accounting treatment of premium or other policy taxes.

Accordingly, Prudential has chosen to explain its consolidated results by reference to profits for the year, reflecting profit after tax. In explaining movements in profit for the year, reference is made to trends in profit before shareholder tax and the shareholder tax charge. The explanations of movement in profit before shareholder tax are shown below

by reference to the profit analysis applied for segmental disclosure as shown in note B1 to the consolidated financial statements in Item 18. This basis is used by management and reported externally to Prudential's UK, Hong Kong and Singapore shareholders and to the UK, Hong Kong and Singapore financial markets. Separately, in this section, analysis of movements in profits before shareholder tax is provided by nature of revenue and charges.

Explanation of Movements in Profits After Tax and Profits Before Shareholder Tax by Reference to the Basis Applied for Segmental Disclosure

(a) Group overview

Profit for the year after tax for 2013 was £1,346 million compared to £2,163 million for 2012. The decrease primarily reflects the movement in results before tax attributable to shareholders, which decreased from a profit

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of £2,747 million in 2012 to a profit of £1,635 million in 2013, which was partially offset by an increase in the tax charge attributable to shareholders from £584 million in 2012 to £289 million in 2013.

The decrease in the total profit before tax attributable to shareholders from £2,747 million in 2012 to £1,635 million in 2013 reflects an improvement in operating profit based on longer-term investment returns from £2,520 in 2012 to £2,954 in 2013 which was more than offset by a decrease in non-operating items from positive £227 million to negative £1,319 million. The decrease in non-operating items is predominantly due to the adverse change in short-term fluctuations in investment returns from a positive £187 million in 2012 to a negative £1,110 million in 2013. Further, consistent with the classification of the Japan Life business as held for sale, its IFRS carrying value has been set to £48 million representing the estimated proceeds, net of related expenses of £3 million. The loss of £102 million (2012: profit of £17 million) attaching to the held for sale Japan Life business and included within non-operating items comprises the 2013 reduction on re-measuring the carrying value of the business and its trading results.

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

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

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

The effective rate of tax at the total profit level was 18 per cent in 2013, compared to 21 per cent in 2012. The reduced rate is primarily due to a favourable deduction in respect of portfolio dividends received in Variable Annuity business. In addition, Prudential has benefitted from reductions in the main UK tax rate in 2013. Offsetting this Prudential sold Japan Life during the period which gave rise to a loss for which there was no tax relief. Further details are provided in note B5 to the consolidated financial statements in Item 18.

The total profit before tax attributable to shareholders was £2,747 million in 2012, compared with £1,866 million in 2011. The improvement in total profit before tax attributable to shareholders reflects the increase in operating profit based on longer-term investment returns and the positive investment market returns earned in the year.

The effective rate of tax at the total profit level was 21 per cent in 2012 compared to 22 per cent in 2011. In both 2012 and 2011, Prudential has benefited from the favourable impact of certain income in some Asian

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jurisdictions either not being taxable or being taxable at reduced rates. In addition, Prudential has benefitted from reductions in the main UK corporate tax rate in 2012. Further details are provided in note B5 to the consolidated financial statements in Item 18.

(b) Summary by business segment and geographical region

The Group's operating segments as determined under IFRS 8 are insurance operations split by territories in which the Group conducts business, which are Asia, the United States and the United Kingdom, and asset management operations split into M&G, which is the Group's UK and European asset management business, Eastspring Investments, which is the Asian asset management business and the US broker-dealer and asset management business (including Curian).

The following table shows Prudential's IFRS consolidated total profit/(loss) for the years indicated presented by summary business segment and geographic region. The accounting policies applied to the segments below are the same as those used in the Group's consolidated accounts.

	Year ended 31 December 2013 £m				Total
	Asia	US	UK	Unallocated corporate	
Insurance operations	540	452	374		1,366
Asset management**	64	39	363		466
Total profit attributable to the segments	604	491	737		1,832
Unallocated corporate				(486)	(486)
Total profit (loss) for the year	604	491	737	(486)	1,346

	Year ended 31 December 2012 £m*				Total
	Asia	US	UK	Unallocated corporate	
Insurance operations	831	621	708		2,160
Asset management**	58	18	404		480
Total profit attributable to the segments	889	639	1,112		2,640
Unallocated corporate				(477)	(477)
Total profit (loss) for the year	889	639	1,112	(477)	2,163

	Year ended 31 December 2011 £m*				Total
	Asia	US	UK	Unallocated corporate	

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Insurance operations	488	357	657		1,502
Asset management**	62	16	231		309
Total profit attributable to the segments	550	373	888		1,811
Unallocated corporate				(360)	(360)
Total profit (loss) for the year	550	373	888	(360)	1,451

* The 2012 and 2011 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2 to Prudential's consolidated financial statements in Item 18.

** For the US, including the broker dealer business and Curian.

Table of Contents***Profit from insurance operations***

Total profit from insurance operations in 2013 was £1,366 million compared to £2,160 million in 2012 and £1,502 million in 2011. All of the profits from insurance operations in 2013, 2012 and 2011 were from continuing operations. The movement in profits for insurance operations can be summarised as follows:

	Year Ended 31 December £m		
	2013	2012*	2011*
Profit before shareholder tax	1,687	2,704	1,978
Shareholder tax	(321)	(544)	(476)
Profit after tax	1,366	2,160	1,502

* The 2012 and 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note A2 to Prudential's consolidated financial statements in Item 18.

The decrease of £1,017 million in profit before tax attributable to shareholders in 2013 compared to 2012 primarily reflects an increase in operating profit based on longer-term investment returns of the insurance operations of £373 million to £2,979 million being more than offset by an adverse change in short-term fluctuations in investment returns for shareholder-backed business of £1,183 million, the loss attaching to the held for sale Japan Life business as described above which was £102 million in 2013 (2012: profit of £17 million) and other non operating items of £107 million.

The effective shareholder tax rate on profits from insurance operations decreased from 20 per cent in 2012 to 19 per cent in 2013. The reduced rate is primarily due to a favourable deduction in respect of portfolio dividends received in Variable Annuity business. In addition, Prudential has benefitted from reductions in the main UK corporate tax rate in 2013. Offsetting this Prudential sold Japan Life during the period which gave rise to a loss for which there was no tax relief. Further details are provided in note B5 to the consolidated financial statements in Item 18.

The increase of £726 million in profit before tax attributable to shareholders in 2012 compared to 2011 reflects an increase in operating profits based on longer term investment returns combined with the favourable change in the short-term fluctuations in investment returns for the insurance operations.

The effective shareholder tax rate on profits from insurance operations decreased from 24 per cent in 2011 to 20 per cent in 2012. In both 2012 and 2011, Prudential has benefitted from the favourable impact of certain income in some Asian jurisdictions either not being taxable or being taxable at reduced rates. In addition, Prudential has benefitted from reductions in the main UK corporate tax rate in 2012. Further details are provided in note B5 to the consolidated financial statements in Item 18.

In order to understand how Prudential's results are derived it is necessary to understand how profit emerges from its business. This varies from region to region, primarily due to differences in the nature of the products and regulatory environments in which Prudential operates.

Asia***Basis of profits***

The assets and liabilities of contracts classified as insurance under IFRS 4 are determined in accordance with methods prescribed by local GAAP and adjusted to comply, where necessary, with UK GAAP. Under IFRS 4, subject to the conditions of that standard, the continued application of UK GAAP in this respect is permitted.

For Asia operations in countries where local GAAP is not well established and in which the business is primarily non-participating and linked business, the measurement of the insurance assets and liabilities is determined

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substantially by reference to US GAAP principles. This basis is applied in India, Japan, Taiwan and until 2012 Vietnam. For with-profits business in Hong Kong, Singapore and Malaysia, the basis of profit recognition is bonus driven as described under United Kingdom Basis of Profits below.

Comparison of total profit arising from Asia insurance operations

The following table shows the movement in profit arising from Asia insurance operations for 2013, 2012 and 2011:

	Year Ended 31 December £m		
	2013	2012*	2011*
Profit before shareholder tax	688	977	612
Shareholder tax	(148)	(146)	(124)
Profit after tax	540	831	488

* The 2012 and 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note A2 to Prudential's consolidated financial statements in Item 18.

The decrease of £289 million from the profit before tax attributable to shareholders in 2012 of £977 million to a profit of £688 million in 2013 primarily reflects an increase of £95 million in operating profit based on longer-term investment returns to £1,001 million driven by the increasing scale of the in-force book, being more than offset by an adverse change in the short-term fluctuations in investment returns for shareholder-backed business of £258 million and a loss of £102 million attaching to the Japan Life business classified as held for sale as described above. The year on year adverse change in the short-term fluctuations in investment returns of £204 million was primarily due to the negative net unrealised movements on bond holdings in 2013 following a rise in bond yields.

The effective shareholder tax rate changed from 15 per cent in 2012 to 22 per cent in 2013, with the movement principally due to the sale of Japan Life during the period which gave rise to a loss for which there was no tax relief. Excluding the impact of the held for sale Japan Life business the tax rate is 19 per cent.

The 2012 profit before tax attributable to shareholders of £977 million represented an increase of £365 million over 2011 of £612 million. This primarily reflects an increase of £207 million in operating profit based on longer-term investment returns, combined with an improvement in the short-term fluctuations in investment returns for shareholder-backed business of £147 million.

The effective shareholder tax rate changed from 20 per cent in 2011 to 15 per cent in 2012, with the movement principally due to Prudential benefiting from the favourable impact of certain income in some Asian jurisdictions either not being taxable or being taxable at reduced rates.

United States**Basis of profits**

The underlying profit on Jackson's business predominantly arises from spread income from interest-sensitive products, such as fixed annuities, institutional products and fee income on variable annuity business with the insurance assets and liabilities of the business measured on a US GAAP basis. In addition, the results in any period include the incidence of gains and losses on assets classified as available-for-sale, and fair value movements on derivatives and securities classified as fair valued through profit and loss.

Table of Contents***Comparison of total profit arising from US insurance operations***

The following table shows the movement in profit arising from US insurance operations for 2013, 2012 and 2011:

	Year Ended 31 December £m		
	2013	2012	2011
Profit before shareholder tax	553	855	484
Shareholder tax	(101)	(234)	(127)
Profit after tax	452	621	357

The £302 million decrease in profit before tax attributable to shareholders in 2013 against 2012, was primarily due to an increase of £279 million in operating profit based on longer-term investment returns to £1,243 million which was more than offset by an adverse change of £535 million in the short-term fluctuations in investment returns reflected in the income statement. The increase in operating profit based on longer-term investment returns in 2013 compared to 2012 reflects strong underlying growth in fee income which was partially offset by higher expenses.

The adverse movement in short-term fluctuation in investment returns was mainly due to the negative net unrealised value movement on derivatives held to manage the Group's exposure to market movements following rises in equity values.

The effective tax rate on profits from US operations decreased from 27 per cent in 2012 to 18 per cent in 2013 due a favourable deduction in respect of portfolio dividends received in Variable Annuity business.

The increase in profit before shareholder tax of £371 million in 2012 compared to 2011 was due primarily to an increase of £313 million in operating profit based on longer-term investment returns, combined with a favourable change in the short-term fluctuations in investment returns for shareholder backed business. The profit before shareholder tax in 2012 includes a £61 million contribution from REALIC which was acquired in September 2012, of which the operating profit based on longer-term investment returns was £67 million. Excluding this contribution from REALIC, the remaining year on year increase of £246 million in operating profit based on longer-term investment returns primarily reflects higher fee income generated by growth in the separate account assets, as well as the expected non-recurring impact of accelerated deferred acquisition cost (DAC) amortisation of £190 million in 2011. This has been partially offset by the adverse effect on spread income of lower bond yields.

The effective tax rate on profit from the US insurance operations changed from 26 per cent in 2011 to 27 per cent in 2012 due to adverse revisions to prior period tax returns.

United Kingdom***Basis of profits***

Prudential's results comprise an annual profit distribution to shareholders from its UK long-term with-profits fund as well as profits from its annuity and other businesses.

For Prudential's UK insurance operations, the primary annual contribution to shareholders' profit comes from its with-profits products. With-profits products are designed to provide policyholders with smoothed investment returns

through a mix of regular and final bonuses.

For with-profits business (including non-participating business owned by the PAC with-profits fund), adjustments to liabilities and any related tax effects are recognised in the income statement. However, except for any impact on the annual declaration of bonuses, shareholder profit for with-profits business is unaffected. This

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is because IFRS basis profits for the with-profits business, which are determined on the same basis as on preceding UK GAAP, solely reflect one-ninth of the cost of bonuses declared for the year. Further details on the determination of the bonuses (regular and final) are provided in note C4.2(c)(i) to the consolidated financial statements in Item 18.

The results of the UK shareholder-backed annuity business reflect the inclusion of investment return including realised and unrealised gains and losses. The charge for benefits reflects the valuation rate of interest applied to discount future anticipated payments to policyholders. This rate in turn reflects current market yields adjusted for factors including default risks on the assets backing the liabilities. The level of allowance for default risk is a key assumption. Details are included in note B4 to the consolidated financial statements in Item 18.

Comparison of total profit arising from UK insurance operations

The following table shows the movement in profit arising from UK insurance operations for 2013, 2012 and 2011:

	Year Ended 31 December £m		
	2013	2012*	2011*
Profit before shareholder tax	446	872	882
Shareholder tax	(72)	(164)	(225)
Profit after tax	374	708	657

* The 2012 and 2011 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note A2 to Prudential's consolidated financial statements in Item 18.

Profit after tax from UK insurance operations of £374 million in 2013 is £334 million lower than the £708 million in 2012.

The decrease in profit before tax attributable to shareholders of £426 million to £446 million in 2013 was primarily due to an adverse change in the value of short-term fluctuations in investment returns of £390 million which included the net unrealised movements on fixed income assets supporting the capital of the shareholder backed annuity business. Operating profit based on longer-term investments returns of £735 million in 2013 was comparable to the £736 million in 2012. Operating profit based on longer-term investment returns included general insurance commissions of £29 million in 2013 compared with £33 million for 2012.

The effective shareholder tax rate on profits from UK insurance operations for 2013 of 16 per cent compares with the effective tax rate of 19 per cent in 2012, with the movement principally due to reductions in the main UK corporate tax rate in 2013.

The decrease in profit before tax attributable to shareholders of £10 million to £872 million in 2012 was primarily due to an adverse change in the value of short-term fluctuations in investment returns of the shareholder-backed business of £23 million which reflects asset value movements principally on the shareholder-backed annuity business. This decrease was partially offset by an increase in operating profit based on longer-term investments returns of £13 million in 2012. Operating profit based on longer-term investment returns of £736 million included general insurance commissions which decreased by £7 million to £33 million in 2012 compared with £40 million for 2011.

The effective shareholder tax rate on profits from UK insurance operations for 2012 of 19 per cent compares with an effective tax rate of 25 per cent in 2011, with the movement principally due to reductions in the main UK corporate tax rate in 2012.

Table of Contents**Profit from asset management**

The following table shows the movement in profits from asset management for 2013, 2012 and 2011:

	Year Ended 31 December £m		
	2013	2012*	2011*
Profit before shareholder tax	596	619	426
Shareholder tax	(130)	(139)	(117)
Profit after tax	466	480	309

* The 2012 and 2011 comparative results have been adjusted from those provisionally published for the retrospective application of the new and amended standards described in note A2 to Prudential's consolidated financial statements in Item 18.

Total profit from asset management decreased from £480 million in 2012 to £466 million in 2013. The decrease of £23 million in profit before shareholder tax in 2013 compared to 2012 resulted mainly from a decrease for M&G by £48 million from £511 million in 2012 to £463 million in 2013. The profit before shareholder tax for Eastspring Investments increased by £5 million from £69 million in 2012 to £74 million in 2013. US broker dealer and asset management operations profit before shareholder tax increased by £20 million from £39 million in 2012 to £59 million in 2013.

The £48 million decrease in the profit before shareholder tax of M&G primarily reflects an increase of £70 million in operating profit based on longer-term investment returns to £441 million offset by an adverse change in short-term fluctuations in investment returns for shareholder-backed business of £76 million. In addition, the M&G results in 2012 included a one-off gain of £42 million arising on the dilution of M&G's investment holding in PPM South Africa.

The effective tax rate on profits from asset management operations decreased from 22.4 per cent in 2012 to 21.8 per cent in 2013.

Total profit from asset management increased from £309 million in 2011 to £480 million in 2012. The £171 million increase in profit before tax attributable to shareholders resulted mainly from an increase in profit generated by M&G, which increased from profit before tax of £327 million in 2011 to £511 million in 2012. The profit before tax attributable to shareholders for Eastspring Investments reduced by £6 million from £75 million in 2011 to £69 million in 2012. Profits generated by the US broker dealer and asset management operations increased by £15 million from £24 million in 2011 to £39 million in 2012.

The £184 million increase in profit before tax attributable to M&G was the result of a favourable change in short term fluctuations in investment returns of £128 million compared with 2011, an increase in operating profit based on longer-term investment returns of £14 million and a one-off gain of £42 million arising on the dilution of M&G's investment holding in PPM South Africa.

The effective tax rate on profits from asset management operations changed from 27 per cent in 2011 to 22 per cent in 2012 principally due to the gain arising on the dilution of M&G's investment holding in PPM South Africa being non

taxable.

Table of Contents**Unallocated corporate result**

The following table shows the movement in the unallocated corporate result for 2013, 2012 and 2011.

	Year Ended 31 December £m		
	2013	2012*	2011*
Loss before shareholder tax	(648)	(576)	(538)
Shareholder tax	162	99	178
Loss after tax	(486)	(477)	(360)

* The 2012 and 2011 comparative results have been adjusted from those provisionally published for the retrospective application of the new and amended standards described in note A2 to Prudential's consolidated financial statements in Item 18.

Total net charges for unallocated corporate activity increased by £9 million from £477 million in 2012 to £486 million in 2013 and increased by £117 million from £360 million in 2011 to £477 million in 2012.

The loss before shareholder tax increased by £72 million from £576 million in 2012 to £648 million at 2013. Net other expenditure (including restructuring and Solvency II implementation costs) increased by £34 million from £565 million in 2012 to £599 million in 2013. This was combined with an adverse change of £38 million in short-term fluctuations in investment returns from a loss of £11 million in 2012 to a loss of £49 million in 2013.

The effective tax rate on unallocated corporate result changed from 17 per cent at 2012 to 25 per cent at 2013, reflecting the settlement of prior year balances in the UK and Asia following agreement with taxation authorities.

The loss before shareholder tax increased by £38 million from £538 million at 2011 to £576 million at 2012. Net other expenditure (including restructuring and Solvency II implementation costs) increased by £53 million from a charge of £512 million in 2011 to a charge of £565 million in 2012. This was more than offset by a favourable change of £15 million in short-term fluctuations in investment returns from £26 million loss in 2011 to £11 million loss in 2012.

The 2011 net other expenditure included a credit of £42 million resulting from the Prudential's alteration of its inflation measure basis for future statutory increases to pension payments for certain tranches of Prudential's UK defined benefit schemes. This reflected the UK Government's decision to replace the RPI basis of indexation with the CPI.

The effective tax rate on unallocated corporate result (being a tax credit on a loss) changed from 33 per cent in 2011 to 17 per cent in 2012, principally due to an increase in provisions for open tax matters and reductions in the main UK corporate tax rate in 2012.

(c) Additional explanation of performance measures and analysis of consolidated results by business segment and geographical region

Prudential uses a performance measure of operating profit based on longer-term investment returns. The directors believe that this performance measure better reflects underlying performance. It is the basis used by management for the reasons outlined below. It is also the basis on which analysis of the Group's results has been provided to UK shareholders and the UK financial market for some years under long standing conventions for reporting by proprietary UK life insurers.

Prudential determines and presents operating segments based on the information that is internally provided to the Group Executive Committee (GEC), which is Prudential's chief operating decision maker.

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An operating segment is a component of Prudential that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of Prudential's other components. An operating segment's operating results are reviewed regularly by the GEC to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The operating segments identified by Prudential reflect its organisational structure, which is by both geography (Asia, US and UK) and by product line (insurance operations and asset management).

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.

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

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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 in Item 18.

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; 2011: net gain of £460 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.

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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; 2011: £902 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	2011
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%	5.9% to 7.5%
Other equity-type securities such as investments in limited partnerships and private equity funds	7.7% to 9.0%	7.5% to 8.2%	7.9% to 9.5%

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; 2011: £443 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.

Table of Contents*(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

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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.

Table of Contents**Reconciliation of total profit (loss) by business segment and geography to IFRS operating profit based on longer-term investment returns****Analysis of IFRS operating profit based on longer-term investment returns and IFRS total profit**

A reconciliation of profit (loss) before tax (including tax attributable to policyholders' returns) to profit (loss) before tax attributable to shareholders and profit for the period is shown below.

	2013 £m	2012 £m*	2011 £m*
Insurance business			
Long-term business ⁽ⁱⁱ⁾			
Asia	1,003	913	704
US	1,243	964	651
UK	706	703	683
Development expenses	(2)	(7)	(5)
Long-term business operating profit	2,950	2,573	2,033
UK general insurance commission ⁽ⁱⁱⁱ⁾	29	33	40
Asset management business			
M&G	441	371	357
Eastspring Investments	74	69	75
US broker-dealer and asset management	59	39	24
	3,553	3,085	2,529
Other income and expenditure	(558)	(498)	(483)
RPI to CPI inflation measure change on defined benefit pension schemes ^(iv)			42
Solvency II implementation costs	(29)	(48)	(55)
Restructuring costs ^(v)	(12)	(19)	(16)
Total IFRS operating profit based on longer-term investment returns⁽ⁱ⁾	2,954	2,520	2,017
Short-term fluctuations in investment returns ^(vi)			
Insurance operations	(1,083)	100	(101)
Other operations	(27)	87	(56)
Total short-term fluctuations in investment returns	(1,110)	187	(157)
Gain on dilution of Group's holdings		42	
Amortisation of acquisition accounting adjustments	(72)	(19)	
(Loss)/Profit attaching to held for sale Japan Life business	(102)	17	6
Costs of domestication of Hong Kong branch`	(35)		
Profit before tax from continuing operations attributable to shareholders	1,635	2,747	1,866
Tax (charge) credit attributable to shareholders' returns	(289)	(584)	(415)

Profit for the year	1,346	2,163	1,451
Non-controlling interests			(4)
Total profit for the year attributable to equity holders of Prudential	1,346	2,163	1,447

* The 2012 and 2011 comparative results have been adjusted from those previously published for the retrospective application of the new and amended standards described in note A2 to Prudential's consolidated financial statements in Item 18. In addition, following its reclassification as held for sale at 31 December 2013, operating results exclude the result of the Japan Life business. 2012 comparatives have been retrospectively adjusted on a comparable basis.

Table of Contents**(i) Operating profit based on longer-term investment returns**

The Group provides supplementary analysis of IFRS profit before tax attributable to shareholders so as to distinguish operating profit based on longer-term investment returns from other elements of total profit. Operating profit based on longer-term investment returns is the basis on which management regularly reviews the performance of Prudential's segments as defined by IFRS 8. Further discussion on the determination of operating profit based on longer-term investment returns is provided in B1.3 to the consolidated financial statements in Item 18 and section c Additional explanation of performance measures and analysis of consolidated results by business segment and geographical region above.

(ii) Effect of changes to assumptions, estimates and bases of determining life assurance liabilities

The results of the Group's long-term business operations are affected by changes to assumptions, estimates and bases of preparation.

These are described in note B4 to the consolidated financial statements in Item 18.

(iii) UK operations transferred its general insurance business to Churchill in 2002, with general insurance commission representing the commission received net of expenses for Prudential-branded general insurance products as part of this arrangement.

(iv) During 2011 the Group altered its inflation measure basis for future statutory increases to pension payments for certain tranches of its UK defined benefit pension schemes. This reflects the UK Government's decision to replace the basis of indexation from Retail Price Index (RPI) to the Consumer Prices Index (CPI). This resulted in a credit to operating profit before tax in 2011 of £42 million.

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

(vi) Short-term fluctuations in investment returns on shareholder-backed business comprise:

	2013 £m	2012* £m	2011* £m
Insurance operations:			
Asia	(204)	54	(93)
US	(625)	(90)	(167)
UK	(254)	136	159
Other operations:			
Economic hedge value movement		(32)	
Other	(27)	119	(56)
Total	(1,110)	187	(157)

* The 2012 and 2011 comparative results have been adjusted from those previously published for the retrospective application of the new and amended standards described in note A2 to Prudential's consolidated financial statements in Item 18.

Further details on the short-term fluctuations in investment returns are provided below under Charge for short-term fluctuations in investment returns and also in note B1.2 in the consolidated financial statements in Item 18.

Table of Contents**Reconciliation of IFRS operating profit based on longer-term investment returns to IFRS total profit**

The following tables reconcile Prudential's operating profit based on longer-term investment returns to Prudential's total profit after tax for 2013, 2012 and 2011.

	Year ended 31 December 2013 £m								Total	
	Insurance operations			Asset management						Unallocated corporate
	Asia	US	UK	M&G	US Investments	Eastspring segment	Total			
Operating profit based on longer-term investment returns	1,001	1,243	735	441	59	74	3,553	(599)	2,954	
Short-term fluctuations in investment returns on shareholder-backed business	(204)	(625)	(254)	22			(1,061)	(49)	(1,110)	
Amortisation of acquisition accounting adjustments	(7)	(65)					(72)		(72)	
Loss attaching to held for sale Japan life business	(102)						(102)		(102)	
Costs of domestication of Hong Kong branch			(35)				(35)		(35)	
Profit (loss) before tax attributable to shareholders	688	553	446	463	59	74	2,283	(648)	1,635	
Tax attributable to shareholders									(289)	
Profit for the year									1,346	

	Year ended 31 December 2012* £m								Total	
	Insurance operations			Asset management						Unallocated corporate
	Asia	US	UK	M&G	US Investments	Eastspring segment	Total			
Operating profit based on longer-term investment returns	906	964	736	371	39	69	3,085	(565)	2,520	
Short-term fluctuations in investment returns on shareholder backed business	54	(90)	136	98			198	(11)	187	
Gain on dilution of Group holdings				42			42		42	
Amortisation of acquisition accounting adjustments arising on purchase of REALIC		(19)					(19)		(19)	
	17						17		17	

Profit attaching to held for sale Japan Life business									
Profit (loss) from continuing operations before tax attributable to shareholders	977	855	872	511	39	69	3,323	(576)	2,747
Tax attributable to shareholders									(584)
Profit for the year									2,163

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards as discussed in note A2 to Prudential's consolidated financial statements in Item 18. In addition, following its reclassification as held for sale at 31 December 2013, operating results exclude the result of the Japan Life insurance business.

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	Year ended 31 December 2011* £m								
	Insurance operations			Asset management			Total segment	Unallocated corporate	Total
	Asia	US	UK	M&G	US Investments	Eastspring			
Operating profit based on longer-term investment returns	699	651	723	357	24	75	2,529	(512)	2,017
Short-term fluctuations in investment returns on shareholder-backed business	(93)	(167)	159	(30)			(131)	(26)	(157)
Profit attaching to held for sale Japan Life business	6						6		6
Profit (loss) before tax attributable to shareholders	612	484	882	327	24	75	2,404	(538)	1,866
Tax attributable to shareholders									(415)
Profit for the year									1,451

* The 2011 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note A2 to Prudential's consolidated financial statements in Item 18. In addition, following its reclassification as held-for-sale at 31 December 2013, operating results exclude the results of the Japan Life insurance business.

IFRS operating profit based on longer-term investment returns

Total IFRS operating profit based on longer-term investment returns⁽²⁸⁾ increased by 17 per cent in 2013 to £2,954 million (2012: £2,520 million), driven by higher contributions from both life insurance and asset management.

Insurance Operations**2013 compared to 2012**

Operating profit based on longer term investment returns from our insurance operations in Asia, the US and the UK increased 14 per cent to £2,979 million (2012: £2,606 million). The increase in the profitability of our life operations reflects the growth in the scale of our life business, driven primarily by positive business flows. We track the progress that we make in growing our life book of business by reference to the scale of our obligations to our customers, which are referred to in the financial statements as the policyholder liabilities. Each year these liabilities increase as we collect premiums and decrease as we pay claims. The overall scale of these policyholder liabilities is relevant in evaluating our profit potential, in that it is reflective of our ability to earn fees on the unit-linked element and it sizes the risk that we carry on the insurance element, for which Prudential needs to be rewarded.

Our Asia life insurance business continues to benefit from the growth of the in-force portfolio and our focus on building the proportion of our business that comprises health and protection, with operating profit⁽²⁸⁾ based on longer-term investment returns of £1,001 million (2012: £906 million) up 10 per cent. Adjusting for the 2012 one-off gain on the sale of our holding in China Life Insurance Company in Taiwan and currency movements, underlying

growth was 20 per cent. The principal driver of our profitability in the region is our health and protection business which delivered 68 per cent or £679 million (2012: £589 million) of total life profits. Indonesia IFRS operating profit, our largest market on this measure, was up by 23 per cent at constant exchange rates, reflecting increased insurance and fee income from the high level of regular premium health and protection

⁽²⁸⁾ Comparatives adjusted for retrospective application of IFRS accounting policies as discussed in note A2 to the Prudential's consolidated financial statements in Item 18. In addition, following its reclassification as held for sale during 2013, operating results exclude the result of the Japan life insurance business. Profit before tax continues to include these results. 2012 comparatives have been retrospectively adjusted on a comparable basis.

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and unit-linked sales in recent years. Our other large established markets of Hong Kong, Malaysia and Singapore, also showed collective double digit growth in IFRS operating profit, driven by higher insurance margin and in the case of Hong Kong, higher bonus rates on with-profits business. There was encouraging progress in our smaller, fast-growing South-east Asia businesses in Thailand, the Philippines and Vietnam. Their combined operating profit based on longer-term investment returns of £125 million has increased by 166 per cent during 2013, and now accounts for 12 per cent of the Asia life total compared to 5 per cent in 2012. In Thailand, the inclusion of profits since May 2013 from the acquired Thanachart in-force portfolio together with profits on new business written through our exclusive partnership with Thanachart Bank contributed operating profit based on longer-term investment returns of £30 million.

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

UK long-term business operating profit based on longer-term investment returns was in line with 2012 at £735 million (2012: £736 million). The comparative result included a £31 million profit from writing wholesale contracts, compared with £25 million for 2013. Excluding these contracts, UK Retail operating profit based on longer-term investment returns increased 1 per cent, and included the £34 million positive impact of a longevity swap entered into this year to further optimise the capital position of the business. Consistent with our focused product strategy in the UK, the operating result is driven by profits from shareholder-backed individual annuities⁽²⁹⁾ and with-profits business, which accounted for 92 per cent of the retail operating profit based on longer-term investment returns.

2012 compared to 2011

In Asia, operating profit based on longer-term investment returns for long-term business increased by £209 million from £704 million⁽³⁰⁾ in 2011 to £913 million in 2012. Included within this result is a £51 million one-off profit on sale of the Group's interest in China Life Insurance Company of Taiwan, which was originally acquired in 2008 when Prudential sold its Taiwanese agency business to the company. Excluding this amount, Asia's long-term business operating profit based on longer-term investment return increased by 22 per cent to £862 million, primarily reflecting strong growth in the size of our business in the region, particularly health and protection.

The contribution to profits from Indonesia, Hong Kong, Singapore and Malaysia, Prudential's largest markets in Asia, continues to rise, with operating profits based on longer-term investment return from these businesses⁽³¹⁾ up 22 per cent from £552 million in 2011 to £674 million in 2012. High consumer demand for savings and protection in Indonesia continues to drive growth in premiums and earnings, with operating profit⁽³²⁾ based on longer-term investment returns up 23 per cent from £212 million to £260 million. Hong Kong's operating profit⁽³²⁾ based on

- (29) See Item 4 Information on the Company Business of Prudential UK Business Prudential UK&Europe business overview for information on the 2014 UK Budget announcement.
- (30) Comparative adjusted for retrospective application of the accounting policy change for deferred acquisition costs as discussed in note A2 to the Prudential s consolidated financial statements in Item 18.
- (31) Before non-recurring items.
- (32) Before non-recurring items.

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longer-term investment returns increased by 28 per cent to £88 million (2011: £69 million), as business mix has shifted towards higher return products. Singapore increased by 23 per cent to £206 million (2011: £167 million) and Malaysia's operating profit⁽²⁾ based on longer-term investment returns at £120 million (2011: £104 million) increased by 15 per cent. Operating profits based on longer-term investment returns from our other long-term insurance operations in the region also increased by 24 per cent to £147 million (2011: £119 million), as these businesses increase in size.

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

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

Asset management business**2013 compared to 2012**

Total operating profit based on longer-term investment return for 2013 from M&G and Prudential Capital increased by 19 per cent, from £371 million in 2012 to £441 million in 2013, primarily reflecting positive net inflows into M&G during 2012 and 2013.

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

Our Asia asset management business, Eastspring Investments, has also seen the combination of net inflows and more favourable equity market conditions, partially offset by adverse currency movement, contribute to a 7 per cent increase in operating profit⁽³³⁾ based on longer-term investment returns to £74 million (2012: £69 million). Higher funds under management resulted in a 10 per cent uplift in revenue, outstripping a 5 per cent increase in expenses which included ongoing investment to expand the Eastspring Investments platform into new markets.

In the US, our asset management businesses, PPM America and Curian, and our broker-dealer network, National Planning Holdings, collectively generated operating profits based on longer-term investment returns of

- (33) Comparatives adjusted for retrospective application of IFRS accounting policies as discussed in note A2 to the Prudential's consolidated financial statements in Item 18. In addition, following its reclassification as held for sale during 2013, operating results exclude the result of the Japan life insurance business. Profit before tax continues to include these results. 2012 comparatives have been retrospectively adjusted on a comparable basis.

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£59 million (2012: £39 million). Curian's profit increased from £15 million in 2012 to £29 million in 2013 due to higher average assets under management, particularly reflecting the addition of assets managed for Jackson's Elite Access product.

2012 compared to 2011

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

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

Unallocated corporate result

Operating loss based on longer-term investment returns for 2013 of £599 million comprised of a charge for other income and expenditure of £558 million and Solvency II implementation costs of £29 million.

Operating loss based on longer-term investment returns for 2012 of £565 million comprised of a charge for other income and expenditure of £498 million, Solvency II implementation costs of £48 million and restructuring costs of £19 million.

Operating loss based on longer-term investment returns for 2011 of £512 million comprised a charge for other income and expenditure of £483 million, Solvency II implementation costs of £55 million, restructuring costs of £16 million and a £42 million one-off credit, which was based on the UK Government's decision in 2011 to change the basis of indexation from RPI to CPI and as a result of which the Group altered its assumptions for future statutory increases to pension payments for its UK defined benefit pension schemes.

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

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

- i **Spread income** represents the difference between net investment income (or premium income in the case of the UK annuities new business) and amounts credited to certain policyholder accounts. It excludes the operating investment return on shareholder net assets, which has been separately disclosed as **expected return on shareholder assets**.
- ii **Fee income** represents profits driven by net investment performance, being asset management fees that vary with the size of the underlying policyholder funds net of investment management expenses.

- iii **With-profits** business represents the shareholders' transfer from the with-profits fund in the year.
- iv **Insurance margin** primarily represents profits derived from the insurance risks of mortality, morbidity and persistency.
- v **Margin on revenues** primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses.
- vi **Acquisition costs and administration expenses** represent expenses incurred in the year attributable to shareholders. It excludes items such as restructuring costs and Solvency II costs which are not included in

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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						Total
	On prior basis	Asia adjustments notes (ii),(iii)	Asia	US	UK	Unallocated	
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						Total
	As previously reported	Asia Adjustments notes (ii),(iii)	Asia	US	UK	Unallocated	
Spread income	106	(13)	93	702	266		1,061

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

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	Asia		2011 £m				Total
	As previously reported	Adjustments notes (ii),(iii)	Asia	US	UK	Unallocated	
Spread income	88	(16)	72	730	247		1,049
Fee income	131		131	680	59		870
With-profits	38		38		293		331
Insurance margin	477	6	483	232	27		742
Margin on revenues	1,199	(28)	1,171		226		1,397
Expenses:							
Acquisition costs	(766)		(766)	(890)	(127)		(1,783)
Administration expenses	(503)	21	(482)	(412)	(128)		(1,022)
DAC adjustments	(14)	12	26	228	(5)		249
Expected return on shareholder assets	26		26	83	91		200
Gain on China Life (Taiwan) shares							
Long-term business operating profit	704	(5)	699	651	683		2,033
Asset management operating profit	80	(5)	75	24	357		456
GI commission					40		40
RPI to CPI inflation measure change on defined benefit schemes						42	42
Other income and expenditure ^{note (i)}						(554)	(554)
Total operating profit based on longer-term investment returns	784	(10)	774	675	1,080	(512)	2,017

Notes

- (i) Including restructuring and Solvency II implementation costs.
- (ii) The 2013 analysis excludes the results of the held for sale life insurance business of Japan. The comparative results have been presented on a consistent basis. The results of Japan Life business excluded in 2013 were: profit of £3 million (2012: loss of £2 million, 2011: profit 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, 2011: £3 million); and
 - Asset management business 2013: £8 million (2012: £6 million, 2011: £5 million).
- All other lines continue to include the Group's share of the relevant part of the joint ventures' pre-tax operating profit.

Table of Contents**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 notes C4.1(b), C4.1(c) and C4.1(d) in the consolidated Financial statements in Item 18.

	2013			Total 2012			2011 notes (iv),(v)		
	Profit	Average Liability	Margin	Profit	Average Liability	Margin	Profit	Average Liability	Margin
	note (iii)	note (ii)	note (ii)	note (iii)	note (ii)	note (ii)	note (iii)	note (ii)	note (ii)
	£m	£m	bps	£m	£m	bps	£m	£m	bps
Long-term business									
Spread income	1,073	64,312	167	1,061	61,432	173	1,049	56,610	185
Fee income	1,391	96,337	144	1,077	78,433	137	870	67,882	128
With-profits	298	97,393	31	311	95,681	33	331	93,056	36
Insurance margin	1,356			1,027			742		
Margin on revenues	1,749			1,655			1,397		
Expenses:									
Acquisition costs ^{note(i)}	(2,039)	4,423	(46)%	(1,997)	4,195	(48)%	(1,783)	3,681	(48)%
Administration expenses	(1,428)	169,158	(84)	(1,235)	142,205	(87)	(1,022)	124,492	(82)
DAC adjustments	334			418				249	
Expected return on shareholder assets	216			205			200		
Gain on China Life (Taiwan) shares				51					
Operating profit	2,950			2,573			2,033		

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. APE is defined under the section EEV Basis and New Business Results in Item 3 of this annual report.
- (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.

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	2013			Asia 2012 note (ii) Average			2011 note (ii) Average		
	Profit	Liability	Margin	Profit	Liability	Margin	Profit	Liability	Margin
	note (iv)	note (iv)		note (iv)	note (iv)		note (iv)	note (iv)	
	£m	£m	bps	£m	£m	bps	£m	£m	bps
Long-term business									
Spread income	115	7,446	154	93	5,978	155	72	4,816	150
Fee income	154	13,714	112	141	12,648	111	131	11,954	110
With-profits	47	13,263	35	39	12,990	30	38	11,775	32
Insurance margin	679			589			483		
Margin on revenues	1,562			1,439			1,171		
Expenses:									
Acquisition costs ^{note (i)}	(1,015)	2,125	(48)%	(903)	1,897	(48)%	(766)	1,660	(46)%
Administration expenses	(634)	21,160	(300)	(570)	18,626	(306)	(482)	16,770	(288)
DAC adjustments	35			(16)				26	
Expected return on shareholder assets	58			43			26		
Gain on China Life (Taiwan) shares				51					
Operating profit	1,001			906			699		

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. APE is defined under the section **EEV Basis and New Business Results** in Item 3 of this annual report.
- (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 2011, 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. In 2012, spread income increased by £21 million from £72 million in 2011 to £93 million in 2012, an increase of 29 per cent. Both years increases predominantly reflect the growth of the Asian non-linked policyholder liabilities.

Fee income has increased from £131 million in 2011 to £141 million in 2012 and then to £154 million in 2013, broadly in line with the increase in movement in average unit-linked liabilities.

Insurance margin has increased from £483 million in 2011 to £589 million in 2012 and further 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 and 2011 :£38 million), reflecting items that are not expected to repeat 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. The increase of £268 million from £1,171 million in 2011 to £1,439 million in 2012 reflecting the growth in the in-force book in that period.

Acquisition costs have increased from £766 million in 2011 to £903 million in 2012 and further to £1,015 million in 2013, broadly in line with the increase in sales. The analysis above uses shareholder

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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, 2011: 59 per cent;) reflecting changes to product and country mix.

Administration expenses have increased from £482 in 2011 to £570 million in 2012 and further to £634 million in 2013 as the business continues to expand. The administration expense ratio for 2013 remains broadly in line with prior periods at 300 basis points (2012: 306 basis points, 2011 288 basis points). 2012 was higher than 2011 due to changes in business mix.

	2013			US 2012			2011		
	Profit	Average Liability	Margin	Profit	Average Liability	Margin	Profit	Average Liability	Margin
	note (ii)	note (ii)		note (ii)	note (ii)		note (ii)	note (ii)	
	£m	£m	bps	£m	£m	bps	£m	£m	bps
Long-term business									
Spread income	730	29,648	246	702	29,416	239	730	28,274	258
Fee income	1,172	59,699	196	875	44,046	199	680	34,452	197
Insurance margin	588			399			232		
Expenses									
Acquisition costs ^{note (i)}	(914)	1,573	(58)%	(972)	1,462	(66)%	(890)	1,275	(70)%
Administration expenses	(670)	97,856	(68)	(537)	75,802	(71)	(412)	62,726	(66)
DAC adjustments	313				442			228	
Expected return on shareholder assets	24			55			83		
Operating profit	1,243			964			651		

Notes

- (i) The ratio for acquisition costs is calculated as a percentage of APE. APE is defined under the section EEV Basis and New Business Results in Item 3 of this annual report.
- (ii) The calculation of average liabilities for Jackson is derived from month-end balances throughout the year as opposed to opening and closing balances only. Average liabilities for spread income are based on the general account liabilities to which spread income attaches. Average liabilities used to calculate the administrative expense margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson.

Analysis of US operating profit drivers:

Spread income has increased by 4 per cent to £730 million in 2013 from £702 million in 2012. The reported spread margin increased to 246 basis points from 239 basis points in 2012 primarily as a result of lower crediting rates. The reported spread income decreased £28 million in 2012 from £730 million in 2011 as a result of downward pressure on yields caused by the low interest rate environment, the effect of which was only partly mitigated by reductions in crediting rates. 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 and 2011: 218 basis points).

Fee income has increased by 34 per cent to £1,172 million in 2013, compared to £875 million in 2012 and £680 million in 2011 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 basis points (2012: 199 basis points, 2011: 197 basis points) with the change in each year reflecting business mix.

Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Positive net flows into variable annuity business with life contingent and other guarantee fees, coupled with a benefit in the year from re-pricing actions, have increased the insurance

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margin from £232 million in 2011 to £399 million in 2012 and further to £588 million in 2013. This includes a benefit due to the inclusion of the full year of operations for REALIC in 2013 and four months in 2012 (following the acquisition in September 2012), which contributed £188 million in 2013 and £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 and 70 percent in 2011. 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 and £412 million in 2011, primarily as a result of higher asset based commissions paid on increasing separate account balances. 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, 2011: 46 basis points).

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. In 2012 DAC adjustments increased to £442 million from £228 million reported for 2011, as 2011 was lowered by £190 million of accelerated DAC following the reversal of the benefit received in 2008 from the mean reversion formula. Certain acquisition costs are not fully deferrable, resulting in new business strain of £198 million for 2013 (2012: £174 million, 2011: £156 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		2011 £m
Acquisition costs		Acquisition costs		Acquisition costs
Other operating profits	Incurred	Other operating profits	Incurred	Other operating profits
	Deferred		Deferred	Totaprofits