B: Earnings performance

B1: Analysis of performance by segment

B1.1 Segment results – profit before tax

	Note	2013 £m	2012* £m
Asia operations			
Insurance operations	B4(a)		
Operating result before gain on sale of stake in China Life of Taiwan		1,003	862
Gain on sale of stake in China Life of Taiwan		–	51
Total Asia insurance operations		1,003	913
Development expenses		(2)	(7)
Total Asia insurance operations after development expenses		1,001	906
Eastspring Investments		74	69
Total Asia operations		1,075	975
US operations			
Jackson (US insurance operations)	B4(b)	1,243	964
Broker-dealer and asset management		59	39
Total US operations		1,302	1,003
UK operations			
UK insurance operations:	B4(c)		
Long-term business		706	703
General insurance commission[note (i)]		29	33
Total UK insurance operations		735	736
M&G (including Prudential Capital)		441	371
Total UK operations		1,176	1,107
Total segment profit		3,553	3,085
Other income and expenditure			
Investment return and other income		10	13
Interest payable on core structural borrowings		(305)	(280)
Corporate expenditure[note (ii)]		(263)	(231)
Total		(558)	(498)
Solvency II implementation costs		(29)	(48)
Restructuring costs[note (iii)]		(12)	(19)
Operating profit based on longer-term investment returns		2,954	2,520
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(1,110)	187
Amortisation of acquisition accounting adjustments	D1	(72)	(19)
Gain on dilution of Group holdings[note (iv)]	D1	–	42
(Loss) profit attaching to held for sale Japan life business[note (v)]	D1	(102)	17
Costs of domestication of Hong Kong branch	D2	(35)	–
Profit before tax attributable to shareholders		1,635	2,747

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

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

Notes

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

B: Earnings performance continued

B1: Analysis of performance by segment continued

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

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

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

Notes

(i) General overview of defaults
The Group did not experience any defaults on its shareholder-backed debt securities portfolio in 2013 or 2012.

(ii) Asia insurance operations
In Asia, the negative short-term fluctuations of £(204) million (2012: positive £54 million) primarily reflect net unrealised movements on bond holdings following a rise in bond yields during the year.

(iii) US insurance operations
The short-term fluctuations in investment returns for US insurance operations comprise the following items:

	2013 £m	2012 £m
Short-term fluctuations relating to debt securities		
Charges in the year:		
Losses on sales of impaired and deteriorating bonds	(5)	(23)
Bond write downs	(8)	(37)
Recoveries/reversals	10	13
Total charges in the year note (a)	(3)	(47)
Less: Risk margin charge included in operating profit based on longer-term investment returns note (b)	85	79
	82	32
Interest-related realised gains:		
Arising in the year	64	94
Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns	(89)	(91)
	(25)	3
Related amortisation of deferred acquisition costs	(15)	(3)
Total short-term fluctuations related to debt securities	42	32
Derivatives (other than equity-related): market value movements (net of related amortisation of deferred acquisition costs) note (c)	(531)	135
Net equity hedge results (principally guarantees and derivatives, net of related amortisation of deferred acquisition costs note (d)	(255)	(302)
Equity-type investments: actual less longer-term return (net of related amortisation of deferred acquisition costs)	89	23
Other items (net of related amortisation of deferred acquisition costs)	30	22
Total	(625)	(90)

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

Notes

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

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

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

	2013				2012			
Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	Average book value	RMR	Annual expected loss		Average book value	RMR	Annual expected loss	
	US$m	%	US$m	£m	US$m	%	US$m	£m
A3 or higher	27,557	0.11	(32)	(20)	23,129	0.11	(26)	(16)
Baa1, 2 or 3	24,430	0.25	(62)	(40)	21,892	0.26	(56)	(36)
Ba1, 2 or 3	1,521	1.18	(18)	(11)	1,604	1.12	(18)	(11)
B1, 2 or 3	530	2.80	(15)	(9)	597	2.82	(17)	(11)
Below B3	317	2.32	(7)	(5)	342	2.44	(8)	(5)
Total	54,355	0.25	(134)	(85)	47,564	0.26	(125)	(79)
Related change to amortisation of deferred acquisition costs (see below)			25	16			21	13
Risk margin reserve charge to operating profit for longer-term credit related losses			(109)	(69)			(104)	(66)

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

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

These losses and gains are in respect of interest rate swaps and swaptions and for the Guaranteed Minimum Income Benefit (GMIB) reinsurance. The swaps and swaptions are undertaken to manage interest rate exposures and durations within the general account and the variable annuity and fixed index annuity guarantees (as described in note (d) below). The GMIB reinsurance is in place so as to insulate Jackson from the GMIB exposure.

The amounts principally reflect the fair value movement on these instruments, net of related amortisation of deferred acquisition costs.

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

- The derivatives are required to be fair valued with the value movements booked in the income statement;
- As noted above, part of the derivative value movements arises in respect of interest rate exposures within Jackson's guarantee liabilities for variable annuity and fixed index annuity business which are only partially fair valued under IFRS (see below); and
- The GMIB liability is valued under the US GAAP insurance measurement basis applied for IFRS in a way that substantially does not recognise the effect of market movements. However, notwithstanding that the liability is reinsured, as the reinsurance asset is net settled it is deemed a derivative under IAS 39 which requires fair valuation.

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

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

These amounts are in respect of the equity-based derivatives and associated guarantee liabilities of Jackson's variable and fixed index annuity business. The equity based derivatives are undertaken to manage the equity risk exposure of the guarantee liabilities. The economic exposure of these guarantee liabilities also includes the effects of changes in interest rates which are managed through the swaps and swaptions programmes described in note (c) above.

The amounts reflect the net effect of:

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

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

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

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

(iv) UK insurance operations

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

(v) Economic hedge value movement

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

(vi) Other

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

B: Earnings performance continued

B1: Analysis of performance by segment continued

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

Operating segments

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

Insurance operations
— Asia
— US (Jackson)
— UK

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

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

Performance measure

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

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

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

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

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

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

(a) Debt, equity-type securities and loans

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

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

— Risk margin reserve based charge for the expected level of defaults for the period, which is determined by reference to the credit quality of the portfolio. The difference between impairment losses in the reporting period and the risk margin reserve charge to the operating result is reflected in short-term fluctuations in investment returns; and
— The amortisation of interest-related realised gains and losses to operating results based on longer-term investment returns to the date when sold bonds would have otherwise matured.

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

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

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

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

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

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

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

The longer-term rates of return discussed above for equity-type securities are determined after consideration by the Group's in-house economists of long-term expected real government bond returns, equity risk premium and long-term inflation. These rates are broadly stable from period to period but may be different between countries reflecting, for example, differing expectations of inflation in each territory. The assumptions are for returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations.

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

(b) US variable and fixed index annuity business

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

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

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

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

B: Earnings performance continued

B1: Analysis of performance by segment continued

(c) Other derivative value movements

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

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

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

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

Examples where such bifurcation is necessary are:

Asia – Hong Kong

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

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

UK shareholder-backed annuity business

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

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

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

(e) Fund management and other non-insurance businesses

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

B1.4 Segmental income statement

	Year ended 31 December 2013 £m								
	Insurance operations			Asset management					
	Asia	US	UK	M&G	US	Eastspring Investments	Total segment	Unallocated corporate	Group total
Gross premiums earned	9,061	15,661	5,780	–	–	–	30,502	–	30,502
Outward reinsurance premiums	(190)	(278)	(190)	–	–	–	(658)	–	(658)
Earned premiums, net of reinsurance	8,871	15,383	5,590	–	–	–	29,844	–	29,844
Investment return[note (ii)]	895	10,003	9,372	143	11	(1)	20,423	(76)	20,347
Other income	48	(2)	226	1,165	855	245	2,537	(353)	2,184
Total revenue, net of reinsurance	9,814	25,384	15,188	1,308	866	244	52,804	(429)	52,375
Benefits and claims	(6,825)	(24,206)	(11,196)	–	–	–	(42,227)	–	(42,227)
Outward reinsurers' share of benefits and claims	150	500	(28)	–	–	–	622	–	622
Movement in unallocated surplus of with-profits funds[note (iii)]	(255)	–	(1,294)	–	–	–	(1,549)	–	(1,549)
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(6,930)	(23,706)	(12,518)	–	–	–	(43,154)	–	(43,154)
Acquisition costs and other operating expenditure[B3]	(2,015)	(1,112)	(1,950)	(840)	(807)	(193)	(6,917)	56	(6,861)
Finance costs: interest on core structural borrowings of shareholder-financed operations	–	(13)	–	(17)	–	–	(30)	(275)	(305)
Remeasurement of carrying value of Japan life business classified as held for sale	(120)	–	–	–	–	–	(120)	–	(120)
Total charges, net of reinsurance	(9,065)	(24,831)	(14,468)	(857)	(807)	(193)	(50,221)	(219)	(50,440)
Share of profit from joint ventures and associates, net of related tax	29	–	83	12	–	23	147	–	147
Profit (loss) before tax *(being tax attributable to shareholders' and policyholders' returns)*[note (i)]	778	553	803	463	59	74	2,730	(648)	2,082
Tax charge attributable to policyholders' returns	(90)	–	(357)	–	–	–	(447)	–	(447)
Profit (loss) before tax attributable to shareholders	688	553	446	463	59	74	2,283	(648)	1,635

This is represented in the segmental analysis of profit from continuing operations before tax attributable to shareholders in note B1.1 as follows:

	Year ended 31 December 2013 £m								
	Insurance operations			Asset management					
	Asia	US	UK	M&G	US	Eastspring Investments	Total segment	Unallocated corporate	Group total
Operating profit based on longer-term investment returns	1,001	1,243	735	441	59	74	3,553	(599)	2,954
Short-term fluctuations in investment returns on shareholder-backed business	(204)	(625)	(254)	22	–	–	(1,061)	(49)	(1,110)
Amortisation of acquisition accounting adjustments	(7)	(65)	–	–	–	–	(72)	–	(72)
Loss attaching to held for sale Japan life business	(102)	–	–	–	–	–	(102)	–	(102)
Costs of domestication of Hong Kong branch	–	–	(35)	–	–	–	(35)	–	(35)
Profit (loss) before tax attributable to shareholders	688	553	446	463	59	74	2,283	(648)	1,635

B: Earnings performance continued

B1: Analysis of performance by segment continued

	Year ended 31 December 2012* £m								
	Insurance operations			Asset management					
	Asia	US	UK	M&G	US	Eastspring Investments	Total segment	Unallocated corporate	Group total
Gross premiums earned	7,433	14,660	7,020	–	–	–	29,113	–	29,113
Outward reinsurance premiums	(163)	(193)	(135)	–	–	–	(491)	–	(491)
Earned premiums, net of reinsurance	7,270	14,467	6,885	–	–	–	28,622	–	28,622
Investment return[note (ii)]	2,965	6,193	14,533	242	6	6	23,945	(14)	23,931
Other income	68	(2)	213	972	725	223	2,199	(314)	1,885
Total revenue, net of reinsurance	10,303	20,658	21,631	1,214	731	229	54,766	(328)	54,438
Benefits and claims	(7,160)	(18,703)	(18,253)	–	–	–	(44,116)	–	(44,116)
Outward reinsurers' share of benefits and claims	108	(8)	159	–	–	–	259	–	259
Movement in unallocated surplus of with-profits funds[note (iii)]	(518)	–	(769)	–	–	–	(1,287)	–	(1,287)
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(7,570)	(18,711)	(18,863)	–	–	–	(45,144)	–	(45,144)
Acquisition costs and other operating expenditure[B3]	(1,763)	(1,079)	(1,630)	(696)	(692)	(175)	(6,035)	3	(6,032)
Finance costs: interest on core structural borrowings of shareholder-financed operations	–	(13)	–	(16)	–	–	(29)	(251)	(280)
Total charges, net of reinsurance	(9,333)	(19,803)	(20,493)	(712)	(692)	(175)	(51,208)	(248)	(51,456)
Share of profit from joint ventures and associates, net of related tax	83	–	28	9	–	15	135	–	135
Profit (loss) before tax *(being tax attributable to shareholders' and policyholders' returns)*[note (i)]	1,053	855	1,166	511	39	69	3,693	(576)	3,117
Tax charge attributable to policyholders' returns	(76)	–	(294)	–	–	–	(370)	–	(370)
Profit (loss) before tax attributable to shareholders	977	855	872	511	39	69	3,323	(576)	2,747

This is represented in the segmental analysis of profit from continuing operations before tax attributable to shareholders in note B1.1 as follows:

	Year ended 31 December 2012* £m								
	Insurance operations			Asset management					
	Asia	US	UK	M&G	US	Eastspring Investments	Total segment	Unallocated corporate	Group total
Operating profit based on longer-term investment returns	906	964	736	371	39	69	3,085	(565)	2,520
Short-term fluctuations in investment returns on shareholder-backed business	54	(90)	136	98	–	–	198	(11)	187
Gain on dilution of Group's holdings	–	–	–	42	–	–	42	–	42
Amortisation of acquisition accounting adjustments	–	(19)	–	–	–	–	(19)	–	(19)
Profit attaching to held for sale Japan life business	17	–	–	–	–	–	17	–	17
Profit (loss) before tax attributable to shareholders	977	855	872	511	39	69	3,323	(576)	2,747

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

(ii) Investment return principally comprises:
- Interest and dividends;
- Realised and unrealised gains and losses on securities and derivatives classified as fair value through profit and loss under IAS 39; and
- Realised gains and losses, including impairment losses, on securities classified as available-for-sale under IAS 39.

(iii) The movement in unallocated surplus of with-profits funds for Asia above includes movement relating to the Hong Kong branch of PAC. For the purpose of the presentation of unallocated surplus of with-profits funds within the statement of financial position, the Hong Kong branch balance is shown within the unallocated surplus of the PAC with-profits sub-fund.

B1.5 Revenue

	2013 £m	2012* £m
Long-term business premiums		
Insurance contract premiums	28,339	26,650
Investment contracts with discretionary participation feature premiums	1,877	2,243
Inwards reinsurance premiums	286	220
Less: reinsurance premiums ceded	(658)	(491)
Earned premiums, net of reinsurance note (iv)	29,844	28,622
Investment return		
Realised and unrealised gains and losses on securities at fair value through profit and loss	12,879	15,270
Realised and unrealised losses and gains on derivatives at fair value through profit and loss	(1,724)	75
Realised gains on available-for-sale securities, previously recognised in other comprehensive income	64	68
Realised gains (losses) on loans	11	(51)
Interest notes (i),(ii)	6,771	6,586
Dividends	1,740	1,424
Other investment return	606	559
Investment return	20,347	23,931
Fee income from investment contract business and asset management notes (iii),(iv)	2,184	1,885
Total revenue	52,375	54,438

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

Notes

(i) The segmental analysis of interest income is as follows:

	Insurance operations			Asset management operations				
	Asia	US	UK	M&G	US	Eastspring Investments	Unallocated corporate	Total
2013 (£m)	562	1,981	4,178	112	1	1	(64)	6,771
2012* (£m)	336	1,778	4,374	105	1	1	(9)	6,586

(ii) Interest income includes £5 million (2012: £13 million) accrued in respect of impaired securities.

(iii) Fee income includes £44 million (2012: £35 million) relating to financial instruments that are not held at fair value through profit and loss. These fees primarily related to prepayment fees, late fees and syndication fees.

(iv) The following table provides additional segmental analysis of revenue from external customers:

2013 £m	Asia	US	UK	Intra-group	Total
Revenue from external customers:					
Insurance operations	8,919	15,381	5,816	–	30,116
Asset management	245	855	1,165	(379)	1,886
Unallocated corporate	–	–	26	–	26
Intra-group revenue eliminated on consolidation	(98)	(86)	(195)	379	–
Total revenue from external customers	9,066	16,150	6,812	–	32,028

2012* £m	Asia	US	UK	Intra-group	Total
Revenue from external customers:					
Insurance operations	7,339	14,465	7,098	–	28,902
Asset management	222	725	972	(333)	1,586
Unallocated corporate	–	–	19	–	19
Intra-group revenue eliminated on consolidation	(84)	(77)	(172)	333	–
Total revenue from external customers	7,477	15,113	7,917	–	30,507

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

B: Earnings performance continued

B1: Analysis of performance by segment continued

Revenue from external customers comprises:

	2013 £m	2012* £m
Earned premiums, net of reinsurance	29,844	28,622
Fee income from investment contract business and asset management (presented as 'Other income')	2,184	1,885
Total revenue from external customers	32,028	30,507

The asset management operations, M&G, Eastspring Investments and US asset management provide services to the Group insurance operations for which fees are charged at appropriate arm's length prices. Intra-group fees included within asset management revenue were earned by the following asset management segment:

	2013 £m	2012 £m
Intra-group revenue generated by:		
M&G	195	172
US broker-dealer and asset management (including Curian)	98	77
Eastspring Investments	86	84
Total intra-group fees included within asset management segment	379	333

Revenue from external customers of Asia, US and UK insurance operations shown above are net of outwards reinsurance premiums of £190 million, £278 million, and £190 million respectively (2012: £163 million, £193 million and £135 million respectively). In Asia, revenue from external customers from no individual country exceeds 10 per cent of the Group total. The largest country is Hong Kong, with a total revenue from external customers of £2,243 million (2012: Hong Kong £1,745 million).

Due to the nature of the business of the Group, there is no reliance on any major customers.

B2: Profit before tax – asset management operations

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

	2013 £m				2012* £m
	M&G	US	Eastspring Investments	Total	Total
Revenue (excluding revenue of consolidated investment funds and NPH broker-dealer fees)	1,308	362	244	1,914	1,739
NPH broker-dealer fees[note (i)]	–	504	–	504	435
Gross revenue	1,308	866	244	2,418	2,174
Charges (excluding charges of consolidated investment funds and NPH broker-dealer fees)	(857)	(303)	(193)	(1,353)	(1,144)
NPH broker-dealer fees[note (i)]	–	(504)	–	(504)	(435)
Gross charges	(857)	(807)	(193)	(1,857)	(1,579)
Share of profit from joint ventures and associates, net of related tax	12	–	23	35	24
Profit before tax	463	59	74	596	619
Comprising:					
Operating profit based on longer-term investment returns[note (ii)]	441	59	74	574	479
Short-term fluctuations in investment returns[note (iii)]	22	–	–	22	98
Gain on dilution of Group's holdings	–	–	–	–	42
Profit before tax	463	59	74	596	619

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

Notes

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

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

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

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

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

B3: Acquisition costs and other expenditure

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

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

Included in total acquisition costs and other expenditure are:

(a) Total depreciation and amortisation expense of £(510) million (2012: £(727) million) relates primarily to amortisation of deferred acquisition costs of insurance contracts and asset management contracts. The segmental analysis of total depreciation and amortisation expense is analysed below.

(b) The charge for non-deferred acquisition costs and the amortisation of those costs that are deferred, was £(1,987) million (2012: (1,962) million). These amounts comprise £(1,953) million and £(34) million for insurance and investment contracts respectively (2012: £(1,742) million and £(220) million, respectively).

(c) Interest expense, excluding interest on core structural borrowings of shareholder-financed operations, which amounted to £(120) million (2012: £(140) million) and is included as part of investment management expenses. The segmental interest expense is analysed below.

(d) Finance costs of £(305) million (2012: £(280) million) comprising £(275) million (2012: £(251) million) of interest on core debt of the parent company, £(13) million (2012: £(13) million) on US insurance operations' surplus notes and £(17) million (2012: £(16) million) on PruCap's bank loan.

(e) Movements in amounts attributable to external unit holders are in respect of those OEICs and unit trusts which are required to be consolidated and comprises a charge of £(583) million (2012: £(261) million) for UK insurance operations and a credit of £12 million (2012: £54 million) for Asia insurance operations.

B: Earnings performance continued

B3: Acquisition costs and other expenditure continued

(f) Segmental analysis of depreciation and amortisation expense, and interest expense:

	Depreciation and amortisation expense		Interest expense	
	2013 £m	2012* £m	2013 £m	2012 £m
Insurance operations:				
Asia	(221)	(329)	–	(7)
US	(198)	(302)	(11)	(28)
UK	(68)	(65)	(70)	(62)
Asset management operations:				
M&G	(7)	(6)	(27)	(18)
US	(1)	(1)	–	–
Eastspring Investments	(3)	(3)	–	–
Total segment	(498)	(706)	(108)	(115)
Unallocated corporate	(12)	(21)	(12)	(25)
Total	(510)	(727)	(120)	(140)

(g) There were no fee expenses relating to financial liabilities held at amortised cost included in acquisition costs in 2013 and 2012.

B3.1 Staff and employment costs

The average number of staff employed by the Group during the year was:

	2013	2012*
Business operations:		
Asia operations	12,239	11,284
US operations	4,414	4,000
UK operations	5,533	5,035
Total	22,186	20,319

The costs of employment were:

	2013 £m	2012* £m
Business operations:		
Wages and salaries	1,272	1,119
Social security costs	94	82
Pension costs†	196	(60)
Total	1,562	1,141

* 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 charge (credit) incorporates the effect of actuarial gains and losses.

B3.2 Share-based payments

a Description of the plans

The Group operates a number of share award and share option plans that provides Prudential plc shares to participants upon vesting. The plans which are in operation include Prudential Long Term Incentive Plan (PLTIP), Group Performance Share Plan (GPSP), Business Unit Performance Plan (BUPP), Jackson Long-Term Incentive Plan (Jackson LTIP), Annual Incentive Plan (AIP), savings-related share option schemes, share purchase plans and deferred bonus plans. Some of these plans are participated in by executive directors, the details of which are described in the Directors' Remuneration Report. In addition, the following information is provided.

Share scheme	Description
Jackson Long-Term Incentive Plan	Eligible Jackson employees were previously granted share awards under a long-term incentive plan which rewarded the achievement of shareholder value targets. These awards were in the form of a contingent right to receive shares or a conditional allocation of shares. These share awards have vesting periods of four years and are at nil cost to the employee. Award holders do not have any right to dividends or voting rights attaching to the shares. The shares are held in the employee share trust in the form of American Depository Receipts which are tradable on the New York Stock Exchange. The final awards under this arrangement were made in 2012.
Prudential Corporation Asia Long-Term Incentive Plan (PCA LTIP)	The PCA LTIP provides eligible employees with conditional awards. Awards are discretionary and on a year-by-year basis determined by Prudential's full year financial results and the employee's contribution to the business. Awards vest after three years subject to the employee being in employment. Vesting of awards may also be subject to performance conditions. All awards are made in Prudential shares, or ADRs, except for countries where share awards are not feasible due to securities and/or tax reasons, where awards will be replaced by the cash value of the shares that would otherwise have been transferred.
Savings-related share option schemes	Employees and eligible agents in a number of geographies are eligible for plans similar to the HMRC approved Save As You Earn (SAYE) share option scheme in the UK. Eligible employees participate in the International savings-related share option scheme while eligible agents based in Hong Kong and Malaysia can participate in the non-employee savings-related share option scheme.
Share purchase plans	Eligible employees outside the UK are invited to participate in arrangements similar to the Company's HMRC approved UK SIP, which allows the purchase of Prudential plc shares. For instance, staff based in Ireland are eligible for the Share Participation Plan, approved by the Irish Revenue.
Deferred bonus plans	The Company operates a number of deferred bonus schemes including the Group Deferred Bonus Plan, the Prudential Corporation Asia Deferred Bonus Plan (PCA DBP), the Prudential Capital Deferred Bonus Plan (PruCap DBP) and other arrangements. There are no performance conditions attached to deferred share awards made under these arrangements.

B: Earnings performance continued

B3: Acquisition costs and other expenditure continued

b Outstanding options and awards

The following table shows movement in outstanding options and awards under the Group's share-based compensation plans at 31 December 2013 and 2012:

	Options outstanding under SAYE schemes				Awards outstanding under incentive plans including conditional options	
	2013		2012		2013	2012
	Number of options millions	Weighted average exercise price £	Number of options millions	Weighted average exercise price £	Number of awards millions	Number of awards millions
Beginning of year:	9.4	4.54	13.3	3.55	23.7	26.7
Granted	2.5	9.01	2.4	6.29	11.9	8.8
Exercised	(1.2)	4.57	(5.7)	2.99	(7.8)	(9.4)
Forfeited	(0.2)	5.14	(0.2)	4.29	(0.6)	(1.4)
Cancelled	(0.1)	6.16	(0.2)	4.32	–	–
Lapsed/expired	(0.2)	3.92	(0.2)	4.39	(0.1)	(1.0)
End of year	10.2	5.60	9.4	4.54	27.1	23.7
Options immediately exercisable, end of year	0.5	4.50	0.2	3.88		

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

The following table provides a summary of the range of exercise prices for Prudential plc options outstanding at 31 December.

	Outstanding						Exercisable			
	Number outstanding millions		Weighted average remaining contractual life years		Weighted average exercise prices £		Number exercisable millions		Weighted average exercise prices £	
Range of exercise prices	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Between £2 and £3	2.6	2.8	1.0	2.0	2.88	2.88	–	0.1	2.88	2.88
Between £4 and £5	2.9	4.1	1.7	2.3	4.63	4.61	0.5	0.1	4.59	4.24
Between £5 and £6	–	0.1	0.8	0.6	5.53	5.60	–	–	5.51	5.67
Between £6 and £7	2.3	2.4	2.6	3.6	6.29	6.29	–	–	–	–
Between £9 and £10	2.4	–	3.9	–	9.01	–	–	–	–	–
	10.2	9.4	2.3	2.6	5.60	4.54	0.5	0.2	4.50	3.88

The years shown above for weighted average remaining contractual life include the time period from end of vesting period to expiration of contract.

c Fair value of options and awards

The fair value amounts estimated on the date of grant relating to all options (including conditional nil cost options) and awards, were determined using the Black-Scholes and the Monte Carlo option-pricing models using the following assumptions:

	2013			2012		
	Prudential LTIP/GPSP (TSR)	SAYE options	Other awards	GPSP	SAYE options	Other awards
Dividend yield (%)	–	2.73	–	–	3.63	–
Expected volatility (%)	23.64	24.27	–	33.03	34.33	–
Risk-free interest rate (%)	0.73	1.06	–	0.31	0.39	–
Expected option life (years)	–	3.46	–	–	3.24	–
Weighted average exercise price (£)	–	9.01	–	–	6.29	–
Weighted average share price (£)	11.80	11.85	–	6.78	8.26	–
Weighted average fair value (£)	7.38	3.00	11.06	3.91	2.28	6.72

Compensation costs for all share-based compensation plans are determined using the Black-Scholes model, Monte Carlo model or other market consistent valuation methods. The compensation costs for all awards and options are recognised in net income over the plans' respective vesting periods. The Group uses the Black-Scholes model to value all options and awards other than the Prudential LTIP (TSR), GPSP and UK BUPP, for which the Group uses a Monte Carlo model in order to allow for the impact of the TSR performance conditions. These models are used to calculate fair values for share options and awards at the grant date based on the quoted market price of the stock at the measurement date, the amount, if any, that the employees are required to pay, the dividend yield, expected volatility, risk-free interest rates and exercise prices.

For all options and awards, the expected volatility is based on the market implied volatilities for Prudential shares as quoted on Bloomberg. The Prudential specific at-the-money implied volatilities are adjusted to allow for the different terms and discounted exercise price on SAYE options by using information on the volatility surface of the FTSE 100.

Risk-free interest rates are UK gilt rates with projections for three-year and five-year terms to match corresponding vesting periods. Dividend yield is determined as the average yield over a period of 12 months up to and including the date of grant. For the Prudential LTIP (TSR) and GPSP (TSR) volatility and correlation between Prudential and a basket of 18 competitor companies is required. For grants in 2013, an average index volatility and correlation of 26 per cent and 60 per cent respectively, were used. Market implied volatilities are used for both Prudential and the components of the index. Changes to the subjective input assumptions could materially affect the fair value estimate.

d Share-based payment expense charged to the income statement

Total expense recognised in the year in the consolidated financial statements related to share-based compensation is as follows:

	2013 £m	**2012** £m
Share-based compensation expense	**83**	58
Amount accounted for as equity-settled	**63**	42
Carrying value at 31 December of liabilities arising from share-based payment transactions	**23**	24
Intrinsic value of above liabilities for which rights had vested at 31 December	**17**	16

B3.3 Key management remuneration

Key management constitutes the directors of Prudential plc as they have authority and responsibility for planning, directing and controlling the activities of the Group.

Total key management remuneration is analysed in the following table:

	2013 £m	**2012** £m
Salaries and short-term benefits	**16.5**	13.8
Post-employment benefits	**1.0**	1.2
Share-based payments	**14.3**	11.8
	31.8	26.8

Post-employment benefits comprise the change in the transfer value of the accrued benefit relating to directors' defined benefit pension schemes in the year and the total contributions made to directors' other pension arrangements.

The share-based payments charge comprises £9.3 million (2012: £8.0 million), which is determined in accordance with IFRS 2, 'Share-Based Payments' (see note B3.2) and £5.0 million (2012: £3.8 million) of deferred share awards.

Total key management remuneration includes total directors' remuneration of £48.9 million (2012: £40.1 million) less LTIP releases of £26.4 million (2012: £21.3 million) as shown in the directors' remuneration table and related footnotes in the directors' remuneration report. Further information on directors' remuneration is given in the directors' remuneration report.

B3.4 Fees payable to the auditor

	2013 £m	**2012** £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**2.0**	2.0
Fees payable to the Company's auditor and its associates for other services:		
Audit of subsidiaries pursuant to legislation	**6.8**	6.5
Audit-related assurance services	**2.8**	3.2
Tax compliance services	**0.8**	0.5
Other assurance services	**1.1**	0.5
Services relating to corporate finance transactions	**0.5**	0.4
All other services	**1.2**	1.2
Total	**15.2**	14.3

In addition, there were fees incurred of £0.1 million (2012: £0.1 million) for the audit of pension schemes.

B: Earnings performance continued

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

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

a Asia insurance operations

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

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

b US insurance operations

Amortisation of deferred acquisition costs

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

Other

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

c UK insurance operations

Annuity business: allowance for credit risk

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

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

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

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

Notes

(i) Bond spread over swap rates reflects market observed data.

(ii) Long-term expected defaults are derived by applying Moody's data from 1970 to 2009 and the definition of the credit rating used is the second highest credit rating published by Moody's, Standard & Poor's and Fitch.

(iii) Additional provisions comprise credit risk premium, which is derived from Moody's data from 1970 to 2009, an allowance for a one-notch downgrade of the portfolio subject to credit risk and an additional allowance for short-term defaults.

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

Movement in the credit risk allowance

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

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

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

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

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

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

Mortality and other assumption changes

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

B5: Tax charge

a Total tax charge by nature of expense

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

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

B: Earnings performance continued

B5: Tax charge continued

The total tax charge comprises:

	2013 £m	2012* £m
Current tax expense:		
Corporation tax	(414)	(942)
Adjustments in respect of prior years	15	144
Total current tax	(399)	(798)
Deferred tax arising from:		
Origination and reversal of temporary differences	(392)	(182)
Impact of changes in local statutory tax rates	55	30
Expense in respect of a previously unrecognised tax loss, tax credit or temporary difference from a prior period	–	(4)
Total deferred tax charge	(337)	(156)
Total tax charge	(736)	(954)

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

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

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

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

	2013 £m			2012* £m
Tax charge	**Current tax**	**Deferred tax**	**Total**	**Total**
Tax charge to policyholders' returns	(207)	(240)	(447)	(370)
Tax charge attributable to shareholders	(192)	(97)	(289)	(584)
Total tax charge	(399)	(337)	(736)	(954)

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

The principal reason for the increase in the tax charge attributable to policyholders' returns is an increase in deferred tax on net unrealised gains on investments in UK insurance operations. The credit of £69 million on unrealised gains and losses on investments shown in the table below reflects a credit on unrealised losses on investments in US insurance operations which exceeds the charge on UK insurance operations.

The total deferred tax charge arises as follows:

	2013 £m	2012* £m
Unrealised gains and losses on investments	69	(89)
Balances relating to investment and insurance contracts	(44)	467
Short-term timing differences	(314)	(206)
Capital allowances	(7)	–
Unused tax losses	(41)	(328)
Deferred tax charge	(337)	(156)

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

In 2013, a deferred tax credit of £598 million (2012: charge of £198 million) has been taken through other comprehensive income.

b Reconciliation of effective tax rate

For the purposes of explaining the relationship between tax expense and accounting profit, it is appropriate to consider the sources of profit and tax by reference to those that are attributable to shareholders and policyholders. A reconciliation of tax charge on profit attributable to shareholders is provided below.

Overview of reconciliation of effective tax rate

	2013 £m			2012* £m		
	Attributable to shareholders	Attributable to policyholders†	Total	Attributable to shareholders	Attributable to policyholders†	Total
Profit before tax	1,635	447	2,082	2,747	370	3,117
Taxation charge:						
Expected tax rate	26%	100%	42%	27%	100%	36%
Expected tax charge	(429)	(447)	(876)	(750)	(370)	(1,120)
Variance from expected tax charge	140	–	140	166	–	166
Actual tax charge	(289)	(447)	(736)	(584)	(370)	(954)
Average effective tax rate	18%	100%	35%	21%	100%	31%

* 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.

† For the column entitled 'Attributable to policyholders', the profit (loss) before tax represents income, before tax attributable to policyholders and unallocated surplus of with-profits funds and unit-linked policies. This income has been determined after deduction of charges for policyholder benefits and movements on unallocated surplus which are determined net of tax. Hence, the pre-tax results attributable to policyholders is the inverse of the tax charge attributable to policyholders.

Reconciliation of tax charge on profit attributable to shareholders

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

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

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

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

B: Earnings performance continued

B5: Tax charge continued

	2012* £m (except for tax rates)				
	Asia insurance operations	US insurance operations	UK insurance operations	Other operations	Total
Operating profit (loss) based on longer-term investment returns	906	964	736	(86)	2,520
Non-operating profit (loss)	71	(109)	136	129	227
Profit before tax attributable to shareholders	977	855	872	43	2,747
Expected tax rate:†	23%	35%	24.5%	24.5%	27%
Tax at the expected tax rate	225	300	214	11	750
Effects of:					
Adjustment to tax charge in relation to prior years	(14)	10	(26)	(10)	(40)
Movements in provisions for open tax matters	–	(3)	–	32	29
Income not taxable or taxable at concessionary rates	(68)	(68)	–	(2)	(138)
Deductions not allowable for tax purposes	29	–	–	3	32
Impact of changes in local statutory tax rates	–	–	(39)	9	(30)
Deferred tax adjustments	(5)	–	8	–	3
Effect of results of joint ventures and associates	(24)	–	–	(5)	(29)
Irrecoverable withholding taxes	–	–	–	14	14
Other	3	(5)	7	(12)	(7)
Total actual tax charge	146	234	164	40	584
Analysed into:					
Tax charge on operating profit (loss) based on longer-term investment returns	133	272	126	36	567
Tax charge (credit) on non-operating profit (loss)	13	(38)	38	4	17
Actual tax rate:					
Operating profit (loss) based on longer-term investment returns	15%	28%	17%	(42)%	23%
Total profit	15%	27%	19%	93%	21%

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

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

c Taxes paid

In 2013 Prudential remitted £1.8 billion (2012: £2.2 billion) of tax to revenue authorities, this includes £418 million (2012: £925 million) of corporation tax, £236 million of other taxes and £1,143 million collected on behalf of employees, customers and third parties.

The geographical split of taxes remitted by Prudential is as follows:

	2013 £m				2012 £m			
	Corporation taxes*	Other taxes†	Taxes collected‡	Total	Corporation taxes*	Other taxes†	Taxes collected‡	Total
Asia	**148**	**48**	**123**	**319**	221	37	152	410
US	**(58)**	**35**	**315**	**292**	181	25	264	470
UK	**327**	**152**	**702**	**1,181**	522	121	662	1,305
Other	**1**	**1**	**3**	**5**	1	1	–	2
Total tax paid	**418**	**236**	**1,143**	**1,797**	925	184	1,078	2,187

* In certain countries such as the UK, the corporation tax payments for the Group's life insurance businesses are based on taxable profits which include policyholder investment returns on certain life insurance products.

† Other taxes paid includes property taxes, withholding taxes, customs duties, stamp duties, employer payroll taxes and irrecoverable indirect taxes.

‡ Taxes collected are other taxes that Prudential remits to tax authorities which it is obliged to collect from employees, customers and third parties which includes sales/value added tax/goods and services taxes, employee and annuitant payroll taxes.

The 2013 corporation tax payments are lower than 2012 reflecting (i) refunds received in 2013 of overpaid tax in relation to prior period tax returns in Asia and US, (ii) US tax payments being reduced due to impact of tax relief on movements in derivatives held to manage Jackson's exposure to financial markets, and (iii) reductions in UK equity and bond investment gains.

B6: Earnings per share

	Note	2013 Before tax note B1.1 £m	Tax note B5 £m	Net of tax £m	Basic earnings per share pence	Diluted earnings per share pence
Based on operating profit based on longer-term investment returns		2,954	(638)	2,316	90.9p	90.7p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(1,110)	318	(792)	(31.1)p	(31.0)p
Amortisation of acquisition accounting adjustments		(72)	24	(48)	(1.9)p	(1.9)p
Loss attaching to held for sale Japan life business	D1	(102)	–	(102)	(4.0)p	(4.0)p
Costs of domestication of Hong Kong branch	D2	(35)	7	(28)	(1.1)p	(1.1)p
Based on profit for the year		1,635	(289)	1,346	52.8p	52.7p

	Note	2012* Before tax note B1.1 £m	Tax note B5 £m	Net of tax £m	Basic earnings per share pence	Diluted earnings per share pence
Based on operating profit based on longer-term investment returns		2,520	(567)	1,953	76.9p	76.8p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	187	(24)	163	6.4p	6.4p
Gain on dilution of holdings in PPMSA		42	–	42	1.7p	1.7p
Amortisation of acquisition accounting adjustments arising on the purchase of REALIC		(19)	7	(12)	(0.5)p	(0.5)p
Profit attaching to held for sale Japan life business	D1	17	–	17	0.6p	0.6p
Based on profit for the year		2,747	(584)	2,163	85.1p	85.0p

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

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

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

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

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

B: Earnings performance continued

B7: Dividends

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

Dividend per share

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

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

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