Section 7

Additional information

7

Index to the additional unaudited financial information

Additional unaudited financial information

I: Selected historical financial information

The following table sets forth Prudential's selected consolidated financial data 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 adopted by the European Union (EU) and European Embedded Value (EEV).

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.

Income statement data

	Year ended 31 December				
	2013 £m	**2012*** £m	**2011*** £m	**2010*** £m	**2009*** £m
IFRS basis results					
Gross premium earned	**30,502**	29,113	24,837	23,610	19,525
Outward reinsurance premiums	**(658)**	(491)	(417)	(349)	(323)
Earned premiums, net of reinsurance	**29,844**	28,622	24,420	23,261	19,202
Investment return	**20,347**	23,931	9,361	21,662	26,813
Other income	**2,184**	1,885	1,711	1,539	1,143
Total revenue, net of reinsurance	**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	**(43,154)**	(45,144)	(28,706)	(39,687)	(40,474)
Acquisition costs and other expenditure	**(6,861)**	(6,032)	(4,717)	(4,692)	(4,463)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(305)**	(280)	(286)	(257)	(209)
Remeasurement of carrying value of Japan life business classified as held for sale	**(120)**	–	–	–	–
Loss on sale of Taiwan agency business	**–**	–	–	–	(559)
Total charges, net of reinsurance	**(50,440)**	(51,456)	(33,709)	(44,636)	(45,705)
Share of profits from joint ventures and associates, net of related tax	**147**	135	76	64	29
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)* note (1)	**2,082**	3,117	1,859	1,890	1,482
Tax (charge) credit attributable to policyholders' returns	**(447)**	(370)	7	(607)	(829)
Profit before tax attributable to shareholders	**1,635**	2,747	1,866	1,283	653
Tax (charge) credit attributable to shareholders' returns	**(289)**	(584)	(415)	43	(15)
Profit from continuing operations after tax	**1,346**	2,163	1,451	1,326	638
Discontinued operations (net of tax)	**–**	–	–	–	(14)
Profit for the year	**1,346**	2,163	1,451	1,326	624
Based on profit for the year attributable to the equity holders of the Company:					
Basic earnings per share (in pence)	**52.8p**	85.1p	57.1p	52.4p	24.9p
Diluted earnings per share (in pence)	**52.7p**	85.0p	57.0p	52.3p	24.8p
Dividend per share declared and paid in reporting period (in pence)	**30.52p**	25.64p	25.19p	20.17p	19.20p

* The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefits accounting standard, from 1 January 2013, as described in note A2. Accordingly, the 2009 to 2012 comparative results and related notes have been adjusted retrospectively from those previously published.

Additional unaudited financial information continued

I: Selected historical financial information continued

Supplementary IFRS income statement data

	Year ended 31 December				
	2013 £m	2012* £m	2011* £m	2010* £m	2009* £m
Operating profit based on longer-term investment returns note (2)	**2,954**	2,520	2,017	1,823	1,444
Short-term fluctuations in investment returns on shareholder-backed business	**(1,110)**	187	(157)	(201)	(173)
Costs of terminated AIA transaction	**–**	–	–	(377)	–
Gain on dilution of Group's holdings	**–**	42	–	30	–
Amortisation of acquisition accounting adjustments	**(72)**	(19)	–	–	–
(Loss) profit attaching to held for sale Japan life business	**(102)**	17	6	8	3
Costs of domestication of Hong Kong branch	**(35)**	–	–	–	–
Loss on sale and results of Taiwan agency business	**–**	–	–	–	(621)
Profit from continuing operations before tax attributable to shareholders note (2)	**1,635**	2,747	1,866	1,283	653
Operating earnings per share (reflecting operating profit based on longer-term investment returns after related tax and non-controlling interests and excluding 2010 exceptional tax credit) (in pence)	**90.9p**	76.9p	62.7p	58.8p	43.3p
Operating earnings per share (reflecting operating profit based on longer-term investment returns after related tax and non-controlling interests and including 2010 exceptional tax credit) (in pence)	**90.9p**	76.9p	62.7p	65.1p	43.3p

* The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefits accounting standard, from 1 January 2013, as described in note A2. Accordingly, the 2009 to 2012 comparative results and related notes have been adjusted retrospectively from those previously published.

Supplementary EEV income statement data

	Year ended 31 December				
	2013 £m	2012* £m	2011* £m	2010* £m	2009* £m
Operating profit based on longer-term investment returns note (2)	**5,580**	4,313	3,981	3,702	3,093
Short-term fluctuations in investment returns on shareholder-backed business	**(819)**	510	(830)	(52)	315
Mark to market value movements on core borrowings	**152**	(380)	(14)	(164)	(795)
Effect of changes in economic assumptions	**821**	(2)	(141)	11	(908)
Costs of terminated AIA transaction	**–**	–	–	(377)	–
Gain on dilution of Group's holdings	**–**	42	–	3	–
Costs of domestication of Hong Kong branch	**(35)**	–	–	–	–
Gain on acquisition on REALIC	**–**	453	–	–	–
(Loss) profit attaching to held for sale Japan life business	**(35)**	21	(19)	(10)	27
Profit on sale and results of Taiwan agency business	**–**	–	–	–	91
Profit from continuing operations before tax attributable to shareholders	**5,664**	4,957	2,977	3,113	1,823
Operating earnings per share (reflecting operating profit based on longer-term investment returns after related tax and non-controlling interests and excluding 2010 exceptional tax credit) (in pence)	**165.0p**	124.9p	116.0p	107.4p	89.1p
Operating earnings per share (reflecting operating profit based on longer-term investment returns after related tax and non-controlling interests and including 2010 exceptional tax credit) (in pence)	**165.0p**	124.9p	116.0p	113.7p	89.1p

* The Group has adopted new accounting standards on joint arrangements and amendments to employee benefits, from 1 January 2013, as described in note 1. Accordingly, the 2009 to 2012 comparative EEV results have been adjusted retrospectively from those previously published for the application of the IFRS standards and for the effect of the Japan life business sale agreement.

New business data

New business excluding Japan[note (3)]

	Year ended 31 December				
	2013 £m	**2012** £m	**2011** £m	**2010** £m	**2009** £m
Annual premium equivalent (APE) sales:					
Asia[note (3)]	**2,125**	1,897	1,660	1,501	1,209
US	**1,573**	1,462	1,275	1,164	912
UK	**725**	836	746	820	723
Total APE sales	**4,423**	4,195	3,681	3,485	2,844
EEV new business profit (NBP)	**2,843**	2,452	2,151	2,028	1,619
NBP margin (% APE)	**64%**	58%	58%	58%	57%

Statement of financial position data

As of and for the year ended 31 December	**2013** £m	**2012*** £m	**2011*** £m	**2010*** £m	**2009*** £m
Total assets	**325,932**	307,644	270,018	256,330	224,291
Total policyholder liabilities and unallocated surplus of with-profits funds	**286,014**	268,263	233,538	221,895	194,089
Core structural borrowings of shareholder-financed operations	**4,636**	3,554	3,611	3,676	3,394
Total liabilities	**316,281**	297,280	261,411	248,765	218,418
Total equity	**9,651**	10,364	8,607	7,565	5,873

* The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefits accounting standard, from 1 January 2013, as described in note A2. Accordingly, the 2009 to 2012 comparative results and related notes have been adjusted retrospectively from those previously published.

Other data

As of and for the year ended 31 December	**2013** £bn	**2012** £bn	**2011** £bn	**2010** £bn	**2009** £bn
Funds under management[note (4)]	**443**	406	352	340	290
EEV shareholders' equity, excluding non-controlling interests	**24.9**	22.4	19.6	18.2	15.3
Insurance Groups Directive capital surplus (as adjusted)[note (5)]	**5.1**	5.1	4.0	4.3	3.4

Notes

1 This measure is the formal profit (loss) before tax measure under IFRS, but is not the result attributable to shareholders.

2 Operating profits are determined on the basis of including longer-term investment returns. EEV and IFRS operating profits are stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions, gain on dilution of Group's holdings, the costs arising from the domestication of the Hong Kong business, (loss) profit attaching to held for sale Japan life insurance business and, in 2010, costs associated with the terminated AIA transaction. Separately, on the IFRS basis, operating profit also excludes amortisation of acquisition accounting adjustments. In addition, for EEV basis results, operating profit excludes the effect of changes in economic assumptions, the market value movement on core borrowings and, in 2012, the gain arising on the acquisition of REALIC.

3 Asia comparative APE new business sales prior to 2011 exclude the Japanese insurance operations, which ceased writing new business from 15 February 2010.

4 Funds under management comprise funds of the Group held in the statement of financial position and external funds that are managed by Prudential asset management operations.

5 The surpluses shown are before allowing for the final dividends for each year, which are paid in the following year. The 2013 surplus is estimated.

Additional unaudited financial information continued

II: IFRS profit and loss information

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

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

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

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

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

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

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

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

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						
	Asia						
	On prior basis	Adjustments notes (ii), (iii)	Asia	US	UK	Unallocated	Total
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						
	Asia						
	As previously reported	Adjustments notes (ii), (iii)	Asia	US	UK	Unallocated	Total
Spread income	106	(13)	93	702	266	–	1,061
Fee income	141	–	141	875	61	–	1,077
With-profits	39	–	39	–	272	–	311
Insurance margin	594	(5)	589	399	39	–	1,027
Margin on revenues	1,453	(14)	1,439	–	216	–	1,655
Expenses:							
Acquisition costs	(903)	–	(903)	(972)	(122)	–	(1,997)
Administration expenses	(583)	13	(570)	(537)	(128)	–	(1,235)
DAC adjustments	(28)	12	(16)	442	(8)	–	418
Expected return on shareholder assets	43	–	43	55	107	–	205
Gain on China Life (Taiwan) shares	51	–	51	–	–	–	51
Long-term business operating profit	913	(7)	906	964	703	–	2,573
Asset management operating profit	75	(6)	69	39	371	–	479
GI commission	–	–	–	–	33	–	33
Other income and expenditure[note (i)]	–	–	–	–	–	(565)	(565)
Total operating profit based on longer-term investment returns	988	(13)	975	1,003	1,107	(565)	2,520

Notes

(i) Including restructuring and Solvency II implementation costs.

(ii) The analysis excludes the results of the held for sale life insurance business of Japan. The results of Japan life business excluded in 2013 were: profit of £3 million (2012: loss of £2 million).

(iii) The Group has adopted new accounting standards on joint arrangements, as described in 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. This contributed to an additional expense, as follows:
- Long-term business – 2013: £5 million (2012: £9 million); and
- Asset management business – 2013: £8 million (2012: £6 million).

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

	Total					
	2013			2012		
Long-term business	Profit £m	Average liability notes (iii), (v) £m	Margin note (ii) bps	Profit £m	Average liability notes (iii), (iv), (v) £m	Margin note (ii) bps
Spread income	1,073	64,312	167	1,061	61,432	173
Fee income	1,391	96,337	144	1,077	78,433	137
With-profits	298	97,393	31	311	95,681	33
Insurance margin	1,356			1,027		
Margin on revenues	1,749			1,655		
Expenses:						
Acquisition costs[note (i)]	(2,039)	4,423	(46)%	(1,997)	4,195	(48)%
Administration expenses	(1,428)	169,158	(84)	(1,235)	142,205	(87)
DAC adjustments	334			418		
Expected return on shareholder assets	216			205		
Gain on China Life (Taiwan) shares	–			51		
Operating profit	2,950			2,573		

Additional information

Additional unaudited financial information continued

II: IFRS profit and loss information continued

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

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

Notes
(i) The ratio for acquisition costs is calculated as a percentage of APE including with-profits sales. Acquisition costs include only those relating to shareholder-backed business.
(ii) The Group has adopted new accounting standards on joint arrangements, as described in note A2. The only impact of the resulting change on the analysis above is to deduct the associated tax expense from the joint ventures' operating profit by treating it as an administration expense. The impact of this change is explained in note (iii) to the 'Analysis of pre-tax IFRS operating profit by source' table earlier in this section. All other lines continue to include the Group's share of the relevant part of the joint ventures' pre-tax operating profit.
(iii) The analysis excludes the 2012 and 2013 results of the life insurance business of Japan in both the individual profit and the average liability amounts shown in the table above.
(iv) Opening and closing policyholder liabilities, adjusted for corporate transactions, have been used to derive an average balance for the year, as a proxy for average balances throughout the year.

Analysis of Asia operating profit drivers

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

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

Notes

(i) The ratio for acquisition costs is calculated as a percentage of APE.

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

Analysis of US operating profit drivers

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

Additional unaudited financial information continued

II: IFRS profit and loss information continued

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

Long-term business	2013 £m				2012 £m			
	Other operating profits	Acquisition costs			Other operating profits	Acquisition costs		
		Incurred	Deferred	Total		Incurred	Deferred	Total
Total operating profit before acquisition costs and DAC adjustments	1,844			1,844	1,494			1,494
Less new business strain		(914)	716	(198)		(972)	798	(174)
Other DAC adjustments – amortisation of previously deferred acquisition costs:								
Normal			(485)	(485)			(412)	(412)
Decelerated			82	82			56	56
Total	1,844	(914)	313	1,243	1,494	(972)	442	964

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

Notes

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

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

Analysis of UK operating profit drivers

— Spread income has reduced from £266 million in 2012 to £228 million in 2013, principally due to lower annuity sales in the year.

— Fee income has increased in line with the increase in unit-linked liabilities.

— With-profits income has decreased by £21 million from £272 million in 2012 to £251 million in 2013, principally due to a 50 basis point reduction in annual bonus rates. This has contributed to the reduction in the with-profits margin from 33 basis points in 2012 to 30 basis points in 2013.

— Insurance margin has increased from £39 million in 2012 to £89 million in 2013. This increase arises from our improved profits from our protection business, the non-recurrence of the 2012 effect of strengthening longevity assumptions on our annuity book and £27 million positive impact of undertaking a longevity swap on certain aspects of the UK's annuity back-book liabilities in the first half of 2013.

— Margin on revenues represents premium charges for expenses and other sundry net income received by the UK. 2013 income was £187 million, £29 million lower than in 2012, reflecting lower premium volumes in the year.

— Acquisition costs as a percentage of new business sales are in line with 2012 at 15 per cent. Lower commission payments from the implementation of the recommendations of the Retail Distribution Review have been more than offset by the effect of lower bulk annuity sales in the year, which traditionally are less capital intensive.

The ratio above expresses the percentage of shareholder acquisition costs as a percentage of total APE sales. It is, therefore, impacted by the level of with-profit sales in the year. Acquisition costs as a percentage of shareholder-backed new business sales were 32 per cent in 2013 (2012: 33 per cent).

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

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

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

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

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

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

Notes

(i) Analysis of operating profit between new and in-force business
The result for insurance operations comprises amounts in respect of new business and business in force as follows:

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

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

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

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

(ii) During 2012, the Group sold its 7.74 per cent stake in China Life (Taiwan) for £97 million crystallising a gain of £51 million.
Other non-recurrent items of £44 million in 2013 (2012: £48 million) represent a small number of items that are not anticipated to re-occur in subsequent years.

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

Additional unaudited financial information continued

II: IFRS profit and loss information continued

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

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

	2012 £m				
	M&G note (ii)	**Eastspring Investments** note (ii)	**PruCap**	**US**	**Total**
Operating income before performance-related fees	734	201	120	296	1,351
Performance-related fees	9	2	–	–	11
Operating income (net of commission)note (i)	743	203	120	296	1,362
Operating expensenote (i)	(436)	(128)	(69)	(257)	(890)
Share of associate's results	13	–	–	–	13
Group's share of tax on joint ventures' operating profit	–	(6)	–	–	(6)
Operating profit based on longer-term investment returns	320	69	51	39	479
Average funds under management	£205.1bn	£55.0bn			
Margin based on operating income*	36 bps	37 bps			
Cost/income ratio†	59%	64%			

Notes

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

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

M&G

	Operating income before performance related fees					
	Retail £m	**Margin of FUM*** bps	**Institutional‡** £m	**Margin of FUM*** bps	**Total** £m	**Margin of FUM*** bps
2013	550	89	313	18	863	37
2012	438	91	296	19	734	36

Eastspring Investments

	Operating income before performance related fees					
	Retail £m	**Margin of FUM*** bps	**Institutional‡** £m	**Margin of FUM*** bps	**Total** £m	**Margin of FUM*** bps
2013	127	60	88	22	215	35
2012	118	64	83	24	201	37

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

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

III: Other information

III(a) Holding company cash flow

	2013 £m	2012 £m
Net cash remitted by business units:		
UK net remittances to the Group		
UK Life fund paid to the Group	206	216
Shareholder-backed business:		
Other UK paid to the Group	149	101
Group invested in UK	–	(4)
Total shareholder-backed business	149	97
Total UK net remittances to the Group	355	313
US remittances to the Group	294	249
Asia net remittances to the Group		
Asia paid to the Group:		
Long-term business	454	491
Other operations	56	60
	510	551
Group invested in Asia:		
Long-term business	(9)	(107)
Other operations (including funding of regional head office costs)	(101)	(103)
	(110)	(210)
Total Asia net remittances to the Group	400	341
M&G remittances to the Group	235	206
PruCap remittances to the Group	57	91
Net remittances to the Group from business units	1,341	1,200
Net interest paid	(300)	(278)
Tax received	202	194
Corporate activities	(185)	(158)
Solvency II costs	(32)	(47)
Total central outflows	(315)	(289)
Operating holding company cash flow before dividend*	1,026	911
Dividend paid	(781)	(655)
Operating holding company cash flow after dividend*	245	256
Issue of hybrid debt, net of costs	1,124	–
Acquisition of Thanachart Life	(397)	–
Hedge purchase cost (equity tail risks)	–	(32)
Costs of the domestication of the Hong Kong branch	(31)	–
Other net cash payments	(83)	(43)
Total holding company cash flow	858	181
Cash and short-term investments at beginning of year	1,380	1,200
Foreign exchange movements	(8)	(1)
Cash and short-term investments at end of year	2,230	1,380

* Including central finance subsidiaries.

Additional unaudited financial information continued

III: Other information continued

III(b) Funds under management

a Summary note (i)

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

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

Notes

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

(ii) External funds shown above as at 31 December 2013 of £143.3 billion (2012: £121.4 billion) comprise £148.2 billion (2012: £133.5 billion) of funds managed by M&G and Eastspring Investments as shown in note (c) below, less £4.9 billion (2012: £12.1 billion) that are classified within Prudential Group's funds. The £148.2 billion (2012: £133.5 billion) investment products comprise £143.9 billion (2012: £129.5 billion) as published in the New Business schedules plus Asia Money Market Funds of £4.3 billion (2012: £4.0 billion).

b Prudential Group funds under management – analysis by business area

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

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

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

c Investment products – external funds under management

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

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

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

d M&G and Eastspring Investments – total funds under management

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

Eastspring Investments	2013 £bn	2012 £bn
External funds under management[note]	22.2	21.6
Internal funds under management	37.7	36.5
Total funds under management	59.9	58.1

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

Additional unaudited financial information continued

III: Other information continued

III(c) Additional information on pre and post-tax EEV basis results

The Group intends to alter its basis of presentation of EEV results for 2014 and subsequent reporting periods to a post-tax basis, in line with the approach adopted by a number of international insurance groups. The following tables provide an analysis of the Group's profit and loss account and key accompanying notes on a pre-tax and post-tax basis for the most recent reporting periods.

Pre and post-tax operating profit based on longer-term investment returns

	Pre-tax			Post-tax note (i)		
	Full year 2013 £m	**Full year 2012** £m	**Half year 2013** £m	**Full year 2013** £m	**Full year 2012** £m	**Half year 2013** £m
Asia operations						
New business notes (ii), (iii)	**1,460**	1,266	659	**1,139**	982	502
Business in force*:						
Unwind of discount and other expected returns	**846**	595	400	**668**	465	315
Effect of changes in operating assumptions	**17**	22	(13)	**5**	13	(6)
Experience variances and other items	**64**	75	33	**80**	76	18
	927	692	420	**753**	554	327
Long-term business	**2,387**	1,958	1,079	**1,892**	1,536	829
Eastspring Investments*	**74**	69	38	**64**	58	32
Development expenses	**(2)**	(7)	(2)	**(1)**	(5)	(2)
Total*	**2,459**	2,020	1,115	**1,955**	1,589	859
US operations						
New business note (ii)	**1,086**	873	479	**706**	568	311
Business in force:						
Unwind of discount and other expected returns	**608**	412	287	**395**	268	187
Effect of changes in operating assumptions	**116**	35	70	**76**	23	45
Experience variances and other items	**411**	290	180	**349**	238	164
	1,135	737	537	**820**	529	396
Long-term business	**2,221**	1,610	1,016	**1,526**	1,097	707
Broker-deal and asset management	**59**	39	34	**39**	18	21
Total	**2,280**	1,649	1,050	**1,565**	1,115	728
UK operations						
New business note (ii)	**297**	313	130	**237**	241	100
Business in force:						
Unwind of discount and other expected returns	**547**	482	267	**437**	373	204
Effect of changes in operating assumptions	**122**	87	–	**98**	67	–
Experience variances and other items	**67**	(16)	7	**60**	10	–
	736	553	274	**595**	450	204
Long-term business	**1,033**	866	404	**832**	691	304
General insurance commission	**29**	33	15	**22**	25	11
Total UK insurance operations	**1,062**	899	419	**854**	716	315
M&G (including Prudential Capital)	**441**	371	225	**346**	285	175
Total	**1,503**	1,270	644	**1,200**	1,001	490
Other income and expenditure	**(619)**	(554)	(304)	**(482)**	(476)	(235)
Solvency II and restructuring costs	**(43)**	(72)	(26)	**(34)**	(55)	(21)
Operating profit based on longer-term investment returns	**5,580**	4,313	2,479	**4,204**	3,174	1,821
Analysed as profits (losses) from:						
New business notes (ii), (iii)	**2,843**	2,452	1,268	**2,082**	1,791	913
Business in force*	**2,798**	1,982	1,231	**2,168**	1,533	927
Long-term business*	**5,641**	4,434	2,499	**4,250**	3,324	1,840
Asset management*	**574**	479	297	**449**	361	228
Other results	**(635)**	(600)	(317)	**(495)**	(511)	(247)
Total*	**5,580**	4,313	2,479	**4,204**	3,174	1,821

* The 2012 comparative results have been adjusted retrospectively from those previously published for the adoption of IFRS 11 and for the reclassification of the result attributable to the held for sale Japan life business – see note 18 of the EEV basis results section.

Summary of consolidated income statement

	Pre-tax Full year 2013 £m	Pre-tax Full year 2012 £m	Pre-tax Half year 2013 £m	Post-tax note (i) Full year 2013 £m	Post-tax note (i) Full year 2012 £m	Post-tax note (i) Half year 2013 £m
Operating profit based on longer-term investment returns*	**5,580**	4,313	2,479	**4,204**	3,174	1,821
Short-term fluctuations in investment returns:						
Asia operations*	**(405)**	362	(282)	**(308)**	302	(223)
US operations	**(422)**	(254)	(404)	**(280)**	(163)	(271)
UK insurance operations	**35**	315	(92)	**28**	243	(70)
Other operations*	**(27)**	87	(30)	**(4)**	83	(23)
	(819)	510	(808)	**(564)**	465	(587)
Effect of changes in economic assumptions:						
Asia operations	**283**	(135)	333	**255**	(99)	272
US operations	**372**	85	62	**242**	56	40
UK insurance operations	**166**	48	289	**132**	37	222
	821	(2)	684	**629**	(6)	534
Other non-operating profit	**82**	136	156	**89**	136	156
Total non-operating profit	**84**	644	32	**154**	595	103
Profit attributable to shareholders	**5,664**	4,957	2,511	**4,358**	3,769	1,924

* The 2012 comparative results have been adjusted retrospectively from those previously published for the revised IAS 19 and for the reclassification of the result attributable to the held for sale Japan life business – see note 18 of the EEV basis results section.

Notes

(i) The tax rates include the impact of tax effects determined on a local regulatory basis. Tax payments and receipts included in the projected cash flows to determine the value of in-force business are calculated using rates that have been substantively enacted by the end of the reporting period.

(ii) New business contribution

	Pre-tax new business contribution: Asia operations £m	US operations £m	UK insurance operations £m	Total £m	Post-tax new business contribution: Asia operations £m	US operations £m	UK insurance operations £m	Total £m
Full year 2013	**1,460**	**1,086**	**297**	**2,843**	**1,139**	**706**	**237**	**2,082**
Q3 2013	990	756	204	1,950	767	492	163	1,422
Half year 2013	659	479	130	1,268	502	311	100	913
Q1 2013	308	192	63	563	237	125	48	410
Full year 2012	1,266	873	313	2,452	982	568	241	1,791
Q3 2012	828	683	227	1,738	627	444	173	1,244
Half year 2012	547	442	152	1,141	414	288	116	818
Q1 2012	260	214	62	536	197	139	47	383
Full year 2011	1,076	815	260	2,151	811	530	195	1,536

(iii) New business contribution by Asia territory

	Pre-tax Full year 2013 £m	Pre-tax Full year 2012 £m	Pre-tax Half year 2013 £m	Post-tax Full year 2013 £m	Post-tax Full year 2012 £m	Post-tax Half year 2013 £m
Asia operations:						
China	**37**	26	17	**28**	20	13
Hong Kong	**354**	210	162	**283**	162	125
India	**18**	19	10	**15**	15	8
Indonesia	**480**	476	228	**359**	365	174
Korea	**33**	26	19	**25**	20	14
Taiwan	**37**	48	16	**31**	40	13
Other	**501**	461	207	**398**	360	155
Total Asia operations	**1,460**	1,266	659	**1,139**	982	502

Additional unaudited financial information continued

III: Other information continued

III(d) Reconciliation of expected transfer of value of in-force (VIF) and required capital business to free surplus

The tables below show how the VIF generated by the in-force long-term business and the associated required capital is modelled as emerging into free surplus over the next 40 years. Although a small amount (less than 2 per cent) of the Group's embedded value emerges after this date, analysis of cash flows emerging in the years shown in the tables is considered most meaningful. The modelled cash flows use the same methodology underpinning the Group's embedded value reporting and so are subject to the same assumptions and sensitivities.

In addition to showing the amounts, both discounted and undiscounted, expected to be generated from all in-force business at 31 December 2013, the tables also present the expected future free surplus to be generated from the investment made in new business during 2013 over the same 40 year period.

Expected transfer of value of in-force (VIF) and required capital business to free surplus

	2013 £m							
	Undiscounted expected generation from all in-force business at 31 December*				Undiscounted expected generation from 2013 long-term new business written*			
Expected period of emergence	Asia	US	UK	Total	Asia	US	UK	Total
2014	801	902	462	2,165	116	260	24	400
2015	821	817	471	2,109	140	113	21	274
2016	798	760	467	2,025	142	114	21	277
2017	735	709	467	1,911	111	40	19	170
2018	705	700	479	1,884	107	108	21	236
2019	682	666	466	1,814	93	92	20	205
2020	672	670	462	1,804	96	85	20	201
2021	665	623	455	1,743	99	127	20	246
2022	654	540	451	1,645	93	105	20	218
2023	650	469	461	1,580	105	88	21	214
2024	635	386	449	1,470	89	70	19	178
2025	633	313	440	1,386	93	58	18	169
2026	637	265	429	1,331	88	50	18	156
2027	637	228	423	1,288	89	43	18	150
2028	624	206	408	1,238	109	38	18	165
2029	596	174	401	1,171	84	29	18	131
2030	590	162	389	1,141	85	24	18	127
2031	570	146	377	1,093	84	20	18	122
2032	561	158	368	1,087	82	17	18	117
2033	544	85	363	992	90	15	19	124
2034 to 2038	2,586	305	1,400	4,291	399	32	82	513
2039 to 2043	2,334	104	1,152	3,590	357	(13)	96	440
2044 to 2048	2,075	–	569	2,644	313	–	54	367
2049 to 2053	1,808	–	336	2,144	276	–	37	313
Total free surplus expected to emerge in the next 40 years	22,013	9,388	12,145	43,546	3,340	1,515	658	5,513

* The analysis excludes amounts incorporated into VIF at 31 December 2013 where there is no definitive timeframe for when the payments will be made or receipts received. In particular, it excludes the value of the shareholders' interest in the estate. It also excludes any free surplus emerging after 2053. Following its classification as held for sale, the Asia cash flows exclude any cash flows in respect of Japan.

The above amounts can be reconciled to the new business amounts as follows:

	2013 £m			
New business	Asia	US	UK	Total
Undiscounted expected free surplus generation for years 2014 to 2053	3,340	1,515	658	5,513
Less: discount effect	(2,098)	(516)	(397)	(3,011)
Discounted expected free surplus generation for years 2014 to 2053	1,242	999	261	2,502
Discounted expected free surplus generation for years 2053+	52	–	2	54
Less: free surplus investment in new business	(310)	(298)	(29)	(637)
Other items*	155	5	3	163
Post-tax EEV new business profit	1,139	706	237	2,082
Tax	321	380	60	761
Pre-tax EEV new business profit	1,460	1,086	297	2,843

* Other items represent the impact of the time value of options and guarantees on new business, foreign exchange effects and other non-modelled items. Foreign exchange effects arise as EEV new business profit amounts are translated at average exchange rates and the expected free surplus generation uses year end closing rates.

The undiscounted expected free surplus generation from all in-force business at 31 December 2013 shown below can be reconciled to the amount that was expected to be generated as at 31 December 2012 as follows:

Group	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	Other £m	Total £m
2012 expected free surplus generation for years 2013 to 2052	**1,950**	1,816	1,788	1,687	1,671	1,594	24,646	35,152
Less: Amounts expected to be realised in the current year	**(1,950)**	–	–	–	–	–	–	(1,950)
Add: expected free surplus to be generated in year 2053*	–	–	–	–	–	–	179	179
Foreign exchange differences	–	(90)	(84)	(75)	(72)	(68)	(1,204)	(1,593)
New business	–	400	274	277	170	236	4,156	5,513
Acquisition of Thanachart Life	–	17	13	11	8	5	20	74
Operating movements	–	(45)	1	1	16	26		
Non-operating and other movements†	–	67	117	124	118	91	5,655	6,171
2013 expected free surplus generation for years 2014 to 2053	–	2,165	2,109	2,025	1,911	1,884	33,452	43,546

Asia	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	Other £m	Total £m
2012 expected free surplus generation for years 2013 to 2052	**719**	761	724	686	654	628	13,069	17,241
Less: amounts expected to be realised in the current year	**(719)**	–	–	–	–	–	–	(719)
Add: expected free surplus to be generated in year 2053*	–	–	–	–	–	–	135	135
Foreign exchange differences	–	(79)	(73)	(65)	(61)	(58)	(1,132)	(1,468)
New business	–	116	140	142	111	107	2,724	3,340
Acquisition of Thanachart Life	–	17	13	11	8	5	20	74
Operating movements	–	(21)	(5)	–	3	6		
Non-operating and other movements†	–	7	22	24	20	17	3,337	3,410
2013 expected free surplus generation for years 2014 to 2053	–	801	821	798	735	705	18,153	22,013

US	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	Other £m	Total £m
2012 expected free surplus generation for years 2013 to 2052	**785**	572	600	557	587	551	3,897	7,549
Less: amounts expected to be realised in the current year	**(785)**	–	–	–	–	–	–	(785)
Add: expected free surplus to be generated in year 2053*	–	–	–	–	–	–	–	–
Foreign exchange differences	–	(11)	(11)	(10)	(11)	(10)	(72)	(125)
New business	–	260	113	114	40	108	880	1,515
Operating movements	–	(6)	3	6	18	21		
Non-operating and other movements	–	87	112	93	75	30	795	1,234
2013 expected free surplus generation for years 2014 to 2053	–	902	817	760	709	700	5,500	9,388

* Excluding 2013 new business.
† Includes the removal of Japan life business following its reclassification as held for sale.

Additional unaudited financial information continued

III: Other information continued

UK	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	Other £m	Total £m
2012 expected free surplus generation for years 2013 to 2052	446	483	464	444	430	415	7,680	10,362
Less: amounts expected to be realised in the current year	(446)	–	–	–	–	–	–	(446)
Add: expected free surplus to be generated in year 2053*	–	–	–	–	–	–	44	44
New business	–	24	21	21	19	21	552	658
Operating movements	–	(18)	3	(5)	(5)	(1)		
Non-operating and other movements†	–	(27)	(17)	7	23	44	1,523	1,527
2013 expected free surplus generation for years 2014 to 2053	–	462	471	467	467	479	9,799	12,145

* Excluding 2013 new business.

† The amounts shown above for non-operating and other movements include the effects of a partial hedge of the future shareholder transfers expected to emerge from the UK's with-profits sub-fund that was transacted in 2013. This hedge reduces the risk arising from equity market declines for the years 2014-2018. However, in rising equity markets as assumed in preparing the EEV results, the hedge reduces the projected free surplus benefit of those higher returns. Consistent with this feature, for 2014 the expected free surplus generation compared to that expected at 31 December 2012 is reduced by £(58) million as a result of this hedge.

At 31 December 2013, the total free surplus expected to be generated over the next five years (years 2014 to 2018 inclusive), using the same assumptions and methodology as underpin our embedded value reporting was £10.1 billion, an increase of £1.5 billion from the £8.6 billion expected over the same period at the end of 2012.

This increase primarily reflects the new business written in 2013, which is expected to generate £1,357 million of free surplus over the next five years. Operating, non-operating and other items are expected to increase free surplus generation by £570 million over the next five years, but this has been offset by adverse foreign exchange movements of £389 million.

At 31 December 2013, the total free surplus expected to be generated on an undiscounted basis in the next forty years is £43.5 billion, up from the £35 billion expected at end of 2012, reflecting the effect of new business written and the positive market movements in Asia, following increases in bond yields principally in Hong Kong, Indonesia and Singapore, together with higher projected separate account fees following increase in US equities values. The foreign exchange translation effect arising across US and Asia operations is a reduction of £1.6 billion. The overall growth in the undiscounted value of free surplus, reflects both our ability to write new business on attractive economics and to manage the in-force book for value, as well as the positive gearing of our cash flows to rising long-term yields and equity markets.

Actual underlying free surplus generated in 2013 from life business in force at the end of 2012 was £2.6 billion inclusive of £0.5 billion of changes in operating assumptions and experience variances. This compares with the expected 2013 realisation at the end of 2012 of £2.0 billion. This can be analysed further as follows:

	Asia £m	US £m	UK £m	Total £m
Transfer to free surplus in 2013	713	796	508	2,017
Expected return on free assets	74	41	18	133
Changes in operating assumptions and experience variances	32	292	154	478
Underlying free surplus generated from in-force life business in 2013	819	1,129	680	2,628
2013 free surplus expected to be generated at 31 December 2012	719	785	446	1,950

The equivalent discounted amounts of the undiscounted totals shown previously are outlined below:

	2013 £m							
	Discounted expected generation from all in-force business at 31 December				Discounted expected generation from long-term 2013 new business written			
Expected period of emergence	Asia	US	UK	Total	Asia	US	UK	Total
2014	759	866	431	2,056	110	250	22	382
2015	717	737	410	1,864	119	101	18	238
2016	646	642	381	1,669	111	95	17	223
2017	553	562	354	1,469	80	32	15	127
2018	493	519	339	1,351	71	79	15	165
2019	443	463	308	1,214	57	63	14	134
2020	406	436	285	1,127	54	54	13	121
2021	375	380	261	1,016	52	76	12	140
2022	343	311	242	896	44	58	11	113
2023	316	255	230	801	47	45	11	103
2024	291	197	208	696	37	33	10	80
2025	271	150	190	611	36	25	8	69
2026	254	121	172	547	31	20	8	59
2027	238	99	158	495	30	16	8	54
2028	221	86	142	449	35	13	7	55
2029	199	69	130	398	25	10	6	41
2030	185	63	117	365	24	8	6	38
2031	170	55	105	330	22	6	6	34
2032	157	57	96	310	21	5	5	31
2033	144	27	88	259	22	4	5	31
2034 to 2038	587	98	269	954	85	7	19	111
2039 to 2043	405	41	151	597	59	(1)	15	73
2044 to 2048	281	–	47	328	41	–	6	47
2049 to 2053	192	–	20	212	29	–	4	33
Total discounted free surplus expected to emerge in the next 40 years	8,646	6,234	5,134	20,014	1,242	999	261	2,502

The above amounts can be reconciled to the Group's financial statements as follows:

	Total £m
Discounted expected generation from all in-force business for years 2014 to 2053	20,014
Discounted expected generation from all in-force business for years after 2053	393
Discounted expected generation from all in-force business (excluding Japan) at 31 December 2013	20,407
Add: free surplus of life operations held at 31 December 2013	3,220
Less: time value of guarantees	(196)
Expected cash flow from the sale of Japan life business*	25
Other non-modelled items†	1,157
Total EEV for life operations	24,613

* Upon completion of the sale of the Japan life business £25 million of free surplus will be released. See note 4 of the EEV basis results section for further details.
† These relate to items where there is no definitive timeframe for when the payments will be made or receipts received and are, consequently, excluded from the amounts incorporated into the tables above showing the expected generation of free surplus from in-force business at 31 December 2013. In particular, it excludes the value of the shareholders' interest in the estate.

Additional unaudited financial information continued

III: Other information continued

III(e) Foreign currency source of key metrics

The tables below show the Group's key free surplus, IFRS and EEV, metrics analysis by contribution by currency group:

Free surplus and IFRS full year 2013 results

	Underlying free surplus generated note 2 %	Pre-tax operating profit notes 2, 3, 4 %	Shareholders' funds notes 2, 3, 4 %
US$ linked[note 1]	14	19	14
Other Asia currencies	9	17	18
Total Asia	23	36	32
UK sterling[notes 3, 4]	42	20	53
US$[note 4]	35	44	15
Total	100	100	100

EEV full year 2013 results

	Pre-tax New Business profits %	Pre-tax operating profit notes 2, 3, 4 %	Shareholders' funds notes 2, 3, 4 %
US$ linked[note 1]	29	26	28
Other Asia currencies	22	18	15
Total Asia	51	44	43
UK sterling[notes 3, 4]	11	15	37
US$[note 4]	38	41	20
Total	100	100	100

Notes

1 US$ linked – comprising the Hong Kong and Vietnam operations where the currencies are pegged to the US dollar and the Malaysia and Singapore operations where the currencies are managed against a basket of currencies including the US dollar.
2 Includes long-term, asset management business and other businesses.
3 For operating profit and shareholders' funds UK sterling includes amounts in respect of central operations as well as UK insurance operations and M&G.
4 For shareholders' funds, the US$ grouping includes US$ denominated core structural borrowings. Sterling operating profits include all interest payable as sterling denominated, reflecting interest rate currency swaps in place.

III(f) Economic capital position

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

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

31 December 2013	£bn Economic capital position note
Available capital	18.5
Economic Capital Requirement	7.2
Surplus	11.3
Economic solvency ratio	257%

Note

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

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

Methodology

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

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

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

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

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

The contribution of Japan to the Group surplus has been set equal to the 'held for sale' accounting value of £48 million, pending completion of the sale. The impact of the domestication of the Hong Kong branch, which became effective on 1 January 2014, is not allowed for in these economic capital results, but is estimated to have a negative impact on the Group solvency ratio of -4 percentage points, mainly due to a loss of diversification in the risk margin following separation of the Hong Kong business into a subsidiary. Consistently with evolving Solvency II requirements, the Group calculation also includes all non-insurance entities, including asset management companies, Prudential Capital and holding companies, as follows:

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

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

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

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

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

Additional unaudited financial information continued

III: Other information continued

Assumptions

The key assumptions required for the economic capital calibration are:

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

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

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

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

Reconciliation of IFRS to economic available capital

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

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

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

The key differences between the two metrics are:

— £0.6 billion represents the adjustment required to the Group's shareholders' funds in order to convert Jackson's contribution from an IFRS basis to the local statutory valuation basis which underpins the US Risk Based Capital regime;
— £2.7 billion due to the removal of DAC and goodwill from the IFRS balance sheet;
— £3.8 billion due to the addition of subordinated debt which is treated as available capital on an economic basis but as a liability under IFRS;
— £5.8 billion due to differences in insurance valuation requirements between economic capital and IFRS, with available capital partially capturing the economic value of in-force business which is excluded from IFRS, offset to some extent by the inclusion of a risk margin which is not required under IFRS;
— £4.1 billion due to the inclusion of the value of future shareholder transfers from with-profits business on the economic balance sheet in the UK and Asia, which is excluded from the determination of the Group's IFRS shareholders' funds; and
— £1.3 billion due to the impact on the valuation of deferred tax assets and liabilities resulting from the other valuation differences noted above.

Analysis of movement in the economic capital position

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

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

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

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

— *Model changes:* a positive impact to Group surplus arising from a number of modelling enhancements and refinements;
— *Operating experience:* generated by in-force business, new business written in 2013, the beneficial impact of management actions taken during 2013 to de-risk the business, and small impacts from non-market assumption changes and non-market experience variances over the year;
— *Non-operating experience:* mainly arising from positive market experience during 2013; and
— *Other capital movements:* a reduction in surplus from the acquisition of Thanachart Life and the preparation for sale of the Japanese business, the negative impact of exchange rate movements, an increase in surplus from new subordinated debt issuances and a reduction in surplus due to dividend payments in 2013.

Analysis of Group Economic Capital Requirement

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

	% of undiversified Economic Capital Requirement[2]	% of diversified Economic Capital Requirement[2]
Market:	53%	64%
Equity	15%	24%
Credit	20%	37%
Yields (interest rates)	13%	0%
Other	5%	3%
Insurance:	36%	28%
Mortality/morbidity	8%	4%
Lapse	19%	21%
Longevity	9%	3%
Operational/expense	11%	8%

Notes
1 The Group Economic Capital Requirement by risk type includes capital requirements in respect of Jackson's risk exposures, based on 250% of the US RBC Company Action Level.
2 Based on the Group's Solvency II internal model which has not been reviewed or approved by the Prudential Regulation Authority.

Additional unaudited financial information continued

III: Other information continued

The Group's most material risk exposures are to financial markets, in particular to equities and credit spreads, which we hold to generate a higher return on capital over the long term. The Group also has material insurance risk exposures including longevity risk from UK annuities, lapse risk across a wide range of products, and mortality and morbidity risk mainly arising from protection products written in Asia. These risks diversify strongly with market risks, even after allowing for market-related policyholder behaviour, thereby, increasing the return on capital which can be earned from the balanced mix of risks. A brief description of the most material risks is set out below:

— The Group's exposure to equities mainly arises from UK shareholder transfers linked to policyholder funds (partially offset by economic equity hedges) and from future fund management charges on unit-linked funds in Asia. The equity exposure arising from Jackson's variable annuity business is mostly hedge;
— The Group also has significant exposure to credit risk, mainly from the UK annuity portfolio and from Jackson's fixed annuity credit portfolio. Credit exposures across the Group are carefully monitored and managed as part of the Group's risk management framework;
— The Group is exposed to movements in yields (interest rates), while falling interest rates increase the risks arising from policyholder guarantees in with-profits funds and variable annuities, falling interest rates also increase the value of future insurance profits;
— The most material insurance risk exposures arise from UK longevity risk, and lapse, mortality and morbidity risk in Asia; and
— The Group is also exposed to expense and operational risk, which is closely monitored and managed through internal control processes.

Sensitivity testing of Group economic solvency position

Stress testing the economic capital position gives the following results (as at 31 December 2013):

— An instantaneous 20 per cent fall in equity markets would reduce surplus by £0.3 billion but increase the economic solvency ratio to 260 per cent;
— An instantaneous 40 per cent fall in equity markets would reduce surplus by £1.0 billion but increase the economic solvency ratio to 258 per cent;
— A 100 basis points reduction in interest rates (subject to a floor of zero) would reduce surplus by £1.3 billion and reduce the economic solvency ratio to 225 per cent;
— A 100 basis points increase in interest rates would increase surplus by £0.8 billion and increase the economic solvency ratio to 284 per cent; and
— A 100 basis points increase in credit spreads[2] would reduce surplus by £1.3 billion and reduce the economic solvency ratio to 254 per cent.

These sensitivity results demonstrate the resilience of the economic capital position following large falls in equity markets, sizeable reductions in yields and a severe credit event.

The adverse impact of falling equity markets mainly results from a reduction in the value of with-profits shareholder transfers and future fund management charges in the UK and Asia. Equity hedging reduces the impact of these exposures and a dynamic equity hedging programme is also in place to manage the equity risk arising in Jackson's variable annuities business.

A fall in yields has a material adverse impact on Group surplus which largely arises from a decrease in the value of future with-profits shareholder transfers and an increase in the size of risk margins. Falling yields also increases the value of the Group's external debt, reducing the Group surplus. However, these impacts are partially offset by an increase in the value of future insurance profits and changes in the value of hedging assets.

Widening credit spreads adversely impacts on the annuity business in the UK since this is deemed to represent an increase, to some extent, in the expected level of future defaults. Jackson is not exposed to credit spread widening on a US RBC basis, but an increase in defaults in the Jackson credit book would have a negative impact on the Group capital position and is reflected in the credit stress test above.

Statement of independent review

The methodology, assumptions and overall result have been subject to examination by KPMG LLP.

Note
2 For the credit spread widening stress 10 times expected defaults are assumed for Jackson since credit spread movements do not directly impact on the US RBC result.

III(g) Option schemes

The Group maintains four share option schemes satisfied by the issue of new shares. Executive directors and eligible employees based in the UK may participate in the UK savings-related share option scheme, executives based in Asia and eligible employees can participate in the international savings-related share option scheme. Employees based in Dublin are eligible to participate in the Prudential International Assurance sharesave plan, and Hong Kong based agents can participate in the non-employee savings-related share option scheme. Further details of the schemes and accounting policies are detailed in note B3.2 of the IFRS basis consolidated financial statements.

All options were granted at £nil consideration. No options have been granted to substantial shareholders, suppliers of goods or services (excluding options granted to agents under the non-employee savings-related share option scheme) or in excess of the individual limit for the relevant scheme.

The options schemes will terminate as follows, unless the directors resolve to terminate the plans at an earlier date:

- UK savings-related share option scheme: 16 May 2023;
- International savings-related share option scheme: 31 May 2021;
- Prudential International Assurance sharesave plan: 3 August 2019; and
- International savings-related share option scheme for non-employees 2012: 17 May 2022.

The weighted average share price of Prudential plc for the year ended 31 December 2013 was £11.14 (2012: £7.69).

Particulars of options granted to directors are included in the Directors' Remuneration Report on page 89.

The closing price of the shares immediately before the date on which the options were granted during the current period was £12.02.

The following analyses show the movement in options for each of the option schemes for the year ended 31 December 2013.

UK savings-related share option scheme

		Exercise period		Number of options						
Date of grant	Exercise price £	Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
29 Sep 05	4.07	01 Dec 12	31 May 13	3,780	–	(1,260)	–	–	(2,520)	–
20 Apr 06	5.65	01 Jun 13	30 Nov 13	7,322	–	(7,322)	–	–	–	–
28 Sep 06	4.75	01 Dec 13	31 May 14	13,325	–	(13,177)	–	–	–	148
26 Apr 07	5.72	01 Jun 14	30 Nov 14	503	–	–	–	–	–	503
27 Sep 07	5.52	01 Dec 12	31 May 13	5,108	–	(5,108)	–	–	–	–
27 Sep 07	5.52	01 Dec 14	31 May 15	1,668	–	–	–	–	–	1,668
25 Apr 08	5.51	01 Jun 13	30 Nov 13	26,509	–	(26,367)	–	–	(142)	–
25 Apr 08	5.51	01 Jun 15	30 Nov 15	1,544	–	–	–	–	–	1,544
25 Sep 08	4.38	01 Dec 13	31 May 14	43,374	–	(30,871)	–	–	(186)	12,317
25 Sep 08	4.38	01 Dec 15	31 May 16	11,205	–	(278)	–	–	(54)	10,873
27 Apr 09	2.88	01 Jun 12	30 Nov 12	5,709	–	(5,709)	–	–	–	–
27 Apr 09	2.88	01 Jun 14	30 Nov 14	1,719,205	–	(27,753)	(1,085)	(26,797)	(7,623)	1,655,947
27 Apr 09	2.88	01 Jun 16	30 Nov 16	177,492	–	(343)	(227)	(5,686)	(111)	171,125
25 Sep 09	4.25	01 Dec 12	31 May 13	40,985	–	(39,875)	–	(854)	(256)	–
25 Sep 09	4.25	01 Dec 14	31 May 15	86,651	–	(407)	(3,659)	–	(178)	82,407
28 Sep 10	4.61	01 Dec 13	31 May 14	256,720	–	(190,529)	(468)	(3,081)	(211)	62,431
28 Sep 10	4.61	01 Dec 15	31 May 16	123,861	–	(470)	(669)	–	(467)	122,255
16 Sep 11	4.66	01 Dec 14	31 May 15	458,199	–	(2,656)	(9,306)	(9,923)	(2,209)	434,105
16 Sep 11	4.66	01 Dec 16	31 May 17	184,570	–	(1,073)	(1,960)	(653)	(2,195)	178,689
21 Sep 12	6.29	01 Dec 15	31 May 16	986,901	–	(1,609)	(25,004)	(13,132)	(7,147)	940,009
21 Sep 12	6.29	01 Dec 17	31 May 18	147,509	–	–	(2,623)	(4,771)	–	140,115
20 Sep 13	9.01	01 Dec 16	31 May 17	–	422,798	–	(3,992)	(398)	–	418,408
20 Sep 13	9.01	01 Dec 18	31 May 19	–	91,054	–	–	–	–	91,054
				4,302,140	513,852	(354,807)	(48,993)	(65,295)	(23,299)	4,323,598

The total number of securities available for issue under the scheme is 4,323,598 which represents 0.169 per cent of the issued share capital at 31 December 2013.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £12.28.

The weighted average fair value of options granted under the plan in the period was £9.01.

Additional unaudited financial information continued

III: Other information continued

International savings-related share option scheme

		Exercise period		Number of options						
Date of grant	Exercise price £	Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
26 Apr 07	5.72	01 Jun 12	30 Nov 12	14,489	–	–	–	–	(14,489)	–
25 Apr 08	5.51	01 Jun 13	30 Nov 13	4,192	–	(2,739)	–	–	–	1,453
25 Sep 08	4.38	01 Dec 13	31 May 14	6,951	–	(3,448)	–	–	–	3,503
27 Apr 09	2.88	01 Jun 12	30 Nov 12	63,474	–	–	–	–	(63,474)	–
27 Apr 09	2.88	01 Jun 14	30 Nov 14	78,133	–	(1,372)	–	(1,188)	–	75,573
25 Sep 09	4.25	01 Dec 12	31 May 13	41,541	–	(24,469)	(1,181)	–	(10,542)	5,349
25 Sep 09	4.25	01 Dec 14	31 May 15	2,682	–	–	–	–	–	2,682
28 Sep 10	4.61	01 Dec 13	31 May 14	119,163	–	(82,381)	–	(7,685)	–	29,097
28 Sep 10	4.61	01 Dec 15	31 May 16	6,130	–	–	–	–	–	6,130
16 Sep 11	4.66	01 Dec 14	31 May 15	352,841	–	(721)	(7,014)	(22,994)	–	322,112
16 Sep 11	4.66	01 Dec 16	31 May 17	25,739	–	–	–	–	–	25,739
21 Sep 12	6.29	01 Dec 15	31 May 16	681,368	–	(138)	(5,357)	(46,542)	–	629,331
21 Sep 12	6.29	01 Dec 17	31 May 18	34,701	–	–	–	(8,587)	–	26,114
20 Sep 13	9.01	01 Dec 16	31 May 17	–	699,724	–	(4,910)	(3,325)	(666)	690,823
20 Sep 13	9.01	01 Dec 18	31 May 19	–	58,737	–	(3,328)	–	–	55,409
				1,431,404	758,461	(115,268)	(21,790)	(90,321)	(89,171)	1,873,315

The total number of securities available for issue under the scheme is 1,873,315 which represents 0.073 per cent of the issued share capital at 31 December 2013.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £12.15.

The weighted average fair value of options granted under the plan in the period was £9.01.

Prudential International Assurance sharesave plan

		Exercise period		Number of options						
Date of grant	Exercise price £	Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
27 Apr 09	2.88	01 Jun 12	30 Nov 12	3,646	–	–	–	–	(3,646)	–
27 Apr 09	2.88	01 Jun 14	30 Nov 14	6,567	–	–	–	–	–	6,567
25 Sep 09	4.25	01 Dec 12	31 May 13	639	–	(614)	–	–	(25)	–
				10,852	–	(614)	–	–	(3,671)	6,567

The total number of securities available for issue under the scheme is 6,567 which represents 0.0003 per cent of the issued share capital at 31 December 2013.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £9.73.

Non-employee savings-related share option scheme

		Exercise period		Number of options						
Date of grant	Exercise price £	Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
26 Apr 07	5.72	01 Jun 12	30 Nov 12	12,779	–	–	–	–	(12,779)	–
27 Sep 07	5.52	01 Dec 12	31 May 13	2,970	–	(2,874)	–	–	(96)	–
25 Apr 08	5.51	01 Jun 13	30 Nov 13	3,834	–	–	(1,837)	–	–	1,997
25 Sep 08	4.38	01 Dec 13	31 May 14	13,708	–	(4,522)		–	–	9,186
27 Apr 09	2.88	01 Jun 12	30 Nov 12	27,532	–	–	–	–	–	27,532
27 Apr 09	2.88	01 Jun 14	30 Nov 14	686,366	–	–	–	–	–	686,366
25 Sep 09	4.25	01 Dec 12	31 May 13	16,676	–	(16,673)	–	–	(3)	–
25 Sep 09	4.25	01 Dec 14	31 May 15	11,717	–	–	–	–	–	11,717
28 Sep 10	4.61	01 Dec 13	31 May 14	1,096,742	–	(744,626)	(3,950)	(6,363)	–	341,803
28 Sep 10	4.61	01 Dec 15	31 May 16	368,850	–	–		(6,636)	–	362,214
16 Sep 11	4.66	01 Dec 14	31 May 15	608,943	–	–	(3,347)	(4,678)	–	600,918
16 Sep 11	4.66	01 Dec 16	31 May 17	262,682	–	–	(4,336)	(572)	–	257,774
21 Sep 12	6.29	01 Dec 15	31 May 16	443,315	–	–	(2,003)	(3,005)	–	438,307
21 Sep 12	6.29	01 Dec 17	31 May 18	96,300	–	–	(6,011)	–	–	90,289
20 Sep 13	9.01	01 Dec 16	31 May 17	–	784,887	–	(7,425)	–	–	777,462
20 Sep 13	9.01	01 Dec 18	31 May 19	–	426,605	–	–	(1,664)	–	424,941
				3,652,414	1,211,492	(768,695)	(28,909)	(22,918)	(12,878)	4,030,506

The total number of securities available for issue under the scheme is 4,030,506 which represents 0.157 per cent of the issued share capital at 31 December 2013.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £12.92.

The weighted average fair value of options granted under the plan in the period was £9.01.

Risk factors

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

Prudential's approaches to managing risks are explained in the 'Group Chief Risk Officer's report on the risks facing our business and our capital strength' section of this document.

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 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.

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, 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

Risk factors continued

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 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. 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 impacts 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.

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 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 by Moody's, AA by Standard & Poor's and AA by Fitch. These ratings have a stable outlook.

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.

Risk factors continued

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

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

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

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

In common with other life insurers, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity 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 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.

Glossary

AER
Actual Exchange Rates are actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates for the balance sheet at the balance sheet date.

Annual premium equivalent or APE
A measure of new business activity that is calculated as the sum of annualised regular premiums from new business plus 10 per cent of single premiums on new business written during the period.

Asset backed security
A security whose value and income payments are derived from and collateralised (or 'backed') by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets that are unable to be sold individually.

Available-for-sale (AFS)
Securities that have been acquired neither for short-term sale nor to be held to maturity. AFS securities are measured at fair value on the statement of financial position with unrealised gains and losses being booked in Other Comprehensive Income instead of the income statement.

Back book of business
The insurance policies sold in past periods that are still in-force and hence are still recorded on the insurer's balance sheet.

Bonuses
Bonuses refer to the non-guaranteed benefit added to participating life insurance policies and are the way in which policyholders receive their share of the profits of the policies. There are normally two types of bonus:

- Regular bonus – expected to be added every year during the term of the policy. It is not guaranteed that a regular bonus will be added each year, but once it is added, it cannot be reversed, also known as annual or reversionary bonus; and
- Final bonus – an additional bonus expected to be paid when policyholders take money from the policies. If investment return has been low over the lifetime of the policy, a final bonus may not be paid. Final bonuses may vary and are not guaranteed.

Bulk annuity
A bulk annuity, sometimes referred to as a bulk purchase annuity, is a contract between a defined benefit pension scheme and an insurance company, whereby an insurance company insures some or all of the liabilities of the pension scheme.

Cash surrender value
The amount of cash available to a policy holder on the surrender of or withdrawal from a life insurance policy or annuity contract.

CER
Constant Exchange Rate – Prudential plc reports its results at both actual exchange rates (AER) to reflect actual results and also constant exchange rates (CER) so as to eliminate the impact from exchange translation. CER results are calculated by translating prior year results using current period foreign currency exchange rates ie current period average rates for the income statements and current period closing rate for the balance sheet.

Closed-book life insurance business
A 'closed book' is essentially a group of insurance policies that are no longer sold, but are still featured on the books of a life insurer as a premium-paying policy. The insurance company has 'closed the books' on new sales of these products which will remain in run-off until the policies expire and all claims are settled.

Core structural borrowings
Borrowings which Prudential considers to form part of its core capital structure and exclude operational borrowings.

Credit risk
The risk of loss if another party fails to meet its obligations, or fails to do so in a timely fashion.

Currency risk
The risk that asset or liability values, cash flows, income or expenses will be affected by changes in exchange rates. Also referred to as foreign exchange risk.

Deferred acquisition costs or DAC
Acquisition costs are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance policies. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. Typically, under IFRS, an element of acquisition costs are deferred ie not expensed in the year incurred, and instead amortised in the income statement in line with the emergence of surpluses on the related contracts.

Deferred annuities
Annuities or pensions due to be paid from a future date or when the policyholder reaches a specified age.

Discretionary participation features or DPF
A contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

- That are likely to be a significant portion of the total contractual benefits;
- Whose amount or timing is contractually at the discretion of the issuer; and
- That are contractually based on asset, fund, company or other entity performance.

Dividend cover
Dividend cover is calculated as operating profit after tax on an IFRS basis, divided by the current year interim dividend plus the proposed final dividend.

Endowment product
An ordinary individual life insurance product that provides the insured party with various guaranteed benefits if it survives specific maturity dates or periods stated in the policy. Upon the death of the insured party within the coverage period, a designated beneficiary receives the face value of the policy.

European Embedded Value or EEV
Financial results that are prepared on a supplementary basis to the Group's consolidated IFRS results and which are prepared in accordance with a set of Principles issued by the Chief Financial Officers Forum of European Insurance Companies in May 2004 and expanded by the Additional Guidance of EEV Disclosures published in October 2005. The principles are designed to capture the value of the new business sold in the period and of the business in force.

Glossary continued

Fixed annuities
Fixed annuity contracts written in the US which allow for tax-deferred accumulation of funds, are used for asset accumulation in retirement planning and for providing income in retirement and offer flexible pay-out options. The contract holder pays the insurer a premium, which is credited to the contract holders' account. Periodically, interest is credited to the contract holders' account and administrative charges are deducted, as appropriate.

Fixed index annuities
These are similar to fixed annuities in that the contract holder pays the insurer a premium, which is credited to the contract holders' account and, periodically, interest is credited to the contract holders' account and administrative charges are deducted, as appropriate. An annual minimum interest rate may be guaranteed, although actual interest credited may be higher and is linked to an equity index over its indexed option period.

Funds under management
These comprise funds of the Group held in the statement of financial position and external funds that are managed by Prudential asset management operations.

Group free surplus
Group free surplus at the end of the period comprises free surplus for the insurance businesses, representing the excess of the net worth over the required capital included in the EEV results, and IFRS net assets for the asset management businesses excluding goodwill. The free surplus generated during the period comprises the movement in this balance excluding foreign exchange, capital, and other reserve movements. Specifically, it includes amounts maturing from the in-force operations during the period less the investment in new business, the effect of market movements and other one-off items.

Guaranteed annuities
Policies that pay out a fixed amount of benefit for a defined period.

Guaranteed investment contract (GIC) (US)
An investment contract between an insurance company and an institutional investor, which provides a stated rate of return on deposits over a specified period of time. They typically provide for partial or total withdrawals at book value if needed for certain liquidity needs of the plan.

Guaranteed minimum accumulation benefit (GMAB) (US)
A guarantee that ensures that the contract value of a variable annuity contract will be at least equal to a certain minimum amount after a specified number of years.

Guaranteed minimum death benefit (GMDB) (US)
The basic death benefit offered under variable annuity contracts, which specifies that if the owner dies before annuity income payments begin, the beneficiary will receive a payment equal to the greater of the contract value or purchase payments less withdrawals.

Guaranteed minimum income benefit (GMIB) (US)
A guarantee that ensures, under certain conditions, that the owner may annuitise the variable annuity contract based on the greater of (a) the actual account value or (b) a pay-out base equal to premiums credited with some interest rate, or the maximum anniversary value of the account prior to annuitisation.

Guaranteed minimum withdrawal benefit (GMWB) (US)
A guarantee in a variable annuity that promises that the owner may make annual withdrawals of a defined amount for the life of the owner or until the total guaranteed amount is recovered, regardless of market performance or the actual account balance.

Health and protection
These comprise health and personal accident insurance products, which provide morbidity or sickness benefits and include health, disability, critical illness and accident coverage. Health and protection products are sold both as standalone policies and as riders that can be attached to life insurance products. Health and Protection riders are presented together with ordinary individual life insurance products for purposes of disclosure of financial information.

IGD surplus
The Prudential Group's solvency surplus measured in accordance with the EU Insurance Groups Directive.

Immediate annuity
An annuity in which payments to the annuitant or beneficiary start at once upon establishment of the annuity plan or scheme. Such annuities are almost always purchased with a single (lump sum) payment.

In-force
An insurance policy or contract reflected on records that has not expired, matured or otherwise been surrendered or terminated.

Inherited estate
For life insurance proprietary companies, surplus capital available on top of what is necessary to cover policyholders reasonable expectations. An inherited (orphan) estate is effectively surplus capital on a realistic basis built over time and not allocated to policyholders or shareholders.

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

Internal vesting
Internal vestings are proceeds from a Prudential policy which the policyholder has decided to reinvest in a Prudential annuity product.

International Financial Reporting Standards (IFRS)
Accounting standards that all publicly listed groups in the European Union are required to apply in preparing consolidated financial statements.

Investment grade
Investments rated BBB- or above for S&P, Baa3 or above for Moody's. Generally they are bonds that are judged by the rating agency as likely enough to meet payment obligations that banks are allowed to invest in them.

Investment-linked products or contracts
Insurance products where the surrender value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the product, subject to surrender charges. These are also referred to as unit linked products or unit linked contracts.

Liquidity coverage ratio
Prudential calculates this as assets and resources available to us that are readily convertible to cash to cover corporate obligations in a prescribed stress scenario. We calculate this ratio over a range of time horizons extending to 12 months.

Liquidity premium
This comprises the premium that is required to compensate for the lower liquidity of corporate bonds relative to swaps and the mark to market risk premium that is required to compensate for the potential volatility in corporate bond spreads (and hence market values) at the time of sale.

Market value reduction (MVR)
A reduction applied to the payment on with-profits bonds when policyholders surrender in adverse market conditions.

Money Market Fund (MMF)
An MMF is an open-ended mutual fund that invests in short-term debt securities such as US treasury bills and commercial paper. The purpose of an MMF is to provide investors with a safe place to invest easily accessible cash-equivalent assets characterised as a low-risk, low-return investment.

Mortality rate
Rate of death, varying by such parameters as age, gender, and health, used in pricing and computing liabilities for future policyholders of life and annuity products, which contain mortality risks.

Net premiums
Life insurance premiums, net of reinsurance ceded to third party reinsurers.

Net worth
Net assets for EEV reporting purposes that reflect the regulatory basis position, sometimes with adjustments to achieve consistency with the IFRS treatment of certain items.

New business margin
The value of new business on an EEV basis expressed as a percentage of the present value of new business premiums expected to be received from the new business.

New business profit
The profits, calculated in accordance with European Embedded Value Principles, from business sold in the financial reporting period under consideration.

Non-participating business
A life insurance policy where the policyholder is not entitled to a share of the company's profits and surplus, but receives certain guaranteed benefits. Also known as non-profit in the UK. Examples include pure risk policies (eg fixed annuities, term insurance, critical illness) and unit-linked insurance contracts.

OEIC Open ended investment company
A collective investment fund structured as a limited company in which investors can buy and sell shares.

Operational borrowings
Borrowings which arise in the normal course of the business.

Participating funds
Distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The insurer may either have discretion as to the timing of the allocation of those benefits to participating policyholders or may have discretion as to the timing and the amount of the additional benefits. For Prudential the most significant participating funds are with-profits funds for business written in the UK, Hong Kong, Malaysia and Singapore.

Participating policies or participating business
Contracts of insurance where the policyholders have a contractual right to receive, at the discretion of the insurer, additional benefits based on factors such as investment performance, as a supplement to any guaranteed benefits. This is also referred to as with-profits business.

Payback period
Payback period is the time in which the initial 'cash' outflow of investment is expected to be recovered from the 'cash' inflows generated by the investment. We measure cash outflow by our investment of free surplus in new business sales. The payback period equals the time taken for this business to generate free surplus to cover this investment. Payback periods are measured on an undiscounted basis.

Present value of new business premiums or PVNBP
The present value of new business premiums is calculated as equalling single premiums plus the present value of expected premiums of new regular premium business, allowing for lapses and other assumptions made in determining the EEV new business contribution.

Prudential Regulation Authority or PRA
The PRA is a UK regulatory body responsible for Prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

Regular premium product
A life insurance product with regular periodic premium payments.

Rider
A supplemental plan that can be attached to a basic insurance policy, with payment of additional premium.

Risk margin reserve (RMR) charge
An RMR is included within operating profit based on longer-term investment returns and represents a charge for long-term expected defaults of debt securities, determined by reference to the credit quality of the portfolio.

Scottish Amicable Insurance Fund (SAIF)
SAIF is a ring-fenced sub-fund of the Prudential Assurance Company's long-term fund following the acquisition of the mutually owned Scottish Amicable Life Assurance Society in 1997. The fund is solely for the benefit of policyholders of SAIF. Shareholders of Prudential plc have no interest in the profits of this fund although they are entitled to asset management fees on this business.

Separate account
A separate account is a pool of investments held by an insurance company not in or 'separate' from its general account. The returns from the separate account generally accrue to the policyholder. A separate account allows an investor to choose an investment category according to his individual risk tolerance, and desire for performance.

Single premiums
Single premium policies of insurance are those that require only a single lump sum payment from the policyholder.

Glossary continued

Stochastic techniques
Stochastic techniques incorporate results from repeated simulations using key financial parameters which are subject to random variations and are projected into the future.

Subordinated debt
A fixed interest issue or debt that ranks below other debt in order of priority for repayment if the issuer is liquidated. Holders are compensated for the added risk through higher rates of interest. Under EU insurance regulation, subordinated debt is not treated as a liability and counts towards the coverage of the required minimum margin of solvency, with limitations.

Surrender
The termination of a life insurance policy or annuity contract at the request of the policyholder after which the policyholder receives the cash surrender value, if any, of the contract.

Surrender charge or surrender fee
The fee charged to a policyholder when a life insurance policy or annuity contract is surrendered for its cash surrender value prior to the end of the surrender charge period.

Takaful
Insurance that is compliant with Islamic principles.

Time value of options and guarantees
The value of financial options and guarantees comprises two parts, the intrinsic value and the time value. The intrinsic value is given by a deterministic valuation on best estimate assumptions. The time value is the additional value arising from the variability of economic outcomes in the future.

Total shareholder return (TSR)
TSR represents the growth in the value of a share plus the value of dividends paid, assuming that the dividends are reinvested in the Company's shares on the ex-dividend date.

Unallocated surplus
Unallocated surplus is recorded wholly as a liability and represents the excess of assets over policyholder liabilities for Prudential's with-profits funds. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders.

Unit-linked products or unit-linked contracts
See 'investment-linked products or contracts' above.

Universal life
An insurance product where the customer pays flexible premiums, subject to specified limits, which are accumulated in an account and are credited with interest (at a rate either set by the insurer or reflecting returns on a pool of matching assets). The customer may vary the death benefit and the contract may permit the customer to withdraw the account balance, typically subject to a surrender charge.

Variable annuity (VA) (US)
An annuity whose value is determined by the performance of underlying investment options that frequently includes securities. A variable annuity's value is not guaranteed and will fluctuate, depending on the value of its underlying investments. The holder of a variable annuity assumes the investment risk and the funds backing a variable annuity are held in the insurance companies separate account. VAs are similar to unit-linked annuities in the UK.

Whole of life
A type of life insurance policy that provides lifetime protection; premiums must usually be paid for life. The sum assured is paid out whenever death occurs. Commonly used for estate planning purposes.

With-profits funds
See 'participating funds' above.

Yield
A measure of the income received from an investment compared to the price paid for the investment. Normally expressed as a percentage.

Shareholder information

Analysis of shareholder accounts as at 31 December 2013

Size of shareholding	Number of shareholder accounts	% of total number of shareholder accounts	Number of shares	% of total number of shares
1,000,001 upwards	270	0.47	2,240,797,250	87.52
500,001–1,000,000	145	0.25	104,076,810	4.06
100,001–500,000	465	0.82	108,809,956	4.25
10,001–100,000	1,750	3.07	47,980,660	1.87
5,001–10,000	2,250	3.95	15,605,333	0.61
1,001–5,000	14,587	25.59	32,368,396	1.26
1–1,000	37,546	65.85	10,743,331	0.43
Total	57,013	100	2,560,381,736	100

Dividend information

2013 final dividend	Shareholders registered on the UK register and Irish branch register	Shareholders registered on the Hong Kong branch register	Holders of US American Depositary Receipts	Shareholders with ordinary shares standing to the credit of their CDP securities accounts
Ex dividend date	26 March 2014	27 March 2014	26 March 2014	26 March 2014
Record date	28 March 2014	28 March 2014	28 March 2014	28 March 2014
Payment date	22 May 2014	22 May 2014	On or about 2 June 2014	On or about 29 May 2014

Shareholder enquiries

For enquiries about shareholdings, including dividends and lost share certificates, please contact the Company Registrars:

By post

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

By telephone

Tel 0871 384 2035
Fax 0871 384 2100
Textel 0871 384 2255
(for hard of hearing)

Calls to 0871 numbers are charged at 8p per minute plus network extras. Lines are open from 8.30am to 5.30pm (UK), Monday to Friday. International shareholders Tel: +44 (0) 121 415 7026

Dividend mandates

Shareholders may have their dividends paid directly to their bank or building society account. If you wish to take advantage of this facility, please call Equiniti Limited (Equiniti) and request a cash dividend mandate form. Alternatively, shareholders may download the form from www.prudential.co.uk/prudential-plc/investors/shareholder_services/forms

If you are an overseas shareholder then you may be able to make use of the overseas payment service provided by Equiniti which enables your dividends to be paid in local currency direct to your bank account. This service is currently available to over 90 countries worldwide. To obtain further information about this service please call Equiniti on the number above or alternatively visit www.shareview.com/overseaspayments

Cash dividend alternative

The Company operates a Dividend Re-investment Plan (DRIP). Shareholders who have elected for the DRIP will automatically receive shares for all future dividends in respect of which a DRIP alternative is offered. The election may be cancelled at any time by the shareholder. Further details of the DRIP and the timetable are available on the Company's website at www.prudential.co.uk/prudential-plc/investors

Electronic communications

Shareholders are encouraged to elect to receive shareholder documents electronically by registering with Shareview at www.shareview.co.uk This will save on printing and distribution costs, and create environmental benefits. Shareholders who have registered will be sent an email notification whenever shareholder documents are available on the Company's website and a link will be provided to that information. When registering, shareholders will need their shareholder reference number which can be found on their share certificate or proxy form. The option to receive shareholder documents electronically is not available to shareholders holding shares through The Central Depository (Pte) Limited (CDP). Please contact Equiniti if you require any assistance or further information.

Equiniti shareview service

Information on how to manage shareholdings can be found at https://help.shareview.co.uk The pages at this web address provide the following:

— Answers to commonly-asked questions regarding shareholder registration;
— Links to downloadable forms, guidance notes and Company history fact sheets; and
— A choice of contact methods – via email, telephone or post.

Shareholder information continued

Share dealing services

The Company's Registrars, Equiniti, offer a postal dealing facility for buying and selling Prudential plc ordinary shares; please see the Equiniti address opposite or telephone 0871 384 2248. They also offer a telephone and internet dealing service, Shareview, which provides a simple and convenient way of selling Prudential plc shares. For telephone sales call 0871 384 2020 between 8.30am and 4.30pm, Monday to Friday, and for internet sales log on to www.shareview.co.uk/dealing

ShareGift

Shareholders who have only a small number of shares, the value of which makes them uneconomic to sell, may wish to consider donating them to ShareGift (Registered Charity 1052686). The relevant share transfer form may be downloaded from our website www.prudential.co.uk/prudential-plc/investors/shareholder_services/forms or obtained from Equiniti. Further information about ShareGift may be obtained on +44 (0)20 7930 3737 or from www.ShareGift.org

There are no implications for capital gains tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief.

Irish branch register

The Company operates a branch register for shareholders in Ireland. All enquiries regarding Irish branch register accounts should be directed to Capita Asset Services, Shareholder solutions (Ireland), PO Box 7117, Dublin 2, Ireland, telephone + 353 1 553 0050.

Hong Kong branch register

The Company operates a branch register for shareholders in Hong Kong. All enquiries regarding Hong Kong branch register accounts should be directed to Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, telephone +852 2862 8555.

American Depositary Receipts (ADRs)

The Company's ordinary shares are listed on the New York Stock Exchange in the form of American Depositary Shares, evidenced by ADRs and traded under the symbol PUK. Each American Depositary Share represents two ordinary shares. All enquiries regarding ADR holder accounts should be directed to J.P. Morgan, the authorised depositary bank, at J.P. Morgan Chase Bank N.A, PO Box 64504, St. Paul, MN 55164-0854, USA. Telephone General +1 800 990 1135 or from outside the US +1 651 453 2128 or log on to www.adr.com

Singapore shareholder enquiries

Shareholders who have shares standing to the credit of their securities accounts with CDP in Singapore may refer queries to the CDP at 4 Shenton Way, #02-01, SGX Centre 2, Singapore 068807, telephone +65 6535 7511. Enquiries regarding shares held in Depository Agent Sub-accounts should be directed to your Depository Agent or broker.

How to contact us

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Media Enquiries
www.prudential.co.uk/media/enquiries

How to contact us continued

Prudential public limited company
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Registered number 1397169

www.prudential.co.uk

Prudential plc is a holding company, subsidiaries of which are authorised and regulated by the Prudential Regulation Authority and the Financial Conduct Authority.

Forward-looking statements
This document may contain 'forward-looking statements' with respect to certain of Prudential's plans and its goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty. A number of important factors could cause Prudential's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, future market conditions, including fluctuations in interest rates and exchange rates and the potential for a sustained low-interest rate environment, and the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives related to the financial crisis and the effect of the European Union's 'Solvency II' requirements on Prudential's capital maintenance requirements; the impact of 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 in this document.

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