PRUDENTIAL PLC
Form 20-F
March 31, 2015
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As filed with the Securities and Exchange Commission on 31 March 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended 31 December 2014

OR

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

OR

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

Commission File Number: 1-15040

PRUDENTIAL PUBLIC LIMITED COMPANY

(Exact Name of Registrant as Specified in its Charter)

England and Wales

(Jurisdiction of Incorporation)

12 Arthur Street,

London EC4R 9AQ, England

(Address of Principal Executive Offices)

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Head of Financial Accounting

Prudential plc

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

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

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing 2 Ordinary Shares, 5 pence par value each	New York Stock Exchange
Ordinary Shares, 5 pence par value each	New York Stock Exchange*
6.75% Perpetual Subordinated Capital Securities Exchangeable at the Issuer s Option into Non-Cumulative Dollar Denominated Preference Shares	New York Stock Exchange
6.50% Perpetual Subordinated Capital Securities Exchangeable at the Issuer s Option into Non-Cumulative	New York Stock Exchange

Dollar Denominated Preference Shares

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

None

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

None

The number of outstanding shares of each of the issuer s classes of capital or common stock as of 31 December 2014 was:

2,567,779,950 Ordinary Shares, 5 pence par value each

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes X No __

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes __ No X

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No __

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web sites, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes __ No __

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

Large accelerated filer X Accelerated filer __ Non-accelerated filer __

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

U.S. GAAP __ International Financial Reporting Standards as issued by the International Accounting Standards Board X Other __

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 __ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes __ No _X_

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

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

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

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

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Item 3. Key Information

Selected Historical Financial Information of Prudential

The following table sets forth selected consolidated financial data for Prudential for the periods indicated. Certain data is derived from Prudential s audited consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. As at 31 December 2014, there were no unendorsed standards effective for the years presented below affecting the consolidated financial information of Prudential and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to Prudential. Accordingly, the selected consolidated financial data presented below that is derived from Prudential s audited consolidated financial statements is derived from audited consolidated financial statements prepared in accordance with IFRS as issued by the IASB. This table is only a summary and should be read in conjunction with Prudential s consolidated financial statements and the related notes included elsewhere in this document, together with Item 5, Operating and Financial Review and Prospects .

Income statement data

	Year ended 31 December					
	2014 $m[1]	**2014 £m**	**2013 £m**	**2012 £m**	**2011 £m**	**2010 £m**
Gross premium earned	**51,146**	**32,832**	30,502	29,113	24,837	23,610
Outward reinsurance premiums	**(1,245)**	**(799)**	(658)	(491)	(417)	(349)
Earned premiums, net of reinsurance	**49,901**	**32,033**	29,844	28,622	24,420	23,261
Investment return	**40,171**	**25,787**	20,347	23,931	9,361	21,662
Other income	**3,592**	**2,306**	2,184	1,885	1,711	1,539
Total revenue, net of reinsurance	**93,664**	**60,126**	52,375	54,438	35,492	46,462
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(78,154)**	**(50,169)**	(43,154)	(45,144)	(28,706)	(39,687)
Acquisition costs and other expenditure	**(10,518)**	**(6,752)**	(6,861)	(6,032)	(4,717)	(4,692)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(531)**	**(341)**	(305)	(280)	(286)	(257)
Remeasurement of carrying value of Japan Life business classified as held for sale	**(20)**	**(13)**	(120)	-	-	-
Total charges, net of reinsurance	**(89,223)**	**(57,275)**	(50,440)	(51,456)	(33,709)	(44,636)
Share of profits from joint ventures and associates, net of related tax	**472**	**303**	147	135	76	64
Profit before tax (*being tax attributable to shareholders and policyholders returns*)[2]	**4,913**	**3,154**	2,082	3,117	1,859	1,890
Tax (charge) credit attributable to policyholders returns	**(841)**	**(540)**	(447)	(370)	7	(607)

Profit before tax attributable to shareholders	**4,072**	**2,614**	1,635	2,747	1,866	1,283
Tax (charge) credit attributable to shareholders returns	**(620)**	**(398)**	(289)	(584)	(415)	43
Profit for the year	**3,452**	**2,216**	1,346	2,163	1,451	1,326

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	2014[1] (In $m, except Share Information)	2014	2013	2012	2011	2010
			£m, except Share Information			
Statement of financial position data						
Total assets	**575,146**	**369,204**	325,932	307,644	270,018	256,330
Total policyholder liabilities and unallocated surplus of with-profits funds	**501,594**	**321,989**	286,014	268,263	233,538	221,895
Core structural borrowings of shareholder financed operations	**6,705**	**4,304**	4,636	3,554	3,611	3,676
Total liabilities	**556,745**	**357,392**	316,281	297,280	261,411	248,765
Total equity	**18,401**	**11,812**	9,651	10,364	8,607	7,565
Other data						
Based on profit for the year attributable to the equity holders of the Company:						
Basic earnings per share (in pence)	**135.4¢**	**86.9p**	52.8p	85.1p	57.1p	52.4p
Diluted earnings per share (in pence)	**135.2¢**	**86.8p**	52.7p	85.0p	57.0p	52.3p
Dividend per share declared and paid in reporting period (in pence)[5]	**54.6¢**	**35.03p**	30.52p	25.64p	25.19p	20.17p
Equivalent cents per share[6]		**58.44¢**	50.58¢	40.68¢	40.39¢	30.15¢
Market price per share at end of period[7]	**2,324.2¢**	**1,492.0p**	1,340.0p	865.5p	638.5p	668.0p
Weighted average number of shares (in millions)		**2,549**	2,548	2,541	2,533	2,524
New business:						
Single premium sales[4]	**38,179**	**24,508**	22,976	22,358	18,889	18,177
New regular premium sales[3][4]	**3,426**	**2,199**	2,125	1,959	1,792	1,667
Funds under management	**772,669**	**496,000**	443,000	406,000	352,000	340,000

(1) Amounts stated in US dollars in the 2014 US dollar column have been translated from pounds sterling at the rate of $1.5578 per £1.00 (the noon buying rate in New York City on 31 December 2014).

(2) This measure is the formal profit (loss) before tax measure under IFRS but is not the result attributable to shareholders. See Presentation of results before tax in note A3.1 to Prudential s consolidated financial statements in Item 18 for further explanation.

(3) New regular premium sales are reported on an annualised basis, which represents a full year of instalments in respect of regular premiums irrespective of the actual payments made during the year.

(4) The new business premiums in the table shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not, and are not intended to be, reflective of premium income recorded in the IFRS income statement. Internal vesting business is classified as new business where the contracts include an open market option.

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

(5) Under IFRS, dividends declared after the balance sheet date in respect of the prior reporting period are treated as a non-adjusting event. The appropriation reflected in the statement of changes in equity, therefore, includes the final dividend in respect of the prior year. Parent company dividends relating to the reporting period were an interim dividend of 11.19p per share in 2014 (2013: 9.73p, 2012: 8.40p) and a final dividend of 25.74p per share in 2014 (2013: 23.84p, 2012: 20.79p).

(6) The dividends have been translated into US dollars at the noon buying rate on the date each payment was made.

(7) Market prices presented are the closing prices of the shares on the London Stock Exchange on the last day of trading for each indicated period.

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Dividend Data

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

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

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

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

Year	Interim Dividend (pence)	Interim Dividend (US Dollars)	Final Dividend (pence)	Final Dividend (US Dollars)
2010	6.61	0.1039	17.24	0.2818
2011	7.95	0.1221	17.24	0.2706
2012	8.40	0.1362	20.79	0.3143
2013	9.73	0.1558	23.84	0.4019
2014	11.19	0.1825	25.74	

The Board has decided to rebase the full year dividend upwards by 10 per cent, reflecting the 2014 financial performance of the Group. In line with this, the directors recommend a final dividend of 25.74 pence per share (2013: 23.84 pence), which brings the total dividend for the year to 36.93 pence (2013: 33.57 pence). This rebase has been made possible by the continued exceptionally strong performance of the Group.

Although the Board has been able to recommend such a rebase in 2014, the Group s dividend policy remains unchanged. The Board will maintain its focus on delivering a growing dividend from this new higher base, which will continue to be determined after taking into account the Group s financial flexibility and our assessment of opportunities to generate attractive returns by investing in specific areas of the business. The Board believes that in the medium term a dividend cover of around two times is appropriate.

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Exchange Rate Information

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

Year ended 31 December	**Average rate**
2010	1.54
2011	1.61
2012	1.59
2013	1.56
2014	1.65

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

	High	**Low**
September 2014	1.65	1.61
October 2014	1.62	1.59
November 2014	1.60	1.56
December 2014	1.57	1.55
January 2015	1.54	1.50
February 2015	1.55	1.50

On 20 March 2015 the latest practicable date prior to this filing, the noon buying rate was £1.00 = $1.49.

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Risk Factors

A number of 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, and any forward-looking statements are made subject to the reservations specified below under Forward-Looking Statements .

Risks relating to Prudential s business

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

Prudential s businesses are inherently subject to market fluctuations and general economic conditions. Uncertainty or negative trends in international economic and investment climates could adversely affect Prudential s business and profitability. Since 2008 Prudential has operated against a challenging background of periods of significant volatility in global capital and equity markets, interest rates (which in some jurisdictions have become negative) and liquidity, and widespread economic uncertainty. For example, government interest rates 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 reduce Prudential s capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees, or 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 that could give rise to a negative impact on Prudential s financial position and on the accessibility or recoverability of amounts due 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, the timing and scale of quantitative easing programmes of central banks and socio-political events. 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. In addition, there may be a higher incidence of counterparty failures. 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 its balance sheet and profitability. For example, this could occur if the recoverable value of intangible assets for bancassurance agreements and deferred acquisition costs are reduced. 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 those used to calculate surrender values over a sustained period, this could have a material adverse effect 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 (such as interest rates, equity values, bond spreads and realised volatility) and policyholder behaviour. 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

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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). The Group s surplus capital position for regulatory reporting purposes may also be affected by fluctuations in exchange rates with possible consequences for the degree of flexibility the Prudential has in managing its business.

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, competitiveness, 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. In addition, there could be changes to the maximum level of non-domestic ownership by foreign companies in certain jurisdictions. 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 transactions 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 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

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Prudential to make use of its internal 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 and the Omnibus II Directive, which amended certain aspects of the Solvency II Directive, was adopted by the Council of the European Union in April 2014. As such, Solvency II is 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 and guidelines that will supplement the high-level rules and principles of the Solvency II and Omnibus II Directives, including the Delegated Acts relating to third-country equivalence. These detailed rules and guidelines are not currently expected to be finalised until mid to late 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 subject to supervisory judgement and approval. As a result there is a risk that the effect of the measures finally adopted could be adverse for Prudential, including potentially a significant increase in the capital required to support its business and that Prudential may be placed at a competitive disadvantage to other European and non-European financial services groups.

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

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

In July 2013 the FSB announced the initial list of nine insurance groups that have been designated as G-SIIs of which Prudential was one. Designation as a G-SII has led to additional policy measures being applied to the designated group. Based on the policy framework released by the IAIS and subsequent guidance papers these additional policy measures include enhanced group- wide supervision, effective resolution measures of the group in the event of failure, loss absorption, and higher loss absorption capacity. Prudential is monitoring the development and potential impact of, the framework of policy measures and is continuing to engage with the PRA on the implications of the policy measures and Prudential s designation as a G-SII. 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 that should reflect the drivers of the assessment of G-SII designation. G-SIIs will be required to report on their BCR to group-wide supervisors on a confidential basis from 2015. 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 outline a set of common global principles and standards for group supervision and may increase the focus of regulators in some jurisdictions. One of the framework s key components is an Insurance Capital Standard (ICS) which would be expected to form the group solvency capital standard under ComFrame. This new framework 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. The IASB is currently re-deliberating the Exposure Draft proposals in light of comments by the insurance industry and other respondents. The timing of the final proposals taking effect is uncertain but not expected to be before 2019.

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 interest may include 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, there has been significant attention on the different regulatory standards applied to investment advice delivered to retail customers by different sectors of the industry. As a result of reports relating to perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms. This includes focus on the suitability of sales of certain products, alternative investments and the widening of the circumstances under which a person or entity providing investment advice with respect to certain employee benefit and pension plans would be considered a fiduciary which would subject the person or entity to certain regulatory requirements. There is a risk that new regulations introduced may have a material adverse effect on the sales of the products by Prudential and increase Prudential s exposure to legal risks.

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 upon 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. 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., Allianz, Prudential Financial, Lincoln National, MetLife and Aegon.

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

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

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

Prudential Assurance Co. Singapore (Pte) Ltd s financial strength is rated AA (stable outlook) by Standard & Poor s.

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.

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Adverse experience in the operational risks inherent in Prudential s business, including failure in information technology and cyber-security, could disrupt its business functions and 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 information technology (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. Due to human error among other reasons, operational incidents do happen periodically and no system or process can entirely prevent them although there have not been any material such events to date. For example, although Prudential has not identified 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.

Being part of the financial services sector, Prudential and its business partners are increasingly exposed to the risk that third parties may attempt to disrupt the availability, confidentiality and integrity of its IT systems. This could result in loss of trust from Prudential s customers, reputational damage and financial loss. The cyber-security threat continues to evolve globally in sophistication and potential significance as Prudential increasingly moves to digitalize its business and provide on-line business operations for its customers. Whilst a focus of Prudential is on being proactive to the exposure faced from emerging threats through continually reviewing and enhancing its IT environment to remain robust and secure, together with increasing its ability to detect system compromise, and recover should such an incident occur, there can be no assurance that such events will not take place with adverse consequential effects on Prudential s business and financial position.

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 administration systems (such as those relating to policyholder records or meeting regulatory requirements) or actuarial reserving processes could have a material adverse effect on its results of operations during the effective period.

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

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 surrenders and take-up rates on guarantee features of products, investment performance and impairments, unit cost of administration and new business acquisition expense.

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. Assumptions about future expected levels of mortality are similarly relevant to the Guaranteed Minimum Withdrawal Benefit (GMWB) of Jackson s variable annuity business. 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, especially Jackson s portfolio of traditional and variable annuities. Prudential s persistency assumptions reflect recent past experience for each relevant line of business. Any expected change in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly different than assumed, the Group s results of operations could be adversely affected. Furthermore, Jackson s variable annuity products are sensitive to other types of policyholder behaviour, such as the take-up of its GMWB product features.

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.

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 remittances. In some circumstances, this could limit Prudential s 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 or international regulation and standards such as those pertaining to 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, such as through significant deterioration in the reputation, financial position or other circumstances of the third party or material failure in controls (such as those pertaining to

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

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its directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its directors and/or Prudential and Prudential s professional service providers that arise in connection with legal proceedings between the shareholder and such professional service provider. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

Changes in tax legislation may result in adverse tax consequences

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

Forward-Looking Statements

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

Any forward-looking statements contained in this document speak only as of the date on which they are made. Prudential may also make or disclose written and/or oral forward-looking statements in reports filed with or furnished to the US Securities and Exchange Commission, the UK Prudential Regulation Authority and Financial Conduct Authority or other regulatory authorities, as well as in its annual report and accounts to shareholders, proxy statements, offering circulars, registration statements, prospectuses and, prospectus supplements, press releases and other written materials and in oral statements made by directors, officers or employees of Prudential to third parties, including financial analysts. All such forward-looking statements are qualified in their entirety by reference to the factors discussed under the Risk Factors heading of this document, as well as under the Risk Factors heading of any

subsequent Prudential Half Year Financial Report furnished to the US Securities and Exchange Commission on Form 6-K. These factors are not exhaustive as Prudential operates in a continually changing business environment with new risks emerging from time to time that it may be unable to predict or that it currently does not expect to have a material adverse effect on its business. Prudential expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST listing rules or other applicable laws and regulations.

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EEV Basis, New Business Results and Free Surplus Generation

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

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

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

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

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Item 4. Information on the Company

Business of Prudential

Overview and Summary of Strategy

Overview

Background

Prudential is the parent company of the Prudential group (the Prudential Group or the Group). The Group is an international financial services group, with significant operations in Asia, the United States and the United Kingdom. It has been in existence for over 160 years, serves around 24 million insurance customers and has £496 billion in assets under management (as at 31 December 2014). Prudential is not affiliated with Prudential Financial, Inc. or its subsidiary, The Prudential Insurance Company of America.

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

Asia

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

As at 31 December 2014, Prudential Corporation Asia had:

- over 13 million insurance customers with life and fund management operations in 14 markets;
- access to 5,155 branches across Asia with our top 5 partners; Standard Chartered Bank (SCB), United Overseas Bank Limited (UOB), joint venture partners ICICI in India and CITIC in China and Thanachart (Thailand);
- one of the largest networks of tied agents in Asia; and
- consistently high brand recognition, outperforming many other financial services companies and had received multiple awards for its customer service. Prudential was in the top three for market share of new business in China, India, Indonesia, Malaysia, Singapore, the Philippines, Vietnam[1], Hong Kong and Cambodia.

United States

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

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

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

As at 31 December 2014, in the United States, Jackson:

- was among the 15 largest life insurance companies in terms of general account assets(2);
- was the number one writer of variable annuities in the US(3);
- was once again awarded the Highest Customer Satisfaction by Industry award for the ninth successive year from Service Quality Measurement Group; and
- was once again rated as a World Class service provider for the ninth successive year by Service Quality Measurement Group.

United Kingdom

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

As at 31 December 2014, Prudential UK & Europe:

- was one of the market leaders in the individual annuity market and the with-profits market(4); and
- had total company assets of £175 billion on the balance sheet, comprising £102 billion within the with-profits sub fund, £66 billion within shareholder-backed business and £7 billion in the Scottish Amicable Insurance Fund.

As of 31 December 2014, M&G, which is the UK and European fund manager of the Prudential Group;

- had responsibility for £264 billion of investment on behalf of both internal and external clients; and
- has been recognised for its investment performance with numerous awards, including the Real Estate Manager and Fixed Income Manager of the Year at the Financial News Awards 2014 for the second consecutive year.

Changes to directors and senior management

On 10 March 2015, Prudential announced that Tidjane Thiam had informed the Board of his intention to step down from his role as Group Chief Executive and from the Board. Further information on this announcement and other changes in directors and senior management is provided in Item 6, Directors, Senior Management and Employees .

(2) Source: Third Quarter 2014 SNL Financial

(3) Source: Morningstar Annuity Research Center (MARC) Third Quarter 2014 Sales Report©. © Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

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

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Group Strategy Overview

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

a. The significant protection gap and investment needs of the Asian middle class;
b. The transition of US baby boomers into retirement; and
c. The UK savings gap and ageing population in need of returns and income.

Our strategy is underpinned by a set of key operating principles.

Focus on customers & distribution	We believe that in order to do well for our shareholders we must first do good for our customers. Hence, customers are at the centre of our operating principles.
	Our products are designed to provide peace of mind to our customers, whether that be in relation to saving for retirement or insuring against the risks of illness, death or critical life events. Satisfied customers are a key driver of our growth as they become our advocates, recommending our products and services to their friends and families.
	Distribution plays a key role in our ability to reach, attract and retain these valued customers across our regions. Building out and diversifying our distribution capabilities in order to reach a growing customer base will help ensure that we fully capitalise on the opportunities available to us in each of our regions.
Balanced metrics and disclosures	We aim to have clarity and consistency internally and externally in the performance indicators that drive our businesses. Alongside this we develop our financial disclosures to enable our stakeholders to fairly assess our long-term performance. We have three objectives:
	(i) To demonstrate how we generate profits under the different accounting regimes; for example, by analysing our IFRS profit by source a set out in Item 5, Operating and Financial Review and Prospects Summary Consolidated Results and Basis of Preparation of Analysis ;

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

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

Disciplined capital allocation	We rigorously allocate capital to the highest-return products and geographical locations with the shortest payback periods, in line with our risk appetite. This has had a positive and significant impact. Over the last five years, new business capital investment has declined slightly, while new business profits have increased substantially. This has, in turn, transformed the capital dynamics of our Group: for example, the free capital generated from our existing life and asset management operations has increased substantially compared to five years ago. This transformation enabled our business operations to remit £1,482 million to the Group in 2014, nearly double the level of remittance five years ago.

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Proactive risk management

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

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

(ii) The establishment of £2.2 billion of credit default reserves(5) in the UK annuity business; and

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

Company Address and Agent

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

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

Significant Subsidiaries

The table below sets forth Prudential s significant subsidiaries.

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

* Owned by a subsidiary undertaking of the Company.

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

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

(5) On a statutory (Pillar I) basis

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Asian Business

Life Insurance

Introduction

Asia s economic transformation continues to generate material increases in personal wealth and drives significant demand for solutions to individuals financial planning needs. During 2014 macro-economic and geopolitical turbulence, both regional and international, created some short term impacts but the region s fundamental economic drivers remain highly compelling.

Asia (excluding Japan) is leading the world in terms of Gross Domestic Product growth. In the period 2014 to 2018 it is expected to generate US$5.5 trillion[(6)] of new Gross Domestic Product, more than the US and the other advanced economies combined.

The degree of state sponsored financial provision for healthcare and other social services varies by market, but is typically very basic and it is widely appreciated that the private sector has a very important complementary role. Protection gaps remain high across the region and the regulators have tasked the industry with improving levels of financial literacy and addressing this issue. Consequently the regulations governing the industry continue to evolve in largely positive ways with good outcomes for customers and shareholders.

There is a healthy competitive environment with a good mix of domestic, regional and international companies although barriers to entry remain high in terms of the availability of new licences, the significant capital investment and the challenge in building distribution scale and quality.

Given the low penetration rates of insurance and investment products we see considerable growth opportunities over the long term.

Economic growth is translating into the rapid increase of the Asian middle class. Between 2009 and 2020 it is estimated that there will be over 1.2 billion people who will have been elevated from rural subsistence to urban lifestyles. Within our preferred sweet spot markets of South East Asia and Hong Kong, the middle class will be represented by over 400 million people. Families are getting smaller, life expectancies are lengthening and the incidence of chronic diseases is increasing significantly.

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

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

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

Although Prudential has been operating in Asia for over eighty years we began building our business in earnest in 1994 with the establishment of Prudential Corporation Asia (PCA). Since then PCA has entered new markets, added considerable agency scale and launched bank distribution, developed product capabilities particularly unit linked -

and built a customer centric brand anchored on the tag line Always Listening, Always Understanding .

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

(6) Prudential estimates based on IMF data October 2013

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

Markets with highly attractive economic and demographic characteristics representing the greatest potential for us at present we collectively term the Sweet Spot and comprise Indonesia, Hong Kong, Singapore, Malaysia, Vietnam, Thailand and the Philippines. We have strong market positions in all of them, including four countries where we have the leading market share.

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

Since 2008 we have de-emphasised Korea and Taiwan as the mass life insurance markets are currently driven by product and distribution options that are not attractive to us and consequently we have concentrated on developing successful niche positions. In February 2015 we completed the sale of our Japanese life business, PCA Life Insurance Co, Ltd, however, the mutual fund industries in these markets are highly attractive and through Eastspring Investments, we are able to take advantage of exciting growth opportunities.

Following the successful launch of our life business in Cambodia in 2013, we are now the market leader. We also opened a representative office in Myanmar during 2014 and recently received a licence for a representative office in Laos.

Distribution

Prudential Corporation Asia is well positioned in terms of its scale and diversity of distribution. Over 500,000 agents produce a meaningful majority of sales with the remainder mainly coming from bancassurance that includes exclusive agreements with Standard Chartered Bank, UOB and Thanachart. At the core of our distribution model is face-to-face interaction with customers that delivers high quality, needs based advice.

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

Our multi-channel distribution platform continues to play a key role in our strategy. In the agency channel we continued to add to the existing scale of our platform during 2014 through recruitment. In parallel we also improved individual productivity, thanks to our investments in agency management technology and analytics. We also announced in the first quarter that we extended and expanded our long-established and market-leading partnership with Standard Chartered Bank for another 15 years to 2029, effective since July 2014. Encouragingly second half sales from Standard Chartered Bank grew strongly compared to the same period in 2013, including a record month in December. The distribution channel mix remained in line with prior year, with agency generating most sales, bancassurance a significant minority and mainly direct and telemarketing making up the remainder.

Products

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

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

It is part of our strategy to focus on regular premium products which allow our customers to invest over the long term and smooth the impact of timing on their investment returns. We aim to make most of our sales as regular premiums and the proportion of regular premium has been consistently high, which ensures the profitability and

resilience of our growing in-force book. Although single premium products can provide appropriate opportunities for customers with lump sums, we believe that regular premium policies with protection riders best meet the majority of our customers needs.

Unit-linked products combine savings with protection, with the cash value of the policy depending on the value of the underlying unitised funds. At the end of 2014, Prudential is offering unit-linked products in all markets except Cambodia. However, given the recent volatility in the financial markets, we have seen a shift towards non linked products. With unit-linked products, shareholders receive the profits arising from managing the policy, its investments and the insurance risk. Policyholders within the underlying unitised fund receive investment gains.

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

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

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

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

During 2014, Prudential extended its highly successful children s financial literacy programme, Cha-Ching , We also launched the SafeSteps programme with an initial series of six infomercials featuring SafeSteps ambassador Manny Pacquiao that provide life saving advice in the event of a natural disaster. These have been very well received.

In November 2013, the Philippines suffered one of the worst disasters in its history, Typhoon Haiyan. Prudential has now made three trips to the area with volunteer staff and agents who have assisted in the rebuilding efforts.

New Business Premiums

In 2014, total sales of insurance products were £4,282 million, up 6 per cent from 2013 (£4,047 million). Of this amount, regular premium insurance sales increased 5 per cent to £2,010 million and single premium insurance sales increased 6 per cent to £2,272 million.

The following table shows Prudential s Asian life insurance new business premiums by territory for the periods indicated.

	Actual Exchange Rate*		
Single premiums	**2014 £m**	**2013 £m**	**2012 £m**
Hong Kong	**419**	326	157
Indonesia	**280**	303	359
Malaysia	**117**	114	98
Philippines	**121**	193	172
Singapore	**677**	571	399
Thailand	**92**	66	12
Vietnam	**4**	2	1
South East Asia operations including Hong Kong	**1,710**	1,575	1,198
China (Prudential s 50% interest in joint venture with CITIC)	**239**	114	37
Korea	**212**	311	94
Taiwan	**83**	102	172
India (Prudential s 26% interest in joint venture with ICICI)	**28**	34	67
Total	**2,272**	2,136	1,568
Regular premiums	**2014 £m**	**2013 £m**	**2012 £m**
Cambodia	**3**	1	-
Hong Kong	**603**	455	380
Indonesia	**357**	445	410
Malaysia	**189**	197	208
Philippines	**39**	34	28
Singapore	**289**	304	261
Thailand	**74**	61	36
Vietnam	**61**	54	44
South East Asia operations including Hong Kong	**1,615**	1,551	1,367
China (Prudential s 50% interest in joint venture with CITIC)	**81**	71	53
Korea	**92**	82	86
Taiwan	**116**	107	138
India (Prudential s 26% interest in joint venture with ICICI)	**106**	100	96
Total	**2,010**	1,911	1,740
	2014 £m	**2013 £m**	**2012 £m**
Total	**4,282**	4,047	3,308

* Actual Exchange Rates (AER) 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.

Eastspring Investments

Eastspring Investments, Prudential s asset management business in Asia, manages investments for Prudential s Asia, UK and US life companies and also has a broad base of third-party retail and institutional clients. It has extended distribution reach to the US and Europe.

Eastspring Investments won multiple awards at the 2014 Asia Asset Management s Best of the Best Awards including Best Asset Management and Asian Bond House , Best performance over three years for Japanese Equities , Best Korean Equity Manager and Best Indian Fund House .

Distribution

In order to capitalise on the sizeable opportunities in Asia s retail financial services market, Eastspring Investments maintained its focus on building a strong third-party customer retail franchise. The customer proposition is driven by Eastspring Investments investment capabilities, which enable it to develop innovative product suites, and distribute them through diverse channels including regional banks, local banks, private banks, and securities houses and an internal sales force.

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

Products

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

Net flows and funds under management

Eastspring Investments levies management fees on assets under management and in some countries, transaction charges (initial and/or surrender depending on the type of fund and the length of the investment) and also a service charge based on assets under management. The charges vary by country and fund, with money market style funds generally having the lowest charges and equity funds the highest. Eastspring Investments also levies performance related fees on certain funds, particularly institutional mandates and life funds, if the investment performance exceeds the pre-agreed benchmark(s).

Eastspring Investments generated record third-party inflows of £5.4 billion, 3.8 times higher than 2013, with success in securing new equity flows, particularly from institutional clients, mitigating lower net inflows in fixed income. Including internal funds, total funds under management as at 31 December 2014 were a record £77.3 billion, up 28 per cent on the prior year as a result of net inflows and positive market movements. Further information on Eastspring Investment s funds under management is provided in Item 5 Other results based information Funds Under Management.

US Business

Prudential conducts its US insurance operations through Jackson National Life Insurance Company (Jackson) and its subsidiaries, including Curian Capital, LLC (Curian), a registered investment adviser. The US operations also include PPM America, Inc. (PPMA), Prudential s US internal and institutional investment management operation, and National Planning Holdings, Inc. (NPH), Prudential s US affiliated independent broker dealer network. As at 31 December 2014, Prudential s US operations had more than 4.2 million policies and contracts in effect and PPMA managed approximately £65.8 billion of assets. In 2014, new business premiums totalled £15,555 million.

Jackson

Jackson is a leading provider of retirement income and savings solutions in the mass and mass-affluent segments of the US market, primarily to retirees and those planning for retirement. It offers tools that help people plan for their retirement, and offers products with specialised features and guarantees to meet customers needs. By seeking to add value to both the representatives who sell Jackson products, and to their customers, Jackson has built a strong position in the US retirement savings and income market with an over six-fold increase in variable annuity sales over the past decade. Over the same period, Jackson improved its total annuity market share from 3.0 per cent in 2004 to 11.0 per cent in 2014 and moved from 10th in total annuity sales to 1st[7].

Jackson s strategy remains focused on providing value to its customers and driving shareholder value while operating within a conservative risk management framework. This approach has enabled Jackson to successfully navigate the significant macroeconomic and financial market challenges of the last six years and ensured a continuation of its strong performance in 2014.

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

National Planning Holdings, an affiliate of Jackson, is the sixth[8] largest independent broker-dealer network in the country. Leveraging the collective strength of the four broker-dealers within the network, National Planning Holdings is able to meet the specific needs of three key distribution channels: independent representatives, financial institutions, and tax and accounting professionals. We offer registered representatives and investment advisors access to industry-leading mutual fund/asset management companies, insurance carriers, and to thousands of brokerage products. National Planning Holdings provides significant benefits for Jackson by being an outlet for Jackson products and providing market intelligence.

Curian is Jackson s retail asset management arm, distributing investment solutions which include separate accounts, mutual funds, mutual fund wraps and exchange traded funds through an online platform. Curian gives financial advisors efficient access to a broad range of investment solutions that are developed with institutional-level investment manager due diligence, portfolio construction and asset allocation resources.

Jackson was awarded by Service Quality Measurement Group, Inc. World Class Certification in customer satisfaction and received the Highest Customer Satisfaction by Industry award in 2014, achieving the top rating for the financial industry, for the ninth consecutive year. High-quality information technology systems are critical for providing award-winning customer service. We leverage technology to minimise processing errors and reduce the time required to process new business and commissions. The flexibility of our information technology systems contributes to our ability to manufacture, distribute and service an unbundled product design and to distinguish us from others in the industry.

(7) Source: Third Quarter 2014 Life Insurance and Market Research Association.

(8) Investment News Broker-Dealer Rankings - April 2014 (as reported at the 2014 Investor Conference).

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This focus on our operational platforms, and the efficiencies achieved as a result, has provided us with among the lowest general and administration expense to asset ratio relative to competitors.

Jackson operates within a well-defined risk framework aligned with the overall Prudential Group risk appetite. The type and number of products we sell remains balanced with the acceptance of risks we retain. Our conservative and disciplined economic approach to pricing is designed to achieve both adequate returns on our products and sufficient resources to support our hedging program.

Our hedge philosophy has not changed in 2014. Jackson is able to aggregate financial risks across the company, obtain a unified view of our risk positions, and actively manage net risks through economically-based hedging programmes. A key element of our core strategy is to protect the company from severe economic scenarios while maintaining adequate regulatory capital. We benefit from the fact that the competitive environment continues to favour companies with good financial strength ratings and a strong track record of financial discipline, both key elements of our long-term strategy.

Products

Jackson develops and distributes products that address the retirement needs of its customers through various market cycles. These include variable annuities, fixed interest rate annuities, fixed index annuities and separately managed accounts. As would be expected in the current historically low interest rate environment, variable annuities continue to outsell fixed rate products. Other than Elite Access, variable annuity products offer the optional lifetime guarantee where customers can access a stream of payments with downside protection while still being able to invest in a broad range of assets, as well as enjoy the benefit of tax deferral on the investment growth within the product. The breadth of Jackson s product offering, strength of its distribution relationships and its ability to maintain financial stability through the crisis and remain as a consistent presence within the market, has resulted in Jackson being the number one[9] writer of variable annuities in the US.

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

	Actual Exchange Rate Year Ended 31 December £m		
	2014	**2013**	**2012**
By Product			
Annuities			
Fixed annuities			
Fixed interest rate	**512**	533	550
Fixed index	**370**	907	1,094
Immediate	**15**	22	31
Variable annuities	**10,899**	10,795	11,596
Elite Access (Variable annuities)	**3,108**	2,585	849
Total	**14,904**	14,842	14,120
Life insurance	**-**	2	17
Institutional products			
	651	868	379

GICs, funding agreements and Federal Home Loan Bank of Indianapolis (FHLBI) funding agreements			
Total	**15,555**	15,712	14,516
By Distribution Channel			
Independent broker dealer	**9,521**	8,717	8,319
Bank	**2,394**	3,053	2,705
Regional broker dealer	**2,477**	2,527	2,421
Independent insurance agents	**512**	546	682
Institutional products	**651**	868	379
Captive agents	**-**	1	10
Total	**15,555**	15,712	14,516

(9) Based on total annuity sales, LIMRA US Individual Annuities Sales Survey Participant s Repost as of 30 September 2014.

Of the total new business premiums of £15,555 million in 2014 (2013: £15,712 million; 2012: £14,516 million), £14,904 million (2013: £14,842 million; 2012: £14,125 million) were single premiums, nil (2013: £2 million; 2012: £12 million) were regular premiums and £651 million (2013: £868 million; 2012: £379 million) were institutional product premiums.

Annuities

Fixed Annuities

Fixed Interest Rate Annuities

In 2014, fixed interest rate annuities accounted for 3 per cent (2013: 3 per cent) of total new business premiums and 9 per cent (2013: 10 per cent) of policy and contract liabilities of the US operations. Fixed interest rate annuities are primarily deferred annuity products that are used for asset accumulation in retirement planning and for providing income in retirement. They permit tax-deferred accumulation of funds and flexible payout options.

The contract holder of a fixed interest rate annuity pays Jackson a premium, which is credited to the contract holder s account. Periodically, interest is credited to the contract holder s account and in some cases administrative charges are deducted from the contract holder s account. Jackson makes benefit payments at a future date as specified in the policy based on the value of the contract holder s account at that date. On more than 93 per cent (2013: 84 per cent) of in-force business, Jackson may reset the interest rate on each contract anniversary, subject to a guaranteed minimum, in line with state regulations. When the annuity matures, Jackson either pays the contract holder the amount in the contract holder account or begins making payments to the contract holder in the form of an immediate annuity product. This latter product is similar to a UK annuity in payment.

At 31 December 2014, Jackson had fixed interest rate annuities totalling £11.7 billion (US$18.3 billion) (2013: £11.2 billion (US$18.5 billion)) in account value with minimum guaranteed rates ranging from 1.0 per cent to 5.5 per cent and a 3.03 per cent average guaranteed rate (2013: 1.0 per cent to 5.5 per cent and a 3.05 per cent average guaranteed rate).

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

Approximately 57 per cent (2013: 50 per cent) of the fixed interest rate annuities Jackson wrote in 2014 provide for a market value adjustment (MVA) that could be positive or negative on surrenders in the surrender period of the policy. This formula-based adjustment approximates the change in value that assets supporting the product would realise as interest rates move up or down. The minimum guaranteed rate is not affected by this adjustment. While the MVA feature minimizes the surrender risk associated with certain fixed interest rate annuities, Jackson still bears a portion of the surrender risk on policies without this feature, and the investment risk on all fixed interest rate annuities.

Fixed Index Annuities

Fixed index annuities accounted for 2 per cent (2013: 6 per cent) of total new business premiums in 2014 and 6 per cent (2013: 7 per cent) of Jackson s policy and contract liabilities. Fixed index annuities vary in structure, but generally are deferred annuities that enable the contract holder to obtain a portion of an equity-linked return (based on participation rates and caps) and provide a guaranteed minimum return. These guaranteed minimum rates are generally set at 1.0 per cent to 3.0 per cent on index funds. At 31 December 2014, Jackson had fixed index annuities allocated to index funds totalling £6.3 billion (US$9.8 billion) (2013: £6.1 billion (US$10.2 billion)) in account value with minimum guaranteed rates on index accounts ranging from 1.0 per cent to 3.0 per cent and a 1.83 per cent average guaranteed rate (2013: 1.0 per cent to 3.0 per cent and a 1.85 per cent average guarantee rate). Jackson also offers fixed interest accounts on some fixed index annuity products. At 31 December 2014, fixed interest accounts on fixed index annuities totalled £1.8 billion (US$2.8 billion) (2013: £1.5 billion (US$2.5 billion)) in account value with minimum guaranteed rates ranging from 1.0 per cent to 3.0 per cent and a 2.53 per cent average guaranteed rate (2013: 1.0 per cent to 3.0 per cent and a 2.56 per cent average guarantee rate).

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

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

Immediate Annuities

In 2014, immediate annuities accounted for less than one per cent (2013: less than one per cent) of total new business premiums and one per cent (2013: one per cent) of Jackson s policy and contract liabilities. Immediate annuities guarantee a series of payments beginning within a year of purchase and continuing over either a fixed period of years and/or the life of the contract holder. If the term is for the life of the contract holder, then Jackson s primary risks are mortality and reinvestment. This product is generally used to provide a guaranteed amount of income for contract holders and is used both in planning for retirement and in retirement itself. The implicit interest rate on these products is based on the market conditions that exist at the time the policy is issued and is guaranteed for the term of the annuity.

Variable Annuities

The market share shift in the US annuity market has slowed down, and Jackson continues to hold the leading position in the industry while generating healthy margins. Variable annuity providers continue to modify their product offerings through reductions in fund availability and increased fees. Several insurers with challenging legacy blocks of variable annuity business continue to implement policy changes to help mitigate the risk of their back book of business, including fee increases on older benefits, changes to the availablitiy of investment options, subsequent premium restrictions on in-force contracts and buyback offers to their existing policyholders. Despite positive demographic trends, these activities have the potential to lead to overall contraction in the industry, and likely further market share adjustments, as customers and distributors seek insurers that offer consistency, stability and financial strength.

In 2014, variable annuities accounted for 90 per cent (2013: 85 per cent) of total new business premiums and 69 per cent (2013: 65 per cent) of Jackson s policy and contract liabilities. Variable annuities are deferred annuities that have the same tax advantages and payout options as fixed interest rate and fixed index annuities. They are also used for asset accumulation in retirement planning and to provide income in retirement.

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

At 31 December 2014, Jackson had variable annuity funds in fixed accounts totalling £4.4 billion (US$6.8 billion) (2013: £4.2 billion (US$7.0 billion)) with minimum guaranteed rates ranging from 1.0 per cent to 3.0 per cent and a

1.81 per cent average guaranteed rate (2013: 1.0 per cent to 3.0 per cent and a 1.85 per cent average guarantee rate).

Jackson offers a choice of guaranteed benefit options within its variable annuity product portfolio, which customers can elect for additional fees. These include the guaranteed minimum death benefits (GMDB), which guarantee that, upon death of the owner, the beneficiary receives a minimum value regardless of past market performance. These guaranteed death benefits might be expressed as the return of original premium, the highest past anniversary value of the contract, or as the original premium accumulated at a fixed rate of interest. In addition, there are three other types of guarantees: guaranteed minimum withdrawal benefits (GMWB), guaranteed minimum accumulation benefits (GMAB) and guaranteed minimum income benefits (GMIB). GMWBs provide a guaranteed return of the principal invested by allowing for periodic withdrawals that are limited to a maximum percentage of the initial premium. One version of the GMWBs provides for a minimum annual withdrawal amount

that is guaranteed for the contract holder s life without annuitisation. GMABs generally provide a guarantee for a return of a certain amount of principal after a specified period. Jackson stopped offering the GMAB in 2011. GMIBs provide for a minimum level of benefits upon annuitisation regardless of the value of the investments underlying the contract at the time of annuitisation. Jackson no longer offers GMIBs, with existing coverage being substantially reinsured with an unaffiliated reinsurer.

As the investment return on the separate account assets is attributed directly to the contract holders, Jackson s profit arises from the fees charged on the contracts, less the expenses incurred, which include the costs of hedging and eventual payment of any guaranteed benefits. In addition to being a profitable book of business in its own right, the variable annuity book also provides an opportunity to utilise the offsetting equity risk among various lines of business to effectively manage Jackson s equity exposure. Jackson believes that the internal management of equity risk coupled with the utilisation of external derivative instruments where necessary, continues to provide a cost-effective method of managing equity exposure.

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

Jackson launched Elite Access in March 2012. Elite Access is a variable annuity without guarantees, offering customers tax deferred growth and access to a wide range of alternative investments. In less than three years after its launch, Elite Access is the fourth best-selling variable annuity product in the US. As of third quarter 2014, Jackson offers three of the top ten best-selling variable annuity products in the industry.

Jackson s Elite Access is a new style of variable annuity that enhances traditional investing through diverse investment options, access to portfolios previously unavailable to retail investors, and tax advantages which help customers seek opportunities and manage risk throughout the economic cycle.

Elite Access is a logical extension of Jackson s variable annuity investment freedom philosophy, which provides customers with a large set of investment options and the ability to tailor the portfolio as they desire. Elite Access helps customers prepare for any market conditions by offering:

- a wide array of traditional equity and fixed income investments that provide core market exposure;
- additional diversification from alternative assets and strategies that help customers modernise their portfolio;
- access to expertise previously available to only institutional and accredited investors, through ready-to-go Guidance Portfolio managed and crafted to meet specific investment objectives using a complement of investments and strategies;
- tactical management strategies designed to provide asset allocation flexibility that adjust to all market cycles positive or negative; and
- tax-deferred investment growth and legacy planning options through all phases of the economic cycle.

The success of Elite Access has helped increase the diversification of Jackson s product mix with a substantial portion of its 2014 variable annuities sales not featuring living benefit guarantees. As a percentage of total sales, variable annuities with living benefit guarantees were in-line with 2013, which was the their lowest since 2008.

Aggregate distribution of account values

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

31 December 2014 and 2013:

Minimum guaranteed interest rates - annuities	**Account value £m**	
	2014	**2013**
1.0%	**3,927**	3,012
> 1.0% - 2.0%	**7,887**	8,349
> 2.0% - 3.0%	**9,365**	8,867
> 3.0% - 4.0%	**1,239**	1,163
> 4.0% - 5.0%	**1,567**	1,460
> 5.0% - 5.5%	**207**	197
Total	**24,192**	23,048

Life Insurance

Background

Jackson s life insurance products accounted for none (2013: less than one per cent) of the total new business premiums and 12 per cent (2013: 14 per cent) of Jackson s policy and contract liabilities in 2014. Jackson discontinued new sales of life insurance products effective 1 August 2012. Life products include term life and interest sensitive life (universal life and variable universal life.) Term life provides protection for a defined period and a benefit that is payable to a designated beneficiary upon death of the insured. Universal life provides permanent individual life insurance for the life of the insured and includes a savings element. Variable universal life is a type of life insurance policy that combines death benefit protection with the ability for the contract holder account to be invested in separate account funds. Jackson s life insurance book has delivered consistent profitability, driven primarily by positive mortality and persistency experience. For certain fixed universal life plans, additional provisions are held to reflect the existence of guarantees offered in the past that are no longer supported by earnings on the existing asset portfolio, or for situations where future mortality charges are not expected to be sufficient to provide for future mortality costs.

Aggregate distribution of account values

Excluding the REALIC business that is subject to the retrocession treaties, at 31 December 2014, Jackson had interest-sensitive life business in force with total account value of £5.9 billion (US$9.3 billion) (2013: £5.7 billion (US$9.5 billion)), with minimum guaranteed interest rates ranging from 2.5 per cent to 6.0 per cent with a 4.65 per cent average guaranteed rate (2013: 2.5 per cent to 6.0 per cent with a 4.65 per cent average guaranteed rate). The table below shows the distribution of the interest-sensitive life business account values within this range of minimum guaranteed interest rates as at 31 December 2014 and 2013:

	Account value £m	
Minimum guaranteed interest rates	**2014**	**2013**
> 2.0% - 3.0%	**195**	182
> 3.0% - 4.0%	**2,265**	2,182
> 4.0% - 5.0%	**1,971**	1,908
> 5.0%	**1,514**	1,456
Total	**5,945**	5,728

Institutional Products

Institutional products consist of traditional guaranteed investment contracts (GICs), funding agreements (including agreements issued in conjunction with Jackson s participation in the US Federal Home Loan Bank of Indianapolis (FHLBI) programme) and medium-term note funding agreements. In 2014, institutional products accounted for 4 per cent (2013: 6 per cent) of total new business premiums and 3 per cent (2013: 3 per cent) of Jackson s policy and contract liabilities. In 2014 and 2013, Jackson participated in the institutional market on a limited and selective basis, taking advantage of high returns available at particular times during the year. The GICs are marketed by Jackson s institutional products department to defined contribution pension and profit sharing retirement plans. Funding agreements are marketed to institutional investors, including corporate cash accounts and securities lending funds, as well as money market funds, and are issued to the FHLBI in connection with its programme. Jackson makes its profit on the spread between the yield on its investments and the interest rate credited to contract holders.

Traditional Guaranteed Investment Contracts

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

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

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

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Funding Agreements

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

Typically, brokerage accounts and money market mutual funds are required to invest a portion of their funds in cash or cash equivalents to ensure sufficient liquidity to meet their customers requirements. The funding agreements permit termination by the contract holder on seven to 90 days notice, and thus qualify as cash equivalents for the clients purposes. In 2014 and 2013, there were no funding agreements terminable by the contract holder with less than 90 days notice.

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

Medium Term Note Funding Agreements

Jackson has also established European and global medium-term note programmes. The notes offered may be denominated in any currency with a fixed or floating interest rate. Notes are issued to institutional investors by a special purpose vehicle and are secured by funding agreements issued by Jackson. Jackson s medium-term note programme re-opened in 2013 with 2014 sales of £485 million (2013: £224 million).

Distribution and Marketing

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

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

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

Independent Agents and Broker Dealers

Jackson s subsidiary, Jackson National Life Distributors, LLC (JNLD), is the primary marketing and distribution organisation for Jackson s annuities. The fixed annuity products are distributed through independent agents located throughout the United States. These approximately 17,000 appointed insurance agents or brokers at 31 December 2014, who also may represent other companies, are supported with marketing materials and multi-media presentations

to help advisers choose the right solutions for their clients individual financial situations. JNLD generally deals directly with writing agents and brokers thereby eliminating intermediaries, such as general agents. This distribution channel has enabled Jackson to generate significant volumes of business on a low, variable cost basis.

JNLD s wholesalers meet directly with independent broker dealers and financial planners and are supported by an extensive internal sales staff. At 31 December 2014, Jackson had active selling agreements with independent broker dealer organisations throughout the United States providing access to more than 66,800 appointed agents. Jackson provides training for its broker dealers and also provides them with product information and sales materials.

Regional Broker Dealers

JNLD s Regional Broker Dealer (RBD) team provides dedicated service and support to regional brokerage firms and wirehouses. Regional broker dealers are a hybrid between independent broker dealers and wirehouses. Like representatives who work for wirehouses, financial representatives at regional broker dealers are actual employees of the firm. However, unlike wirehouses, RBD firms have limited institutional investment banking services. The RBD team develops relationships with regional firms throughout the US and provides customised materials and support to meet their specialised advisory needs.

Jackson s RBD team also provides support for the wirehouse channel, which produced £1.9 billion of premium in 2014.

Jackson s RBD team supports more than 37,600 representatives in regional broker dealers and wirehouses.

Banks, Credit Unions and Other Financial Institutions

Jackson s Institutional Marketing Group distributes annuity products through banks, credit unions and other financial institutions and through third party marketing organisations that serve these institutions. Jackson is a leading provider of annuities offered through banks and credit unions and at 31 December 2014 had access to more than 32,500 financial institution representatives through existing relationships with banks and credit unions. Jackson has established distribution relationships with medium sized regional banks, which it believes are unlikely to develop their own insurance product capability.

Independent Broker Dealers

Jackson s retail distribution is managed by Prudential s independent broker dealer network, NPH, which is described in more detail above. NPH had more than 3,500 registered representatives at the end of 2014.

Institutional Products Department

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

Registered Investment Adviser

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

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

Curian s sales, not included in Jackson s premiums and deposits, totalled £1,593 million and £1,747 million in 2014 and 2013, respectively.

Factors Affecting Pricing of Products and Asset Liability Management

Jackson prices products based on a variety of assumptions including, but not limited to, mortality, investment yields, expenses and contract holder behaviour. Pricing is influenced by Jackson s objectives for return on capital and by competition. Although Jackson includes a profit margin in the price of its products, the variation between the assumptions and actual experience can result in the products being more or less profitable than originally assumed. This variation can be significant.

Jackson designs its interest sensitive products and conducts its investment operations to match closely the duration of the assets in its investment portfolio with the annuity, life, and guaranteed investment contract product obligations. Jackson seeks to achieve a target spread between what it earns on its assets and what it pays on its liabilities by investing principally in fixed-rate securities. Jackson also enters into options and futures contracts to hedge equity related movements in its products.

Jackson segregates its investment portfolio for certain investment management purposes, and as part of its overall investment strategy, into four portfolios: life and fixed annuities without market value adjustment, fixed annuities with market value adjustment, fixed index annuities and institutional liabilities. The portfolios backing life and fixed

annuities with and without market value adjustments and the fixed index annuities have similar characteristics and differ primarily in duration. The portfolio backing the institutional liabilities has its own mix of investments that meet more limited duration tolerances. Consequently, the institutional portfolio is managed to permit less interest rate sensitivity and has limited exposure to mortgage backed securities. At 31 December 2014, three per cent of the institutional portfolio was invested in residential mortgage backed securities.

The fixed-rate products may incorporate surrender charges, market value adjustments, two-tiered interest rate structures or other limitations relating to when policies can be surrendered for cash, in order to encourage persistency. As of 31 December 2014, 62 per cent of Jackson s fixed annuity reserves had surrender penalties or other withdrawal restrictions. Substantially all of the institutional portfolio had withdrawal restrictions or market value adjustment provisions.

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

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

Reserves

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

For the fixed interest rate and variable annuity contracts and institutional products, the reserve is the contract holder s account value. For the fixed index annuities, the reserve is based on two components, 1) the imputed value of the underlying guaranteed host contract and 2) the fair value of the embedded option component of the contract. For the immediate annuities, reserves are determined as the present value of future policy benefits. Mortality assumptions are based on the 1983 Individual Annuitant Mortality Table and the Annuity 2000 Mortality Table for newer issues. Interest rate assumptions currently range from three per cent to six and a three tenths per cent.

The IFRS accounting for guarantees on Jackson s variable annuity contracts has a mixed measurement approach due to requirements of the accounting guidance. GMWB not for life contract features are fair valued under IAS 39 and current US GAAP for embedded derivatives, with a capping feature to prevent early anticipation of expected fees for guarantees. However, the GMDB and GMWB for life blocks of business are accounted for under US GAAP guidance related to valuing life-contingent guarantees, which does not, and is not intended to, fair value the liabilities.

For the traditional term life contracts, reserves for future policy benefits are determined using the net level premium method and assumptions as to mortality, interest, policy persistency and expenses. Mortality assumptions generally

range from 25 per cent to 175 per cent of the 1975-1980 Basic Select and Ultimate tables, depending on underwriting classification and policy duration. Interest rate assumptions range from two and one half per cent to six per cent. Persistency and expense assumptions are based on Jackson s experience.

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

Reinsurance

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

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

At 31 December 2014, Jackson s largest amount ceded to one reinsurer totalled £3.8 billion, which is primarily related to the retrocession reinsurance arrangements.

In force level premium term products are generally 90 per cent reinsured. Jackson discontinued new sales of life insurance products effective 1 August 2012.

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

Policy administration

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

PPM America

PPMA is Prudential s US institutional investment management operation, with its primary offices in Chicago and New York. PPMA manages assets for Prudential s US, UK and Asian affiliates. PPMA provides affiliated and unaffiliated institutional clients with investment services including managing assets for separate accounts, US mutual funds and similar foreign pooled investment vehicles, a collateralised loan obligation and private equity funds. PPMA s strategy is focused on managing existing assets effectively, maximising the benefits derived from synergies with our international asset management affiliates, and leveraging investment management capabilities across the Group. PPMA also pursues third-party mandates on an opportunistic basis.

UK Business

Introduction

As at 31 December 2014, Prudential s UK business was structured into two business units, each focusing on its respective target customer markets. Prudential s UK business units are Prudential UK & Europe (Prudential UK&E, being the insurance operations) and M&G (being the asset management business).

In 2014, Prudential s UK business generated new business insurance premiums of £6,870 million and gross investment inflows of £38,017 million. At 31 December 2014, M&G had £264 billion of funds under management.

Prudential UK & Europe business overview

The UK life and pensions industry continues to undergo significant change. The announcement by the UK Chancellor in the 2014 Budget to remove compulsory annuitisation and introduce new pension freedoms from April

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2015 has been described as a once in a 100-year change. We are supportive of this change and more generally of policy initiatives that will help encourage people to save in greater numbers, and more often, particularly in an environment where there is a significant savings gap. Simultaneously, we are witnessing a shift in how customers view retirement. The distinction between accumulating funds and then using them to provide an income in retirement is no longer clear-cut. We expect to see further opportunities created in the saving and investment market with demand for financial advice increasing and customers engaging more frequently with their providers.

These new developments represent major changes to the way business is conducted in a number of areas of the markets in which we operate in the UK, and impact not only insurance and investments providers, but also distributors and consumers.

The configuration of the UK market is unchanged, characterised by an ageing population with wealth concentrated in the 50+ age group and a younger generation of savers who are typically less well-funded. While the announcement of pensions freedoms in the 2014 Budget has significantly reduced restrictions on how these individuals will access their savings to help fund an income in retirement, the need to accumulate savings remains. We believe these new developments constitute a significant opportunity for companies with a good strong brand and a solid track record in the long-term savings market.

With a pedigree stretching back over more than 166 years the Prudential UK business has built the foundation of the Group s iconic brand and its cash, capital and credit ratings performance. Our approach in the UK is driven by a focus on providing long-term value to our customers based on our longevity experience, multi-asset investment capabilities and our financial strength. In the UK the Prudential brand is long established, well-known and importantly it is well-trusted both in the intermediary financial adviser and the retail marketplaces. This trust and recognition positions us favourably to help customers save with confidence and understand how to secure a dependable retirement income, through our range of market leading with-profits and retirement income products.

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

We continue to focus on meeting customer needs:

- products and retirement solutions to help customers take advantage of the new pension freedoms;
- offering a range of ways to do business with us: through intermediaries; through our Prudential Financial Planning partners providing advice to customers in their homes; or by telephone and internet;
- our market leading PruFund investment range with optional guarantees to suit customers attitude to risk; and
- driving year-on-year improvement in service for both customers and intermediaries. Our on-going commitment to customer service improvement was recognised at the Financial Adviser Service Awards, where we retained our two 5-Star ratings in the Life & Pensions and Investment categories while also receiving the Outstanding Achievement Award for 2014.

Our new life company, Prudential Polska conducted its second year of business in 2014, growing ahead of plan. Headquartered in Warsaw, the business now has 15 branches across the country and 712 financial planning consultants.

We are also positive about the long-term opportunities in Africa, where we see many of the favourable structural characteristics of our Asian markets, although most sub-Saharan life insurance markets are in the very early stages of development and therefore are not likely to be material for many years. During 2014 we acquired Express Life in

Ghana and Shield Assurance Company in Kenya, both of which have been renamed using the Prudential brand name.

In November 2014, we sold our 25 per cent equity stake in the PruHealth and PruProtect businesses to Discovery Group Europe Limited for £155 million in cash. This creates the future strategic flexibility to participate in the UK protection market.

Prudential UK & E will continue to focus on its core strengths of with-profits and retirement income while utilising its highly regarded brand franchise in order to help its consumers accumulate savings to help fund a dependable income in retirement.

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UK&E Products and profitability

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

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

We have a competitive advantage in with-profits and an investment franchise in the PruFund range which in 2014 celebrated its 10th anniversary. Demand remains strong for our products, offering downside protection against the volatility of the market, while still providing a steady return over the medium to long-term. In addition to our customers, our shareholders also continue to benefit from the steady performance of our with-profits based products and the cash they generate. The performance of our with-profits fund has allowed us to add an estimated £1.9 billion to with-profits policies in the year and policyholders will typically see year-on-year increases of between 5 per cent and 8 per cent in accumulating with-profits policy values over the past year.

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

The profits from almost all of the new non-participating business accrue solely to shareholders. Such business is written in the non-profit sub-fund within PAC s long-term fund, or in various shareholder-owned direct or indirect subsidiaries. The most significant of these is Prudential Retirement Income Limited (PRIL), which writes conventional annuities including all new conventional annuities arising from vesting deferred annuity and personal pension policies in the with-profits sub-fund of PAC. There is also a substantial volume of in-force non-participating business in PAC s with-profits sub-fund, part of which was originally written in that fund s wholly owned subsidiary Prudential Annuities Limited (PAL). On 1 October 2014, the business of PAL transferred into PAC following a Part VII Transfer under the Financial Services and Markets Act 2000.

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

Prudential UK&E has a well-established individual annuity business, sourced from maturing pension policy customers. The significant reforms of the pensions industry announced by the UK Government, including removal of the requirement to purchase a pension annuity from April 2015, have resulted in an increasing proportion of customers deferring the decision to convert their pension savings into retirement income. Sales of individual annuities in 2014 were 49 per cent lower than in 2013, reflecting the market contraction since the UK Budget announcement, and we expect the annuities market to continue to be impacted by the new choices available to consumers after April 2015. The extent to which consumer behaviour will change and the degree of market dislocation are still unclear but could be significant.

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The increased flexibility afforded by these reforms should ultimately help create an environment where more people are encouraged to save. The changes have also opened up opportunities for us to meet customer needs for alternative retirement solutions, including income drawdown. In December 2014, we launched a Flexible Drawdown product ahead of the introduction of the April 2015 pension reforms. This product will allow customers to access income drawdown without limits from April 2015, and is suited to customers who want more choice over how they use their retirement savings for income.

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

Distribution

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

The former FSA s review of the retail distribution marketplace called the Retail Distribution Review (RDR) came into force on 31 December 2012. The changes implemented increased the clarity with which advisory firms describe their services and charges. They stipulate that the adviser must be paid by the customer. Providers are no longer permitted to pay commission on new sales of retail investment products. Comparable rules have been introduced for group pensions business. Sales of protection business and general insurance can still attract commission. The changes have also significantly increased the requirements for firms who seek to describe themselves as independent. More information on RDR is given in Item 4 Supervision and Regulation of Prudential UK Supervision and Regulation.

This higher threshold to remain independent saw an increased trend towards advisory firms moving to restricted advice. Typically these models see adviser firms limiting their range to smaller number of products and providers. Prudential is well placed in such models with distribution agreements in place with a number of major advice firms.

Prudential UK&E has a diversified distribution model focusing on intermediaries, Prudential Financial Planning (our direct advice service) and individual customers via mail, email and telephone.

In 2012-2014, Prudential UK&E s new business premiums by channels are as follows:

	Year Ended 31 December £m		
	2014	**2013**	**2012**
Individual Annuities:			
Direct & Partnerships	**162**	284	297
Intermediated	**139**	488	653
Internal Vesting *	**764**	1,305	1,456
Total Individual Annuities	**1,065**	2,077	2,406

Other Products:			
Direct & Partnerships	**713**	673	642
Intermediated	**3,382**	2,315	2,922
Wholesale	**1,710**	275	408
Total Other Products	**6,870**	3,263	3,972
DWP Rebates	**-**	1	115
Total New Business Premiums	**6,870**	5,341	6,493

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

Prudential s 25 per cent share of PruProtect and PruHealth products are included to the date of the sale of our share on 14 November 2014.

Direct and Partnerships

Our direct distribution channels are primarily charged with increasing revenue from existing Prudential UK&E customers and retention of our existing customer base. Direct distribution channels include the telephone, mail and internet, and focus on annuities, investments, and protection and health products. Prudential UK&E s direct advice service, Prudential Financial Planning (PFP), focuses primarily on the financial planning needs of our existing direct customer base. At the end of 2014, its third year of trading, adviser partner numbers had reached 210.

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

Intermediaries

Strong growth in sales through our intermediary channel reflected the strength of our PruFund proposition and our relationships with key intermediary firms. Increased sales of with-profits bonds, individual pensions and income drawdown outweighed the impact of the slow down in the annuities market. With-profits bond sales through intermediaries grew by 36 per cent, largely due to our PruFund bond proposition, where our track record of investment performance differentiates us from our competitors. The value of UK invested assets on platforms continues to increase, and we are seeking to develop new solutions to target this opportunity.

Wholesale

Our approach to bulk transactions in the UK will continue to be one of selective participation, where we can bring both significant value to our customers and meet our shareholder return requirements. Seven bulk annuity buy-in insurance agreements were signed in 2014 totalling £1,710 million of new business premiums. Through our longstanding presence in this segment of the life and pensions market, we have developed considerable longevity experience, operational scale and a solid investment track record, which together represent expertise and capabilities that are increasingly in demand.

Long-term Products

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

	Year Ended 31 December £m		
	2014	**2013**	**2012**
Pension annuities	**1,065**	2,077	2,406
Corporate pensions	**230**	281	459
Onshore bonds	**2,318**	1,754	2,276
Other products	**1,547**	953	946
Wholesale	**1,710**	276	408
Total new business premiums	**6,870**	5,341	6,495

Of the total new business premiums of £6,870 million (2013: £5,341 million; 2012: £6,495 million), £6,681 million (2013: £5,129 million; 2012: £6,286million) were for single premiums and £189 million (2013: £212 million; 2012: £207 million) were for regular premiums.

Pension Annuities

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

A total of £1,065 million of individual annuities were sold in 2014. Of this total, £764 million was sold through internal vesting, that is existing Prudential UK&E customers with maturing pension policies. The other £301 million were sold to new customers, typically individuals with a pension maturing with another provider who chose

Prudential UK&E to provide their annuity. Prudential UK&E s immediate annuity products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump sum capital payment. No surrender value is available under any of these products. The primary risks to Prudential UK&E from immediate annuity products are mortality improvements and credit risk.

Conventional Annuities

Prudential UK&E s conventional annuities include level (non-increasing), fixed increase and RPI annuities. Prudential UK&E s fixed increase annuities incorporate automatic increases in annuity payments by fixed amounts over the policyholder s life. The RPI annuities provide for a regular annuity payment to which an additional amount is added periodically based on the increase in the UK Retail Prices Index. In 2014, sales of RPI annuities were £2,557 million (including £1,276 million of bulk annuities). In 2014, sales of level and fixed increase conventional annuities amounted to £1,614 million (including £434 million of bulk annuities).

With-profits Annuities

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

Prudential is one of only a few companies in the United Kingdom which are active in the with-profits annuities market and has been operating in this market since 1991. In 2014, Prudential UK&E s premiums for this business were £314 million. Prudential UK&E had new business market share of investment linked annuities of 80 per cent in the first nine months of 2014[(10)].

Pension Products

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

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

For products with drawdown features, the investment risk remains with the policyholder, payments are not guaranteed, and tend to cost more to administer. In the past, this has meant that the option to drawdown tended to apply mainly to more sophisticated policyholders and to larger retirement funds. While the rules governing access to pension savings are to be changed and consumers will have more choice and flexibility in how they access their retirement income, draw-downs from pension savings that are greater than the tax-free lump sum will be taxable at the

individual s marginal tax rate.

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

(10) Source: ABI

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Corporate Pensions

There are two categories of corporate pension products: defined benefit and defined contribution. Prudential UK&E has an established defined benefit plan client base covering the small to medium-sized employer market. Prudential UK&E s defined contribution client base ranges from small unlisted companies to some of the largest companies in the United Kingdom as well as a number of clients in the public sector (in particular where Prudential UK&E offers the Additional Voluntary Contribution (AVC) facility). Additional Voluntary Contribution plans enable employees to make additional pension contributions, either regularly or as a lump sum, to supplement their occupational pension plans. Prudential UK&E administers corporate pensions for over 600,000 scheme members sponsored by some of the UK s largest employers and has also built a very strong position in the provision of with-profits AVC arrangements. Prudential UK&E provides AVCs to 72 of the 99 Local Government Authorities in England & Wales.

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

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

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

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

From April 2015 corporate pension providers are required to implement a charge cap for default funds of 0.75 per cent of funds under management. Prudential is in the process of implementing this change, which affects a relatively small number of our schemes. We are also putting in place a new Independent Governance Committee.

Onshore Bonds

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

PIP also gives financial advisers the opportunity to choose from different external fund management groups and the flexibility to make changes to portfolio and asset allocation over time. In 2014, sales of the unit-linked option within on-shore bond wrappers, including PIP were £179 million.

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

Prudential UK&E offers a unitised and smoothed with-profits investment fund entitled PruFund, which is designed to provide increased transparency and smoothed investment returns to the customer with a choice of Cautious, Growth or risk-managed funds. PruFund also offers clients an optional guarantee on the initial investment in either the Cautious or Growth funds with a term from six to eight years depending on the client s requirements. PruFund is available across Prudential UK&E s range of tax wrappers including individual pensions, income drawdown and onshore and offshore bonds. In 2014, total new business premiums attributable to PruFund, including new business through PIP, was £1,865 million.

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

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

Other Products

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

Individual Pensions

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

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

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

Income Drawdown

Income drawdown products have historically provided a bridge between pensions and annuities, allowing customers to access pension savings from age 55, subject to certain limits. These products help customers manage their pensions through the various stages of retirement, and also offer flexibility while providing potential for capital growth. Prior to the pension reforms announced in the 2014 UK Budget, the market had seen good growth, reflecting an increasingly sophisticated consumer population and the rising incidence of second careers and semi-retirement as a result of increasing longevity. In the interim period created by the Budget 2014 announcement before the introduction of

pension reforms in April 2015, income drawdown has proved popular with customers seeking greater flexibility than offered by a traditional annuity product. In 2014, Prudential UK&E sold £352 million of income drawdown products.

In December 2014 we launched a new Flexible Drawdown product ahead of the introduction of the April 2015 pension reforms. This product will allow customers to access income drawdown without limits from April 2015, and is suited to customers who want more choice over how they use their retirement savings for income. Until April 2015, to be eligible for Flexible Drawdown, customers need to have a guaranteed secure income of at least £12,000 a year - which can come from a workplace pension, an annuity, a state pension, an overseas pension or a combination of these.

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Offshore Bonds

Prudential UK&E s offshore bond products are the Prudential International Investment Bond and the Prudential International Investment Portfolio offering clients access to a wide range of quoted UK investments. Prudential UK&E s offshore bond sales grew by 42 per cent to £616 million in 2014.

Healthcare

PruHealth was launched in 2004 as a private medical insurance provider backed by Prudential and Discovery of South Africa. On 14 November 2014 Prudential sold its remaining 25 per cent share in PruHealth to Discovery and no further sales are included after that date.

Life Insurance Products

Prudential s UK life insurance products are predominantly pure protection (term) products, and include the PruProtect product previously sold through an associate company. On 14 November 2014 Prudential sold its remaining 25 per cent share in PruProtect to Discovery and no further sales are included after that date. PAC continues to write PruProtect business under a white labelling agreement but has no economic interest in the business written.

Equity Release Mortgage

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

Wholesale

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

Reinsurance

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

Reserves

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

The reserves are published in annual returns to the PRA. In practice, similar provisions are included in the life insurance company s statutory accounts with limited adjustments. The Actuarial Function Holder must pay due regard to the fair treatment of policyholders in making recommendations to the company s board. The Actuarial Function Holder is required to report directly to the PRA any serious concerns regarding the company s ability to treat its customers fairly.

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

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

As well as the reserves, the company s assets must also cover other capital requirements set out in the PRA Prudential Sourcebook. These comprise a with-profits insurance capital component, which is a measure of the difference in the surplus assets on regulatory and realistic bases; a resilience capital requirement for entities other

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than PAC, which makes prudent allowance for potential future adverse movements in investment values; and the long-term insurance capital requirement, which must be held by all EU insurance companies. See Financial Strength of PAC s Long-term Fund for further information on solvency and Realistic Financial Strength Reporting for further information on realistic reporting.

Financial strength of PAC s with-profits fund

The PAC s with-profits fund is supported by a large inherited estate, with the free assets of the with-profits fund valued at approximately £7.2 billion (as at 31 December 2014), on a regulatory realistic basis. This provides the working capital required to support the fund for the long-term benefit of current and future policyholders. The strength of the with-profits fund offers strong policyholder protection and assists in generating positive returns for both policyholders and shareholders.

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

	2014 %	**2013 %**	**2012 %**
UK equities	**19**	19	17
International equities	**24**	17	17
Property	**16**	14	12
Fixed Interest	**34**	41	44
Cash and other asset classes	**7**	9	10
Total	**100**	100	100

The with-profits sub-fund earned a return of 8.3 per cent before tax in 2014 on investments covering policyholder liabilities. The with-profits sub-fund has delivered investment returns of 109.5 per cent over 10 years for policyholder asset shares in the fund, compared with the FTSE All-share index (total return) of 96.1 per cent over the same period (figures are to 31 December 2014, before tax and charges).

Realistic Financial Strength Reporting

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

This basis makes companies financial health more transparent to policyholders, intermediaries and regulators alike, and enables more informed choices to be made by policyholders. The PAC long-term with-profits sub-fund is strong with the inherited estate (free assets) measured on a realistic basis, valued at approximately £7.2 billion at the end of 2014 before deduction for the risk capital margin.

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

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

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

With-profits Products

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

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

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

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

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

- the cost of mortality risk and other guarantees (where applicable);
- the effect of taxation;
- management expenses, charges and commissions;
- the proportion of the amount determined to be distributable to shareholders; and
- the surplus arising from surrenders, non-participating business included in the with-profits fund and other miscellaneous sources.

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

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

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

In 2014, PAC declared a total surplus of £2,012 million (2013: £2,134 million) from PAC s primary with-profits sub-fund, of which £1,812 million (2013: £1,922 million) was added to with-profits policies and £200 million (2013: £212 million) was distributed to shareholders. These amounts included annual bonus rates of 2.0 per cent for Prudence Bond and 2.0 per cent for personal pensions.

The closed Scottish Amicable Insurance Fund (SAIF) declared total bonuses in 2014 of £362 million compared to £475 million in 2013. Shareholders have no interest in profits from the SAIF fund, although they are entitled to the

investment management fees paid by this business. For greater detail on the SAIF fund, see The SAIF sub-fund and accounts below.

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

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

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

Depletion of Surplus Assets and Shareholders Contingencies

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

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

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

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

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

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

considered unlikely that support will need to be provided under these arrangements.

The SAIF Sub-fund and Accounts

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

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

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

Non-participating Business

The majority of Prudential-branded non-participating business is written in the non-profit sub-fund of PAC s long-term fund or in subsidiaries owned by PAC. Since mid-2004, Prudential UK&E has written the majority of its new non-profit annuity business through Prudential Retirement Income limited (PRIL), from which the profits are attributed solely to shareholders. Prior to that time, certain non-profit annuity business was written through Prudential Annuities Limited (PAL), which is wholly owned by PAC s with-profits fund. The profits on this business are attributable to the fund and not to shareholders, although indirectly shareholders get one-ninth of additional amounts paid to policyholders through the declaration of bonuses.

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

Guaranteed Annuities

Prudential used to sell guaranteed annuity products in the United Kingdom and held a technical provision of £50 million as at 31 December 2014, within the main with-profits fund to honour guarantees on these products. PAC s main exposure to guaranteed annuities in the United Kingdom is through SAIF and a provision of £549 million was held in SAIF as at 31 December 2014, to honour the guarantees. As SAIF is a separate sub-fund of PAC s long-term business fund, wholly attributable to the policyholders of the fund, the movement in this provision has no impact on shareholders.

M&G

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

Across its chosen markets, M&G serves the needs of both retail and institutional investors. Retail clients favour pooled funds such as open-ended investment companies (OEICs) which they buy directly from M&G or more typically through an intermediary such as an independent financial adviser or discretionary fund manager. Institutional clients require investment strategies that help them meet future outgoings, from a pension scheme making payments to retired employees to a sovereign wealth fund that finances schools, transport and other infrastructure developments. M&G s ability to design and commercialise investment strategies for such clients is founded on the quality of its people and their acknowledged expertise in the world s credit and real estate markets.

In the retail market M&G operates a range of UK domiciled funds which are now distributed across Europe and Asia. Today, clients outside the UK account for more than 45 per cent of M&G s retail assets under management.

In the institutional market, M&G provides a range of strategies that help pension funds, sovereign wealth funds and other large investors wealth liabilities and active growth targets. Some of these strategies were developed originally for Prudential s insurance funds.

Today M&G is an international asset manager with a physical presence in 17 countries and retail products which are distributed in 22 jurisdictions.

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

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

People - an environment that attracts, fosters and retains talented individuals
Performance - an investment-led business focused on the delivery of long-term returns through active investment management
Innovative investment ideas which meet client needs and a proven ability to convert these ideas into significant fund flows
Diversification by asset class, client type, fund and investment strategy and country

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

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

Since launching the UK s first open-ended fund in 1931, we have brought a succession of new investment strategies to the retail and institutional markets. In combination with this tradition of innovative investment thinking, M&G has a proven ability to convert ideas into significant fund flows. It is these two qualities in combination that make M&G distinctive.

M&G has become a pioneer in fixed income investing over the last two decades with the backing of one of the most experienced and well-resourced teams in the UK. Since the launch of the group s first retail corporate bond fund in 1994, the company has created a suite of fixed income products designed to suit the varying needs of investors.

Our latest offering, the M&G Global Floating Rate High Yield Bond Fund, was successfully launched in September 2014 and registered in the UK and across Continental Europe. We believe that this is the first time that retail investors have been given access to the high yield floating rate note market through a collective fund. For bond investors concerned about the risk of an increase in interest rates, this Fund offers a means not only to protect their savings but also to gain benefit from rising yields.

Diversification

M&G has pursued business diversification across:

(i) Asset class: expertise across equities, fixed income, real estate and mixed-asset strategies;
(ii) Client type: retail customers and institutional clients including pension funds, sovereign wealth funds, and Prudential s own long-term insurance funds;
(iii) Investment strategy: Over 60 pooled retail funds covering domestic, global and emerging market strategies, 13 of which have funds under management of over £1 billion. Institutional clients benefit from a wide-range of pooled and/or segregated fixed income, equity and real estate strategies;
(iv) Country.

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

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

Fixed Income: M&G is one of Europe s largest fixed income investors. Our fund managers benefit from one of the region s largest and most experienced in-house credit research teams, whose knowledge covers the full range of fixed income investment, from the management of sovereign debt and public corporate bond portfolios, through to private debt such as leveraged finance, real estate finance, direct lending and infrastructure. In a global ranking of global private debt managers for 2014, M&G ranked fifth[(11)] and was the only European firm in the top 10[(12)].

(11) Private debt investor figures based on amount of capital raised over the last 5 years for discrete private debt strategies.

(12) Lipper FMI FundFile, 31 December 2014, based on Europe ex. UK and International region. M&G data sourced internally.

Real Estate: M&G Real Estate is a leading global property investor and manager covering all major real estate sectors including business space, retail and leisure, residential and alternatives sectors. We actively manage our assets, drawing on our long heritage of expertise and knowledge and our extensive network of contacts. This approach enables the business to identify and capitalise on attractive investment opportunities. We also have a track record for identifying and exploiting real estate development opportunities and for the successful delivery of projects. M&G concluded 2014 with circa £4 billion of global transactions. This included £3.2 billion of acquisitions with an average deal size of £50 million.

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

	At 31 December £bn		
	2014	**2013**	**2012**
Retail fund management	**74**	67	55
Institutional fund management	**63**	59	57
Internal fund management	**127**	118	116
Total	**264**	244	228

Group Risk Framework

Risk and Capital Management

Introduction

We generate shareholder value by selectively taking exposure to risks that are adequately rewarded and that can be appropriately quantified and managed. We retain material risks only where consistent with our risk appetite and risk-taking philosophy, that is: (i) they contribute to value creation; (ii) adverse outcomes can be withstood; and (iii) we have the capabilities, expertise, processes and controls to manage them. The Group aims to help customers achieve their long term financial goals by providing and promoting a range of products and services that meet customer needs, are easy to understand and that deliver real value.

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

Risk governance

(Unaudited)

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

Primary responsibility for strategy, performance management and risk control lies with the Board, which has established the Group Risk Committee to assist in providing leadership, direction and oversight in respect of the Group s significant risks, and with the Group Chief Executive and the Chief Executives of each of the Group s business units. Some of the key responsibilities of the Group Risk Committee include the responsibility for recommending the Own Risk and Solvency Assessment and other regulatory submissions to the Board, keeping the three lines of defence framework under review and monitoring the effectiveness of the Group Chief Risk Officer.

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

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

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

Principles and objective

(Unaudited)

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

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

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

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Risk objectives

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

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

RISK MANAGEMENT THE FIRST LINE OF DEFENCE

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

Group Executive Committee (GEC)	*Balance Sheet and Capital Management Committee (BSCMC)*
Purpose:	Purpose:
Supports the Group Chief Executive in the executive management of the Group and is comprised of the Chief Executives of each of the Group s major business units, as well as a number of functional specialists.	Supports the Chief Financial Officer in the management of the Group s balance sheet, as well as providing oversight to the activities of Prudential Capital, which undertakes the treasury function for the Group. The BSCMC is comprised of a number of functional specialists.
Meets: Usually fortnightly	Meets: Monthly

RISK OVERSIGHT THE SECOND LINE OF DEFENCE

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

Group Executive Risk Committee

(GERC)

Purpose: Oversees the Group s risk exposures, including market, credit, liquidity, insurance and operational risks, and also monitors the Group s capital position.
Reports to: Group Chief Executive
Meets: Monthly

Technical Actuarial Committee (TAC)	*Group Credit Risk Committee (GCRC)*	*Group Operational Risk Committee (GORC)*	*Solvency II Technical Oversight Committee (STOC)*
Purpose:	Purpose:	Purpose:	Purpose:
Sets the methodology for valuing Prudential s assets, liabilities and capital requirements under Solvency II and the Group s internal economic capital basis.	Reviews the Group s investment and counterparty credit risk positions	Overseas the Group s operational risk exposures.	Provides ongoing technical oversight and advice to the Board and executive in respect of their duties with regard to the Group s Internal Model.
Reports to: GERC Meets: Usually monthly and more often as required	Reports to: GERC Meets: Monthly	Reports to: GERC Meets: Quarterly	Reports to: GERC Meets: Usually 10 times annually

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

INDEPENDENT ASSURANCE THE THIRD LINE OF DEFENCE

Group-wide Internal Audit (GwIA)

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

Risk appetite and limits

(Audited)

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

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

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

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

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

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

Capital requirements: the limits aim to ensure that:

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

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

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

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

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

Risk policies

(Audited)

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

Risk culture

(Unaudited)

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

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

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

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Risk reporting

(Unaudited)

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

Key risks

Market risk

(i) Investment risk

(Audited)

In Prudential UK investment risk arising on the assets in the with-profits fund impacts the shareholders interest in future transfers and is driven predominantly by equities in the fund as well as by other investments such as property and bonds. The value of the future transfers is partially protected against equity falls by hedging conducted outside of the fund. The fund s large inherited estate estimated at £7.2 billion as at 31 December 2014 (1 January 2014: £6.8 billion, after the domestication of Hong Kong business) can absorb market fluctuations and protect the fund s solvency. The inherited estate is partially protected against falls in equity markets through an active hedging policy within the fund.

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

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

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

(ii) Interest rate risk

(Audited)

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

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

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

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

(iii) Foreign exchange risk

(Audited)

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

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

Credit risk

(Audited)

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

(i) Debt and loan portfolio

(Audited)

Our UK business is primarily exposed to credit risk in the shareholder-backed portfolio, where fixed income assets represent 37 per cent or £31.7 billion of our exposure. Credit risk arising from £46.6 billion of fixed income assets is largely borne by the with-profits fund, although shareholder support may be required should the with-profits fund become unable to meet its liabilities.

The debt portfolio of our Asia business totalled £23.6 billion at 31 December 2014. Of this, approximately 67 per cent was in unit-linked and with-profits funds with minimal shareholder risk. The remaining 33 per cent is shareholder exposure.

Credit risk arises in the general account of our US business, where £33.0 billion of fixed income assets back shareholder liabilities including those arising from fixed annuities, fixed index annuities and life insurance. Included in the portfolio are £2.3 billion of commercial mortgage-backed securities and £1.6 billion of residential mortgage-backed securities, of which £0.8 billion (52 per cent) are issued by US government sponsored agencies.

The shareholder-owned debt and loan portfolio of the Group s asset management operations of £2.3 billion as at 31 December 2014 is principally related to Prudential Capital operations. Prudential Capital generates revenue by providing bridging finance, managing investments and operating a securities lending and cash management business for the Prudential Group and our clients.

The Group s credit exposure to the Oil and Gas sector represents circa 5 per cent or £3.4 billion of the shareholder portfolio. Some counterparties may experience stress from ongoing low oil prices but this is not currently expected to have a material adverse impact on the Group s exposure. The Oil and Gas sector is subject to ongoing monitoring and regular management information reporting to the Group s risk committees.

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

(ii) Group sovereign debt and bank debt exposure

(Audited)

Sovereign debt[13] represented 15 per cent or £11.0 billion of the debt portfolio backing shareholder business at 31 December 2014 (31 December 2013: 15 per cent or £10.2 billion). 43 per cent of this was rated AAA and 95 per cent investment grade (31 December 2013: 44 per cent AAA, 92 per cent investment grade). At 31 December 2014, the Group s shareholder-backed business s holding in Eurozone sovereign debt[13] was £476 million. 82 per cent of this was AAA rated (31 December 2013: 84 per cent AAA rated). Shareholder exposure to the Eurozone sovereigns of Italy and Spain is £63 million (31 December 2013: £54 million). We do not have any sovereign debt exposure to Greece, Cyprus, Portugal or Ireland.

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

The exposures held by the shareholder-backed business and with-profits funds in sovereign debt and bank debt securities at 31 December 2014 are given in Note C3.3(f) to the consolidated financial statements in Item 18.

(iii) Counterparty credit risk

(Audited)

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

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

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

Insurance risk

(Audited)

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

We continue to conduct research into longevity risk using both industry data and experience from our substantial annuity portfolio. The assumptions that we make about future rates of mortality improvement within our UK annuity portfolio are key to our pricing and reserving. Recent changes to UK legislation, removing an individual s requirement to convert a pension fund into an annuity, are also demanding particular scrutiny. We continue to seek

[13] Excludes Group s proportionate share in Joint Ventures and unit-linked assets and holdings of consolidated unit trusts and similar funds.

opportunities to transfer longevity risk to reinsurers or to the capital markets and have transacted when terms are sufficiently attractive and aligned with our risk management framework.

Morbidity risk is mitigated by appropriate underwriting and use of reinsurance. Our morbidity assumptions reflect our recent experience and expectation of future trends for each relevant line of business. In Asia, a key assumption is the rate of medical inflation, typically in excess of general price inflation.

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

Liquidity risk

(Audited)

Our parent company has significant internal sources of liquidity which are sufficient to meet all of its expected requirements for the foreseeable future without having to make use of external funding. In aggregate the Group currently has £2.6 billion of undrawn committed facilities, expiring in 2018 and 2019. In addition, the Group has access to liquidity via the debt capital markets. We also have in place an unlimited commercial paper programme and have maintained a consistent presence as an issuer in this market for the last decade. Liquidity uses and sources have been assessed at the Group and at a business unit level under base case and stressed assumptions. The liquidity resources available and the subsequent Liquidity Coverage Ratio are regularly monitored and we have assessed these to be sufficient.

Operational risk

(Unaudited)

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

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

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

Global regulatory risk

(Unaudited)

Global regulatory risk is considered a key risk.

The EU has developed a new prudential regulatory framework for insurance companies, referred to as Solvency II. The Solvency II Directive, which sets out the new framework, was formally approved by the Economic and Financial Affairs Council in November 2009 although its implementation was delayed pending agreement on a directive known as Omnibus II which, having been adopted by the Council of the European Union in April 2014, amended certain aspects of the Solvency II Directive. The new approach is based on the concept of three pillars minimum capital requirements, supervisory review of firms assessments of risk, and enhanced disclosure requirements.

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

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

Following adoption of the Omnibus II Directive, Solvency II will be implemented on 1 January 2016, although the European Commission and the European Insurance and Occupational Pensions Authority (EIOPA) are continuing to develop the detailed rules and guidelines that will supplement the high-level rules and principles of the Solvency II and Omnibus II Directives, which are not currently expected to be finalised until mid-late 2015.

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

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

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

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

The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States that, among other reforms to financial services entities, products and markets, may subject financial institutions designated as systemically important to heightened prudential and other requirements intended to prevent or mitigate the impact of future disruptions in the US financial system. The full impact of the Dodd-Frank Act on our businesses is not currently clear, 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 Financial Stability Board announced the initial list of nine insurance groups that have been designated as Global Systemically Important Insurers. Following another assessment in 2014, the Financial Stability Board confirmed the same nine insurance groups as Global Systemically Important Insurers on

6 November 2014. This list included Prudential as well as a number of its competitors. Designation as a Global Systemically Important Insurer has led to additional policy measures being applied to the designated group. Based on the policy framework released by the IAIS and subsequent guidance papers these additional policy measures include enhanced group-wide supervision, effective resolution measures of the group in the event of failure, loss absorption, and higher loss absorption capacity. This enhanced supervision commenced immediately and included the annual submission of a Systemic Risk Management Plan (SRMP), a group Recovery Plan (RCP) and Liquidity Risk Management Plan (LRMP). Prudential is monitoring the development and potential impact of the framework of policy measures and is continuing to engage with the Prudential Regulation Authority on the implications of the policy measures and Prudential s designation as a G-SII. 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 that should reflect the drivers of the assessment of G-SII designation. A consultation paper on BCR was released in July 2014 and the Group participated in field testing ahead of the BCR being agreed with the FSB and G20 in 2014. The IAIS has published a list of principles on HLA and a more detailed consultation paper is expected in June 2015 ahead of the IAIS finalizing HLA by the end of 2015. Implementation of the regime is likely to be phased in over a number of years with the BCR being introduced in 2015 on a confidential reporting basis to group-wide supervisors. The HLA requirement is expected to 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 outline a set of common global principles and standards for group supervision and may increase the focus of regulators in some jurisdictions. One of the framework s key components is an Insurance Capital Standard (ICS) which would be expected to form the group solvency capital standard under ComFrame. In December 2014, the IAIS issued a comprehensive consultation paper on ICS and a quantitative field test is planned during 2015, which will be followed by another consultation in December 2015. Further field testing exercises are planned until 2018 to assess the impact of the quantitative and qualitative requirements proposed under ComFrame. ComFrame is expected to be implemented in 2019.

Risk factors

(Unaudited)

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

Risk mitigation and hedging

(Unaudited)

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

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

Capital management

We continue to operate with a strong solvency position, while maintaining high levels of liquidity and capital generation. This is testament to our capital discipline, the effectiveness of our hedging activities, our low direct Eurozone exposure, the minimal level of credit impairments and the natural offsets in our portfolio of businesses which dampen the effects of movements in interest rates.

Regulatory capital (IGD)

(Audited)

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

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surplus is £4.7 billion at 31 December 2014 (before taking into account 2014 final dividend), with available capital covering our capital requirements 2.4 times. This compares to a capital surplus of £5.1 billion at the end of 2013 (before taking into account the 2013 final dividend).

The movements in 2014 mainly comprise:

- Net capital generation (inclusive of market and foreign exchange movements) mainly through operating earnings (in-force releases less investment in new business, net of tax) of £2.5 billion.

Offset by:

- The cost of new intangibles acquired in the year including renewal of the bancassurance partnership agreement with Standard Chartered Bank of £0.8 billion;
- £0.4 billion of subordinated debt repayment;
- £0.2 billion due to reduction in the shareholders interest in future transfers from the UK s with-profits fund asset allowance (as discussed below) and other smaller one-off items;
- Final 2013 dividend of £0.6 billion and interim 2014 dividend of £0.3 billion; and
- External financing costs and other central costs, net of tax, of £0.6 billion

IGD surplus represents the accumulation of surpluses across all of our operations based on local regulatory minimum capital requirements with some adjustments, pursuant to the requirements of Solvency I. The calculation does not fully adjust capital requirements for risk nor does it capture the true economic value of assets.

There is broad agreement that ultimately it would be beneficial to replace the IGD regime with a regime that is appropriately risk-based.

(Unaudited)

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

Stress testing

(Unaudited)

As at 31 December 2014, stress testing of our IGD capital position to various events has the following results:

- An instantaneous 20 per cent fall in equity markets from 31 December 2014 levels would have no impact on the IGD surplus;
- A 40 per cent fall in equity markets (comprising an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period) would reduce the IGD surplus by £950 million;
- A 100 basis points reduction (subject to a floor of zero) in interest rates would reduce the IGD surplus by £450 million; and
- Credit defaults of 10 times the expected level would reduce IGD surplus by £700 million.

The impact of the 100 basis points reduction in interest rates is exacerbated by the current regulatory permitted practice used by Jackson, which values all interest rate swaps at book value rather than fair value for regulatory purposes. At 31 December 2014, removing the permitted practice would have increased reported IGD surplus to £5.1 billion. As at 31 December 2014, it is estimated that a 100 basis point reduction in interest rates (subject to a floor of zero) would have resulted in an IGD surplus of £4.9 billion, excluding the permitted practice.

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

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Other Capital Metrics

(Unaudited)

We use an internal economic capital assessment calibrated on a multi-term basis to monitor our capital requirements across the Group. This approach considers, by risk drivers, the timeframe over which each risk can threaten the ability of the Group to meet claims as they fall due, allowing for realistic diversification benefits. This assessment provides valuable insights into our risk profile and for continuing to maintain a strong capital position.

All of our subsidiaries continue to hold strong capital positions on a local regulatory basis. Jackson s Risk-Based Capital ratio level as of 31 December 2014 was 456 per cent after remitting £415 million to the Group in 2014 while supporting its balance sheet growth and maintaining adequate capital. The value of the estate of our UK With-Profits fund as at 31 December 2014 is estimated at £7.2 billion after the effect of completing the domestication of the Hong Kong branch business of the PAC With-Profits fund which was effective on 1 January 2014 (1 January 2014: £6.8 billion, after the effect of the transfer). The value of the shareholders interest in future transfers from the with-profits funds in the UK is estimated at £2.2 billion (1 January 2014: £2.3 billion, after the effect of the transfer).

Furthermore, on a statutory (Pillar 1) basis the total credit default reserve for the UK shareholder annuity funds also contributes to protecting our capital position in excess of the IGD surplus. Notwithstanding the absence of defaults in the year, at 31 December 2014 we maintained sizeable credit default reserves at £2.2 billion (31 December 2013: £1.9 billion), representing 41 per cent of the portfolio spread over swaps, compared with 47 per cent at 31 December 2013.

Economic capital position (based on our Solvency II internal model)

(Unaudited)

Following ratification of the Solvency II Omnibus II Directive on 16 April 2014, Solvency II is scheduled to come into force on 1 January 2016. Our economic capital results are based on outputs from our Solvency II internal model. Although the Solvency II and Omnibus II Directives, together with the Level 2 Delegated Act published on 17 January 2015, provide a framework for the calculation of Solvency II results, there remain material areas of policy uncertainty and in many areas the Group s methodology and assumptions are subject to review and approval by the PRA, the Group s lead regulator. We remain on track to submit our Solvency II internal model to the PRA for approval in 2015 but given the degree of uncertainty remaining the economic capital position disclosed below should not be interpreted as output from an approved internal model.

At 31 December 2014 the Group had economic capital surplus[(14)] of £9.7 billion (2013: £11.3 billion) and an economic capital ratio of 218 per cent (2013: 257 per cent) before taking into account the 2014 final dividend.

During 2014, the Group economic capital surplus reduced from £11.3 billion to £9.7 billion. The total movement in the Group economic capital surplus over the year was driven by:

Operating experience positive £1.8 billion: generated by in-force business, new business written in 2014, the impact of non-market assumption changes and non-market experience variances over the year;
Non-operating experience negative £0.9 billion: mainly arising from negative market experience during 2014, principally driven by the reduction in long-term interest rates in the UK;
Other capital movements negative £2.2 billion: representing a reduction in surplus from the repayment of subordinated debt (negative £0.4 billion), renewal of the bancassurance partnership agreement with Standard Chartered Bank (negative £0.8 billion), the negative capital effect of the domestication of the

Hong Kong branch (negative £0.3 billion), the sale of the PruHealth and PruProtect businesses (positive £0.1 billion), foreign currency translation effects (positive £0.1 billion) and dividend payments in 2014 (negative £0.9 billion); and

Model changes negative £0.3 billion: a negative impact to Group surplus, for the estimated impact of evolving the liability discount rate for UK shareholder-backed annuity business from one based on a liquidity premium to one based on the matching adjustment, and other internal model refinements.

The economic capital results are based on outputs from our Solvency II internal model with a number of key working assumptions. Further explanation of the underlying methodology and assumptions are set out in note II of Additional unaudited financial information. Certain aspects of the methodology and assumptions underpinning these results will differ from those which are applied in obtaining final internal model approval. The eventual Solvency II Pillar I ratio, therefore, remains uncertain and is expected to be lower than our economic capital ratio.

(14) The methodology and assumptions used in calculating the economic capital result are set out in the Development of Economic Capital section within Other results based information .

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Stress testing

(Unaudited)

At 31 December 2014, stress testing the economic capital position gives the following results and demonstrates the Group s ability to withstand significant deteriorations in market conditions:

- An instantaneous 20 per cent fall in equity markets would reduce surplus by £0.6 billion and reduce the economic solvency ratio to 214 per cent;
- An instantaneous 40 per cent fall in equity markets would reduce surplus by £2.2 billion and reduce the economic solvency ratio to 195 per cent;

- A 50 basis points reduction in interest rates (subject to a floor of zero) would reduce surplus by £1.4 billion and reduce the economic solvency ratio to 195 per cent;
- A 100 basis points increase in interest rates would increase surplus by £1.8 billion and increase the economic solvency ratio to 254 per cent; and
- A 100 basis points increase in credit spreads (with 15 per cent downgrades in the UK annuity portfolio and credit defaults of 10 times the expected level in Jackson) would reduce surplus by £2.1 billion and reduce the economic solvency ratio to 190 per cent.

Capital allocation

(Unaudited)

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

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

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

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Investments

General

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

Prudential s Total Investments

The following table shows Prudential s insurance and non-insurance investments, net of derivative liabilities, at 31 December 2014. In addition, at 31 December 2014 Prudential had £154.3 billion of external funds under management. Assets held to cover linked liabilities relate to unit-linked and variable annuity products. In this table, investments are valued as set out in note A3.1 to the consolidated financial statements in Item 18.

	At 31 December 2014 £m								
	UK Insurance	US Insurance	Asia Insurance	Total Insurance	Asset Management[(a)]	Other	Total	Less: assets to cover linked liabilities and external unit holders[(b)]	Group excluding assets to cover linked liabilities and external unit holders
Investment properties	12,736	28	-	12,764	-	-	12,764	(2,912)	9,852
Investments accounted for using the equity method	536	-	374	910	107	-	1,017	-	1,017
Financial investments:									
Loans	4,254	6,719	1,014	11,987	854	-	12,841	-	12,841
Equity securities	43,468	82,081	19,200	144,749	79	34	144,862	(102,418)	42,444
Debt securities	86,349	32,980	23,629	142,958	2,293	-	145,251	(17,681)	127,570
Other investments	5,782	1,670	48	7,500	121	2	7,623	(121)	7,502
Deposits	12,253	-	769	13,022	74	-	13,096	(938)	12,158
Total financial investments	152,106	123,450	44,660	320,216	3,421	36	323,673	(121,158)	202,515
Total investments	165,378	123,478	45,034	333,890	3,528	36	337,454	(124,070)	213,384
Derivative liabilities	(1,381)	(251)	(143)	(1,775)	(233)	(315)	(2,323)	49	(2,274)
Total investments, net of derivative liabilities	163,997	123,227	44,891	332,115	3,295	(279)	335,131	(124,021)	211,110

(a)

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

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

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

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

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Prudential s Average Investment Return

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

	Actual Exchange Rate Year Ended 31 December					
	2014		2013		2012	
	Average investment return	Amount £m	Average investment return	Amount £m	Average investment return	Amount £m
Investment properties						
Net investment income	**5.7%**	**533**	5.2%	477	5.4%	512
Net realised investment (losses) gains	**0.4%**	**41**	(0.1)%	(6)	0.9%	81
Net unrealised investment (losses) gains	**8.9%**	**831**	4.1%	376	(0.6)%	(57)
Ending assets		**9,852**		8,768		9,459
Investments accounted for using the equity method						
Ending assets		**1,017**		809		635
Loans						
Net investment income	**5.9%**	**745**	6.5%	787	4.6%	500
Net realised investment (losses) gains	**(0.9)%**	**(116)**	(0.2)%	(21)	(0.3)%	(37)
Net unrealised investment gains	**0.1%**	**10**	0.2%	19	(0.6)%	(62)
Ending assets		**12,841**		12,566		11,813
Equity securities						
Net investment income	**2.6%**	**997**	2.6%	929	2.4%	841
Net realised investment gains	**2.3%**	**881**	3.8%	1,354	7.4%	2,570
Net unrealised investment gains (losses)	**1.9%**	**743**	4.9%	1,766	(0.3)%	(99)
Ending assets		**42,444**		35,442		36,517
Debt securities						
Net investment income	**4.0%**	**4,937**	4.4%	5,188	4.7%	5,213
Net realised investment gains (losses)	**1.0%**	**1,173**	1.1%	1,299	3.0%	3,396
Net unrealised investment gains (losses)	**5.5%**	**6,688**	(3.7)%	(4,308)	1.1%	1,189
Ending assets		**127,570**		117,675		116,605
Other investments (including derivative liabilities)						
Net investment income	**16.7%**	**812**	12.5%	597	1.8%	514
	(1.0)%	**(50)**	(25.5)%	(1,218)	(7.2)%	(340)

Net realised investment (losses) gains						
Net unrealised investment (losses) gains	**12.9%**	**626**	(4.6)%	(218)	13.1%	620
Ending assets, net of derivative liabilities		**5,228**		4,484		5,078
Deposits						
Net investment income	**0.7%**	**85**	0.8%	85	0.9%	90
Ending assets		**12,158**		11,191		10,819
Total						
Net investment income	**4.0%**	**8,109**	4.2%	8,063	4.2%	7,670
Net realised investment gains (losses)	**1.0%**	**1,929**	0.7%	1,408	3.1%	5,670
Net unrealised investment gains (losses)	**4.4%**	**8,898**	(1.2)%	(2,365)	0.9%	1,591
Ending assets, net of derivative liabilities		**211,110**		190,935		190,926

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Prudential s Insurance Investment Strategy and Objectives

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

Internal Funds Under Management

Prudential manages 70 per cent of its group funds principally through its fund management businesses, M&G in the UK, PPM America in the United States and Eastspring Investments in Asia. The remaining 30 per cent of the Group s funds mainly relate to assets held to back unit-linked, unit trust and variable annuity liabilities.

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

Investments Relating to UK Insurance Business

Strategy

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

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

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

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

Investments

The following table summarises the total investments, net of derivative liabilities, of the UK insurance business at 31 December 2014.

	At 31 December 2014 £m					
	SAIF	PAC with-	Other	Total	Less: assets	Total

		profits fund			to cover linked liabilities and external unit holders [a]	excluding assets to cover linked liabilities and external unit holders
Investment properties	390	9,981	2,365	12,736	(2,912)	9,824
Investment accounted for using the equity method	-	536	-	536	-	536
Financial investments:						
Loans	66	2,599	1,589	4,254	-	4,254
Equity securities	2,508	25,180	15,780	43,468	(12,777)	30,691
Debt securities	2,709	43,937	39,703	86,349	(9,766)	76,583
Other investments	283	5,044	455	5,782	(101)	5,681
Deposits	728	9,526	1,999	12,253	(695)	11,558
Total financial investments	6,294	86,286	59,526	152,106	(23,339)	128,767
Total investments	6,684	96,803	61,891	165,378	(26,251)	139,127
Derivative liabilities	(47)	(930)	(404)	(1,381)	41	(1,340)
Total investment, net of derivative liabilities	6,637	95,873	61,487	163,997	(26,210)	137,787

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

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The following table shows additional analysis of the investments relating to Prudential s UK insurance business, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, at 31 December 2014. The Other column includes investments relating to solvency capital of unit-linked funds and investments relating to non-life long-term business.

	At 31 December 2014 £m					
	With-Profits	PRIL	SAIF	Other	Total	Total %
Investment properties	7,909	1,302	390	223	9,824	7.1
Investments accounted for using the equity method	536	-	-	-	536	0.4
Financial investments:						
Loans:						
Mortgage loans	1,145	361	-	1,224	2,730	
Policy loans	6	-	4	-	10	
Other loans	1,448	4	62	-	1,514	
Total loans and receivables	2,599	365	66	1,224	4,254	3.1
Equity securities:						
United Kingdom:						
Listed	11,610	1	1,101	87	12,799	
Unlisted	865	-	6	-	871	
Total United Kingdom	12,475	1	1,107	87	13,670	9.9
International:						
United States	1,854	-	210	-	2,064	
Europe (excluding the United Kingdom)	8,768	-	732	-	9,500	
Japan	1,296	-	107	-	1,403	
Pacific (excluding Japan)	2,003	-	187	7	2,197	
Other	1,692	-	165	-	1,857	
Total international	15,613	-	1,401	7	17,021	12.4
Total equity securities	28,088	1	2,508	94	30,691	22.3
Debt securities:						
UK government	2,019	2,814	42	569	5,444	
US government	1,168	-	232	-	1,400	
Other	39,035	25,276	2,435	2,993	69,739	
Total debt securities	42,222	28,090	2,709	3,562	76,583	55.6
Other investments:						
Other financial investments	3,115	-	233	2	3,350	
Derivative assets	1,839	440	50	2	2,331	
Total other investments	4,954	440	283	4	5,681	4.1
Deposits	9,527	797	728	506	11,558	8.4
Total investments	95,835	30,995	6,684	5,613	139,127	101.0
Derivative liabilities	(918)	(288)	(47)	(87)	(1,340)	(1.0)
Total investment, net of derivative liabilities	94,917	30,707	6,637	5,526	137,787	100.0

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Equity Securities

Prudential s UK insurance operations, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, had £30,691 million invested in equities at 31 December 2014. Most of these equities support Prudential Assurance s with-profits fund and the SAIF fund, both of which are managed using the same general investment strategy.

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

	At 31 December 2014	
	Market Value £m	**%**
United Kingdom	**13,670**	**44.5**
United States	**2,064**	**6.7**
Europe (excluding United Kingdom)	**9,500**	**31.0**
Japan	**1,403**	**4.6**
Pacific (excluding Japan)	**2,197**	**7.2**
Other	**1,857**	**6.0**
Total	**30,691**	**100.0**

The UK equity holdings are well diversified. Prudential held equities in 380 UK companies at 31 December 2014. The ten largest holdings in UK equities at 31 December 2014 amounted to £3,236 million, accounting for 10.5 per cent of the total UK equity holdings of £30,691 million supporting the UK insurance operations. The following table shows the market value of the ten largest holdings in UK equities at 31 December 2014.

	At 31 December 2014	
	Market Value £m	**Percentage of Total UK equities**
BP	**462**	**1.5**
British American Tobacco	**414**	**1.3**
HSBC Holdings	**405**	**1.3**
GlaxoSmithKline	**364**	**1.2**
Royal Dutch Shell	**318**	**1.0**
Rio Tinto	**294**	**1.0**
Vodafone Group	**288**	**0.9**
BT	**250**	**0.8**
Diageo	**231**	**0.8**
National Grid	**210**	**0.7**
Total	**3,236**	**10.5**

A wide variety of industry sectors are represented in Prudential s equity portfolio. At 31 December 2014, within the £13,670 million in UK equities supporting the UK insurance operations, Prudential had £11,424 million, or 83.6 per cent of the holdings, invested in ten industries. The following table shows the primary industry concentrations based on market value of the portfolio of UK equities relating to the UK insurance business at 31 December 2014.

	At 31 December 2014	
	Market Value £m	Percentage of total UK equities
Banks	**2,688**	**19.7**
Pharmaceuticals & biotechnology	**1,588**	**11.6**
Oil & gas producers	**1,536**	**11.2**
Support services	**905**	**6.6**
Financial services	**892**	**6.5**
Media	**856**	**6.3**
Travel & leisure	**821**	**6.0**
Mining	**734**	**5.5**
Non-Life Insurance	**703**	**5.1**
Mobile telecommunications	**701**	**5.1**
Total	**11,424**	**83.6**

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Debt Securities

At 31 December 2014, of the debt securities held by the UK insurance operations, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, 98.2 per cent were issued by corporations and overseas governments other than the US, 7.1 per cent were issued or guaranteed by the UK government and 1.8 per cent were issued or guaranteed by the US government. These guarantees relate only to payment and, accordingly, do not provide protection against fluctuations in market price that may occur during the term of the fixed income securities.

The following table shows the market value of the debt securities portfolio by maturity at 31 December 2014, in accordance with the policies described in note A3.1 to the consolidated financial statements in Item 18.

	At 31 December 2014	
	Market Value £m	**%**
Securities maturing:		
Within one year	**1,431**	**1.9**
Over one year and up to five years	**14,133**	**18.5**
Over five years and up to ten years	**15,196**	**19.8**
Over ten years and up to fifteen years	**11,360**	**14.8**
Over fifteen years	**34,463**	**45.0**
Total debt securities	**76,583**	**100.0**

The following table shows debt securities by rating:

	At 31 December 2014	
	Market Value £m	**%**
S&P AAA	**8,073**	**10.5**
S&P AA+ to AA	**10,006**	**13.1**
S&P A+ to A	**19,577**	**25.6**
S&P BBB+ to BBB	**14,647**	**19.1**
S&P Other	**2,454**	**3.2**
	54,757	**71.5**
Moody s Aaa	**1,802**	**2.4**
Moody s Aa1 to Aa3	**5,928**	**7.7**
Moody s A1 to A3	**2,546**	**3.3**
Moody s Baa1 to Baa3	**1,042**	**1.4**
Moody s Other	**102**	**0.1**
	11,420	**14.9**
Fitch	**680**	**0.9**
Other	**9,726**	**12.7**
Total debt securities	**76,583**	**100.0**

In the table above, Standard & Poor s (S&P) ratings have been used where available. For securities where S&P ratings are not immediately available, those produced by Moody s and then Fitch have been used as an alternative. Where no external ratings are available, internal ratings produced by the Group s asset management operation, which are prepared on the Company s assessment of a comparable basis to external ratings, are used where possible. Further

information is provided in note C3.3 to the consolidated financial statements in Item 18.

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Real Estate

At 31 December 2014, Prudential s UK insurance operations, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, had £9,824 million of investments in real estate. The following table shows the real estate portfolio by type of investment. The real estate investments are shown at market value in accordance with the policies described in note A3.1 to the consolidated financial statements in Item 18.

	At 31 December 2014	
	Market Value £m	%
Office buildings	**4,201**	**42.7**
Shopping centers/commercial	**3,735**	**38.0**
Retail warehouses/industrial	**1,421**	**14.5**
Development	**181**	**1.8**
Other	**286**	**3.0**
Total	**9,824**	**100.0**

Approximately 54.3 per cent of the UK held real estate investment is located in London and Southeast England with 40.9 per cent located throughout the rest of the UK and the remaining 4.8 per cent located overseas.

Investments Relating to Prudential s US Insurance Business

Strategy

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

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

Investments

The following table shows total investments, net of derivative liabilities, relating to the US insurance operations at 31 December 2014.

	31 December 2014 £m		
	Variable annuity separate	Fixed annuity, GIC and other business	Total

	account assets		
Investment properties	**-**	**28**	**28**
Financial investments:			
Loans	**-**	**6,719**	**6,719**
Equity securities*	**81,741**	**340**	**82,081**
Debt securities	**-**	**32,980**	**32,980**
Other investments	**-**	**1,670**	**1,670**
Deposits	**-**	**-**	**-**
Total financial investments	**81,741**	**41,709**	**123,450**
Total investments	**81,741**	**41,737**	**123,478**
Derivative liabilities	**-**	**(251)**	**(251)**
Total investment, net of derivative liabilities	**81,741**	**41,486**	**123,227**

*Equity securities include investments in mutual funds, the majority of which are equity-based.

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The following table further analyses the investments, net of derivative liabilities of the US insurance operations, excluding the separate account investments supporting the variable annuity business, at 31 December 2014.

	31 December 2014	
	£m	%
Non-institutional		
Investment properties	28	0.1
Loans	6,299	15.2
Equity securities	285	0.7
Debt Securities		
Corporate securities	22,125	53.4
Government securities	3,959	9.5
Residential mortgage-backed securities	1,474	3.6
Commercial mortgage-backed securities	2,118	5.1
Other debt securities	442	1.1
Total debt securities	30,118	72.7
Other investments	1,572	3.8
Derivative liabilities	(41)	(0.1)
Total non-institutional	38,261	92.4
Institutional		
Loans	420	1.0
Equity securities	55	0.1
Debt Securities		
Corporate securities	2,365	5.7
Government securities	13	-
Residential mortgage-backed securities	93	0.2
Commercial mortgage-backed securities	225	0.5
Other debt securities	166	0.4
Total debt securities	2,862	6.8
Other investments	98	0.2
Derivative liabilities	(210)	(0.5)
Total institutional	3,225	7.6
Total		
Investment properties	28	0.1
Loans	6,719	16.2
Equity securities	340	0.8
Debt Securities		
Corporate securities	24,490	59.1
Government securities	3,972	9.5
Residential mortgage-backed securities	1,567	3.8
Commercial mortgage-backed securities	2,343	5.6
Other debt securities	608	1.5
Total debt securities	32,980	79.5
Other investments	1,670	4.0
Derivative liabilities	(251)	(0.6)
Total	41,486	100.0

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

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Debt Securities

Corporate Securities

At 31 December 2014, the US insurance operations had £24,490 million of corporate securities representing 58.7 per cent of the US insurance operations total investments excluding separate account investments. Of the £24,490 million, £20,745 million consisted of debt securities that are publicly traded or trade under Rule 144A under the Securities Act of 1933, as amended (Rule 144A) and £3,745 million consisted of investments in non-Rule 144A privately placed fixed income securities.

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

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

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

	2014 Carrying value		**2013 Carrying value**	
	£m	**% of total**	**£m**	**% of total**
NAIC designation:				
1	**8,569**	**41**	7,254	38
2	**11,132**	**54**	10,658	56
3	**732**	**4**	664	4
4	**295**	**1**	275	2
5	**15**	**-**	21	-
6	**2**	**-**	3	-
	20,745	**100**	18,875	100

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

	2014 Carrying value		**2013 Carrying value**	
	£m	**% of total**	**£m**	**% of total**
NAIC designation:				
1	**1,550**	**41**	1,299	38
2	**2,081**	**56**	2,025	60

3	**102**	**3**	58	2
4	**2**	**-**	2	-
5	**9**	**-**	11	-
6	**1**	**-**	-	-
	3,745	**100**	3,395	100

Residential Mortgage-Backed Securities

At 31 December 2014, the US insurance operations had £1,567 million of residential mortgage-backed securities, representing 3.8 per cent of US insurance operations total investments, excluding separate account investments. At 31 December 2014, of the £1,567 million, of which £1,088 million were prime securities with 76 per cent of the balance rated AA.

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

Commercial Mortgage-Backed Securities

At 31 December 2014, the US insurance operations had £2,343 million of commercial mortgage-backed securities, representing 5.6 per cent of US insurance operations total investments, excluding separate account investments. 50.1 per cent of this total were rated AAA (Standard & Poor s ratings have been used where available and for securities where S&P ratings are not immediately available, those produced by Moody s and then Fitch have been used as an alternative). Due to the structures of the underlying commercial mortgages, these securities do not present the same pre-payment or extension risk as residential mortgage-backed securities.

Other Debt Securities

At 31 December 2014, the US insurance operations had £608 million of other debt securities, representing 1.5 per cent of US insurance operations total investments, excluding separate account investments.

Loans

At 31 December 2014, loans totaled £6,719 million, representing 16.1 per cent of US insurance operations total investments, excluding separate account investments. Of the total, £3,847 million related to commercial mortgage loans and £2,872 million to policy loans. Of the £2,872 million policy loans, £2,025 million were held to back the liabilities for funds withheld under reinsurance arrangement attaching to the purchase of REALIC in 2012.

Commercial Mortgage Loans

At 31 December 2014, commercial mortgage loans represented 9.2 per cent of US insurance operations total investments excluding separate account investments. The average loan size is £7.2 million, collateralised by properties located in the United States.

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

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

	31 December 2014 %
Multi-family residential mortgage loans	**30.5**
Industrial mortgage loans	**27.9**
Retail mortgage loans	**18.6**

Suburban office mortgage loans	**11.7**
Hotel mortgage loans	**9.1**
Other loans	**2.2**
Total	**100.0**

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

	31 December 2014 %
California	**12.3**
Florida	**7.9**
Texas	**7.7**
Illinois	**6.9**
Georgia	**6.2**
Other (sum of all states < 5% each)	**59.0**
Total	**100.0**

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

Policy Loans

Policy loans represented 6.9 per cent of US insurance operations total investments, excluding separate account investments at 31 December 2014. Policy loans are fully secured by individual life insurance policies or annuity policies and are contractual arrangements made under the policy. As described above, £2,025 million out of the £ 2,872 million policy loans were held to back the liabilities for funds withheld under reinsurance arrangement attaching to the purchase of REALIC in 2012.

Equity Securities

Equity securities supporting US insurance operations, excluding separate account investments, totaled £340 million at 31 December 2014.

Other

Other financial investments of £1,670 million, representing 4.0 per cent of US insurance operations total investments, excluding separate account investments at 31 December 2014 were made up of £754 million of limited partnership interests and derivative assets of £916 million.

The largest investment in the limited partnerships category is a £104 million interest in the PPM America Private Equity Fund. The remainder of this category consists of diversified investments in 164 other partnerships managed by independent money managers that generally invest in various equity and fixed income loans and securities.

Investments Relating to Asian Insurance Business

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

The following table shows Asia s investments, net of derivative liabilities, at 31 December 2014. In this table, investments are valued in accordance with the policies described in note A3.1 to the consolidated financial statements in Item 18.

	31 December 2014 £m						
	With-profits business	Unit-linked assets	Other	Total	Less: assets to cover linked liabilities and external unit holders[(a)]	Total excluding assets to cover linked liabilities	%

						and external unit holders	
Investment properties							**-**
Investments accounted for using the equity method	**-**	**-**	**374**	**374**	**-**	**374**	**1.3**
Financial investments:							
Loans	**544**	**-**	**470**	**1,014**	**-**	**1,014**	**3.5**
Equity securities	**6,974**	**11,294**	**932**	**19,200**	**(7,900)**	**11,300**	**39.2**
Debt securities	**12,927**	**2,847**	**7,855**	**23,629**	**(7,915)**	**15,714**	**54.5**
Other investments	**18**	**20**	**10**	**48**	**(20)**	**28**	**0.1**
Deposits	**190**	**243**	**336**	**769**	**(243)**	**526**	**1.8**
Total financial investments	**20,653**	**14,404**	**9,603**	**45,034**	**(16,078)**	**28,582**	**99.1**
Total investments	**20,653**	**14,404**	**9,977**	**45,408**	**(16,078)**	**28,956**	**100.4**
Derivative liabilities	**(119)**	**(7)**	**(17)**	**(143)**	**8**	**(135)**	**(0.4)**
Total investment, net of derivative liabilities	**20,534**	**14,397**	**9,960**	**45,265**	**(16,070)**	**28,821**	**100.0**

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

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

Debt Securities

The following table shows rating categorisation of the debt security investments of Prudential Corporation Asia s long-term insurance fund, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, at 31 December 2014.

	31 December 2014	
	Market Value £m	%
S&P AAA	707	4.5
S&P AA+ to AA	5,330	33.9
S&P A+ to A	2,273	14.5
S&P BBB+ to BBB	1,270	8.1
S&P Other	1,065	6.8
	10,645	67.8
Moody s Aaa	856	5.4
Moody s Aa1 to Aa3	1,118	7.1
Moody s A1 to A3	222	1.4
Moody s Baa1 to Baa3	187	1.2
Moody s Other	11	0.1
	2,394	15.2
Fitch	871	5.5
Other*	1,804	11.5
Total debt securities	15,714	100.0

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

Equity Securities

The following table shows a geographic analysis of equity security investments of Asia s long-term insurance fund, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, at 31 December 2014.

	31 December 2014	
	Market Value £m	%
Hong Kong	5,711	50.5
Singapore	4,619	40.9
Taiwan	610	5.4
Malaysia	245	2.2
Other	115	1.0
Total	11,300	100.0

Description of Property Corporate Property

As at 31 December 2014, Prudential s UK headquartered businesses occupied 68 properties in the United Kingdom, Europe, India and Africa. These properties are primarily offices with some ancillary storage facilities. Prudential s global headquarters is located in London and is held on a freehold basis. Of the remainder, the most significant are offices in London and Reading in England, Stirling in Scotland and Mumbai in India. The property in Stirling is held on a freehold basis, and is leased by the business from PAC s long-term fund. The rest of the properties occupied by Prudential s UK based businesses, in the UK and India, are held leasehold. Elsewhere in Europe, 22 of the properties are occupied leasehold and the rest (twelve) are short-term serviced offices. Sixteen properties are leased in Ghana and Kenya, Africa. The leasehold properties range in size from 500 to 225,000 sq. ft. Overall, the UK, Europe, Africa and India occupied property portfolio totals approximately 892,000 sq. ft.

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Prudential s UK headquartered businesses also hold one surplus owned property and approximately 20 surplus leasehold properties in the United Kingdom, spread geographically throughout the country. This surplus accommodation (i.e. not occupied by the Group but including those sublet) totals approximately 272,000 sq. ft. There are also two surplus land holdings in the United Kingdom, totalling 57 acres. A high proportion of the surplus estate has been sublet to third party occupiers generating income for the Group to cover this overhead. As at 31 December 2014 vacancy within the surplus estate stood at 72,000 sq. ft.

In the United States, Prudential owns Jackson National Life s executive and principal administrative office located in Michigan. Prudential owns a total of seven facilities in Lansing, Michigan, which total approximately 639,054 sq. ft. Prudential also leases premises in Michigan, Colorado, Tennessee, California, Illinois, New York, New Jersey, Georgia, Florida, Wisconsin, Massachusetts, Connecticut, New Hampshire, Pennsylvania, Texas, Maryland and North Dakota for certain of its operations. Prudential holds 32 operating leases with respect to office space, throughout the United States. The leasehold properties range in size from 500 180,000 sq. ft. In the United States, Prudential owns and leases a total of approximately 1,240,000 sq. ft. of property. In addition to the owned and leased properties, Prudential also owns a total of 446 acres of surplus land, all located in Lansing, Michigan.

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

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

Within these countries, Prudential owns 34 property assets, ranging from office space to land holdings. The breakdown of these owned assets by country is as follows:

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

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

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

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

Thailand: nine owned assets All surplus land holdings totalling 35,719 sq. ft.

Prudential has (excluding India but including the China joint venture), a total of 540 operating leases, (external and intercompany leases), totalling approximately 4.66 million square feet of property.

In India, Prudential holds a minority stake (26 per cent) with ICICI in a joint venture which holds the property interests. The property is occupied by the ICICIPru Life and ICICIPru AMC businesses. The holding comprises approximately 680 leased properties, totalling approximately 980,000 sq. ft. There is one owned and occupied asset comprising approximately 40,000 sq. ft. in Mumbai.

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

A UK headquartered business (M&G) has agreed a pre-let transaction with a developer to lease 323,000 sq ft of offices in Central London, commencing in 2018. The building is currently under construction. The United States headquartered business is constructing an additional 260,000 sq. ft. of owned office space adjoining its principal offices in Lansing, Michigan, which will be occupied from 2016 onwards.

There have been no other property transactions subsequent to 31 December 2014 which would have a material impact on the financial position of Prudential.

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

In summary, Prudential owns 17 properties which it also occupies and which are accounted for as owner occupied. These properties are comprised of nine in Asia, one in the UK and seven in the US. ICICIPru also owns and occupies one property in India. The total value of Prudential s owner occupied properties at 31 December 2014 was £332 million. This represents less than 1 per cent of Prudential s total assets.

Prudential is the lessee under 626 operating leases used as office accommodation, comprising 540 leases held by the Asia business, 32 leases held by the US business and 54 leases held by the UK businesses. For the UK based businesses, Prudential holds 13 short-term serviced offices.

Investment Interests

Prudential also holds interests in properties within its investment portfolios accounted for as investment property. At 31 December 2014 the total value of investment properties was £12,764 million and comprised 517 properties held by the UK and 6 held by the US. In total they comprised 3.5 per cent of Prudential s total assets. The UK business holdings account for over 99 per cent by value of the total investment properties.

Competition

General

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

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

- price and yields offered,
- financial strength and ratings,
- commission levels, charges and other expenses,
- range of product lines and product quality,
- brand strength, including reputation and quality of service,

- distribution channels,
- investment management performance and
- historical bonus/contract enhancement and bonus interest levels.

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

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

Asia

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

The global life insurers that are Prudential s competitors in the Asia Pacific region include AIA, Allianz, Aviva, AXA, and Manulife. Other competitors relevant in some of Prudential s key markets include HSBC Life in Hong Kong, Hanwha Life (formerly Korea Life), Kyobo Life and Samsung Life in Korea, Thai Life in Thailand, Great Eastern in Singapore and Malaysia, and China Life, China Pacific and Ping An in China. Prudential s principal competitors in respect of its fund management operations across the region largely comprise multinational asset manager such as J.P. Morgan Asset Management, Schroders, HSBC Global Asset Management, Franklin Templeton, Fidelity Worldwide Investment and Aberdeen Asset Management.

United States

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

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

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

United Kingdom

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

Intellectual Property

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

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

Legal Proceedings

The Group is involved in a number of litigation and regulatory issues. These include civil proceedings involving Jackson, which appear to be substantially similar to other class action litigation brought against many life insurers in the US, alleging misconduct in the sale of insurance products. Whilst the outcome of such litigation and regulatory issues cannot be predicted with certainty, the Company believes that their ultimate outcome will not have a material adverse effect on the Group s financial condition, results of operations, or cash flows.

Sources

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

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SUPERVISION AND REGULATION OF PRUDENTIAL

Supervision and Regulation

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

Since April 2013, the Prudential Regulation Authority (the PRA) has been Prudential s lead supervisor for the purposes of the EU s Insurance Groups Directive (the IGD) and played a principal role in assessing and ensuring the adequacy of Prudential s solvency and financial stability on a Group-wide basis. The regulators supervising the Group do so on a cross-border basis through a regulatory college . The college meets at an annual event hosted by the PRA and includes a number of non-UK regulators who supervise Prudential s overseas operations, as well as representatives from the Financial Conduct Authority (FCA) and European Insurance and Occupational Pensions Authority (EIOPA). In 2014, other participants included representatives from regulators in Singapore, Taiwan, Hong Kong, Malaysia and Michigan (US). The annual PRA college process began in 2014 and EIOPA has full participation rights. The aim of the college is to enhance cooperation between the Group s key regulators.

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

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

Global Regulatory Developments and Trends

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

The IAIS has various initiatives which are detailed in this section. On 18 July 2013, it published a methodology for identifying Global Systemically Important Insurers (G-SIIs), and a set of policy measures that will apply to them, which the FSB endorsed. Groups designated as a G-SII are subject to additional regulatory requirements, including enhanced supervision, development of a Systemic Risk Management Plan (SRMP) and Recovery & Resolution Plan (RRP) and capital requirements. The FSB reaffirmed Prudential s designation as a G-SII on 6 November 2014.

In December 2013, the IAIS issued a consultation document to solicit feedback regarding proposed options for the development of global basic capital requirements (BCR) for G-SIIs. Following a further consultation in July 2014, the IAIS published their final proposals for the BCR on 23 October 2014. See the Group Risk Framework section for

more on this.

Similar national and regional efforts to curb systemic risk and promote financial stability are also underway in certain of the jurisdictions in which Prudential operates, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) in the US (further discussed in US Supervision and Regulation

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Financial services regulatory and legislative issues), and legislation in the European Union related to the financial services industry. The aggregate impact and possible interaction of these regulatory developments is difficult to determine at this stage.

The IAIS is developing a Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). ComFrame is focused on the supervision of large and complex IAIGs, including by establishing a set of common principles and standards designed to assist regulators in addressing risks that arise from insurance groups with operations in multiple jurisdictions. See the Group Risk Framework section for more on this.

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

Following the agreement of the Omnibus II Directive at the end of 2013 and its adoption by the European Parliament on 11 March 2014, regulatory attention is expected to refocus back on compliance with Solvency II, which is expected to be implemented in the UK on 1 January 2016.

The IAIS Insurance Core Principles (ICP), which provide a globally accepted framework for the supervision of the insurance sector and ComFrame evolution, are expected to create continued development in both prudential and conduct regulations over the next two to three years, particularly in the emerging markets of Asia.

Regulatory standards are generally being raised, and insurance companies operating in Asia are subject to increasing regulatory supervision and scrutiny. In general, the pace of regulatory developments has increased since 2008 in most markets, particularly in relation to risk capital, consumer protection and governance requirements. The regulatory environment continues to evolve in Asia, where economies in the region are in various phases of maturity. In general (though there are exceptions), regulators in developing economies continue to build the regulatory framework relevant to their level of economic development. This increased regulatory pressure will continue to affect Prudential s Asian businesses as Asian regulators begin to adopt the new IAIS standards, which is expected to cause sharper focus on risk management systems and a requirement to hold more capital to manage asset and liability positions.

A major focus of regulators and policymakers in recent years has been combating money laundering, terrorist financing, bribery and corruption, as well as enforcing compliance with economic sanctions. Such matters are not limited to certain jurisdictions, although the risks of non-compliance in developing markets are considered higher than in more established markets. In addition, laws in one country can affect how a firm operates in another country. For example, the UK Bribery Act 2010 and the U.S. Foreign Corrupt Practices Act (as amended in 1998) have a very broad jurisdictional reach, allowing for the prosecution of an individual or company with links to the UK or U.S., regardless of where the crime or potential crime occurred.

UK Supervision and Regulation

The Financial Services and Markets Act 2000

Prudential s insurance and investment businesses in the UK are regulated under the Financial Services and Markets Act 2000 (FSMA 2000). In addition, those businesses are subject to various UK laws (for example, the Data Protection Act 1998 in relation to the processing of customer data and various Pension Acts) some of which require the relevant Prudential entity to be licensed or registered. There have been extensive amendments to the FSMA 2000 regime as a result of the Financial Services Act 2012 (FS Act) and the transition to a new regulatory regime described

below. The FS Act also contains some standalone provisions.

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UK regulatory regime

Regulators in the UK have structured themselves around a twin peaks model since 2013, which includes:

- The PRA, which oversees macro-prudential regulation of deposit-takers, insurers and some systemically important investment firms; and
- The FCA, which is responsible for conduct of business regulation of all authorised firms and the prudential regulation of firms not regulated by the PRA. The FCA has also inherited the majority of the market regulatory functions (excluding certain functions which are the responsibility of the Bank of England) previously held by the FSA.

In discharging their respective functions, the PRA and FCA have separate objectives as defined in FSMA 2000 and amended by the FS Act. The general objective of the PRA is to promote the safety and soundness of PRA-authorised persons. The PRA also has an insurance objective, which is to contribute to the securing of an appropriate degree of protection for those who are or may become policyholders. The strategic objective of the FCA is to ensure that the relevant markets that it regulates function properly. The FCA has three operational objectives: to secure an appropriate degree of protection for consumers; to protect and enhance the integrity of the UK financial system; and to promote effective competition in the interests of consumers.

The approach of the PRA and FCA

Close and regular contact between the PRA and FCA and senior management and those individuals in firms performing controlled functions remains a feature of the UK regulatory regime. Both regulators have continued to focus on risk, but with their approaches informed by separate statutory objectives and pursued through distinct supervisory programmes.

To meet its objectives, the FCA s supervision model is based on three pillars: a Firm Systemic Framework (FSF), involving preventative work through structured conduct assessment of firms; event-driven work covering issues which occur outside a firm s assessment cycle; and thematic reviews focused on particular sectors of the market aimed at product issues which the FCA identifies as driving poor outcomes for consumers or endangering market integrity. Under the FSF, Prudential is subject to, amongst other initiatives, a business model and strategy analysis to establish which assessment areas to prioritise over a two-year cycle.

The FCA divides the firms it supervises into one of four conduct classifications (C1 to C4) based on a combination of a measure of a firm s potential impact on FCA objectives and the number of retail customers a firm has, with C1 being the highest risk category. Prudential has been categorised as C2 , the second-`highest risk category. Additionally, as a group also regulated by the PRA with subsidiaries that are prudentially regulated by the FCA, Prudential has been assigned one of four prudential classifications (P1 to P4). Members of the Prudential Group that the PRA prudentially regulates have been categorised as P1 , the highest risk category, as they are considered prudentially critical.

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

Both the PRA and FCA have sought to adopt a more judgment-led approach to supervision while also being more forward-looking in relevant judgments by assessing firms against both current and future risks. The approach of both

the PRA and the FCA is also principles-based, placing less reliance on technical rules. This has resulted in a more intrusive and proactive approach to supervision. The PRA has indicated that, for significant firms such as Prudential, it will conduct detailed analysis of their business models including, in the case of an insurer, forming its own projection of the insurer s ability to generate returns and the associated risks. In line with a more interventionist approach, the PRA has indicated that it will require the insurer to change its business model if it believes that mitigating measures alone cannot adequately reduce material risks to safety and soundness and policyholder protection. Both the PRA and the FCA have placed a significant focus on assessing the governance frameworks and culture that exist within financial firms.

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Overview of FSMA 2000 regulatory regime

Principles for Businesses

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

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

Supervision of management of authorised firms

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

A number of senior managers in the Group Head Office are registered as approved persons for certain of the regulated subsidiaries with either just the PRA or both the PRA and FCA, even though in most cases they are not directors or senior managers of those entities. This is in recognition of the significant influence these managers exert over the regulated subsidiaries. There is a greater regulatory emphasis on individual accountability and more enforcement actions have been taken directly against approved persons in recent times.

In November 2014, the PRA published a consultation paper which proposed a new Senior Insurance Managers Regime (SIMR) broadly in line with that already proposed for the banking sector in the UK, following the Financial Services (Banking Reform) Act 2013. This SIMR would replace parts of the approved persons regime currently in place for insurance firms, and would bring extra emphasis on the conduct of senior managers and their individual responsibility for decisions, which could lead to firms facing regulatory censure. Senior managers will have core responsibilities prescribed to them, according to their role. Under the proposed SIMR, firms would have to prepare a governance map that describes their management and governance arrangements and to ensure there are no gaps in the allocation of responsibilities. There are also some changes to the fit and proper requirements under Solvency II, which will be implemented at the same time as the SIMR comes into force, during 2015. In addition to the new regime for senior managers, a new set of conduct standards will be introduced which will apply to senior managers as well as to a wider class of insurance firm employees to the extent that they perform a key function . A separate paper setting out the regulators proposed approach to Non-executive Directors was released in February 2015.

Intervention and enforcement

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

Both the FCA and the PRA can impose requirements on UK-incorporated unregulated parent undertakings that exert influence over authorised persons. The latter power is of particular potential relevance to the Group given that it is headed by a UK-incorporated unregulated parent undertaking but it remains to be seen how this new power will be

used.

Conduct of Business Rules

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

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

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

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

- required changes in how firms offering advice to retail customers present and describe the adviser services that they offer, including limiting the extent to which such firms can present themselves as independent advisers;
- banned the payment of commission when a personal recommendation is made and required the adoption of adviser charging whereby a firm must set and clearly disclose its tariff of charges to a potential customer and that these product charges (i) are to be facilitated by the product provider, and (ii) their amounts must not be determined by the provider;
- imposed higher qualification requirements as well as continuing professional development and professional standards on advisers; and
- introduced increased reporting requirements on firms in respect of their retail investment advisers.

The FCA announced in 2014 that it will assess whether life insurance firms are operating historic (often termed legacy or heritage) products in a fair manner. This is known as the Life Insurance Review . For example, the project will assess:

- whether firms strategies towards these business lines adequately consider the fair treatment of customers;
- to what extent firms review legacy products to ascertain whether they remain fit for purpose;
- whether customers receive appropriate information about policy benefits;
- the causes of poor fund performance and whether apportionment of costs and expenses to these products is fair; and
- the nature and extent of discontinuance charges that potentially inhibit customers from switching to better performing products.

The FCA clarified that it would be looking at how customers in closed funds are being treated and will be reviewing a representative sample of firms to analyse whether they are treating their customers fairly. The review is underway and will not look at past sales practices.

The FCA conducted a review of the annuities market and found it was not working well for consumers. In March 2014, the FCA launched a Competition Market Study and published the findings in December 2014. This study confirmed that many consumers were missing out on a higher income by not shopping around. Firms are being asked to do further work, especially in relation to enhanced annuities.

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

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

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

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

Financial Crime

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

Regulation of insurance business

Most of Prudential s subsidiaries that carry on insurance business in the UK, including The Prudential Assurance Company Limited (PAC), Prudential Retirement Income Limited, Prudential Pensions Limited and Prudential Holborn Life Limited are dual-regulated firms, meaning that they are regulated by the PRA for prudential purposes and by the FCA for conduct purposes. The exceptions are Prudential Distribution Limited, Prudential Financial Planning Limited and Scottish Amicable ISA Managers Limited, which are regulated by the FCA only due to their business model.

Capital requirements for insurers

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

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

Insurance companies must maintain assets sufficient to meet at all times the relevant capital requirements in respect of both long-term insurance and general insurance business undertaken by the company. The calculation of such capital requirements is dependent on the type and amount of insurance business a company writes. Under the rules in GENPRU, an insurer must hold capital resources equal at least to the Minimum Capital Requirement (the MCR). Insurers with with-profits liabilities of £500 million or more must hold capital equal to the higher of MCR and the Enhanced Capital Requirement (the ECR). The ECR is intended to provide a more risk responsive and realistic measure of a with-profits insurer s capital requirements, whereas the MCR satisfies the current minimum EU standards. The applicability of either the MCR or ECR requirements is evaluated on an entity-by-entity basis.

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

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

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

The rules also require insurers to undertake reverse stress testing. Reverse stress testing requires firms to work backwards from an assumed point of business model failure, to identify the stress scenarios that could result in such adverse outcomes. Each firm must then consider whether the likelihood of these scenarios, taking into account likely management actions, is consistent with its risk appetite and, if not, must initiate actions to address any inconsistencies. Solvency II, an EU initiative to codify and harmonise EU insurance regulation, primarily in relation to the amount of capital a firm must hold to reduce the risk of insolvency, is described further below and will reform prudential regulation of insurers in the EU and will require a complete overhaul of the PRA prudential rulebook. In August 2014, the PRA issued a Consultation Paper that outlined its proposed rules to implement the Solvency II Directive as amended by the Omnibus II Directive. A follow-up to this consultation is still awaited at the time of writing.

Actuarial functions

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

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

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

Distribution of profits and with-profits business

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

With-profits business

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

The PRA and FCA share responsibility for protecting policyholders reasonable expectations in relation to with-profits business. The PRA consulted on its approach to with-profits business in October 2014. Changes in rules are proposed to align the UK s with-profits regulatory regime with Solvency II, when the Directive comes into effect. The PRA views the regulation of with-profits business as an important element of its approach to insurance supervision. The PRA and FCA will continue to liaise on the regulation and supervision of with-profits business according to the framework set out in the with-profits Memorandum of Understanding dated 1 April 2013. The PRA seeks to ensure that any discretionary benefit allocations or other changes with financial implications that the insurer has proposed are compatible with its continued safety and soundness, whereas the FCA has responsibility for monitoring whether the proposed changes are consistent with the insurer s previous communications, the FCA s conduct rules and the overriding obligation to treat customers fairly. The PRA has the power to prevent allocations being made if they would materially impair the firm s safety and soundness.

Pensions

Pensions schemes are regulated independently of the PRA and FCA. In April 2005, the Pensions Regulator was set up as the statutory regulator for all work-based pension schemes. A work-based pension scheme is any scheme that an employer makes available to employees. There is also a separate Ombudsman, the Pensions Ombudsman, who investigates and decides complaints and disputes over the manner in which pension schemes are run.

In March 2014, the UK government announced wide-ranging changes affecting pensions to allow people the freedom to choose how and when to access their pensions during retirement. There are impacts on the retirement market specifically for drawdown. Most individuals, up until the time of this announcement, opted for an annuity at retirement that would pay an income for life. From April 2015, it is proposed that, regardless of size of pension pot, people aged 55 and over will be able to access their pension funds at their discretion, subject to their applicable marginal rate of income tax that year. Customers are delaying action until the new rules take effect.

From April 2015, defined contribution workplace pensions will be subject to new regulatory measures, including charging constraints and additional requirements for scheme governance and disclosure. This will entail changes to the fund proposition and system enhancements. Active members of qualifying schemes for auto-enrolment who currently contribute to default funds that are not charge cap compliant, will only be able to continue to contribute to such funds where they specify to do so. The implementation costs are substantial and future business prospects uncertain. In particular, there are concerns regarding the impact on with-profits funds.

The direct financial impact will include an increase in ongoing operating costs and probable reductions in profit margins for all firms operating in this sector. This may be offset by an increase in market share, if the measures lead to further industry consolidation. It is too early to know the impact of these changes on Prudential UK in particular.

EU Directives on groups

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

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

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

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

New EU solvency framework

The European Commission is continuing to develop a new prudential framework for insurance companies, Solvency II , which will repeal and replace the existing Life, Non-life, Re-insurance and IGD directives. The main aim of this framework is to ensure the financial stability of the insurance industry and protect policyholders through solvency requirements better matched to the true risks of the business. The Solvency II Directive, as amended by the Omnibus II Directive, is due to be transposed into national law in each member state by 31 March 2015 with implementation required from 1 January 2016.

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

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

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

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

Solvency II is a framework directive and, therefore, much of the detail of the rules will be set out in Level 2 implementing measures. In October 2014, the European Commission adopted a legislative act containing these detailed Level 2 measures, which entered into force in January 2015. The EIOPA is also required to develop binding technical standards (which will require the approval of the European Commission) during 2015. These Implementing Technical Standards aim to ensure the uniform application of the Solvency II Directive and have been split into two

parts running to different timescales. Still being consulted on are the Guidelines which are necessary to guarantee convergence of the Solvency II implementation as of the first day of its entry into force.

Further details on Solvency II and its implications for the Group are set out in Item 4 Group Risk Framework, and in Risk Factors Risks related to Prudential s Business.

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ICAS+ and Internal Model Approval

Given that Solvency II is not due to be implemented until January 2016, shorter term regulatory efforts have shifted to ensuring that the momentum built towards better risk management over the last few years is not lost during the interim period. Insurers are also seeking to leverage the improved governance, risk management, and capital models they have developed in preparing for Solvency II.

In the UK, the PRA has allowed firms, such as Prudential, which have been in the internal model approval process (IMAP) to use their Solvency II internal model to meet, as far as possible, current regulatory requirements under the ICA regime. This has been termed ICAS+ and the PRA has, as part of this, continued to evaluate a firm s IMAP progress for UK elements of its internal capital model. Prudential has participated fully in the ICAS+ regime in the UK. Prudential s formal internal model application is expected to be submitted in mid-2015 following transposition of the Solvency II Directive into UK law. In advance of this, Prudential expects to remain in regular contact with the PRA through the pre-application stage of the approval process for the internal model.

EIOPA Solvency II preparatory guidelines

The PRA issued a supervisory statement setting out its expectations of firms during the preparatory phase for Solvency II in December 2013, following an earlier consultation. On 1 April 2014, final guidelines issued by EIOPA on the preparation of Solvency II came into force. The guidelines cover four areas which EIOPA considers fundamental to ensure effective and convergent preparations for Solvency II. In the UK, these have been implemented by the PRA.

Regulation of investment business

Certain of Prudential s subsidiaries are authorised to carry on investment business and are subject to regulation and supervision under FSMA 2000. UK asset management can also be subject to additional regulation in other jurisdictions in which they operate. For example, certain M&G UK subsidiaries which operate outside of the UK are also subject to regulation by local regulatory authorities.

Markets in Financial Instruments Directive (MiFID)

MiFID sets out detailed authorisation and operating conditions for investment firms and regulated markets. In October 2011, the European Commission published proposals to amend MiFID, the MiFID2 Directive and introduce a new Markets in Financial Instruments Regulation (MiFIR). The detailed Level 2 rules are, however, still in consultation and are due to take effect in January 2017. MiFID and MiFIR will have a broad impact on the financial markets in Europe. The new regulations are wide ranging and the greatly increased pre- and post-trade transparency around fixed income trading and ban on all independent advisors and discretionary portfolio managers from retaining most inducements are likely to result in the main impacts on the M&G investment management business.

Capital requirements for investment business

Capital Requirements Directive (CRD) IV is the EU implementation of Basel III, which is a global agreement by the Basel Committee on Banking Supervision in response to the financial crisis. Basel III contains a package of proposals to increase the prudential soundness of banks, and its implementation in the EU is designed to also cover certain investment firms. CRD IV took effect on 1 January 2014. CRD IV has no material impact on Prudential s capital requirements.

Alternative Investment Fund Managers Directive (AIFMD)

The AIFMD, a directive designed to regulate the management and marketing of alternative investment funds, including private equity and hedge funds entered into force on 21 July 2011. EU Member States were required to have implemented the AIFMD by 22 July 2013, with a one-year grace period for firms to gain approval as Alternative Investment Fund Managers (AIFMs). The relevant Prudential entities have been approved as AIFMs and are complying with the Directive as required.

Packaged Retail Insurance-Based and Investment Products Regulation (PRIIPR)

In order to facilitate similar disclosure for all investment products sold to retail clients (including insurance contracts), the European Commission proposed adopting a modified version of the Key Investor Information Document (KIID) for all such products. The KIID will be a two-sided information sheet that will give investors all the key facts and figures about a fund. PRIIPR was agreed by the European Parliament and EU Council of Ministers in March 2014 and will take effect in December 2016. The relevant entities in the Prudential Group to whom PRIIPR will apply are currently reviewing the draft Level 2 rules.

Undertakings in Collective Investments and Transferable Securities Directive (UCITS V)

Following the publication of AIFMD, the European Commission proposed to incorporate some of its provisions on depositaries, remuneration and sanctions into the existing mutual funds directive, UCITS IV. UCITS V was agreed by the European Parliament and EU Council of Ministers in March 2014 and is expected to enter into effect in March 2016. The relevant Prudential Group entities to whom UCITS V will apply are currently reviewing the draft Level 2 rules.

European Market Infrastructure Regulation (EMIR)

The Regulation of the European Parliament and of the Council on OTC derivative transactions, central counterparties (CCPs) and trade repositories, widely known as European Market Infrastructure Regulation, or EMIR , came into force on 16 August 2012, with its key provisions taking effect on a phased basis. Full implementation is expected to be achieved by the end of 2019. EMIR s rules are intended to lessen risk and increase transparency within the OTC derivative markets by introducing for most counterparties: (i) a reporting obligation for all derivatives; (ii) a clearing obligation for eligible OTC derivatives; (iii) measures to reduce counterparty credit risk and operational risk for bilaterally cleared OTC derivatives, including through collateral requirements; (iv) common rules for CCPs and for trade repositories; and (v) rules on the establishment of interoperability between CCPs. The relevant Prudential Group entities have implemented the necessary changes to comply with EMIR requirements currently in effect, including the start of reporting obligations.

Market Abuse Directive / Regulation (MAD2 / MAR)

Following a review of the EU s Market Abuse Directive (MAD), the European Commission proposed a new Market Abuse Regulation (MAR) and a new Market Abuse Directive (MAD2) in October 2011. The proposals included extending the scope of MAD to new trading venues, determining that attempted manipulation and use of inside information constitute market abuse, and providing for a minimum EU-wide level of administrative sanctions and criminal liability for more serious market abuse.

MAD2 and MAR were adopted by the European Parliament in June 2014 and are expected to enter into effect in July 2016. The UK Government has announced that it will not exercise its right under the Lisbon Treaty to opt into MAD2, preferring instead to maintain a modified version of the existing UK current regime for market abuse. M&G will implement the revised rules once the Level 2 implementing legislation and standards have been agreed.

Financial Transaction Tax (FTT)

In February 2013, the European Commission proposed a Council Directive implementing a procedure of enhanced cooperation on a common FTT for a sub-group of eleven EU Member States. Although the UK is not one of the participating Member States, under the current proposal, the FTT could in certain circumstances apply to transactions

in the UK. If a FTT were to be agreed in its current proposed form, M&G may need to review its trading strategy and, from an operational perspective, make changes necessary to comply with any tax collection mechanism established. The FTT remains subject to negotiation amongst the participating Member States.

Asian Supervision and Regulation

1. Regulation of insurance business

Prudential s businesses in Asia are subject to all relevant local regulatory and supervisory schemes. These laws and regulations vary from country to country, but the regulators typically grant (or revoke) licenses and therefore control the ability to operate a business.

Industry regulations are usually widely drawn and include provisions governing both financial matters and the way business is conducted. In general, regulatory regimes will include features governing the registration of agents, regulation of product features, approval of products, asset allocation, minimum capital, the basis for calculating the company s solvency and reserves, the valuation of policyholder liabilities, conditions for outsourcing non-core functions, policyholder and investor protection, as well as anti-money laundering (AML) and know your client requirements and data protection requirements. Regulatory authorities may also regulate affiliations with other financial institutions, shareholder structures and the injection of capital and payment of dividends. Financial statements and other returns are filed with the regulators. The regulators may also conduct physical inspections of the operations from time to time. A number of jurisdictions across Asia require insurance companies to participate in policyholder protection schemes (ie contribute to a fund to support policyholders in the event of an insurance company failing).

The increasingly extraterritorial approach of certain regulators outside Asia, aimed among other things at protecting financial systems from systemic risks and curbing tax avoidance, could have wider consequences on financial groups in the Asia-Pacific region. For example, firms based outside the US are increasingly being required to comply with certain US originated rules like FATCA (see US Supervision and Regulation Implementation of US Foreign Account Tax Compliance Act (FATCA) provisions below), which will impact on the bancassurance business channel as banks will have to set up separate systems to deal with US customers. The effects of anti-bribery legislation in the UK, US and elsewhere have also become increasingly significant outside of such legislations home jurisdictions. Further, Prudential Corporation Asia s (PCA s) business units will be required to adhere to Prudential s group-wide policy designed to comply with the EU Solvency II requirements (although they will not each be required to be compliant on a solo entity basis). Asian regulators are monitoring closely how Solvency II is developed and implemented but are not currently requiring regulated insurance entities to comply.

Certain additional details of the regulatory regimes to which PCA s insurance operations are subject are discussed below:

Hong Kong

Overview

Prior to 2014, the Hong Kong insurance business operated as a branch of PAC. Accordingly, the branch was indirectly regulated by UK regulators, as a result of PAC s requirements to satisfy relevant UK capital requirements in addition to those of the local laws and regulations. Its insurance operations were directly regulated by the relevant Hong Kong regulators.

The Hong Kong branch of PAC was domesticated on 1 January, 2014, creating two subsidiaries, Prudential Hong Kong Limited (PHKL) and Prudential General Insurance Hong Kong Limited (PGHK), to separately manage the life and general businesses. Both entities are solely regulated by the relevant regulators in Hong Kong.

The Office of the Commissioner of Insurance (the OCI) is currently the regulatory body that administers the Insurance Companies Ordinance (the ICO). The OCI is headed by the Commissioner of Insurance who has been appointed as the Insurance Authority (the IA) for administering the ICO. The principal functions of the IA are to ensure that the interests of policyholders or potential policyholders are protected and to promote the general stability of the insurance industry, including by authorising insurers to carry on insurance business in Hong Kong, regulating insurers conduct primarily through the examination of the annual audited financial statements and

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business returns insurers submit, and development of legislation and guidelines on insurance supervision. A key supervisory responsibility relates to solvency margin requirements contemplated by the ICO, as further discussed below.

The Financial Services and Treasury Bureau is in the process of drafting legislation to facilitate the transition to an Independent Insurance Authority (IIA) in Hong Kong. In October 2013, a working group was established to ensure a smooth transition to the statutory licensing regime under the IIA. Legislation is being enacted by way of the Insurance Companies (Amendment) Bill 2014 to facilitate the establishment of the IIA by mid-2015. Both subsidiaries are also subject to the codes and guidance developed by a self-regulatory body the Hong Kong Federation of Insurers (the HKFI). HKFI actively promotes its self-regulatory regime with respect to areas like conduct of insurers and insurance intermediaries, cooling off initiatives, policy replacement and initiative on needs analysis. The Insurance Agents Registration Board of the HKFI is responsible for administering the registration and approval of insurance intermediaries of insurance agents, their responsible officers and technical representatives; and handling complaints against them and providing enquiry services to and handling complaints from the public relating to insurance agents.

In addition, the sale of mandatory pension products by agents is regulated by the Mandatory Provident Fund Authority (the MPFA), which licenses and supervises the conduct of MPF intermediaries.

The Hong Kong Life business is also regulated by the Hong Kong Securities and Futures Commission (the SFC) for its offering of investment linked products.

Capital requirements

Under the ICO, an insurer is required to maintain at all times an excess of assets over liabilities of not less than a required solvency margin. The objective is to provide a reasonable safeguard against the risk that the insurer s assets may be inadequate to meet its liabilities arising from unpredictable events, such as adverse fluctuations in its operating results or the value of its assets and liabilities.

For long-term business insurers, the ICO stipulates an absolute minimum solvency margin of HK$2 million. Above this minimum level, solvency margins are determined in accordance with the Insurance Companies (Margin of Solvency) Regulation (Chapter 41 F of the Laws of Hong Kong), which sets out a series of calculations to be used depending on the particular class of long-term business involved.

For general business insurers, the ICO stipulates an absolute minimum solvency margin of HK$10 million. Above these minimum levels, solvency margins are calculated on the basis of the greater of an insurer s relevant premium income (defined as the greater of gross premium income after deduction of reinsurance premium payments or 50 per cent of gross premium income) or relevant outstanding claims (defined as the sum of unexpired risks plus the greater of 50 per cent of claims outstanding before deduction of sums recoverable from reinsurers or the amount of claims outstanding after deduction of sums recoverable from reinsurers).

There is also a consultation currently underway by the IA in considering moving towards a risk-based capital (RBC) regime. The consultation is in its very early stage and is seen as responsive to the RBC -related Insurance Core Principles issued by the IAIS in 2011.

Indonesia PT. Prudential Life Assurance

Overview

PT. Prudential Life Assurance is authorised to carry on long-term (ie, for an indefinite period) insurance business in Indonesia. Prudential s operations in Indonesia are authorised to distribute life insurance products based on either conventional or Shariah principles, through agency and bancassurance (including direct marketing) channels. While the regulations for life products based on conventional principles are fully developed (in accordance with current market conditions), the government has promulgated new regulations in relation to life products with Shariah principles.

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The Otoritas Jasa Keuangan (OJK) is the regulator responsible for supervising the banking industry, capital markets and the insurance industry. Established as an independent regulator in 2013, the OJK has assumed supervisory responsibility of the non-bank financial institutions from the Ministry of Finance (MoF) and the banking sector from Bank Indonesia (BI). The financial regulatory regime in Indonesia now operates on a twin peaks model with the OJK responsible for microprudential supervision and BI retaining its macroprudential responsibilities. The Indonesia Life Insurance Association (AAJI) continues to act as a conduit between insurers and the MoF and OJK in terms of the development of new regulations and guidelines. Insurance sales forces are licensed by the AAJI. The Indonesia Sharia Insurance Association (AASI) acts in the similar capacity as AAJI in relation to the Shariah (known as Syariah in Indonesia) business. The implementation of AML controls in the insurance industry is monitored by the Indonesian Financial Transaction Reports and Analysis Center (or *Pusat Pelaporan dan Analisis Transaksi Keuangan* in Indonesian (the PPATK)).

The OJK regulations on Consumer Protection (POJK1) came into force on 6 August 2014. Accordingly, the implementing circulars covering the five key areas of Financial Literacy, Complaints Handling and Settlement, Information on Products and Services, Standard Agreements, and Customer Confidentiality were issued between February and September 2014.

The new Insurance Law also came into effect on 23 September 2014, replacing the Insurance Law No. 2 1992. This legislation brings across wide fundamental changes, such as ownership and control, the establishment of an insurance guarantee program (further rules only expected from 2018 onwards), spinning off Shariah (Takaful) window operations from the conventional business within 10 years, and the imposition of stiffer penalties and sanctions for non-compliance.

Capital requirements

The minimum capital requirement for insurers who operate in Indonesia is Indonesian Rupiah (IDR) 100 billion. Further, the minimum regulatory requirement for solvency margin is 120 per cent, which is a percentage of net admitted assets, as defined by the regulation, to the minimum risk-based capital for regulatory solvency.

In March 2014, the OJK instituted an annual levy on insurance companies for general OJK supervision in accordance to Regulation 11 of 2014. The quantum of the levy imposed is 0.045 per cent of the value of the assets, with a minimum of IDR 10 million (US$770).

Singapore Prudential Assurance Company Singapore (Pte.) Limited

Overview

Prudential Assurance Company Singapore (Pte.) Limited is registered by the Monetary Authority of Singapore (the MAS) to design and sell both life and general insurance business pursuant to the Singapore Insurance Act.

Under the Singapore Insurance Act, the MAS is responsible for insurance regulation and supervision of insurance companies. MAS regulation covers, among other things, the appointment and training of representatives, maximum tier structure, loans and advances, disciplinary action, product disclosure, sales processes and replacement (switching) of life policies. The MAS also has responsibility for supervising compliance with AML provisions, though suspicious transactions must also be notified to the Commercial Affairs Department, an enforcement agency of the Singapore Police Force.

Another relevant regulatory authority for the Singapore business is the Central Provident Fund (the CPF) Board, which acts as a trustee of social security savings schemes jointly supported by employees, employers and the government. The CPF Board regulates insurers in the operation of various CPF schemes including the CPF Investment Scheme where CPF monies are used by policyholders to purchase insurance policies such as annuities and investment linked policies.

The MAS and CPF Board have very detailed regulatory frameworks to govern insurance companies and the distribution of insurance products in Singapore.

Capital requirements

A registered insurer is required at all times to maintain a minimum level of paid-up ordinary share capital and to ensure that its financial resources are not less than the greater of (i) the sum of the aggregate total risk requirement of all insurance funds established and maintained by the insurer under the Singapore Insurance Act; (ii) where the insurer is incorporated in Singapore, the total risk requirement arising from the assets and liabilities of the insurer that are not attributable to any insurance fund established and maintained under the Singapore Insurance Act (including assets and liabilities of any of the insurer s branches located outside Singapore); or (iii) a minimum amount of 5 million Singapore Dollars (US$3.6 million).

Registered insurers in Singapore are subject to an RBC framework. The framework sets out the valuation methodology for assets and liabilities, rules relating to the operations of life insurance funds, capital requirement rules, the role of actuaries, and a set of statutory reporting standards. An insurer must notify the MAS when it has failed or is likely to fail to comply with the mandated RBC indicators or when a financial resources warning event, defined as an event that results in the financial resources of the insurer being less than 20 per cent of the aggregate of (i) mentioned immediately above, or a minimum amount of 5 million Singapore Dollars, has occurred or is likely to occur.

The MAS also has the authority to direct that the insurer satisfy capital adequacy requirements in addition to those set forth under the Singapore Insurance Act if the MAS considers such additional requirements appropriate.

Malaysia Prudential Assurance Malaysia Berhad

Overview

Prudential Assurance Malaysia Berhad has a composite licence to carry on both life and general insurance business in Malaysia.

The Bank Negara Malaysia (BNM) is the central bank of Malaysia and is the regulatory body responsible for supervising and regulating the financial services sector, including the conduct of insurance and Takaful business. BNM places considerable emphasis on fair market conduct by the insurance industry and protection of consumers interests. BNM is also responsible for administering legislation in relation to AML matters. Further, under the Financial Services Act, 2013 (the FSA), BNM may enforce sanctions on financial institutions.

In addition, Prudential Assurance Malaysia Berhad is a member of the Life Insurance Association of Malaysia and the General Insurance Association of Malaysia, which are both self-regulated bodies. Resolutions and circulars issued by these associations are binding on the member insurance companies.

The regulatory and supervisory framework of Malaysia entered a new stage of its development with the introduction of the IFSA on 30 June 2013. The FSA is now the principal legislation governing insurance business in Malaysia. Under this new statutory framework, insurers are required to restructure their lines of business. Composite insurers will be required to establish separate entities or divest one of their lines of business within a period of five years. The regulations also require additional resources to be allocated to address any weaknesses of internal controls within the business. The FSA also places greater accountability on the board of directors and senior management in their management and oversight of an insurer. During 2014, BNM issued a number of guidelines aimed at further enhancing the effectiveness of the control functions, governance framework and overall supervision of both conventional insurers and Takaful operators. These include Guidelines on Regulating and Supervising Financial Groups (issued in May 2014), Guidelines on Appointed Actuary (issued in April 2014 and effective from 1 January 2015), Guidelines on External Auditors (issued in August 2014 and effective from 1 January 2015) and Guidelines on

Operational Risk Reporting (issued in September 2014). In June 2014, BNM issued a concept paper on operational risk, setting out proposed standards and guidance in relation to the management of operational risks in all activities, products and services offered by financial institutions. In October 2014, BNM issued a concept paper to promote higher standards of compliance in financial institutions, highlighting the importance of a strong compliance culture underpinned by high ethical standards and integrity. This paper stressed the importance of setting the tone from the top and encouraged management not only to adhere to regulatory requirements, but also high standards of ethical conduct.

In November 2013, the BNM released a consultation paper on Life Insurance and Family Takaful Framework , setting out proposals to support the long-term sustainable growth and development of the life insurance and family Takaful industry. The proposals are expected to expand the distribution of life insurance and Takaful and also

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strengthen market practices by enhancing consumer protection requirements. The key proposals include partial removal of operating cost limits offset by caps on allocation rates for unit link products, diversification of distribution by increasing penetration of bancassurance and zero-commission direct marketing, encouraging the establishment of more independent financial advisers by lowering capital requirements, and remuneration of intermediaries based on a balanced scorecard system.

Capital requirements

Minimum paid up share capital for insurers is RM 100 million (US$27 million).

BNM has introduced an RBC framework aimed at improving the risk management practices of insurers. Under the RBC framework, insurers are required to maintain a capital adequacy level that is commensurate with their risk profiles. Each insurer is required to determine the adequacy of the capital available in its insurance and shareholders fund to support the total capital it requires. This serves as a key indicator of the insurer s financial resilience and is used by BNM to determine the need for supervisory interventions.

Under the RBC framework guidelines, the Board of Directors and senior management of an insurer are also expected to identify, monitor and control risks which are not adequately addressed under the framework. An insurer is also expected to manage actively its capital adequacy by taking into account the potential impact of its business strategies on its risk profile and overall financial resilience. BNM has set a Supervisory Target Capital Adequacy Level of 130 per cent.

BNM implemented the internal capital adequacy assessment process (ICAAP) regime for the insurance sector in September 2012. This set out the framework for meeting risk-based capital requirements. The ICAAP is a comprehensive and forward-looking assessment which requires insurance companies to consider material risks and to demonstrate how these risks will be addressed by their capital management program.

Malaysia (Takaful business) Prudential BSN Takaful Berhad

Overview

Prudential BSN Takaful Berhad (Prudential Takaful) (a Prudential joint venture with Bank Simpanan Nasional) was the first overseas insurer to be granted a domestic Takaful License in Malaysia.

The Takaful business in Malaysia is also regulated by BNM. In addition, Prudential Takaful is required to be a member of the Malaysian Takaful Association (MTA), an association for Takaful operators that seeks to improve industry self-regulation through uniformity in market practice and to promote a higher level of co-operation.

Takaful in Malaysia is considered to be part of mainstream mercantile law, and is subject to the civil court structure. It is not regulated by Shariah law in Shariah courts. However, the operations of a Takaful Operator (TO) must conform to the rules and requirements of Shariah as regulated in the Islamic Financial Services Act 2013 (IFSA), which came into effect from 30 June 2013, repealing the earlier Takaful Act 1984. The IFSA now provides a comprehensive legal framework that is fully consistent with Shariah in all aspects of regulation and supervision, from licensing to the winding-up of an institution. The IFSA is similar to the FSA issued for conventional insurers. As applicable for conventional insurers, composite TOs will also be required to establish separate entities or divest one of their lines of business. One key implication of the IFSA for joint venture TOs (such as Prudential Takaful) is the requirement to establish a financial holding company. This applies to any company which holds an aggregate interest in shares of more than 50% in a licensed person, or 50% or less in a licensed person but has control over the licensed person (if

Bank Negara considers it necessary).

The IFSA recognises the BNM s Shariah Advisory Council (SAC) as the sole authority on Shariah matters. As the reference body and advisor to BNM on Shariah matters, the SAC is also responsible for validating all Takaful products to ensure their compatibility with Shariah principles. A TO is also required to establish a Shariah Committee, approved by BNM, to which the SAC will give guidance and advice on operations and business activities. BNM has also issued a specific Shariah Governance Framework that prescribes governance arrangements for Islamic Financial Institutions, including TOs.

The BNM s consultation paper on Life Insurance and Family Takaful Framework referred to in the sub section above also impacts on the family Takaful industry.

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Capital requirements

The Takaful Operational Framework, which came into force on 2 January 2012, strengthens the operational and valuation requirements of Shariah law such that the paid-up capital requirement is RM 100 million (US$27 million). The regulator has also published a new RBC framework for Takaful which aims to facilitate sound management of capital, aligned to the TO s risk profile. Full implementation began in January 2014.

Thailand Prudential Life Assurance (Thailand) Public Company Limited

Overview

Prudential Life Assurance (Thailand) Public Company Limited (PLT) holds a life insurance license and is authorised to offer life and general insurance products. This also includes an authorisation to offer products with an investment linked feature.

PLT is regulated and supervised by the Office of Insurance Commission (OIC), the independent regulatory organisation handling day-to-day insurance business affairs and reporting to the Ministry of Finance. The OIC has the power to manage and supervise insurance companies, protect insured persons and the general public, implement policies with respect to insurance funds, and regulate the professional conduct, qualifications and licensing of insurance brokers, agents and actuaries.

In respect of AML, all life insurance businesses are also regulated by the Anti-Money Laundering Office (AMLO). All suspicious transaction reporting is to be made to Thailand s Financial Intelligence Unit (FIU).

In the third quarter of 2014, the OIC released its third Insurance Development Plan (2015-2019) to further develop and strengthen the life insurance industry. This plan outlines three key strategies: (i) restructuring the industry and lifting operating standards; (ii) enhancing efficiency and building a competitive environment; and (iii) improving insurance awareness and further enhancing the knowledge of insurance personnel.

The 2013 draft regulations covering audit, internal controls and governance were implemented in June and August 2014. These regulations aim to strengthen the management and oversight of insurance companies. Key requirements include mandating more independent directors in the various governance fora and prescribing terms of conduct for audit committee members. These regulations also prescribe formal reporting procedures for companies to bring matters to their boards of directors or to their audit committees.

Capital requirements

Effective from September 2011, all insurance companies are required to comply with the RBC framework. Capital adequacy is measured based on the Capital Adequacy Ratio (CAR), which is determined as the Total Capital Available divided by the Total Capital Required, using the appraisal value of assets and liabilities as prescribed by OIC Notifications. The capital to be preserved should be not less than the sum of capital for all risks and assets as prescribed in the regulation, subject to a minimum requirement of 50 million Thai Baht (US$1.5 million).

Insurers are required by law to maintain capital greater than the prescribed minimum CAR of not less than 100 per cent. However, in case the insurer has a CAR of less than 140 per cent, the OIC may intervene to oversee the insurer s financial status.

Taiwan PCA Life Assurance Company Limited

Overview

PCA Life Assurance Company Limited is licensed to conduct life insurance business in Taiwan.

The Financial Supervisory Commission (FSC) is responsible for regulating the entire financial services industry, including the banking, securities and insurance sectors. The FSC s responsibilities include supervision, examination and investigation. The Insurance Bureau (IB) under the FSC acts as the executive supervisory authority for the FSC and is responsible for the insurance sector, while the Financial Examination Bureau (the FEB) principally carries out examinations and on-site visits of all financial institutions, including insurance companies, generally every two years. The Investigation Bureau under the Ministry of Justice is responsible for supervision of AML and counter financing of terrorism (CFT)efforts.

Capital requirements

The Insurance Act requires all insurance companies to maintain an RBC ratio of not less than 200 per cent. The ratio is determined as the adjusted net capital compared against the risk-based capital. This measurement takes into consideration asset, insurance, interest and other relevant risks as required in calculating the capital on a risk-adjusted basis. Any company failing the threshold may be subjected to measures ranging from restrictions in business operations to the withdrawal of business license.

The regulator may also introduce different ratio limits for the purpose of qualifying insurance companies to conduct certain business activities, such as imposing limitations on foreign investment by such companies.

South Korea PCA Life Insurance Company Limited

Overview

PCA Life Insurance Company Limited is authorised to carry on life insurance business in South Korea including but not limited to casualty insurance, illness insurance, nursing insurance and incidental business and services related thereto.

South Korea s financial supervision structure is composed of the Financial Services Commission (the FSC) and the Financial Supervisory Service (the FSS). As South Korea s principal supervisory authority, the FSC is given a broad statutory mandate to carry out three key functions: financial policy formulation, financial institution and market oversight, and anti-money laundering. It also issues regulatory licenses to financial institutions. The FSS acts as the executive supervisory authority for the FSC and principally carries out examination of financial institutions along with enforcement and other oversight activities as directed or charged by the FSC.

In respect of a AML, the Korea Financial Intelligence Unit leads the government s AML and CFT efforts by formulating and implementing AML/CFT policies and regulations, supervising and overseeing financial institutions compliance to the AML/CFT obligations and collecting and analysing reports filed by financial institutions.

In recent years, the FSC has moved away from its interventionist approach in response to the evolving and liberalised landscape. The most prominent change has been a deregulation in asset management and product design activities. However, in connection with deregulation, the FSC has also sought to strengthen supervision.

Capital requirements

A risk-based supervision framework applies to insurers, encompassing an RBC solvency requirement, a risk assessment and application system (RAAS), which assesses insurers various risks, relevant internal controls, and risk disclosure.

Under the RBC solvency requirement, the ratio of an insurer s available capital to required capital is calculated, and the analysis of equity capital used to determine capital adequacy must take into account market, credit, operational, insurance and interest rate risks, which are not taken into consideration under the solvency margin requirement. The scheme requires the RBC ratio be calculated based on integrated financial statements reflecting assets, liabilities and capital of affiliates and subsidiaries.

In the event an insurer fails to satisfy the applicable capital adequacy requirement and this poses a threat to the financial soundness of that insurer in South Korea, the FSC may take corrective action, ranging from issuing a recommendation to an insurer to increase its capital reserves or to restrict its investments in high-risk securities and other assets to issuing an order to an insurer to suspend its business or transfer its business to a third party.

On 31 July 2014, FSS announced plans to improve their supervisory system on the insurers financial solvency. New changes are expected in phases and would involve strengthening RBC capital requirement from various risk assessments, adopting the Own Risk & Solvency Assessment (ORSA) system & disclosure and introducing IFRS reporting. These actions are part of the regulator s efforts to improve financial consumer protection, achieving greater consistency with global regulatory standards and adopting a new accounting standard. Actual implementation is expected to be in 2018.

China CITIC-Prudential Life Insurance Company Limited

Overview

CITIC-Prudential Life Insurance Company Limited (Prudential s joint venture with CITIC in which Prudential has a 50 per cent share) is authorised to conduct life insurance business in China. To date, CITIC-Prudential Life had business across China including the key markets of Guangdong, Beijing, Shanghai, Shenzhen, Hubei, Shandong, Zhejiang, Jiangsu, Tianjin, Guangxi, Fujian and Hebei.

The body responsible for regulation of the insurance sector is the China Insurance Regulatory Commission (CIRC). CIRC reports directly to the State Council. CIRC is authorised to conduct the administration, supervision and regulation of the Chinese insurance market, and to ensure that the insurance industry operates in a stable manner in compliance with the law. CIRC also has local offices in all 31 provinces and selected direct administrative cities and regions across the country which set and administer implementation rules and guidelines in the application of the regulations introduced by CIRC.

CIRC has focused specific attention on the area of risk prevention, with five identified lines of defence against risks, namely internal management and control systems, supervision of solvency adequacy, on-site inspection, fund management regulation and insurance security fund. In response to the global financial crisis, more importance has been attached to the supervision of internal control systems, corporate governance, and market conduct and information disclosure by insurance companies.

Market conduct remains a key topic for CIRC with detailed guidelines and rules introduced in 2013 related to the areas of complaint handling and dealing with specific illegitimate sales activities.

The People s Bank of China (PBOC) is entrusted with responsibility and authority to regulate all anti-money laundering activities in China and has actively been developing rules and guidance, requiring insurance companies to abide by the PRC s main AML law and regulations in connection with capital investment, transfers and set-up of new branches, and specify senior management s responsibilities on AML.

Capital requirements

The minimum registered paid-up capital of a foreign invested insurance company is RMB200 million (US$32.5 million). A similar requirement is imposed on a Chinese branch of a foreign insurance company. Both foreign invested insurance companies and Chinese branches of foreign insurance companies are required to maintain a solvency ratio that is not lower than 100 per cent. Under relevant PRC regulations, the solvency ratio is the ratio of

actual capital to the minimum capital requirement applicable to the insurer pursuant to relevant regulations. The actual capital is the difference between the admitted assets and admitted liabilities. The CIRC requires solvency reports to be submitted quarterly, annually or *ad hoc* as required by the CIRC. Where an insurer is not able to meet its solvency requirement, it is required to immediately report to the CIRC.

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Philippines Pru Life Insurance Corporation of UK

Overview

Pru Life Insurance Corporation of UK is licensed in the Philippines as a life insurance company and is also permitted to offer health, accident and disability insurance.

The Insurance Code of the Philippines, as amended (Insurance Code), gives the power to supervise and regulate the operations and business of insurance companies to the Insurance Commission (IC). The IC is a government agency under the Department of Finance, and is headed by the Insurance Commissioner. IC regulation and supervision seeks, amongst other things, to ensure that adequate insurance protection is available to the public at a fair and reasonable cost and to ensure the financial stability of the insurance industry so that all legitimate claims of the insured public are met promptly and equitably, and to safeguard the rights and interests of the insured.

Major revisions were made to the Insurance Code in 2013 with the two key objectives of allowing the insurance industry to better compete with the banks by removing the need for joint venture arrangement in conducting bancassurance business, and preparing insurance companies for the implementation of ASEAN Free Trade Area in 2015 by requiring staggered increases in capitalisation.

Capital requirements

The revised Insurance Code requires new insurance companies to have a paid-up capital of at least Php 1 billion (US$22.6 million), whilst all existing insurance companies must comply with the staggered increase in net worth of Php 250 million from June 2013 to Php 1.3 bn by the end of 2022. According to the Insurance Code, net worth shall consist of (a) paid-up capital, (b) retained earnings, (c) unimpaired surplus, and (d) revaluation of assets as may be approved by the Insurance Commissioner.

The Insurance Code also provides the President of the Philippines with the authority to order a periodic review every two years of the capital structure set out above to determine the capital adequacy of the local insurance industry. For this purpose, a review committee consisting of representatives from Department of Finance, the Insurance Commission, the National Economic and Development Authority, the Securities and Exchange Commission (of the Philippines) and other agencies which the President may designate, shall conduct the review and may recommend to the President to adopt adjustments to the capital requirements of insurance companies.

India ICICI Prudential Life Insurance Company Limited

Overview

ICICI Prudential Life Insurance Company Limited (Prudential s joint venture with ICICI Bank Limited in which Prudential has a 26 per cent share) is authorised to carry on long-term life insurance business in India.

Insurance is subject to federal regulation in India. The Insurance Regulatory & Development Authority (IRDA) which was set-up under the IRDA Act, 1999, is the regulator for insurance business in India. The IRDA s duties include issuing certificates of registration to insurance companies, protecting the interests of policyholders, and regulating, promoting and ensuring the orderly growth of the insurance industry.

The principal legislation for insurance business is the Insurance Act, 1938. Regulations and guidelines on specific matters have also been notified to carry out the purposes of the Insurance Act and to provide rules and norms for

conduct of operations. In relation to AML & CFT requirements, insurers must also adhere to requirements of the Prevention of Money Laundering Act, 2002 and specific guidelines issued by IRDA in this regard. The Financial Intelligence Unit-India (FIU-IND) is entrusted with the responsibility of receiving cash/suspicious transaction reports, analysing them and, as appropriate, disseminating valuable financial information to intelligence/enforcement agencies and regulatory authorities.

The company is also a member of the Life Insurance Council, the industry association for life insurance companies.

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In October 2012, the cabinet approved an amendment to the Insurance Bill 2008 to raise the Foreign Direct Investment (FDI) from 26 per cent to 49 per cent. Besides raising the FDI ceiling, the Insurance Bill proposes about 100 amendments, which include key changes such as placing responsibility on insurers for the acts and omissions of its agents. The Insurance Bill was notified and made effective from 26 December 2014 with the issue of The Insurance Laws (Amendment) Ordinance, 2014. The Insurance Amendment Bill was passed by both the upper and lower houses by the Indian Parliament in March 2015 and the FDI percentage can be expected to change in a number of joint ventures.

Other significant regulatory developments expected in 2015 include a pilot of policy digitisation (the IRDA is expected to further revise its guidelines on digitising insurance policies) and the publication of guidelines to regulate policy churn/replacement. In addition, effective in 2015, insurers will be required to post details of unclaimed amounts (subject to a minimum claim amount) on their respective websites.

The IRDA has also established a working group to conduct a comprehensive review of the corporate governance rules for insurers with a view to harmonising it with the governance and disclosure requirements of the Companies Act 2013. The workgroup is expected to complete its work by early 2015. In addition, a joint taskforce has been established by the IRDA, the Pensions Funds Regulatory and Development Authority (PFRDA) and the Securities and Exchange Board of India (SEBI) to look into the varying commission structures across insurance, pensions and mutual funds.

In the space of investment, the IRDA is looking to allow insurers to deal in equity derivatives and exploring the viability to invest in Real Estate Investment Trusts.

Capital requirements

Every insurer must maintain an excess of assets over liabilities and the Required Solvency Margin (RSM) for an insurer is the higher of Rs.500 million (US$8 million) or formulaic calculation of net premium or formulaic calculation of net claims. The Available Solvency Margin, which is the excess in the policyholder funds and shareholder funds, must be at least 150 per cent of the RSM.

Vietnam Prudential Vietnam Assurance Private Limited

Overview

Prudential Vietnam Assurance Private Limited is licensed and regulated by the Ministry of Finance of Vietnam (the MoF) as a life insurance company. An insurance company is not permitted to operate both life and non-life insurance at the same time, except in the case of a life insurance company that offers personal health and protection care insurance as a supplement to life insurance.

The Insurance Division of the MoF specifically undertakes the supervision of insurance companies. The fundamental principles of the operation of insurance companies are set out in the Insurance Business Law.

Generally, the Insurance Business Law and its guiding regulations focus on administrative supervision of insurance operations. In practice, the Insurance Business Law reserves most of its items for insurance contracts (ie, for the terms and conditions of policies) in order to protect policyholders interests. Furthermore, the MoF has issued the new regulation on bankruptcy procedures for insurers, securities and financial institutions in late 2008, to allow it to take timely intervention to control the solvency of insurance companies.

AML controls in the insurance industry are monitored by the Anti-Money Laundering Department under the Banking Inspection, State Bank of Vietnam. In relation to AML, a new circular was published in February 2014 to establish electronic reporting of large cash transactions and enhanced due diligence, including ongoing diligence of high -risk customers. A circular on insurance business carried out by credit institutions and branches of foreign banks was also effected in September 2014, strengthening market conduct requirements on licensing and training, including monitoring of credit institutions and bank staff.

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Other significant regulatory developments include the draft amendment to Circulars 194 on 17 December 2014, amending Circulars 124 and 125 (issued previously). Circular 194 provides further guidance in relation to the implementation of the Insurance Business Law, and took effect on 1 February 2015. Significant changes include the requirement that insurance businesses use the same compensation scheme for new and current agents, removal of the requirements of training time and trainer s criteria, and agent licence examination to also be organised by the MoF.

Capital requirements

Insurers are required to have funds of at least Vietnamese Dong 600 billion in capital, throughout the course of their operations. Further, solvency capital requirement is determined as 4 per cent of reserves plus a specified percentage of 0.1 per cent of sums at risk for policies with original term less than or equal to five years or 0.3 per cent of sums at risk for policies with original term of more than five years. An additional capital requirement of Vietnamese Dong 200 billion is also required for companies transacting unit-linked business.

Cambodia Prudential (Cambodia) Life Assurance Plc

The company was granted in-principle approval in June 2012 to establish life insurance operations in Cambodia and received its full operating licence from the Ministry of Economy and Finance (MEF) on 31 December 2012 and started selling life insurance policies in January 2013.

The Insurance and Pension Department of the Financial Industry Department, a division of the MEF, is the insurance regulator.

Insurance activities are principally governed under the Insurance Law, which came into effect in 2000 (and was further amended in 2014) and the Sub-Decree on Insurance, which was adopted by the Government in September 2001. Specific guidelines on aspects of insurance operations and corporate governance have also been notified by the MEF.

Capital requirements

A life insurance company is required to have a minimum capital of International Monetary Fund special drawing rights (SDR) 5 million (SDR 10 million for a composite insurance company). Insurers must maintain a deposit with the National Treasury, equivalent to 10 per cent of registered capital, and also a solvency margin determined on the basis of years of operation and net premium income.

Japan PCA Life Insurance Company Limited (PCA Life Japan)

Overview

The Financial Services Agency of Japan (the JFSA) regulates insurance companies and other financial institutions. In particular, the Insurance Business Division of the JFSA specifically undertakes the supervision of insurance companies. PCA Life Japan is licensed by the Prime Minister of Japan (who delegates most of the supervisory functions to the JFSA) as a life insurance company. PCA Life Japan ceased underwriting new policyholder contracts from 15 February 2010. On 16 July 2013, Prudential Holdings Limited reached an agreement with SBI Holdings, Inc to sell its closed book life insurance business in Japan, PCA Life Insurance Co. Ltd, for US$85 million, with US$68 million paid on completion and a further payment of up to US$17 million contingent upon future performance of PCA Life Japan, subject to regulatory approval. The transaction was completed in February 2015.

2. Regulation of investment and funds businesses and other regulated operations

Prudential conducts investment and fund businesses through subsidiaries or joint ventures in the following countries in Asia through Eastspring Investments: Hong Kong, Japan, Korea, Taiwan, The People s Republic of China, India, Singapore, Malaysia, Dubai, Vietnam and Indonesia. Eastspring Investments also has entities in the US and Luxembourg. All operations are authorised and licensed by the relevant authorities, or exempted from licensing under the relevant regulations, where applicable.

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All of the relevant authorities generally have broad supervisory and disciplinary powers, including, among others, the power to set minimum capital requirements, to temporarily or permanently revoke the authorisation to carry on regulated business, to suspend registered employees/licensed representatives, and to invoke censures and fines for both the regulated business and its registered employees/licensed representatives. Although the detail of regulation varies, common features of the regulatory regimes in each jurisdiction tend to include investment restrictions, advertising codes, disclosure requirements in prospectuses and/or marketing materials, and requirements to seek unit holders approvals in certain instances, provision of financial statements and other periodic disclosures to regulators, audits by regulators and so on.

Hong Kong

Products and services offered by Prudential in Hong Kong are regulated under separate statutory regimes by different regulatory bodies, including the Hong Kong Securities and Futures Commission (HKSFC), the Hong Kong Monetary Authority and the Mandatory Provident Fund Schemes Authority (MPFA).

The MPFA regulates the compulsory Mandatory Provident Fund (MPF). In addition, the selling of MPF products by agents is regulated by the MPFA. The MPFA is responsible for the licensing and supervision of trustees who wish to administer MPF schemes and MPF intermediaries.

The Securities and Futures Ordinance (SFO) and other subsidiary legislation govern the key regulatory requirements in Hong Kong relating to licensing requirements for persons carrying out regulated activities, including dealing in securities, advising on securities, fund management, market conduct, disclosure of interests, offering document requirements for securities and products including mutual funds and unit trusts, as well as investment-linked assurance products. The HKSFC is the statutory body responsible for the administration of the SFO and the related subsidiary legislations and rules.

Eastspring Investments (Hong Kong) Limited (Eastspring HK), incorporated in Hong Kong, is a wholly owned subsidiary of Prudential Plc. Eastspring HK is licensed with the HKSFC and authorised to deal in and advise on securities and undertake asset management activities in Hong Kong. It also holds a QFII (Qualified Foreign Institutional Investors) license issued by the China Securities Regulatory Commission (CSRC). The company is also registered with the Korea Financial Supervisory Service (KFFS) as an offshore investment advisor for investment advisory business and investment discretionary management business. The funds authorised for offering in Hong Kong by Eastspring HK are also registered in Macau with the Monetary Authority of Macau.

Some of the material developments in Hong Kong in 2014 include:

- Implementation of a resolution regime for financial institutions in accordance with the standards set by the FSB;
- The launch of the Shanghai-Hong Kong Stock Connect which allows eligible investors in Hong Kong and Mainland China, respectively, to invest in listed shares in the other jurisdiction; and
- Issuance of a concept paper by HKEx (operator of the Hong Kong Stock Exchange) to introduce a weight voting rights structure that is disproportionate to shareholdings (ie, a move from the current one-vote-one-share to many-votes-one-share for certain class of shareholders).

BOCI-Prudential Asset Management Limited (BOCIP), incorporated in Hong Kong, is a joint venture between Prudential Corporation Holdings Limited (36 per cent) and BOCI Asset Management Limited (64 per cent). BOCIP is licensed by the HKSFC and is authorised to deal in and advise on securities, advise on corporate finance, advise on futures contracts and undertake asset management activities. It is also registered with the MPFA as an MPF corporate intermediary. It also holds a QFII license issued by the CSRC. The investment funds registered in Hong Kong by BOCIP are also registered in Macau with the Monetary Authority of Macau.

BOCI-Prudential Trustee Limited is a joint venture between Prudential Corporation Holdings Limited (36 per cent) and BOC Group Trustee Company Limited (64 per cent). The company is incorporated in Hong Kong and is an approved trustee under the Mandatory Provident Fund Schemes Ordinance and an associated entity to the BOCIP under the SFO.

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Singapore

Eastspring Investments (Singapore) Limited (Eastspring Singapore), an indirect wholly-owned subsidiary of Prudential plc, is regulated by the MAS. Eastspring Singapore holds a Capital Markets Services (CMS) license, to conduct the regulated activities of fund management and dealing in securities. Eastspring Singapore is also an exempt financial adviser under the Financial Advisers Act. In addition, Eastspring Singapore is admitted by the CPF as a Fund Management Company (FMC) under the CPF Investment Scheme (CPFIS) and may manage unit trusts included under the CPFIS. It also holds certain registrations in foreign jurisdictions including the US, South Korea, India, Japan, Australia and Canada.

Malaysia

Eastspring Investments Berhad was incorporated in November 2000 in Malaysia and holds a licence for dealing in securities and fund management. Eastspring Al-Wara Investments Berhad was incorporated in June 2009 in Malaysia and holds a licence for fund management.

Both companies are regulated by the Securities Commission Malaysia (SC), a statutory body formed under the Securities Commission Act 1993, which reports to the Minister of Finance.

Eastspring Investments Berhad is also an appointed Fund Management Institution for Unit Trust Fund under the Employees Provident Fund s (EPF) Members Investment Scheme. The EPF is a social security institution formed according to the Laws of Malaysia, Employees Provident Fund Act 1991 (Act 452) which provides retirement benefits for members through management of their savings in an efficient and reliable manner.

Following the Memorandum of Understanding for the ASEAN Collective Investment Schemes (CIS) Framework (Framework) by the SC, the MAS and the Securities and Exchange Commission Thailand in October 2013, the ASEAN Capital Markets Forum had on 25 August 2014 announced that the Framework for cross-border offering of CIS is now operational in Malaysia, Singapore and Thailand. Several guidelines have been revised and the Handbook for CIS Operators of ASEAN CIS was issued by the SC to streamline regulatory processes between Malaysia, Singapore and Thailand. With the implementation of the Framework, Eastspring Investments Berhad s funds may now be marketed in Singapore and Thailand, and qualified CIS operators from Singapore and Thailand may also market its funds directly to investors in Malaysia. The opening of these markets will increase competition for Eastspring Investments Berhad.

China

CITIC-Prudential Fund Management Company Limited, a joint venture between Prudential and CITIC Group (China International Trust and Investment Corporation), was incorporated in Shanghai in September 2005. It is regulated by the China Securities Regulatory Commission (CSRC) and holds the license of mutual funds, DAM products and advisory services. The CSRC supervises the establishment of fund management companies (FMCs) and the launch of securities investment funds. The legislative framework of China s fund industry comprises the China Securities Investment Funds Law (the Fund Law) and a set of ancillary regulations (the Fund Regulations). The Fund Law was revised, and supplemental measures thereto were enacted, on 1 June 2013. This revision to the Fund Law allows individual ownership of fund management companies and lifts personal trading and investment restrictions, granting more discretion to FMCs in their daily operation. While the Fund Law and Fund Regulations articulate the rules and requirements which must be adhered to by all FMCs, the supervisory approach of CSRC, to a certain extent, is also principles- based. The Chinese authorities aim to protect the legitimate rights and interests of investors and other relevant parties, and thereby to promote the healthy development of securities investment funds and securities

markets. The CSRC started a process of deregulation, including, a 2010 measure to lift the control over product approvals, which enables FMCs to launch more fund products.

The most important fund regulation issued by CSRC in 2014 is the Administrative Measures for the Operation of Publicly Offered Securities Investment Funds (Administrative Measures), which came into force on 8 August 2014. The Administrative Measures have revised certain rules applicable to publicly-offered securities investment

funds. Firstly, Fund of Funds (or FOFs) is recognised as a new type of fund under this regulation. Furthermore, the minimum stock holding of a stock fund is increased from 60 per cent to 80 per cent of its net asset value. Moreover, a fund s leverage ratio may not exceed 140 per cent (however, exemptions may apply to capital guaranteed funds or closed-ended funds).

India

ICICI Prudential Asset Management Company Limited (AMC), a joint venture between Prudential plc and ICICI Bank Ltd., is approved by the Securities and Exchange Board of India (SEBI) to act as an Investment Manager of ICICI Prudential Mutual Fund (the Fund). The Fund was set up as a Trust sponsored by Prudential (through its wholly owned subsidiary Prudential Corporation Holdings Ltd) and ICICI Bank Ltd. ICICI Prudential Trust Limited (the Trust Company), is the Trustee to the Fund.

Mutual funds in India are comprehensively regulated by SEBI (Mutual Funds) Regulations, 1996, the Indian Trusts Act, 1882, relevant provisions of Companies Act, 2013, and other applicable laws. All mutual funds are required to be in the form of trusts. The trustee functions are carried out by separately established trust companies or boards of trustees. In all cases, the trust deed must be approved by the SEBI. AMC has obtained registration from the SEBI to act as a Portfolio Manager under SEBI (Portfolio Managers) Regulations 1993. AMC under its portfolio management license has also been appointed as the investment manager by the Trust for managing the scheme launched under the ICICI Prudential Venture Capital Fund.

In 2005, SEBI confirmed it had no objection to AMC undertaking Advisory Services to Offshore Funds. AMC has commenced the provision of Advisory Services. Additionally, the AMC has also received approval from SEBI to act as the investment manager to the funds launched under Securities and Exchange Board of India (Alternative Investments Funds) Regulations, 2012.

ICICI Prudential Venture Capital Fund (VCF) also has registration from SEBI under the SEBI (Venture Capital Funds) Regulations, 1996 (the VCF Regulations). Our joint venture in India now has three licences as a result of this, in mutual fund, portfolio management and venture capital, and is also permitted to act as the investment manager to funds launched under Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012.

Japan

Eastspring Investment Limited is registered with the Kanto Local Finance Bureau under the JFSA to engage in (a) second financial instruments business, (b) investment management business, (c) investment advisory & agency business and (d) ancillary business under the Financial Instruments and Exchange Act (FIEA).

The company is also a member of the Investment Trusts Association, Japan and the Japan Investment Advisers Association. Both associations are self-regulatory bodies under FIEA. Eastspring Investment Limited is required to comply with the policies and regulations issued by these associations, which are authorised to conduct on and off-site inspection in addition to the inspection conducted by the Securities and Exchange Surveillance Commission which is an inspection arm of the JFSA.

Under its registration in respect of the second financial instruments business, the company is permitted to explain and solicit products but the actual sales of Eastspring Investments Limited s funds are made to investors through distributors. It does not therefore set up or maintain customer accounts for purposes of investment in Prudential s funds or their settlement, which may only be opened at relevant distributors such as registered financial institutions and type one financial instruments business operators like securities companies. Effective 1 December 2014, new regulations

were enacted to protect investors from excessive risks from derivatives transactions as well as excessive concentration of investment portfolio. The new regulations consist of two parts: (i) Derivative Risk Monitoring Guidelines and (ii) Diversification of Securities Issuers and Derivative Counterparties.

South Korea

Prudential conducts a fund business in South Korea through an indirect, wholly-owned subsidiary, Eastspring Asset Management Korea Co. Ltd. The bodies responsible for the regulation of asset management companies, investment advisers and discretionary management companies are the FSC and its executive arm, the FSS.

Taiwan

The body responsible for regulation of securities investment trust enterprises (SITE), securities investment consulting enterprises (SICE) and discretionary investment businesses is the Securities and Futures Bureau (SFB) under the FSC. The SFB is responsible for promulgating laws, regulations and policies in relation to these business areas.

Eastspring Securities Investment Trust Co. Ltd is registered as a SITE with the FSC. It is compulsory that all SITEs are members of the Securities Investment Trust and Consulting Association (SITCA), a self-regulatory organisation (SRO). SITCA supports the regulatory and administrative operations entrusted to the SFB by adopting self-regulatory rules and overseeing self-regulation by its members, establishing a membership disciplinary framework and carrying out matters that the SFB has authorised it to handle, such as previewing product filing documents before submission for the SFB s final review. SITCA also acts as liaison between the SFB and its members for matters of business development.

Dubai

Eastspring Investments Limited (Eastspring Investments Dubai) was incorporated in the Dubai International Financial Centre (DIFC) in September 2006. Eastspring Investments Dubai is an ultimately wholly-owned subsidiary of Prudential Plc. Eastspring Investments Dubai is regulated by the Dubai Financial Services Authority (DFSA), which is the independent regulator for DIFC. Eastspring Investments Dubai holds a license for arranging credit or deals in investments, advising on financial products or credit and has a retail endorsement on its license. The supervisory approach of DFSA, to a large extent, is risk-based.

Vietnam

Eastspring Investments Fund Management Limited Liability Company (Eastspring Investments Vietnam) was established in May 2005 and operates under a business registration for securities investment fund management and securities portfolio management and securities investment advisory services.

Eastspring Investments Vietnam is regulated by the State Securities Commission of Vietnam (SSC), which is overseen by the MoF. In keeping with its mandate to establish and develop the securities markets, the SSC supervises the organisation, and operation of securities investment funds and fund management companies.

Indonesia

PT Eastspring Investments Indonesia (Eastspring Investments Indonesia) is regulated and supervised by OJK (Indonesian Financial Service Authority). The OJK is responsible for establishing and coordinating an integrated regulatory and supervisory system towards the overall activities in the Indonesian financial sector. Eastspring Investments Indonesia has been licensed as an Investment Manager Company since 25 April 2012 and is therefore authorised to manage collective investment portfolios as well as discretionary portfolios. In addition, Eastspring Investments Indonesia may also act as an investment advisor for the sale or purchase of securities by its clients, but may not receive any financial compensation for this service (due to regulatory restriction).

United States

Eastspring Investments Incorporated (Eastspring Investments USA) was incorporated in the State of Delaware in April 2012 and the business was launched in August 2012. Eastspring Investments USA is an indirect wholly owned subsidiary of Prudential plc.

Eastspring Investments USA is not engaged in providing investment management services directly to investors nor is it engaged in broker-dealer activities. On behalf of its affiliate, Eastspring Singapore, Eastspring Investments USA serves as a marketing office and a solicitor as defined under the provisions of the Investment Advisers Act of 1940, as amended (Investment Advisers Act) and the rules thereunder. While Eastspring Investments USA is not required to be separately registered with the U.S. Securities and Exchange Commission (SEC) in connection with its solicitation activity on behalf of Eastspring Singapore, the Eastspring Investments USA entity is registered as an investment adviser pursuant to the Investment Advisers Act.

Certain US states and local governmental bodies may also require that individuals engaged in solicitation activity be either registered or otherwise qualify for an exemption to solicit investors in that jurisdiction. Based on its solicitation activity on behalf of Eastspring Singapore, Eastspring Investments USA is subject to the solicitation restrictions and filings of those individual states, as applicable.

Luxembourg

Eastspring Investments (Luxembourg) S.A. is fully licensed by the Luxembourg supervisory authority (ie, CSSF) to operate as a management company of undertaking for collective investments in transferable securities (eg UCITS and other type of investment products) since 1 April 2013.

Eastspring Investments (Luxembourg) S.A. meets the organisation and substance requirements of a UCITS management company, insofar as it benefits from a passport and may freely market its activities across Europe. It is authorised to provide asset management services to investment funds, including administration (eg, daily valuation and accounting) and distribution and marketing of such products.

Eastspring Investments (Luxembourg) S.A. was appointed in particular to act as management company of Eastspring Investments, a UCITS open-ended investment company organised under the laws of the Grand Duchy of Luxembourg, regulated by the CSSF and passported for sale in many countries, including European and Asian jurisdictions.

Eastspring Investments (Luxembourg) S.A. has been operating a branch based in the UK since September 2013, concentrating sales and marketing activities across Europe. The UK branch of Eastspring Investments (Luxembourg) S.A. falls under the supervision of both FCA and CSSF.

US Supervision and Regulation

Overview

Prudential conducts its US insurance activities through Jackson, a life insurance company licensed to transact its insurance business in, and which is subject to regulation by and supervision of, the District of Columbia, and 49 of the 50 states. Jackson operates a subsidiary, Jackson National Life Insurance Company of New York, in the state of New York. The extent of any such regulation varies, but most jurisdictions have laws and regulations governing the financial aspects of insurance companies, including standards of solvency, reserves, reinsurance and capital adequacy and the business conduct of insurance companies. In addition, statutes and regulations usually require the licensing of insurers and their agents and the approval of policy forms and related materials. These statutes and regulations in a US insurance company s state of domicile (Michigan, in the case of Jackson) also regulate the investment activities of insurers.

Insurance regulatory authorities in all the jurisdictions in which Jackson does business require it to file detailed quarterly and annual financial statements, and these authorities have the right to examine its operations and accounts. In addition, Jackson is generally subject to US federal and state laws and regulations that affect the conduct of its business as well as similar laws and regulations in Canada and the Cayman Islands. New York and Michigan require their state insurance authorities to conduct an examination of an insurer under their jurisdiction at least once every five years. Jackson has historic small books of business in places such as the Cayman Islands, Puerto Rico, Guam and Argentina and the business is being managed in run off. In addition, Jackson acquired some policies in Canada from its acquisition of Reassure America Life Insurance Company (REALIC) in 2012. Jackson is seeking the transfer of the REALIC licence in Canada.

Jackson s ability to pay shareholder dividends is limited under Michigan insurance law. The Director of the Michigan Department of Insurance & Financial Services (the Michigan Director of Insurance) may limit, or not permit, the payment of shareholder dividends if the Michigan Director of Insurance determines that an insurer s surplus, with regards to policyholders, is not reasonable in relation to its outstanding liabilities and is not adequate to meet its financial needs as required by Michigan insurance law. Jackson must report any shareholder dividends to the Michigan Director of Insurance before they can be paid. In the case of an extraordinary shareholder dividend or distribution, an insurer may not pay the dividend or distribution until 30 days after the Michigan Director of Insurance has received notice of the declaration and has not disapproved, or has approved, the payment within that period. For this purpose, an extraordinary dividend or distribution means any dividend or distribution of cash or other property where the fair market value, together with that of other dividends or distributions that an insurer made within the preceding twelve months, exceeds the greater of 10 per cent of the insurer s surplus, as regards policyholders as of 31 December of the immediately preceding year, or the net gain from operations of the insurer, not including realised capital gains, for the prior year. In 2012, 2013 and 2014, Jackson paid shareholder dividends to Prudential plc of US$400.0 million, US$470.0 million, and US$680.0 million, respectively.

State regulators also require prior notice or regulatory approval of changes in control of an insurer or its holding company and of certain material transactions with affiliates. Under New York and Michigan insurance laws and regulations, no person, corporation or other entity may acquire control of an insurance company or a controlling interest in any parent company of an insurance company, unless that person, corporation or entity has obtained the prior approval of the regulator. For the purpose of each of New York and Michigan law, any person acquiring, directly or indirectly, 10 per cent or more of the voting securities of an insurance company is presumed to have acquired control of the company. To obtain approval of any change in control, the proposed acquirer must file an application with the New York Superintendent of Financial Services or the Michigan Director of Insurance, as appropriate. This application requires the proposed acquirer to disclose, among other information, its background, financial condition, the financial condition of its affiliates, the source and amount of funds by which it will affect the acquisition, the criteria used in determining the nature and amount of consideration to be paid for the acquisition, proposed changes in the management and operations of the insurance company and other related matters. The Michigan Director of Insurance can grant an exemption from filing an application if an acquisition does not have the effect of changing or influencing control.

Guaranty associations and similar arrangements

Each of the 50 states of the United States, the District of Columbia and the Commonwealth of Puerto Rico have laws requiring insurance companies doing business within their jurisdictions to participate in various types of guaranty associations or other similar arrangements. These associations and arrangements provide certain levels of protection to policyholders from losses under insurance policies issued by insurance companies that become impaired or insolvent. Typically, these associations levy assessments, up to prescribed limits, on member insurers on a basis that is related to the member insurer s proportionate share of the business in the relevant jurisdiction of all member insurers in the lines of business in which the impaired or insolvent insurer is engaged. Some jurisdictions permit member insurers to recover assessments that they paid through full or partial premium tax offsets, usually over a period of years. Prudential estimated its reserve for future guarantee fund assessments for Jackson to be US$5.4 million at 31 December 2014. Prudential believes this reserve to be adequate for all anticipated payments for known insolvencies.

Asset valuation reserve

State regulators generally require that insurers establish an asset valuation reserve that consists of two components: a default component to provide for future credit-related losses on fixed income investments and an equity component to

provide for losses on all types of equity investments. The asset valuation reserve establishes statutory reserves for fixed maturity securities, equity securities, mortgage loans, real estate, derivative instruments and other invested assets. The reserve is designed to provide for a normalised level of future losses based on the credit rating of each individual investment. The level of reserves is based on both the type of investment and its rating. Contributions to the reserve may result in a reduction in Jackson s unassigned surplus, which, in turn, may reduce funds available for shareholder distributions. The extent of the impact of the asset valuation reserve on Jackson s statutory surplus depends in part on the future composition of the investment portfolio.

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Interest maintenance reserve

State regulators generally require that insurers establish an interest maintenance reserve to defer non-credit-related realised capital gains and losses, net of taxes, on fixed income investments (primarily bonds, derivative instruments and mortgage loans) which are amortised into net income over the estimated remaining periods to maturity of the investments sold and to defer material gains or losses, net of taxes, resulting from market value adjustments on policies and contracts backed by assets carried at book value. The extent of the impact of the interest maintenance reserve on earnings and surplus depends on the amount of future interest rate-related realised capital gains and losses on fixed maturity investments, derivatives and mortgage loans and deferred gains or losses resulting from market value adjustments on policies and contracts backed by assets that are valued at book value.

The National Association of Insurance Commissioners ratios

On the basis of statutory financial statements that insurers file with state insurance regulators, the National Association of Insurance Commissioners (NAIC), in connection with the Insurance Regulatory Information System, annually calculates 12 financial ratios to assist state regulators in monitoring the financial condition of insurance companies. A usual range of results for each ratio is used as a benchmark and departure from the usual range on four or more of the ratios can lead to inquiries from individual state insurance departments. The usual range of results is established by the NAIC for each ratio from studies of the ratios for companies that have become insolvent or have experienced financial difficulties in recent years. As at 31 December 2014, none of Jackson s ratios fell outside the usual range.

Policy and contract reserve sufficiency analysis

State insurance laws require life insurance companies to conduct annually an analysis of the sufficiency of its life and annuity reserves. A qualified actuary must submit an opinion that states that the reserves, when considered in the light of the assets that an insurance company holds with respect to such reserves, make good and sufficient provision for the associated contractual obligations and related expenses of the insurance company. If a qualified actuary cannot provide such an opinion, then the insurance company must set up additional reserves by moving funds from surplus. The 2014 opinion has been submitted to the Michigan Department of Insurance & Finance Services without any qualifications.

Jackson s capital and surplus

Michigan insurance law requires Jackson, as a domestic life insurance company, to maintain at least US$7,500,000 in unimpaired capital and surplus. In addition, insurance companies are required to have sufficient capital and surplus to be safe, reliable and entitled to public confidence.

As a licensed insurer in the District of Columbia and every state but New York, where it operates through a subsidiary, Jackson is subject to the supervision of the regulators of each jurisdiction. In connection with the continual licensing of Jackson, regulators have discretionary authority to limit or prohibit the new issuance of business to policyholders when, in their judgment, the regulators determine that such insurer is not maintaining minimum surplus or capital or if the further transaction of business will be hazardous to policyholders.

As a Michigan domiciled insurer, Jackson is subject to a prescribed accounting practice that, under certain circumstances, allows an insurer to include the value of business acquired as an admitted asset in excess of the amount allowed under NAIC guidance. At 31 December 2014, principally as a result of the acquisition of REALIC, Jackson admitted US$376.6 million of value of business acquired in excess of the amount allowed under NAIC guidance.

Jackson has received approval from the Michigan Department of Insurance & Financial Services regarding the use of a permitted accounting practice. This permitted practice allows Jackson to carry certain interest rate swaps at book value as if statutory hedge accounting were in place instead of at fair value as would have been otherwise required. The permitted practice is effective 31 December 2014 and expires 1 October 2015 unless extended by

the Michigan Director of Insurance. The effects of this permitted practice may not be considered by the company when determining the surplus available for dividends, nor the nature of dividends as ordinary or extraordinary.

Risk-based capital

The NAIC has developed risk-based capital standards for life insurance companies as well as a model act for state legislatures to enact. The model act requires that life insurance companies report on a risk-based capital formula standard that they calculate by applying factors to various asset, premium and reserve items and separate model based calculations of risk associated primarily with variable annuity products. The risk-based capital formula takes into account the risk characteristics of a company, including asset risk, insurance risk, interest rate risk, market risk and business risk. The NAIC designed the formula as an early warning tool to identify potentially inadequately capitalised companies for purposes of initiating regulatory action.

Any state adopting the model act gives the state insurance commissioner explicit regulatory authority to require various actions by, or take various actions against, insurance companies whose adjusted capital does not meet minimum risk-based capital standards. The Michigan Department of Insurance & Financial Services takes into account the NAICs   risk-based capital standards to determine compliance with Michigan insurance law.

At 31 December 2014 Jackson   s total adjusted capital under the NAIC   s definition substantially exceeded Michigan standards.

Regulation of investments

Jackson is subject to state laws and regulations that require diversification of its investment portfolio, limit the amount of investments in certain investment categories such as below investment grade fixed income securities, common stock, real estate and foreign securities and forbid certain other types of investments altogether. Jackson   s failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated by the Michigan Director of Insurance as non-admitted assets for purposes of measuring surplus and, in some instances, the Michigan Director of Insurance could require divestiture of non-qualifying investments.

Implementation of US Foreign Account Tax Compliance Act (FATCA   ) provisions

Although the insurance business is regulated on a State level, US federal tax legislation and rules, including those relating to the insurance industry or insurance products, can have a significant impact on Prudential   s business. Tax legislation and rules, and their interpretation, may change, possibly with retrospective effect, and proposals that would affect such changes are debated periodically by the US Congress.

Legislation incorporating provisions referred to as FATCA was passed in the US on 18 March 2010. The legislation and subsequent final regulations released in January 2013 (with an update in March 2014), requires Foreign Financial Institutions (FFI   s) (such as Prudential plc and many of its subsidiaries) to enter into an FFI agreement, which requires the FFI to undertake due diligence procedures to identify and provide information on accounts held by US persons and US-owned foreign entities, or otherwise face a 30 per cent withholding tax on certain payments made to the FFI. The start date for implementation of the FATCA regime, including withholding on certain US source payments and the implementation of certain account diligence procedures, was 1 July 2014. In addition, FFIs that have entered into an FFI agreement may be required under future FATCA guidance to withhold on certain payments made to FFIs that have not entered into an FFI Agreement, to account holders who fail to provide sufficient information to classify an account as a US or non-US account, and to US account holders who do not agree to the FFI reporting certain account related information to the US Internal Revenue Service (IRS   ).

Since 2012, the US Treasury has been negotiating intergovernmental agreements (IGAs) with several countries which result in those countries embedding the FATCA provisions into their domestic law. This development has the added benefit of significantly reducing or removing any withholding obligations on payments by US companies or FFIs to other companies or customers in these IGA countries. On 12 September 2012, the United Kingdom and the United States entered into an IGA which was implemented into UK law as part of the Finance Act 2013, with

related regulations and guidance published in August 2013. The regulations have since been reissued in June 2014. Prudential plc will be subject to the information collection and sharing required under this IGA, although non-UK branches of Prudential plc and non-UK subsidiaries of Prudential plc that are FFIs will not be subject to the UK-US IGA. These non-UK branches and subsidiaries are instead required to either comply with an IGA in their home jurisdiction, or comply with the FATCA provisions and final regulations. To date, the US has agreed IGAs with all but five Prudential subsidiary jurisdictions.

FATCA affects many of Prudential s non-US businesses and the review and enhancement of existing practices to ensure FATCA compliance has been implemented across the Group. A Group-wide project was set up by Prudential to manage the implementation of the new practices. Prudential s businesses established formal project structures to deliver the requirements within the timeframes and, now that FATCA has been implemented, FATCA has become a part of standard operating practices.

USA Patriot Act

The USA Patriot Act, enacted in 2001, includes numerous provisions designed to fight international money laundering and to block terrorist access to the US financial system. The US Treasury Department has issued a number of regulations implementing the Patriot Act that apply certain of its requirements to financial institutions including broker dealers and insurance companies. Among other things, the regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. Jackson and, to the extent applicable, certain of its affiliates, have established policies and procedures to ensure compliance with the Patriot Act s provisions and the Treasury Department regulations.

Securities laws

Jackson, certain of its affiliates and certain policies and contracts that Jackson issues are subject to regulation under the federal securities laws administered by the SEC. The primary intent of these laws and regulations is to protect investors in the securities markets and generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the conduct of business for failure to comply with such laws and regulations and (in the case of broker dealers) to impose capital and related requirements. Jackson may also be subject to similar laws and regulations in the states in which it provides investment advisory services, offers the products described above or conducts other securities-related activities.

Jackson National Asset Management, LLC (JNAM) is registered with the SEC as an investment adviser pursuant to the Investment Advisers Act. JNAM is registered as a transfer agent pursuant to the Securities Exchange Act of 1934, as amended (the Securities Exchange Act). The investment companies (mutual funds) for which JNAM serves as an investment adviser are subject to SEC registration and regulation pursuant to the Securities Act of 1933, as amended (the Securities Act), and the Investment Company Act of 1940, as amended (the Investment Company Act). Certain of the mutual funds advised by JNAM underlie variable products offered by Jackson. In addition, each variable annuity and variable life product sponsored by Jackson is subject to SEC registration and regulation pursuant to the Securities Act and the Investment Company Act, and applicable state insurance and securities laws. Each variable annuity and variable life product is funded under a separate account that is registered with the SEC as a unit investment trust.

Effective 31 December 2012, the U.S. Commodity Futures Trading Commission (CFTC) eliminated an exclusion previously available to the mutual funds advised by JNAM from the definition of a commodity pool under the Commodity Exchange Act (CEA). Consequently, certain of the mutual funds became commodity pools and became subject to the requirements of the CEA and the rules of the CFTC promulgated thereunder. JNAM is registered as a commodity pool operator with the National Futures Association (NFA) pursuant to CFTC regulations and is acting as

a commodity pool operator with respect to the operation of certain of the mutual funds. JNAM and the mutual funds have incurred additional regulatory compliance and reporting expenses as a result. The effects of these regulatory changes could reduce investment returns or harm the mutual fund s ability to implement its investment strategy.

Curian Capital, LLC (Curian Capital) is registered with the SEC pursuant to the Investment Advisers Act and is also registered or has filed notice in all applicable states. Curian Capital serves as an investment adviser to certain investment companies. The investment companies (mutual funds) for which Curian Capital serves as an investment adviser are subject to SEC registration and regulation pursuant to the Securities Act and Investment Company Act. Certain of the mutual funds advised by Curian Capital underlie variable products offered by Jackson. In addition, each variable annuity and variable life product sponsored by Jackson is subject to SEC registration and regulation pursuant to the Securities Act and the Investment Company Act, and applicable state insurance and securities laws. Each variable annuity and variable life product is funded under a separate account that is registered with the SEC as a unit investment trust.

Curian Capital is registered with the NFA as a commodity pool operator pursuant to CFTC regulations and is acting as a commodity pool operator with respect to the operation of certain of the mutual funds. The requirements have resulted in Curian Capital and the mutual funds incurring additional regulatory compliance and reporting expenses. The effects of these regulatory changes could reduce investment returns or harm the mutual fund s ability to implement its investment strategy.

Curian Clearing, LLC is registered as a broker-dealer with the SEC pursuant to the Securities Exchange Act, and is registered as a broker-dealer in all applicable states. In addition, Curian Clearing, LLC is a member firm of the Financial Industry Regulatory Authority (the FINRA), subject to its oversight and regulatory requirements.

Jackson National Life Distributors LLC is registered as a broker-dealer with the SEC pursuant to the Securities Exchange Act, and is registered as a broker-dealer in all applicable states. In addition, Jackson National Life Distributors LLC is a member firm of the FINRA, subject to its oversight and regulatory requirements.

National Planning Holdings, Inc. (NPH) owns four retail broker dealers, being IFC Holdings, Inc. (doing business as INVEST Financial Corporation), (IFC), Investment Centers of America, Inc (ICA), National Planning Corporation (NPC) and SII Investments, Inc. (SII). These entities conduct business as securities broker-dealers, investment advisers, and insurance agencies (or affiliated with insurance agencies), and are licensed and qualified to transact business pursuant to their respective registration or licensure with the SEC, state securities and insurance authorities, and membership with FINRA and the Municipal Securities Rulemaking Board. NPC, SII, and ICA are also registered with the CFTC, and are members of the NFA for purposes of commodities and futures trading.

Prudential also conducts certain of its US institutional investment management activities through PPM America, Inc., which is registered with the SEC as an investment adviser under the Investment Advisers Act. PPM America serves as the investment adviser to Jackson and as the primary institutional investment adviser for certain Prudential subsidiaries, including The Prudential Assurance Company Limited. PPM America also acts as sub-adviser to certain US and foreign advisers affiliated with Prudential with respect to certain US portfolios of accounts or products sponsored or managed by such affiliates, including US mutual funds, UK-based pooled investment vehicles, a Luxembourg-based SICAV, Japanese investment trusts, and other similar vehicles. PPM America also serves as an investment adviser to other affiliated and unaffiliated institutional clients such as a CLO, a CDO or similar structured vehicles and private investment funds (in which PPM America affiliates such as Prudential UK entities and Jackson are generally investors), and a limited number of other unaffiliated accounts. The US mutual funds for which PPM America serves as sub-adviser are subject to regulation under the Securities Act and the Investment Company Act, and other similar vehicles organised outside of the US may also be subject to regulation under applicable local law.

PPM America and certain of its subsidiaries are subject to various levels of regulation under the federal securities laws that the SEC administers as well as state securities laws. In connection with providing investment advisory services to certain of its clients, PPM America may also be subject to regulation under applicable foreign laws.

To the extent that Curian, PPM America or the NPH broker-dealers manage accounts with assets of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), or the Internal Revenue Code, they may be subject to certain restrictions imposed by ERISA or the Internal Revenue Code. Such restrictions are summarised in Employee Benefit Plan Compliance in the Section below. The US Department of Labor (DOL) and the IRS have interpretive and enforcement authority over the applicable provisions of ERISA and the Internal Revenue Code.

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Disclosure obligations under the US Securities Exchange Act and in particular under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012

Under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) of the Securities Exchange Act of 1934, we are required to disclose certain of our activities and those of our affiliates related to Iran and to persons sanctioned by the US under programs relating to terrorism and proliferation of weapons of mass destruction that occurred in the twelve-month period covered by this report.

Two of our non-US affiliates have engaged in transactions with persons sanctioned by the US under Executive Order 13224, relating to terrorism. These transactions were entered into in compliance with laws and regulations applicable to the relevant affiliates. The first individual took out a one-off takaful certificate (a Shariah compliant life policy) with our Malaysian insurance subsidiary in October 2011. It was discovered in March 2012 through automated checking that his name matched various sanctions lists. The policy was for RM600 per month and RM 7,200 was paid for the year in 2014 (equivalent to around US$169 and US$2,029, respectively). The matter was reported to the Malaysian governmental sanctions authority, the Bank Negara Malaysia Financial Intelligence Unit, in March 2012. Currently, the said policy has been frozen with no top-up, withdrawal or claims permitted, although regular premium payment is still allowed. The policy is in force, with no claims submitted or any payment made to date.

The second individual is a beneficiary to three life insurance policies in his wife s name, the first taken out in December 2010 and two others taken out in November 2011 with our Indonesian insurance subsidiary. The first policy has a monthly premium of Rp 500,000 (around US$40) with premiums paid of Rp 6,000,000 paid for the year in 2014 (approximately US$475). Premiums for the second and third policies were initially for Rp 500,000 per month each with Rp 6,000,000 paid into each policy in 2012. Starting from February 2013, premiums for each policy were changed to Rp 1,000,000 per month (approximately US$79), equalling Rp 12,000,000 paid into each policy in 2014 (approximately US$949). The person was identified as a sanctioned individual in July 2012, and the matter was notified to the Indonesian governmental sanctions authority, the PPATK, in August 2012. All three policies remain in force, but payments out will only be made in accordance with applicable law.

As the provisioning of insurance liabilities is undertaken on a portfolio basis, it is not practical to estimate the 2014 net profits on the contracts referred to above. We do not intend to engage in further new business dealings with these individuals.

In the UK, the Prudential Assurance Company Ltd operates a pension scheme for employees of the UK branch of a government-owned Iranian bank. A total of 64 scheme members are receiving benefits, with 39 deferred members. All members are inactive in that no member contributions are being made. The scheme is closed to new members. Due to the long term nature of a pension scheme it is not practical to advise the net profit, but the fund value at 31 December 2014 stood at £7,010,734.00. In return for administering the scheme there are standard Prudential scheme charges: an annual fee of £723, plus £11 per member, £59 per quote and a Trustee Accounts charge (£1,878.55). The annual invoice paid on 2 October 2014 was for £4,283.55 (£2,405 scheme fee and £1,878.55 Trustee Accounts). In addition to this an Annual Management Charge of 1.25 per cent is reflected in the fund value. The UK governmental sanctions authority, HM Treasury, has been informed of this arrangement and in 2008 advised us that following an analysis of the deeds, the fund is not owned, held or controlled by the Iranian bank. Payments out of the fund have been approved by HM Treasury through a license. There are no plans to discontinue with this contract in light of this license.

Employee benefit plan compliance

Jackson issues certain types of general account stable value products, such as GICs and funding agreements, to employee benefit plans and to investment vehicles that pool the investments of such plans. Many of these plans are

retirement plans that are subject to the fiduciary standards of ERISA and that are tax-qualified under the Internal Revenue Code. As such, Jackson may be subject to certain restrictions imposed by ERISA and taxes imposed by the Internal Revenue Code. These restrictions include:

- the requirement under ERISA that fiduciaries must perform their duties solely in the interests of ERISA plan participants and beneficiaries,

- the requirements under ERISA that fiduciaries may not engage in conflict of interest transactions, and

- the requirements under ERISA that a fiduciary may not cause a covered plan to engage in certain prohibited transactions with certain persons who provide services to the plan or are affiliated with the plan sponsor or a plan service provider.

In general, the Internal Revenue Code imposes taxes on persons involved in certain of the transactions described above.

The DOL and the IRS have interpretive and enforcement authority over the applicable provisions of ERISA and the Internal Revenue Code.

In the instance where an insurer issues a guaranteed benefit policy to a plan, ERISA provides that the insurer need not become a fiduciary with respect to the plan solely as a result of the issuance of the policy. Under Section 401 of ERISA, a guaranteed benefit policy means an insurance policy to the extent such policy provides for benefits the amount of which the insurer guarantees.

In 1993, in John Hancock Mutual Life Insurance Company v. Harris Trust & Savings Bank, the US Supreme Court held that a portion of the funds held under a certain type of general account annuity contract did not constitute a guaranteed benefit policy within the meaning of ERISA, a holding which potentially exposes insurers with similar types of contracts to the application of ERISA s fiduciary and prohibited transaction provisions in connection with the management of assets in their general accounts.

Although no assurances can be given, Jackson believes that none of its contracts are of the type to which the holding in Harris Trust would be applicable. Moreover, the Department of Labor has issued PTE 95-60, which generally exempts external, unaffiliated investment transactions from ERISA s prohibited transaction provisions. If the Harris Trust holding is applied to its contracts, Jackson would be subject to ERISA s fiduciary and prohibited transaction provisions described above.

Products offered by Jackson may be owned in accounts subject to regulation by the DOL or the IRS when held in employee benefit plans governed by the ERISA, or in individual retirement accounts (IRAs). Rules governing dealing with ERISA or IRA accounts may impact sales of products by Jackson, and the DOL continues to consider the process of re-proposing a rule that would change the circumstances under which one who works with IRAs would be considered a fiduciary. Severe penalties may be imposed for breach of duties under ERISA and rules governing IRAs and Jackson cannot at this time predict the impact that the DOL s re-proposed rule may have on its operations.

Financial services regulatory and legislative issues

In the US, the Dodd-Frank Act, which represents a comprehensive overhaul of the financial services industry within the US, was enacted in July 2010. The full impact of the Dodd-Frank Act on Prudential s businesses is not currently clear, however, as many of its provisions have a delayed effectiveness and/or require rulemaking or other actions by various US regulators over the coming years.

The Dodd-Frank Act vests the Financial Stability Oversight Council (the Council) with the power to designate domestic systemically important nonbank institutions which will be subject to special regulatory supervision and other provisions intended to prevent or mitigate the impact of future disruptions in the US financial system. If Jackson is designated in the US as a systemically important nonbank institution, it may be subject to heightened prudential standards to be administered by the US Federal Reserve Board, including heightened capital, leverage and liquidity

standards, risk management requirements, single counterparty credit concentration limits, resolution plans and stress tests, and potential discretionary requirements relating to contingent capital, enhanced public disclosure and short term debt limits. As discussed under the Global Regulatory Developments and trends section, Prudential Group was designated as a G-SII in July 2013, but that is separate from the Dodd-Frank designation.

Dodd-Frank Rules and guidance outlining the manner in which the Council will determine which companies should be so designated in the US were adopted in April 2012. The rules set forth a three-stage process of increasingly in-depth evaluation and analysis, drawing on both qualitative and quantitative information (but preserving significant Council discretion). The rules do not, however, permit a definitive view as to whether Jackson would or would not be designated as systemically important in the US context.

Changes to US law in the Dodd-Frank Act include the creation of a new Federal Insurance Office (FIO) within the Treasury Department that will, amongst other things, monitor (but not regulate) the insurance industry, and discretionary authority for the SEC to impose a harmonised standard of care for investment advisers and broker dealers which provide personalised advice about securities to retail customers.

In addition, Title VII of the Dodd-Frank Act creates a new regulatory regime for certain derivatives called swaps and security-based swaps. Prudential and Jackson have determined that they are not required to register as swap dealers, security-based swap dealers, major swap participants, or major security-based swap participants under Title VII of the Dodd-Frank Act. However, CFTC regulations requiring that swaps be reported to trade repositories and, in some cases, cleared through registered central counterparties and traded on registered exchanges , may apply to certain derivatives entered into by Jackson and, in some circumstances, may apply to Prudential. Similar rules for security-based swaps, as well as requirements to post margin for uncleared derivatives, have been proposed but not yet implemented.

Under Title VII of the Dodd-Frank Act, certain derivatives instruments, including standardised interest rate swaps and index credit default swaps, are required to be cleared and traded on an exchange. While the transition to exchange-traded derivative instruments may limit counterparty risk, it could increase costs associated with such investments, including transaction and exchange fees. The standardisation of exchange-traded derivative instruments may also limit the ability of Jackson and the mutual funds to customise certain derivative instruments with their counterparties. Exchange-traded derivative instruments may also require Jackson and the mutual funds to post additional collateral or limit the types of collateral that may be used for such transactions, and this may limit the ability of Jackson and the mutual funds that its subsidiaries advise to effectively deploy assets in a timely manner.

The timing and the ultimate impact on the management and operations of Prudential and the regulations promulgated, or to be promulgated, pursuant to these statutory provisions, cannot yet be definitively determined.

Proposals to change the laws and regulations governing the financial services industry are frequently introduced in the US Congress, in the state legislatures and before the various regulatory agencies. The likelihood and timing of any proposals or legislation, and the impact they might have on Jackson, its subsidiaries, or other Prudential subsidiaries doing business in the US, cannot be determined at this time.

State legislatures and/or state insurance regulatory authorities frequently enact laws and/or regulations that significantly affect insurers supervised by such authorities. Although the US federal government does not directly regulate the insurance business, federal initiatives may also have an impact on the insurance industry. On 12 December 2013, a report published by the United States Treasury s FIO entitled *How to Modernise and Improve the System of Insurance Regulation in the United States*, outlined a series of recommendations for modernising insurance prudential and conduct regulation in the U.S. This included identifying areas for greater federal legislation (eg mortgage insurance), enhanced consistency on Risk Based Capital (RBC) requirements and more emphasis on group supervision. Prudential cannot predict whether any federal (or state) legislative initiative to change the nature or scope of the regulation of the insurance industry will be enacted into law.

Federal and state regulators have focused on the mutual fund and variable annuity and insurance product industries including the broker-dealer system. As a result of publicity relating to widespread perceptions of industry abuses, including fraudulent and anti-competitive practices among insurance brokers and mutual funds, there have been numerous regulatory inquiries and proposals for legislative and regulatory actions that could affect the operations and management of market participants. It is difficult to predict at this time whether changes resulting from industry investigations and/or new laws and regulations will affect the Group s insurance or investment management businesses, and, if so, to what degree.

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Additional Jurisdictions

The Group has recently invested in businesses located in various new markets.

A new sales operation was launched in Poland during 2013 under the auspices of Prudential UK with an agency network rolled out in the country during 2014. The business is currently offering two simple life and protection products.

The Myanmar business unit is not yet fully operational as a business, although Prudential has been awarded a licence to establish a representative office in Yangon, Myanmar in late 2013.

In December 2013, Prudential announced the purchase of Ghana s Express Life Co, marking the entry of the firm into the African life insurance market. The purchase was completed in April 2014. A further move was made in September 2014 with the purchase of Kenya s Shield Assurance Company Limited.

These developments and such incremental regulation remain immaterial at present in terms of the overall business of the Group.

Capital Expenditure and Divestitures

Please refer to Item 5 Operating and Financial Review Liquidity and Capital Resources Corporate transactions for a discussion of the principal capital expenditures and divestitures during the period under review.

Item 4A. Unresolved Staff Comments

None

Item 5. Operating and Financial Review and Prospects

The following discussion and analysis should be read in conjunction with Prudential s consolidated financial statements and the related notes to Prudential s consolidated financial statements included in this document.

A summary of the critical accounting policies which have been applied to these statements is set forth in the section below entitled IFRS Critical Accounting Policies .

The results discussed below are not necessarily indicative of the results to be expected in any future periods. This discussion contains forward-looking statements based on current expectations, which involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in these forward-looking statements due to a number of factors, including those set forth in the section below entitled Principal Factors Affecting Results of Operations and in Item 3, Key Information Risk Factors and elsewhere in this document.

Introduction and Overview

Prudential plc is an international financial services group serving around 24 million insurance customers and with £496 billion of assets under management. We are listed on stock exchanges in London, Hong Kong, Singapore and New York.

Prudential is a leading international life insurer in Asia, with operations in 14 markets and serving the emerging middle class families of the region s powerhouse economies. We have built a high performing platform with effective multichannel distribution, a product portfolio centred on regular savings and protection, award winning customer services and a well-respected brand.

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Jackson is one of the largest life insurance companies in the US, providing retirement savings and income solutions aimed at the 77 million baby-boomers . Founded 50 years ago, Jackson has a long and successful record of providing advisors with the products, tools and support to design effective retirement solutions for their clients.

Prudential UK is a long established leading provider of life and pensions, with a relentless focus on the needs of the age cohorts where wealth is most heavily concentrated. Our core strengths in with-profits and retirement are underpinned by our expertise in areas such as longevity, risk management and multi-asset investment, together with our financial strength and highly respected brand.

M&G has been investing money for individual and institutional clients for over 80 years. M&G has grown to be one of Europe s largest retail and institutional fund managers by developing its enduring expertise in active investment. M&G has a conviction-led and long-term approach to investment, developing a deep understanding of the companies and organisations in whose equities, bonds or property M&G invests.

Summary of Performance

Prudential delivered a strong, broad-based performance in 2014.

Our core strategy of focusing on the three main opportunities available to us in Asia, the US and the UK serving the protection and investment needs of the growing middle class in Asia, providing income in retirement to American baby boomers and meeting the financial needs of an ageing British population is unchanged. It continues to serve us well. The execution of this strategy, driven by the operating principles set out in 2009, is central to the Group s continued success and reflects the dedication and quality of our people and their focus on meeting the distinct needs of our customers across the business. This has been one of the key factors enabling Prudential to outperform in the markets in which it competes, delivering value for our customers and sustainable returns for our shareholders.

Currency volatility

For the purpose of reporting our performance in sterling terms, we adopt the normal convention of translating the results of our overseas businesses using average exchange rates for the period. However, the currency translation effect is so pronounced for some parts of the business that for comparing the results from 2013 to 2014, it masks the underlying operational trends, rendering it difficult to meaningfully assess performance. In that context, it is important to note that the actual flows that we collect from our customers in Asia and the US are received in local currency. We believe that in periods of currency volatility, the most appropriate way to assess the actual performance of these businesses is to look at what they have achieved on a local currency basis, in other words in terms of the actual flows they have collected, rather than the translation of those flows into sterling.

The last two years have seen significant fluctuations in the value of sterling against the local currencies in the US and in some of our key markets in Asia. This has been driven by ongoing speculation about the relative growth trajectories in the world s major economies, together with often divergent views on the timing, extent and effectiveness of government and central bank intervention. While sterling strengthened significantly in the second half of 2013, driven by expectations that a stronger recovery of the UK economy would lead to an earlier shift in UK monetary policy, the latter part of 2014 has seen a partial reversal of this movement as the relative outlook improved in other areas of the global economy, particularly in the US. However, the negative impact of sterling strength in late 2013 and early 2014 on the financial performance of our overseas businesses is recognised mainly in 2014, as we use average actual exchange rates to report our results in sterling.

The table below presents a summary of the Group s profit before tax on an IFRS basis. For memorandum disclosure purposes, the table presents the full year 2013 results on both an actual exchange rate and constant exchange rate basis so as to eliminate the impact of exchange translation. Actual Exchange Rates (AER) 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. Constant Exchange Rates

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(CER) results are calculated by translating prior period results using the current period foreign exchange rate ie current period average rates for the income statement and current period closing rates for the balance sheet.

IFRS Profits

	Actual Exchange Rate			Constant Exchange Rate		Actual Exchange Rate
	2014 £m	**2013 £m**	**Change %**	**2013 £m**	**Change %**	**2012 £m**
Operating profit before tax						
Long-term business:						
Asia	**1,050**	1,001	5	905	16	906
US	**1,431**	1,243	15	1,181	21	964
UK	**752**	706	7	706	7	703
Long-term business operating profit	**3,233**	2,950	10	2,792	16	2,573
UK general insurance commission	**24**	29	(17)	29	(17)	33
Asset management business:						
M&G (including Prudential Capital)	**488**	441	11	441	11	371
Eastspring Investments	**90**	74	22	68	32	69
US broker-dealer and asset management	**12**	59	(80)	56	(79)	39
	3,847	3,553	8	3,386	14	3,085
Other income and expenditure	**(619)**	(558)	(11)	(558)	(11)	(498)
Solvency II implementation costs	**(28)**	(29)	3	(29)	3	(48)
Restructuring costs	**(14)**	(12)	(17)	(12)	(17)	(19)
Total IFRS basis operating profit based on longer-term investment returns	**3,186**	2,954	8	2,787	14	2,520
Short-term fluctuations in investment returns:						
Insurance operations	**(461)**	(1,083)	57	(1,036)	56	100
Other operations	**(113)**	(27)	(319)	(27)	(319)	87
Total short-term fluctuations in investment returns	**(574)**	(1,110)	48	(1,063)	46	187
Amortisation of acquisition accounting adjustments	**(79)**	(72)	(10)	(68)	(16)	(19)
Gain on sale of PruProtect and PruHealth	**86**					
(Loss)profit attaching to held for sale Japan Life business	**-**	(102)	100	(89)	100	17
Costs of domestication of Hong Kong branch	**(5)**	(35)	86	(35)	86	-
Gain on dilution of Group holdings	**-**	-	-	-	-	42
Profit before tax attributable to shareholders	**2,614**	1,635	60	1,532	71	2,747

Tax charge attributable to shareholders returns	**(398)**	(289)	(38)	(262)	(52)	(584)
Profit for the year attributable to equity holders of Prudential	**2,216**	1,346	65	1,270	74	2,163

In the remainder of this Introduction and Overview , every time we comment on the performance of our businesses, (except with respect to cash remittances), we focus on their performance measured in local currency (presented here by reference to percentage growth expressed at constant exchange rates) unless otherwise stated.

Group performance

The Group delivered double-digit growth across our key metrics of IFRS operating profit, new business profit and cash with all four of our business units delivering good performance in challenging operating conditions.

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Our Group IFRS operating profit based on longer-term investment returns increased by 14 per cent during the year to £3,186 million.

Asia life and asset management operating profit was up 17 per cent to £1,140 million. Our ability to proactively manage our diverse portfolio of businesses at the regional level has enabled us to partially offset the short-term headwinds experienced in a few of our key Asian markets. Strong external net inflows of £5.4 billion and positive market movements have driven operating profit and total funds under management to record levels at Eastspring, our Asia-based asset management business.

US life IFRS operating profit increased 21 per cent to £1,431 million. The strong variable annuity inflows we have been able to capture at attractive margins generate higher levels of fee income. This combined with favourable market movements increased the value of separate account assets, a key driver of our profits in the US.

UK life IFRS operating profit grew by 7 per cent to £752 million, benefiting from higher contributions from bulk annuities, which outweighed the impact of significantly lower sales of individual annuities following UK market reforms.

M&G delivered operating profit of £488 million (including Prudential Capital), an increase of 11 per cent, reflecting continued strong third-party net inflows combined with favourable market movements in the period, which together have increased M&G s external funds under management by £11.0 billion to a record £137.0 billion.

Net cash remittances from our businesses increased by 11 per cent to £1,482 million in 2014 as compared to 2013, driven by strong organic cash generation and supported by robust local capital positions. Cash remittances of £400 million from Asia were consistent with 2013, the US was up 41 per cent to a record of £415 million, the UK remitted cash of £325 million, as we have been increasing our level of investment in the business in response to the UK market reforms, while M&G (including Prudential Capital) delivered an increase of 17 per cent to a new high of £342 million. Such levels of cash generation are the bedrock of our financial strength. We deliberately run the Group to seek to generate organically significant amounts of cash in each of our businesses. The successful implementation of this approach gives us added strategic and financial flexibility, as illustrated by our ability to agree a new deal with Standard Chartered Bank in 2014. The ability of the Group to generate both growth and cash remains a distinctive feature of Prudential in our industry.

Our balance sheet continues to be defensively positioned and at the end of the period our IGD surplus[15] was estimated at £4.7 billion, equating to coverage of 2.4 times.

2017 Objectives

The objectives discussed below assume exchange rates at December 2013 and economic assumptions made by Prudential in calculating the EEV basis supplementary information for the half year ended 30 June 2013, and are based on regulatory and solvency regimes applicable across the Group at the time the objectives were set. The objectives assume that the existing EEV, IFRS and free surplus methodology at December 2013 will be applicable over the period.

(15) Before allowing for final dividend

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We announced new objectives for 2017 at our investor conference in December 2013 in London. These objectives are:

(i) Asia Underlying Free Surplus Generation[16],[17] of £0.9 billion to £1.1 billion in 2017 (2012: £484 million on an actual exchange rate basis)

(ii) Asia life and asset management pre-tax IFRS operating profit to grow at a compound annual rate of at least 15 per cent over the period 2012 2017 to reach at least £1,858 million in 2017 (2012: £924 million[18] on an actual exchange rate basis)

(iii) Group Underlying Free Surplus Generation[17] of at least £10 billion cumulatively over the four-year period from 2014 to end- 2017.

We are continuing to make solid progress towards our 2017 objectives announced in December 2013 as for the Asia objectives, we have now passed four half-year reporting periods out of the ten half-year reporting periods of this programme.

Our operating performance by business unit

Asia

Asia delivered excellent results across all metrics during 2014. IFRS operating profit of £1,140 million was up 17 per cent over 2013 (6 per cent on actual exchange rate basis) and net cash remittances were £400 million, in line with 2013.

Our consistent delivery in Asia is underpinned by our focus on regular premium, protection-orientated solutions that genuinely address the long term financial needs of Asia s growing middle classes in the sweet spot markets[19] of South-East Asia and Hong Kong. Our strategy is to be strongly diversified in terms of geography, products and distribution in a world economy that is increasingly hard to predict. That diversification is at the heart of our ability to continue to perform well across a broad range of metrics as the breadth of our portfolio provides considerable resilience against the impacts of short-term market disturbances in individual countries, such as the elections and natural disasters experienced during 2014.

Our multi-channel distribution platform continues to play a key role in our strategy:

(i) In the agency channel we continued to add to the existing scale of our platform during 2014 through recruitment. In parallel we also improved individual productivity, thanks to our investments in agency management technology and analytics.

(ii) Regarding our bank partnerships, we announced in the first quarter that we extended and expanded our long-established and market-leading partnership with Standard Chartered Bank for another 15 years to 2029, effective since July 2014. Encouragingly second-half sales via Standard Chartered Bank grew strongly compared to the same period in 2013, including a record month in December. The distribution channel mix remained in line with 2013 with agency generating most sales, bancassurance a significant minority and mainly direct and telemarketing making up the remainder.

In our product portfolio, the proportion of protection business has remained consistent with prior years. Within the savings products, we have seen an increase in participating business, driven mainly by strong demand for our

established with-profits products in Hong Kong. We continue to innovate with new benefits and features, with more than a quarter of sales in 2014 from products that were launched in the past two years.

(16) Underlying free surplus generated comprises underlying free surplus generated from long-term business (net of investment in new business) and that generated from asset management operations. The 2012 comparative is based on the retrospective application of new and amended accounting standards and excludes the one-off gain of £51 million from the sale of the Group s holding in China Life Insurance Company of Taiwan.

(17) Underlying free surplus generation is defined in the section EEV Basis, New Business Results and Free Surplus Generation .

(18) Asia 2012 IFRS operating profit of £924 million is based on the retrospective application of new and amended accounting standards, and excludes the one-off gain of £51 million from the sale of the Group s holding in China Life Insurance Company of Taiwan.

(19) Sweet spot markets are Indonesia, Singapore, Hong Kong, Malaysia, Philippines, Vietnam and Thailand.

While product innovations are important we are increasingly finding that customer service is a key differentiator in the marketplace, an evolution we welcome given the emphasis we have always placed on service and customer satisfaction. For example our pioneering PRUhospital Friend concierge service in Indonesia is now four years old and has been extended to 49 hospitals covering 15 cities. It handles over 50 per cent of all protection claims. In Singapore, PRUhealthcare assist is the first-to-market dedicated hotline, staffed by experts who help customers to decide what treatments to pursue and which hospitals to use. Across the region, our success in looking after our customers and anticipating their needs is demonstrated by our repeat sales to our existing customers: A large proportion of sales were generated by existing customers and our customer retention rate was over 90 per cent, a very important indicator of quality for us. The incentives of our staff in Asia are well aligned with this philosophy of emphasising quality growth and customer satisfaction.

In Hong Kong, sales grew strongly, driven mainly by increases in agency headcount as well as increases in productivity. Hong Kong also directly benefited from significantly improved second-half sales following the renewal of the Standard Chartered Bank partnership. We have been working for a few years on increasing the proportion of protection sales in Hong Kong and this has paid off in 2014 with a strong contribution to profit. The Hong Kong branch of the Prudential Assurance Company was successfully domesticated with effect from 1 January 2014.

In Singapore, we continue to lead the market with our popular regular premium and PRUshield products. Agency sales grew as a result of increases in manpower and productivity. Bancassurance sales volumes were impacted by the cessation of the Maybank partnership during 2014, although volumes increased from our successful partnerships with Standard Chartered Bank and United Overseas Bank.

Indonesia had a challenging year, with exceptional flooding disrupting sales in the first quarter, and the transition to a new president impacting sentiment during the year. Although sales were down slightly on prior year, the resilience of our business is demonstrated by our significant market outperformance, which has seen our market share increase as other providers were more severely affected by these factors than we were. We remain very optimistic about the outlook for the Indonesian economy and we experienced an encouraging rebound in activity during December 2014, with sales substantially higher than November, reaching record levels.

In Malaysia, our decision to refocus our agency business on health and protection and to grow distribution by Bumiputra agents (Bumi), delivered an encouraging increase in agency activity. The increase in sales during 2014 reflects structurally lower average case sizes in the Bumi channel, where we are determined to grow in the next phase of development of our strategy in the country. We deliberately de-emphasised sales of some top-up products that negatively impacted top line growth. Finally, fuel reforms and the prospect of the introduction of a new Goods and Services tax generated market uncertainty, which weighed on the economy and on our sector.

Thailand includes the first full year of operation of our exclusive bancassurance agreement with Thanachart Bank, which together with our other bancassurance partners, UOB and Standard Chartered Bank has driven a large increase in sales. The transformation of our business in the Philippines is continuing, with a significant increase in agency activity. Vietnam also had a good year, experiencing growing sales with higher levels of agency activity.

Our joint venture with CITIC in China continues to perform well with growing sales reflecting progress in both the agency and bank channels. In India our joint venture with ICICI Bank remains the leader in the private sector and post elections in May we have seen a significant increase in new business.

In Taiwan and Korea we remain selective in our participation and as a result we are content to experience fluctuations in new business volumes. Both businesses have generated higher IFRS operating profit in 2014.

In addition to running these established businesses, we continue to keep an eye on the future and are setting foundations for growth in new markets. Following the successful launch of our life business in Cambodia in 2013, we are now the market leader. We also opened a representative office in Myanmar during 2014 and recently received a licence for a representative office in Laos.

US

Our US business delivered a strong performance in 2014, with total IFRS operating profit of £1,443 million, up 17 per cent (11 per cent on an actual exchange rate basis). Jackson s life IFRS operating profit grew 21 per cent

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(15 per cent on an actual exchange rate basis) to £1,431 million, driven primarily by increased fee income from higher levels of separate account assets. The growth in operating profit underpinned significant levels of capital generation in the period, enabling Jackson to remit a record £415 million of cash to the Group (2013: £294 million), while maintaining a healthy balance sheet. Jackson s Risk-Based Capital ratio at the end of 2014 was 456 per cent, compared to 450 per cent at the end of 2013.

Total variable annuity sales increased in 2014, including an increase in sales of Elite Access over prior year. The economics of our variable annuity business continue to be very attractive. With the success of Elite Access, we continue to improve the diversification of our product mix, contributing to an increase in the share of non-living benefit variable annuity sales to a new high for 2014.

Jackson remains focused on proactively managing sales volumes of variable annuities with living benefits to match our annual risk appetite. Jackson s statutory separate account assets increased by 17 per cent, from £69.8 billion in 2013 to £81.7 billion in 2014 (up 24 per cent on an actual exchange rate basis), reflecting both positive net flows and the growth in the underlying market value of the separate account assets.

Fixed annuity sales remained relatively flat compared to 2013, while fixed index annuity sales decreased sharply, primarily as a result of product changes implemented in late 2013 to ensure appropriate returns on shareholder capital.

IFRS operating profit from non-life operations in the US decreased to £12 million (2013: £56 million), due to a Curian loss of £18 million that included a £38 million charge related primarily to the refund of certain fees by Curian.

Jackson s strategy is unchanged, serving the 77 million baby boomers as they enter retirement, while delivering operating earnings and cash. We continue to price new business on a conservative basis, targeting value over volume. Our hedging remains focused on optimising the economics of our exposures, therefore accepting a degree of volatility in our accounting results where they are not aligned with the underlying economics. Thanks to this approach, Jackson has been able to deliver significant profitable growth across the cycle, while maintaining a strong balance sheet. Since 1 January 2008, Jackson has remitted nearly US$2.6 billion of cash to the Group. Jackson s approach has successfully translated into value for customers and into profits and cash for shareholders, the metrics through which we ultimately measure the success of our strategy.

UK, Europe and Africa

Our UK business continues to focus on its core strengths of investment (with the with-profits offering as a core proposition) and retirement solutions. In 2014, Prudential UK delivered life IFRS operating profit of £752 million, up 7 per cent year-on-year, primarily as a result of higher sales of bulk annuities, partially offset by the impact of the contraction of the individual annuities market following market reforms. Cash remitted to the Group was £325 million, compared to £355 million in 2013 as we increased our investment in new business and upgraded our UK pre and post-retirement customer proposition.

Retail sales growth across our range of investment products reflected the strength of our distribution capability, particularly our intermediary channel, as we responded to the challenges and opportunities created by the pension reforms. We will continue to develop our with-profits proposition, enhancing the range of investment choices available to policyholders and have recently made PruFund available in the Individual Savings Account market. The growth in our investment products was offset by a reduction in sales of individual annuities, reflecting the market contraction since the UK Budget announcement. Despite this market disruption, overall retail sales were only slightly lower than 2013 and increased marginally in the second half of the year compared with the same period in 2013.

Onshore bonds sales increased, reflecting the strength of our investment proposition. Sales from with-profits bonds were higher, due to continuing demand for our non-guaranteed bond. We expect significant ongoing demand for our with-profits bond, with customers attracted by the benefit of a smoothed return to help manage market volatility and a strong track record of investment growth.

Sales from other retail products, including individual pensions, income drawdown and offshore bonds, increased significantly. Offshore bond sales were higher, reflecting the growing popularity of our with-profits fund. Income drawdown and individual pensions sales increased strongly, both driven by the strength of our with-profits PruFund offering, and by customers selecting more flexible retirement income solutions in anticipation of the pension reforms.

In total, PruFund assets under management increased 27 per cent to £11.6 billion in 2014.

Corporate pensions sales were lower, mainly due to changes to public sector pension schemes. We remain the largest provider of Additional Voluntary Contribution plans within the public sector, where we provide schemes for 72 of the 99 public sector authorities in the UK (2013: 69 of the 99).

Prudential s continuing focus on the delivery of excellent customer service was recognised at the 2014 Financial Adviser Service Award where we received an outstanding achievement award for retaining our two Five Star ratings in the Life & Pensions and Investment categories for the fourth year running.

On 10 November 2014, Prudential Assurance Company Limited announced the sale of its 25 per cent equity stake in the PruHealth and PruProtect businesses to Discovery Group Europe Limited for £155 million in cash, generating an IFRS profit on disposal of £86 million. This transaction enabled Prudential UK to realise its investment at attractive terms and creates strategic flexibility for future participation in the UK protection market.

During 2014, we completed the acquisition of Express Life in Ghana and Shield Assurance Company in Kenya, marking the Group s entry into the nascent African life insurance industry. We are positive about the long-term opportunities in Africa, where we see many of the favourable structural characteristics of our preferred Asian markets, although most sub-Saharan life insurance markets are in the very early stages of development and therefore are not likely to be material in the short term.

M&G

M&G is an investment-led business which has managed money on behalf of individual and institutional investors for more than 80 years. Its focus on producing superior long-term investment returns, coupled with well-established distribution in the UK and across Europe, has underpinned another strong set of financial results, with funds under management and profits both reaching new highs.

IFRS operating profit increased 13 per cent to £446 million in 2014, marking the fifth consecutive year of record profits. Over this period operating profit has grown by a compound annual growth rate of 16 per cent. While higher equity markets and buoyant bond markets have both contributed to improving profitability, strong net inflows of client assets since 2009, particularly in the retail market, have been a key driver of the increase in profit achieved by M&G. Reflecting this continued strong operating performance, M&G remitted £285 million of cash to Group in 2014, 21 per cent more than in 2013.

During 2014, the combination of continued net fund inflows and generally positive market movements increased M&G s total funds under management by 8 per cent to £264 billion at the end of the year. Within this, external funds under management grew by 9 per cent to £137 billion and now account for 52 per cent of M&G s total funds under management, compared with 40 per cent five years ago.

Within our retail business, we continue to make strong progress, with expansion of distribution in Continental Europe in recent years transforming the scale of funds under management and helping to diversify the business. Today, international clients account for 43 per cent of retail funds under management, compared with just 16 per cent five

years ago, and M&G s retail funds are now registered in 22 jurisdictions. Net inflows across Continental Europe were at a record level of £8.1 billion in 2014, compared to £7.6 billion in 2013. This more than offset a net outflow of £1.7 billion in the UK (2013: net outflow of £0.7 billion). In the UK M&G achieved record net inflows into the M&G Property Portfolio fund, which directly invests across different property sectors such as retail, offices and industrial on behalf of its UK retail client base. The Property Portfolio fund finished 2014 with external funds under management of £3.0 billion, placing it as the largest retail property fund in the UK market.

M&G also continues to pursue business diversification by fund, with seven of its retail funds, representing all the major asset classes, achieving net inflows of at least £250 million during the year. One of these, the M&G Optimal Income Fund became the top[20] selling European cross-border fund in 2014, based on annual net flows as of 31 December 2014.

At the end of 2014 retail funds under management were £74.3 billion, up 11 per cent from 2013 levels, driven by positive net inflows, which totalled £6.7 billion (2013: net inflows of £7.3 billion), including the contribution from our associate entity in South Africa.

A track record of innovation in the institutional market has enabled M&G to be at the forefront of a number of specialist fixed income markets, including leveraged finance and infrastructure investment. The consistency of institutional investment performance and its reputation for innovation earned M&G the prestigious 2014 Financial News Institutional Asset Management Awards for both fixed income and real estate for the second consecutive year.

Net institutional inflows were £401 million, compared with £2.1 billion in 2013. As expected, a number of segregated clients withdrew money from public debt funds as they reallocated scheme assets. There were also further planned redemptions from a large low-margin mandate. In general, outgoing assets have been replaced by flows into higher-margin products, helping to improve the profitability of the institutional business. M&G has in place a multi-billion pound pipeline of institutional commitments at the end of 2014 across a diverse range of investment strategies that has yet to be invested.

External institutional funds under management increased 7 per cent in 2014 to £62.7 billion.

The recent increase in headcount and investment in operational infrastructure required to preserve service quality as the scale of the business grows, has been more than matched by revenue growth in 2014. As a result the cost income ratio[21] of 58 per cent in 2014 has improved slightly over the prior year (2013: 59 per cent).

M&G remains focused on producing superior long-term investment returns for clients, while continuing to diversify its business by geography and asset class and providing capital efficient profits and cash generation for the Group.

Eastspring Investments, our Asia asset management business, generated record third-party net inflows of £5.4 billion, 3.8 times higher than in 2013, with success in securing new equity flows, particularly from institutional clients, mitigating lower net inflows in fixed income. Including internal funds, total funds under management as at 31 December 2014 were a record £77.3 billion, up 28 per cent on the prior year as a result of net inflows and positive market movements. IFRS operating profit increased 32 per cent to £90 million, driven by the positive impact on revenue from higher levels of average assets under management.

Capital and risk management

We continue to take a disciplined approach to capital management and have implemented a number of measures over the last few years to enable us to make our capital work both more efficiently and more effectively for the Group. Using the regulatory measures of the Insurance Groups Directive (IGD), our Group capital surplus position[22] at 31 December 2014 was estimated at £4.7 billion (2013: £5.1 billion), after funding the fees payable for the new 15 year exclusive distribution agreement with Standard Chartered Bank. The IGD surplus is stated before allowing for the final dividend and is equivalent to a cover of 2.4 times.

In July 2013, Prudential plc was listed by the Financial Stability Board as one of nine companies to be designated as a Global Systemically Important Insurer (GSII). In July 2014 the International Association of Insurance Supervisors

released a consultation paper on the Basic Capital Requirement, one of the two types of capital requirement proposed under the GSII framework. Prudential is monitoring the development and potential impact of the framework of policy measures and engaging closely with the Prudential Regulation Authority on the implication of this designation.

[20] Source: Lipper FMI Fundfile as of 31 December 2014

[21] Excluding performance fees, earned interest and share of profits from associate entity, PPM South Africa

[22] Before allowing for final dividend.

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Solvency II is scheduled to come into effect on 1 January 2016 and our preparations are well advanced. While the Omnibus II Directive is now in place, there are still many areas which require further interpretation. We continue to work with the Prudential Regulation Authority on shaping the outcome to ensure that the practical details of Solvency II, including the final implementing measures, are both workable and effective.

On an economic capital basis[23] our surplus at 31 December 2014 of £9.7 billion (2013: £11.3 billion) is equivalent to an economic capital ratio of 218 per cent (2013: 257 per cent). These results are based on outputs from our Solvency II internal model, which has not yet been approved by the Prudential Regulation Authority. The results assume US equivalence, place no restrictions on the economic value of overseas surplus, and incorporate a number of other working assumptions. Certain aspects of the methodology and assumptions underpinning these results will differ from those which are applied in obtaining final Solvency II Pillar I internal model approval. The eventual Solvency II Pillar I ratio, therefore, remains uncertain and is expected to be lower than our economic capital ratio.

Dividend

The Board has decided to rebase the full year dividend upwards by 10 per cent, reflecting the 2014 financial performance of the Group. In line with this, the directors recommend a final dividend of 25.74 pence per share (2013: 23.84 pence), which brings the total dividend for the year to 36.93 pence (2013: 33.57 pence). This rebase has been made possible by the continued exceptionally strong performance of the Group.

Although the Board has been able to recommend such a rebase in 2014, the Group s dividend policy remains unchanged. The Board will maintain its focus on delivering a growing dividend from this new higher base, which will continue to be determined after taking into account the Group s financial flexibility and our assessment of opportunities to generate attractive returns by investing in specific areas of the business. The Board believes that in the medium term a dividend cover of around two times is appropriate.

Outlook

2014 was a successful year for the Group, where the strength and focus of our teams and of our businesses enabled us to deliver good financial and operational progress and maintain a robust capital position, despite a number of challenges both globally and locally.

It is clear that we are operating in a period of considerable change. 2015 has already seen a continuation of macroeconomic volatility, political upheaval and unexpected shifts in central bank positioning, with the uncertainty of election outcomes in many countries in Europe, including in the UK, still to come before the end of the year. As a result, investment markets generally remain cautious on the global outlook, reflected in further declines in long-term interest rates in most of the major economies in early 2015. The persistently low level of interest rates is a challenge for insurance companies, however in recent years we have positioned the Group through proactive actions on product mix, pricing and our balance sheet to mitigate the negative effects of the low interest rate environment and continue to grow our earnings. We have had the same strategy since 2009 and it has served us well. We continue to execute with discipline and purpose and we believe our strategy and operating principles enable us to deliver relative outperformance across the cycle, as evidenced during the financial crisis.

Asia, with its strong economic growth, young and growing population with savings and protection needs, and low levels of insurance penetration, continues to represent the most attractive opportunity in our industry today and therefore remains the primary focus of our profitable growth ambitions. Our established, growing multi-distribution platform puts us in a strong position to continue to capture profitably the opportunities available to us in Asia, while the breadth of our franchise, by geography, product and channel, provides us with the resilience that has allowed us to

achieve relative outperformance through the cycle, even when individual countries presented short-term challenges. We will continue to invest in enhancing our agency and bancassurance distribution capabilities, to ensure our customers have effective advice-led access to our products. This was most recently evidenced by the

(23) The methodology and assumptions used in calculating the economic capital results are set out in the Development of Economic Capital section within Other results based information . The economic capital ratio is based on the Group s Solvency II internal model which will be subject to Prudential Regulation Authority review and approval before its formal adoption in 2016. We remain on track to submit our Solvency II internal model to the Prudential Regulation Authority for approval in 2015 but given the degree of uncertainty remaining these economic capital disclosures should not be interpreted as outputs from an approved internal model.

renewal in 2014 of our pan regional relationship with Standard Chartered Bank for another 15 years. The strong underlying fundamentals of economic growth and increasing affluence in Asia, and the quality of our products, people and distribution, remain powerful drivers of our ability to generate profitable growth while delivering value for our customers.

In the US and the UK, we continue to utilise our established market position, distribution strength and distinctive products to ensure the delivery of earnings and cash, with strict allocation of capital to segments of the market that offer higher, capital efficient margins. The UK life insurance market has been subject to significant reform, the ramifications of which are still playing out, but which we believe will ultimately lead to greater customer demand for savings and retirement solutions and create new opportunities for Prudential UK and M&G to leverage their existing expertise.

We remain confident in our ability to produce profitable growth over the long term and to continue to create value for our customers and shareholders.

Principal factors affecting Prudential s results of operations

Prudential s results of operations are affected, to a greater or lesser degree, by a variety of factors, including demographics, general economic and market conditions, government policy and regulation and exchange rate fluctuations, as discussed in greater detail below. In addition, changes in interest rates and returns from equity, real estate and other investments as well as volatility in these items may affect Prudential s profitability.

Please refer to Introduction and Overview , Item 3 Key Information Risk Factors and Item 4 Information on the Company Business of Prudential for additional discussion of factors that may affect Prudential s results of operations.

General economic and market conditions

Prudential s results of operations are impacted by general economic and market conditions and are sensitive to the pace of and extent of changes in equity markets and interest rates, as well as the changes in behaviour of individuals and institutions that these changes in economic and market conditions may cause. Particular features of relevance to the Prudential s geographic areas of operations are shown below:

Asia

Asia (excluding Japan) is leading the world in terms of Gross Domestic Product growth. In the period 2014 to 2018, it is expected to generate US$5.5 trillion[24] of new Gross Domestic Product, more than the US and the other advanced economies combined.

Economic growth is translating into the rapid increase of the Asian middle class. Between 2009 and 2020 it is estimated that there will be over 1.2 billion people who will have been elevated from rural subsistence to urban lifestyles. Within our preferred sweet spot markets of South East Asia and Hong Kong, the middle class will be represented by over 400 million people. Families are getting smaller, life expectancies are lengthening and the incidence of chronic diseases is increasing significantly.

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

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

(24) Prudential estimates based on IMF data October 2013

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

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

United States

The United States is the world s largest retirement savings market with total assets in the annuity sector of over $2.6 trillion[(25)]. Each year, many of the 77 million baby-boomers reach retirement age, which is triggering a shift from savings accumulation to retirement income generation of more than US$10 trillion[(26)] of accumulated wealth over the next decade. This demographic transition constitutes a significant opportunity for those companies that are able to provide the baby-boomers with long-term retirement solutions.

In 2014, the US economy continued to show signs of improvements, with stronger GDP growth, declining unemployment rates, and evidence of a recovery in the housing market. The S&P 500 Index rose 11 per cent, following a 30 per cent jump in 2013. In late October, the Federal Reserve announced an end to its Quantitative Easing program due to an improved U.S. economy. As part of Quantitative Easing, the Federal Reserve purchased trillions of dollars of bonds in order to add more money to the U.S. economy. Despite these signs of strength domestically, longer-dated Treasury yields pulled back in 2014, but remained above the lows experienced in 2012.

The market share shift in the US annuity market has slowed down, and Jackson continues to hold the leading position in the industry while generating healthy margins. Variable annuity providers continue to modify their product offerings through reductions in fund availability and increased fees. Several insurers with challenging legacy blocks of variable annuity business continue to implement policy changes to help mitigate the risk of their back book of business, including fee increases on older benefits, changes to the availability of investment options, subsequent premium restrictions on in-force contracts and buyback offers to their existing policyholders. Despite positive demographic trends, these activities have the potential to lead to overall contraction in the industry, and likely further market share adjustments, as customers and distributors seek insurers that offer consistency, stability and financial strength.

Spread-based products written by Jackson are principally for fixed interest rate annuities. Sales of life business, including interest sensitive life products, were discontinued in the second half of 2012. Jackson also writes fixed index annuities and institutional business that are spread-based products. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the contract holder liabilities and the amounts that are credited to contract holders in the form of benefit increases, subject to minimum crediting rates.

In general, Jackson s results are significantly affected by fluctuations in economic and market conditions, especially interest rates, credit conditions and equity markets. The profitability of Jackson s spread based business depends in large part on its ability to manage interest rate exposure, as well as the credit and other risks inherent in its investment portfolio. Jackson designs its US products and manages the investments and liabilities to reduce overall interest rate sensitivity. This has the effect of moderating the impact on Prudential s results of changes in prevailing interest rates.

Jackson s exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. Changes in interest rates, either upward or downward, including changes in the difference between the levels of prevailing short-term and long-term rates, can expose Jackson to the risk of not earning anticipated spreads. For example, if interest rates increase and/or competitors offer higher crediting rates, withdrawals

on annuity contracts may increase as contract holders seek higher investment returns elsewhere. In response, Jackson could (i) raise its crediting rates to stem withdrawals, decreasing its spread; (ii) sell assets

(25) According to LIMRA Annuity Sales Participant s Report as of 30 September 2014.
(26) Source: US Census Bureau.

which may have depressed values in a high interest rate environment to fund policyholder payments, creating realised investment losses; or (iii) pay out from existing cash which would otherwise have been invested and earned interest at the higher interest rates.

Conversely, if interest rates decrease, withdrawals from annuity contracts may decrease relative to original expectations, creating more cash than expected to be invested at lower rates. Jackson may have the ability to lower the rates it credits to contract holders as a result, but may be forced to maintain crediting rates for competitive reasons or because there are minimum interest rate guarantees in certain contracts. In either case, the spread earned by Jackson would be compressed.

The majority of assets backing the spread-based business are invested in fixed income securities. Jackson actively manages its investment and derivative portfolio, considering a variety of factors, including the relationship between the expected duration of its assets and its liabilities.

Recent periods have been characterised by low interest rates. The current low interest rate environment is likely to be prolonged. A prolonged low interest rate environment may result in a lengthening of maturities of the contract holder liabilities from initial estimates, primarily due to lower policy lapses. As interest rates remain at low levels, Jackson may also have to reinvest the cash it receives as interest or proceeds from investments that have matured or that have been sold at lower yields, reducing its investment margins. Moreover, borrowers may prepay or redeem the securities in its investment portfolio with greater frequency in order to borrow at lower market rates, which exacerbates this risk.

The majority of Jackson s fixed interest rate annuities and life products were designed with contractual provisions that allow crediting rates to be re-set annually subject to minimum crediting rate guarantees. Therefore, on new business written, as well as on in-force business above minimum guarantees, Jackson has adjusted, and will continue to adjust, crediting rates in order to maintain targeted interest rate spreads.

Lowering crediting rates helps to mitigate the effect of spread compression but the spreads could still decline as Jackson is typically only entitled to reset the crediting rates at limited pre-established intervals and the re-setting is subject to the guaranteed minimum rates. As at 31 December 2014, approximately 87 per cent of Jackson s fixed interest rate annuities and interest-sensitive life business account values correspond to crediting rates that are at the minimum guaranteed interest rates (2013: 87 per cent). Tabular disclosures are provided in note C4.2(b) to the consolidated financial statements in Item 18 on the distribution of the account values of these businesses within the range of their contractual minimum guaranteed interest rates. The tables demonstrate that approximately 71 per cent (2013: 71 per cent) of Jackson s combined fixed interest rate annuities and interest sensitive life business account values of £21 billion (2013: £20 billion) have contractual minimum rates of 3 per cent or less.

Jackson s expectation for future spreads is also an important component in the amortisation of deferred acquisition costs. Significantly lower spreads may cause it to accelerate amortisation, thereby reducing total IFRS profit in the affected reporting period. Low market interest rates could also reduce Jackson s return on investments that are held to support the company s capital. In addition, changes in interest rates will affect the net unrealised gain or loss position of Jackson s available-for-sale fixed income securities which is reported as a component of other comprehensive income. Further information on the factors affecting the pricing of products and asset liability management of Jackson is provided in Item 4. Information on the Company Business of Prudential US Business .

In addition to the impact on Jackson s spread product profitability, a prolonged period during which interest rates remain at levels lower than those anticipated in its pricing may result in greater costs associated with certain of Jackson s product features which guarantee benefits, and also result in higher costs for derivative instruments used to hedge certain of its product risks. Reflecting these impacts in recoverability and loss recognition testing under U.S.

GAAP as grandfathered under IFRS may require Jackson to accelerate the amortisation of DAC as noted above, as well as to increase required reserves for future contract holder benefits. In addition, certain statutory capital and reserve requirements are based on formulas or models that consider interest rates, and a prolonged period of low interest rates may increase the statutory reserves and capital Jackson is required to hold.

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Accordingly, without active management, a prolonged low interest rate environment may materially affect Jackson s financial position, results of operations and cash flows. However, Jackson has and continues to proactively adapt its asset-liability management, hedging programme, product design and pricing and crediting rate strategies to mitigate the downward pressures created by the prolonged low interest rate environment.

The sensitivity of Jackson s IFRS basis profit or loss and shareholders equity to changes in interest rates is provided in note C7.3 to the consolidated financial statements in Item 18.

The profitability of Jackson s fee-based business depends in large part on its ability to manage equity market risk. As the investment return on the separate account assets is attributed directly to the contract holders, Jackson s profit arises from the fees charged on the contracts, less the expenses incurred, which include the costs of guarantees. In addition to being a profitable book of business in its own right, the variable annuity book also provides an opportunity to utilise the offsetting equity risk among various lines of business to manage Jackson s equity exposure in a cost-effective fashion. Jackson believes that the internal management of equity risk coupled with the utilisation of external derivative instruments where necessary, continues to provide a cost-effective method of managing equity exposure. Profits in the variable annuity book of business will continue to be subject to the impact of market movements both on sales and allocations to the variable accounts and the effects of the economic hedging program. While Jackson hedges its risk on an economic basis, the nature and duration of the hedging instruments, which are recorded at fair value through the income statement, will fluctuate and produce some accounting volatility.

Jackson continues to believe that, on a long-term economic basis, its equity exposure remains well managed.

United Kingdom

The configuration of the UK market is unchanged, characterised by an ageing population with wealth concentrated in the 50+ age group and a younger generation of savers who are typically less well-funded. While the announcement of pensions freedoms in the 2014 Budget has significantly reduced restrictions on how these individuals will access their savings to help fund an income in retirement, the need to accumulate savings remains. It constitutes a significant opportunity for companies with a strong brand and a solid track record in the long-term savings market.

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

Prudential UK s longevity experience, multi-asset investment capabilities, long-standing trusted brand and financial strength mean that we are favourably positioned to help consumers translate their accumulated wealth into dependable retirement income through our range of market leading with-profits and annuity products.

In the UK, where Prudential s with-profits fund invests in debt and other fixed income securities, equity securities and real estate, shareholders profits under IFRS are strongly related to the bonuses it declares. The most important influences on the bonus rates are the overall rate of return earned on investments and Prudential s expectation of future investment returns. Further information on with-profits products is provided in Item 5 Basis of Profits , With-Profits Products and Bonus Rates below. In addition, shareholders profits under IFRS are significantly influenced by the contribution from the shareholder backed annuity business. The key factors affecting the profitability of this business are described in note C4.2 to the consolidated financial statements in Item 18.

Government policy and regulation

Changes in government policy or regulation applying to companies in the financial services and insurance industries in any of the jurisdictions in which Prudential operates, particularly in Asia, the United Kingdom and the United States, may adversely affect the result of its operations. These include possible changes in the tax treatment of financial products and services, government pension arrangements and policies, the regulation of selling practices and solvency standards.

These changes may affect Prudential s existing and future business by, for example, causing customers to cancel existing policies, requiring Prudential to change its range of products and services, redesign its technology or other systems, retrain staff, pay increased tax or incur other costs.

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In Asia, each market has evolved its own regulatory regime depending on the heritage of the industry, experiences and developmental priorities. Regulators across the region are generally keen to promote the growth of the life insurance industry as they appreciate the social utility of providing financial security to individuals and the way insurers channel unproductive cash savings into long term investments in the economy. However, they are imposing higher standards on the industry and monitoring compliance more actively, with increasing focus on the quality of advice distributors provide and the suitability of the products offered. Although assessments of solvency can vary considerably market by market, there is increasing convergence on risk based calculations.

In the US, the financial services industry continues to deal with a multitude of emerging regulatory initiatives in response to the financial crisis. Many of these broader financial services initiatives specifically impact the insurance industry. Within the insurance industry, we are seeing evolving supervisory structures, new global group supervision standards, focus on the reduction of systemic risk, amplified focus on enterprise risk management as well as initiatives in the area of financial reporting. While discussions continue across many initiatives, they are resulting in significant resources being expended across the industry. Finding the appropriate path through all of the regulatory changes clearly remains a challenge.

The UK life and pensions industry continues to undergo significant change. The announcement by the UK Chancellor in the 2014 Budget to remove compulsory annuitisation and introduce new pension freedoms from April 2015 has been described as a once in a 100-year change. We are supportive of this change and more generally of policy initiatives that will help encourage people to save in greater numbers, and more often, particularly in an environment where there is a significant savings gap. Simultaneously, we are witnessing a shift in how customers view retirement. The distinction between accumulating funds and then using them to provide an income in retirement is no longer clear-cut. We expect to see further opportunities created in the saving and investment market with demand for financial advice increasing and customers engaging more frequently with their providers.

These new developments represent major changes to the way business is conducted in a number of areas of the markets in which we operate in the UK, and impact not only insurance and investments providers, but also distributors and consumers.

Further details on the regulatory supervision which Prudential is subject to in the UK and internationally are provided in Item 4 Information on the Company Supervision and Regulation .

Exchange rates

Due to the geographical diversity of Prudential s businesses, it is subject to the risk of exchange rate fluctuations. Prudential s international operations in Asia, the United States and Europe, which represent a significant proportion of total group income and expenses, generally write policies and invest in the same local currency, which although limiting the effect of exchange rate fluctuations on local operating results, can lead to fluctuations in Prudential s consolidated financial information upon translation of results into pounds sterling. Please refer to Item 4 Information on the Company Business of Prudential Group Risk Framework Financial Risks Foreign Exchange Risk , Item 5 Other results based information Foreign currency source of IFRS key metrics and Notes C7.2, C7.3 and C7.4 to the consolidated financial statements in Item 18 for additional information on the impact of foreign currency fluctuations on the Group.

IFRS Critical Accounting Policies

Prudential s discussion and analysis of its financial condition and results of operations are based upon Prudential s consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB and as

endorsed by the EU. EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. As at 31 December 2014, there were no unendorsed standards effective for the three years ended 31 December 2014 affecting the consolidated financial information of Prudential and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to Prudential. Accordingly, Prudential s financial information for the three years ended 31 December 2014 is prepared in accordance with IFRS as issued by the IASB. Prudential adopts mandatory requirements of new or altered EU-adopted IFRS standards when required, and may consider earlier adoption where permitted and appropriate in the circumstances.

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The preparation of these financial statements requires Prudential to make estimates and judgements that affect the reported amounts of assets, liabilities, and revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, Prudential evaluates its estimates, including those related to long-term business provisioning and the fair value of assets.

Critical accounting policies are defined as those that are reflective of significant judgements and uncertainties, and potentially give rise to different results under different assumptions and conditions. Prudential believes that its critical accounting policies are limited to the policies referenced below which are described further in the notes to the consolidated financial statements in Item 18.

Critical accounting policies	**Reference to the disclosure notes in Item 18**
Classification of insurance and investment contracts	A3.1(c)
Measurement of policyholder liabilities and unallocated surplus of with-profits fund	A3.1(d)
Measurement and presentation of derivatives and debt securities of US insurance operations	A3.1(j)(v)
Presentation of results before tax	A3.1(k)
Segmental analysis of results and earnings distributable to shareholders	A3.1(m)

The critical accounting policies referenced above are critical for those that relate to the Group s shareholder financed business. In particular this applies for Jackson which is the largest shareholder backed business in the Group. The policies are not critical in respect of the Group s with-profits business. This distinction reflects the basis of recognition of profit and accounting treatment of unallocated surplus of with-profits funds as a liability, as described elsewhere in these financial statements.

In determining the measurement of the Group s assets and liabilities and in preparing financial statements, more generally, estimates and judgements are required. The critical aspects are set out below by reference to and discussed in the following accounting policies and other notes to the consolidated financial statements in Item 18.

Critical accounting estimates and assumptions	**Reference to the disclosure notes in Item 18**
Classification of insurance and investment contracts	A3.1(c)
Measurement of policyholder liabilities	A3.1(d); C4.2 and C7
Measurement of deferred acquisition costs	A3.1(f); and C4.2
Determination of fair value of financial investments	A3.1(j)(ii)
Determining impairment related to financial assets	A3.1 (j)(iii)
Additional quantitative information on the impairment and realised gains/losses recognised on the available-for-sale debt securities of US insurance operations	C3.5 (d)
Additional quantitative information on the movement in the statement of financial position value of the available-for-sale debt securities of US insurance operations and those which are in a gross unrealised loss position.	C3.3(b)(ii)

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Summary Consolidated Results and Basis of Preparation of Analysis

The following table shows Prudential s consolidated total profit for the years indicated.

	Actual Exchange Rate Year Ended 31 December £m		
	2014	**2013**	**2012**
Total revenue, net of reinsurance	**60,126**	52,375	54,438
Total charges, net of reinsurance	**(57,275)**	(50,440)	(51,456)
Share of profits from joint ventures and associates, net of related tax	**303**	147	135
Profit before tax *(being tax attributable to shareholders and policyholders returns)* *	**3,154**	2,082	3,117
Tax attributable to policyholders returns	**(540)**	(447)	(370)
Profit before tax attributable to shareholders	**2,614**	1,635	2,747
Tax charge	**(938)**	(736)	(954)
Less: tax attributable to policyholders returns	**540**	447	370
Tax charge attributable to shareholders returns	**(398)**	(289)	(584)
Profit for the year	**2,216**	1,346	2,163

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

Under IFRS, the pre-tax GAAP measure of profits is profit before policyholder and shareholder taxes. This measure is not relevant for reflecting pre-tax results attributable to shareholders for two reasons. Firstly, this profit measure represents the aggregate of pre-tax results attributable to shareholders and a pre-tax amount attributable to policyholders. Secondly, the amount is determined after charging the transfer to the liability for unallocated surplus, which in turn is determined in part by policyholder taxes borne by the ring-fenced with-profits funds. It is noted that this circular feature is specific to with-profits funds in the UK, and other similarly structured overseas funds, and should be distinguished from other products, which are referred to as with-profits and the general accounting treatment of premium or other policy taxes.

Accordingly, Prudential has chosen to explain its consolidated results by reference to profits for the year, reflecting profit after tax. In explaining movements in profit for the year, reference is made to trends in profit before shareholder tax and the shareholder tax charge. The explanations of movement in profit before shareholder tax are shown below by reference to the profit analysis applied for segmental disclosure as shown in note B1 to the consolidated financial statements in Item 18. This basis is used by management and reported externally to the holders of shares listed on the UK, Hong Kong and Singapore exchanges and to the financial markets in those countries. Separately, in this section, analysis of movements in profits before shareholder tax is provided by nature of revenue and charges.

Explanation of Movements in Profits After Tax and Profits before Shareholder Tax by Reference to the Basis Applied for Segmental Disclosure

(a) Group overview

Profit for the year after tax for 2014 was £2,216 million compared to £1,346 million for 2013. The increase primarily reflects the movement in profit before tax attributable to shareholders, which increased from a profit of £1,635 million in 2013 to a profit of £2,614 million in 2014, which was partially offset by an increase in the tax charge attributable to shareholders from £289 million in 2013 to £398 million in 2014.

The increase in the total profit before tax attributable to shareholders from £1,635 million in 2013 to £2,614 million in 2014 reflects an improvement in operating profit based on longer-term investment returns from £2,954 million in 2013 to £3,186 million in 2014 and a favourable change in non-operating items of £747 million from negative £1,319 million to negative £572 million. The increase of £232 million or 8 per cent in operating profit based on longer-term investments includes a negative exchange translation impact of £167 million. Excluding the currency volatility, on a constant exchange rate basis, the Group operating profit based on longer term investment returns increased by £399 million or 14 per cent to £3,186 million, driven by the broad-based improvement in profitability in all four of our business operations in Asia, the US, UK life and M&G.

The improvement in non-operating items of £747 million is primarily due to the favourable change in short-term fluctuations in investment returns from negative £1,110 million in 2013 to negative £574 million in 2014 and no loss attaching to the held for sale Japan Life business in 2014 compared to a loss of £102 million in 2013. In addition, in 2014, the Group sold its 25 per cent equity stake in the PruHealth and PruProtect businesses resulting in a profit on disposal of £86 million recorded as a non-operating item. This improvement of £747 million in non-operating items also includes a positive exchange translation impact of £64 million.

During 2014 the performance of the equity markets in the countries that we operate in has been broadly positive, with the US S&P 500 index up 11 per cent, while the UK FTSE 100 index and the MSCI Asia ex-Japan index were flat. Continued speculation on global growth prospects and the timing of key interest rate decisions has led to some volatility in long-term yields, with most markets experiencing a significant decline in 10-year bond yields during 2014, largely reversing the increases seen in 2013. As significant long-term holders of investment securities, insurance company results reflect the negative and positive fluctuations in the value of these assets. We include the impact of these short-term market movements outside the operating result, which is based on longer-term investment assumptions. In addition, we continue to take steps to protect ourselves from the downside risks to the Group s financial position associated with the guarantees that we offer to our customers and this also gives rise to short-term investment fluctuations, particularly where the corresponding movement in the economic effects associated with these fluctuations is not recognised under IFRS.

The effective rate of tax at the total profit level was 15 per cent in 2014, compared to 18 per cent in 2013. The reduced rate is principally due the negative impact of the sale of Japan Life on the full year Asia 2013 tax rate, the combination of a favourable deduction in respect of portfolio dividends received in Variable Annuity business and the impact of tax relief on negative net unrealised value movement on derivatives held to manage the Group s exposure to market movements following rises in equity values in the US and the absence of the restatement of deferred tax balances in 2013 to reflect the reduction in the main rate of UK corporate tax. Further details are provided in note B5 to the consolidated financial statements in Item 18.

Profit for the year after tax was £1,346 million in 2013 compared to £2,163 million for 2012. The decrease primarily reflected the movement in results before tax attributable to shareholders, which decreased from a profit of £2,747 million in 2012 to a profit of £1,635 million in 2013, which was partially offset by a decrease in the tax charge attributable to shareholders from £584 million in 2012 to £289 million in 2013.

The decrease in the total profit before tax attributable to shareholders from £2,747 million in 2012 to £1,635 million in 2013 reflected an improvement in operating profit based on longer-term investment returns from £2,520 in 2012 to £2,954 in 2013 which was more than offset by a decrease in non-operating items from positive £227 million to negative £1,319 million. The decrease in non-operating items was predominantly due to the adverse change in short-term fluctuations in investment returns from a positive £187 million in 2012 to a negative £1,110 million in 2013. Further, in 2013, a loss of £102 million (2012: profit of £17 million) was recognised as result of the classification of the Japan Life business as held for sale and included within non-operating items, comprising the 2013 reduction on re-measuring the carrying value of the business and its trading results.

During 2013, global equity markets have performed well overall, and the gradually improving outlook in most of the major economies had also led to a long-awaited uplift in long-term interest rates. These were positive developments for our business performance, and we were well positioned to benefit from the recovery in investment markets, having proactively defended the economics of our business when markets fell. The favourable impact of appreciating equity markets and rising yields, in combination with our strong execution and risk management, benefited all of our key operating profit and underlying capital generation metrics in 2013.

As mentioned above, to protect ourselves from the downside risks to the Group s financial position associated with these guarantees, we hold derivatives and other instruments to mitigate these exposures. In times of rising equity markets these will generally generate negative investment variances. In addition, while higher interest rates are beneficial to the long-term performance of our business, they do give rise to negative value movements on our holdings of fixed income securities as was the case in 2013. The impact of these collective short-term movements in investment values, reported outside the operating result, gave rise to a lower profit before tax attributable to shareholders of £1,635 million in 2013 (2012: £2,747 million).

Another feature of 2013 was the volatility in the world s currency markets. Following the US Federal Reserve s statements in 2013 implying its intention to taper asset purchases, currencies in some of our key Asian markets, such as Indonesia in particular, saw significant depreciation in the second half of 2013. The US dollar also depreciated against UK sterling as the strength of the economic recovery in the UK brought forward expectations of a UK interest rate increase. As the assets and liabilities of our overseas businesses are translated at year-end exchange rates, the effect of these currency movements has been incorporated within the year end reported shareholders equity. However, the results of our overseas businesses are translated using average exchange rates for the year, as this is a reasonable approximation of the rates prevailing at the dates that our normal trading transactions have taken place in these markets. Accordingly, the full impact of the currency movements on the operating results of 2013 was more muted.

The effective rate of tax at the total profit level was 18 per cent in 2013, compared to 21 per cent in 2012. The reduced rate is primarily due to a favourable deduction in respect of portfolio dividends received in Variable Annuity business. In addition, Prudential has benefitted from reductions in the main UK tax rate in 2013. Offsetting this Prudential sold Japan Life during the period which gave rise to a loss for which there was no tax relief. Further details are provided in note B5 to the consolidated financial statements in Item 18.

(b) Summary by business segment and geographical region

The Group s operating segments as determined under IFRS 8 are insurance operations split by territories in which the Group conducts business, which are Asia, the United States and the United Kingdom, and asset management operations split into M&G, which is the Group s UK and European asset management business, Eastspring Investments, which is the Asian asset management business and the US broker-dealer and asset management business (including Curian).

The following table shows Prudential s IFRS consolidated total profit/(loss) for the years indicated presented by summary business segment and geographic region. The accounting policies applied to the segments below are the same as those used in the Group s consolidated accounts.

	Year ended 31 December 2014 £m				
	Asia	**US**	**UK**	**Unallocated Corporate****	**Total**
Insurance operations	**1,048**	**249**	**1,050**	**-**	**2,347**
Asset management*	**78**	**6**	**372**	**-**	**456**
Total profit attributable to the segments	**1,126**	**255**	**1,422**	**-**	**2,803**
Unallocated corporate	**-**	**-**	**-**	**(587)**	**(587)**
Total profit (loss) for the year	**1,126**	**255**	**1,422**	**(587)**	**2,216**

	Year ended 31 December 2013 £m (AER)				
	Asia	**US**	**UK**	**Unallocated Corporate****	**Total**
Insurance operations	540	452	374	-	1,366
Asset management*	64	39	363	-	466
Total profit attributable to the segments	604	491	737	-	1,832
Unallocated corporate	-	-	-	(486)	(486)

Total profit (loss) for the year	604	491	737	(486)	1,346

	Year ended 31 December 2012 £m (AER)				
	Asia	US	UK	Unallocated Corporate**	Total
Insurance operations	831	621	708	-	2,160
Asset management*	58	18	404	-	480
Total profit attributable to the segments	889	639	1,112	-	2,640
Unallocated corporate	-	-	-	(477)	(477)
Total profit (loss) for the year	889	639	1,112	(477)	2,163

* For the US, including the broker dealer business and Curian.

** Representing central operations.

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Profit from insurance operations

Total profit from insurance operations in 2014 was £2,347 million compared to £1,366 million in 2013 and £2,160 million in 2012. All of the profits from insurance operations in 2014, 2013 and 2012 were from continuing operations. The movement in profits for insurance operations can be summarised as follows:

	Year Ended 31 December £m		
	2014	**2013**	**2012**
Profit before shareholder tax	**2,798**	1,687	2,704
Shareholder tax	**(451)**	(321)	(544)
Profit after tax	**2,347**	1,366	2,160

The increase of £1,111 million in profit before tax attributable to shareholders in 2013 of £1,687 million to a profit of £2,798 million in 2014 primarily is driven by an increase in operating profit based on longer-term investment returns of £278 million and an improvement in non-operating items of £833 million reducing the non-operating loss from £1,292 million in 2013 to a loss of £459 million in 2014. The increase of £278 million in operating profit based on longer-term investments includes a negative exchange translation impact of £158 million. The increase in operating profit based on longer-term investment returns reflects the growth in the scale of the insurance operations, driven primarily by positive business inflows.

The effective shareholder tax rate on profits from insurance operations decreased from 19 per cent in 2013 to 16 per cent in 2014. The reduced rate is principally due the negative impact of the sale of Japan Life on the full year 2013 tax rate, the combination of a favourable deduction in respect of portfolio dividends received in Variable Annuity business and the impact of tax relief on negative net unrealised value movement on derivatives held to manage the Group s exposure to market movements following rises in equity values and the absence of the restatement of deferred tax balances in 2013 to reflect the reduction in the main rate of UK corporate tax. Further details are included in Note B5 to the financial statements at item 18.

The decrease of £1,017 million in profit before tax attributable to shareholders in 2013 compared to 2012 primarily reflects an increase in operating profit based on longer-term investment returns of the insurance operations of £373 million to £2,979 million being more than offset by an adverse change in short-term fluctuations in investment returns for shareholder-backed business of £1,183 million, the loss attaching to the held for sale Japan Life business as described above which was £102 million in 2013 (2012: profit of £17 million) and other non-operating items of £107 million.

The effective shareholder tax rate on profits from insurance operations decreased from 20 per cent in 2012 to 19 per cent in 2013. The reduced rate is primarily due to a favourable deduction in respect of portfolio dividends received in Variable Annuity business. In addition, Prudential benefitted from reductions in the main UK corporate tax rate in 2013. Offsetting this effect Prudential sold Japan Life during the period which gave rise to a loss for which there was no tax relief. Further details are provided in note B5 to the consolidated financial statements in Item 18.

In order to understand how Prudential s results are derived it is necessary to understand how profit emerges from its business. This varies from region to region, primarily due to differences in the nature of the products and regulatory environments in which Prudential operates.

Asia

Basis of profits

The assets and liabilities of contracts classified as insurance under IFRS 4 are determined in accordance with methods prescribed by local GAAP and adjusted to comply, where necessary, with UK GAAP. Under IFRS 4, subject to the conditions of that standard, the continued application of UK GAAP in this respect is permitted.

For Asia operations in countries where local GAAP is not well established and in which the business is primarily non-participating and linked business, the measurement of the insurance assets and liabilities is determined substantially by reference to US GAAP principles. This basis is applied in India, Japan, Taiwan and until 2012 Vietnam. For with-profits business in Hong Kong, Singapore and Malaysia, the basis of profit recognition is bonus driven as described under United Kingdom Basis of Profits below.

Comparison of total profit arising from Asia insurance operations

The following table shows the movement in profit arising from Asia insurance operations for 2014, 2013 and 2012:

	Year Ended 31 December £m		
	2014	**2013**	**2012**
Profit before shareholder tax	**1,220**	688	977
Shareholder tax	**(172)**	(148)	(146)
Profit after tax	**1,048**	540	831

The increase of £532 million from the profit before tax attributable to shareholders in 2013 of £688 million to a profit of £1,220 million in 2014 primarily reflects an increase of £49 million in operating profit based on longer-term investment and a positive change in non-operating items of £483 million. The increase of £49 million in operating profit based on longer-term investments includes a negative exchange translation impact of £96 million. Excluding the currency volatility, Asia insurance operations operating profit based on longer-term investment returns was up 16 per cent on a constant exchange basis driven by the increasing scale of the in-force book and our regular premium health and protection oriented product focus.

The change of £483 million from a non-operating loss of £313 million in 2013 to a non-operating profit of £170 million in 2014 arises from an improvement in the short-term fluctuations in investment returns of £382 million, no loss attaching to the held for sale Japan Life business in 2014 (2013: £102 million) and an adverse change of £1 million in other non-operating items. The positive change of £483 million in 2014 in non-operating items includes a positive exchange translation impact of £28 million. The positive short-term fluctuation in investment returns primarily reflect net unrealised movement in bond holdings following falls in bond yields across the region during the year.

The effective shareholder tax rate changed from 22 per cent in 2013 to 14 per cent in 2014, with the movement principally due to the negative impact of the sale of Japan Life on the full year 2013 tax rate.

The decrease of £289 million from the profit before tax attributable to shareholders in 2012 of £977 million to a profit of £688 million in 2013 primarily reflects an increase of £95 million in operating profit based on longer-term investment returns to £1,001 million driven by the increasing scale of the in-force book, being more than offset by an adverse change in the short-term fluctuations in investment returns for shareholder-backed business of £258 million and a loss of £102 million attaching to the Japan Life business classified as held for sale as described above. The year on year adverse change in the short-term fluctuations in investment returns of £204 million was primarily due to the negative net unrealised movements on bond holdings in 2013 following a rise in bond yields.

The effective shareholder tax rate changed from 15 per cent in 2012 to 22 per cent in 2013, with the movement principally due to the sale of Japan Life during the period which gave rise to a loss for which there was no tax relief. Excluding the impact of the held for sale Japan Life business the tax rate is 19 per cent.

United States

Basis of profits

The underlying profit on Jackson s business predominantly arises from spread income from interest-sensitive products, such as fixed annuities, institutional products and fee income on variable annuity business with the insurance assets

and liabilities of the business measured on a US GAAP basis. In addition, the results in any period include the incidence of gains and losses on assets classified as available-for-sale, and fair value movements on derivatives and securities classified as fair valued through profit and loss.

Comparison of total profit arising from US insurance operations

The following table shows the movement in profit arising from US insurance operations for 2014, 2013 and 2012:

	Year Ended 31 December £m		
	2014	**2013**	**2012**
Profit before shareholder tax	**257**	553	855
Shareholder tax	**(8)**	(101)	(234)
Profit after tax	**249**	452	621

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The £296 million decrease in profit before tax attributable to shareholders in 2014 against 2013, was primarily due to an increase of £188 million in operating profit based on longer-term investment returns to £1,431 million, which was more than offset by an adverse change in non-operating loss of £484 million.

The increase of £188 million in operating profit based on longer-term investment returns includes a negative translation impact of £62 million. Excluding the currency volatility, the increase in operating profit based on longer-term investment return in 2014 on a constant exchange rate basis compared to 2013 was £250 million or 21 per cent primarily driven by increased fee income reflecting the growth in average separate account assets.

The increase in non-operating loss was mainly driven by an adverse change in short-term fluctuation in investment returns of £478 million, increasing the loss from £625 million in 2013 to a loss of £1,103 million in 2014. The negative movement in short-term fluctuations in investment returns mainly reflect the net value movement on the guarantees offered by Jackson and the associated derivatives held to manage market exposures, as described further in the Charges for short-term fluctuations in investment returns section below.

The effective tax rate on profits from US operations decreased from 18 per cent in 2013 to 3 per cent in 2014 principally due to a combination of a favourable deduction in respect of portfolio dividends received in Variable Annuity business and the impact of tax relief on negative net unrealised value movement on derivatives held to manage the Group s exposure to market movements following rises in equity values.

The £302 million decrease in profit before tax attributable to shareholders in 2013 against 2012, was primarily due to an increase of £279 million in operating profit based on longer-term investment returns to £1,243 million which was more than offset by an adverse change of £535 million in the short-term fluctuations in investment returns reflected in the income statement. The increase in operating profit based on longer-term investment returns in 2013 compared to 2012 reflects strong underlying growth in fee income which was partially offset by higher expenses.

The adverse movement in short-term fluctuation in investment returns was mainly due to the negative net unrealised value movement on derivatives held to manage the Group s exposure to market movements following rises in equity values.

The effective tax rate on profits from US operations decreased from 27 per cent in 2012 to 18 per cent in 2013 due a favourable deduction in respect of portfolio dividends received in Variable Annuity business.

United Kingdom

Basis of profits

Prudential s results comprise an annual profit distribution to shareholders from its UK long-term with-profits fund as well as profits from its annuity and other businesses.

For Prudential s UK insurance operations, the primary annual contribution to shareholders profit comes from its with-profits products. With-profits products are designed to provide policyholders with smoothed investment returns through a mix of regular and final bonuses.

For with-profits business (including non-participating business owned by the PAC with-profits fund), adjustments to liabilities and any related tax effects are recognised in the income statement. However, except for any impact on the annual declaration of bonuses, shareholder profit for with-profits business is unaffected. This is because IFRS basis profits for the with-profits business, which are determined on the same basis as on preceding UK GAAP, solely reflect

one-ninth of the cost of bonuses declared for the year. Further details on the determination of the bonuses (regular and final) are provided in note C4.2(c)(i) to the consolidated financial statements in Item 18.

The results of the UK shareholder-backed annuity business reflect the inclusion of investment return including realised and unrealised gains and losses. The charge for benefits reflects the valuation rate of interest applied to discount future anticipated payments to policyholders. This rate in turn reflects current market yields adjusted for factors including default risks on the assets backing the liabilities. The level of allowance for default risk is a key assumption. Details are included in note B4 to the consolidated financial statements in Item 18.

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Comparison of total profit arising from UK insurance operations

The following table shows the movement in profit arising from UK insurance operations for 2014, 2013 and 2012:

	Year Ended 31 December £m		
	2014	**2013**	**2012**
Profit before shareholder tax	**1,321**	446	872
Shareholder tax	**(271)**	(72)	(164)
Profit after tax	**1,050**	374	708

Profit after tax from UK insurance operations of £1,050 million in 2014 is £676 million higher than the £374 million in 2013.

The increase in profit before tax attributable to shareholders of £875 million to £1,321 million in 2014 was driven by an increase of £41 million in operating profit based on longer-term investments return, combined with an improvement in the short-term fluctuations in investment returns for shareholder-backed business of £718 million and a favorable change in other non-operating items of £116 million. The favourable change in the UK insurance non-operating items in 2014 includes a one-off gain of £86 million arising from the sale of UK insurance operation s 25 per cent equity stake in PruHealth and PruProtect business.

The £41 million, or 6 per cent increase in operating profit based on longer-term investment returns was principally driven by a £105 million profit contribution from bulk annuity transactions (2013: £25 million), partially offset by a £53 million decline in profit from new retail annuity sales which was affected by the UK market reforms announced in March 2014. Operating profit based on longer-term investment returns included general insurance commissions of £24 million in 2014 compared with £29 million for 2013. The positive short-term fluctuations in investment returns of £718 million includes net unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business.

The effective shareholder tax rate on profits from UK insurance operations for 2014 of 21 per cent compares with the effective tax rate of 16 per cent in 2013, principally due to the absence of the restatement of deferred tax balances in 2013 to reflect the reduction in the main rate of UK corporate tax.

Profit after tax from UK insurance operations of £374 million in 2013 is £334 million lower than the £708 million in 2012.

The decrease in profit before tax attributable to shareholders of £426 million to £446 million in 2013 was primarily due to an adverse change in the value of short-term fluctuations in investment returns of £390 million which included the net unrealised movements on fixed income assets supporting the capital of the shareholder backed annuity business. Operating profit based on longer-term investments returns of £735 million in 2013 was comparable to the £736 million in 2012. Operating profit based on longer-term investment returns included general insurance commissions of £29 million in 2013 compared with £33 million for 2012.

The effective shareholder tax rate on profits from UK insurance operations for 2013 of 16 per cent compares with the effective tax rate of 19 per cent in 2012, with the movement principally due to reductions in the main UK corporate tax rate in 2013.

Profit from asset management

The following table shows the movement in profits from asset management for 2014, 2013 and 2012:

	Year Ended 31 December £m		
	2014	**2013**	**2012**
Profit before shareholder tax	**573**	596	619
Shareholder tax	**(117)**	(130)	(139)
Profit after tax	**456**	466	480

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Total profit from asset management decreased from £466 million in 2013 to £456 million in 2014. The decrease of £23 million in profit before shareholder tax in 2014 compared to 2013 resulted mainly from a decrease for US broker dealer and asset management operations of £47 million from £59 million in 2013 to £12 million in 2014. This decrease was partially offset by an increase in profit before shareholder tax for Eastspring Investments of £16 million from £74 million to £90 million and an increase in profit before shareholder tax for M&G of £8 million from £463 million to £471 million in 2014.

The £8 million increase in the profit before shareholder tax of M&G primarily reflects an increase of £47 million in operating profit based on longer-term investment returns to £488 million offset by an adverse change in short-term fluctuations in investment returns for shareholder-backed business of £39 million.

The £16 million increase in profit before tax attributable to shareholders for Eastspring Investments includes a negative exchange translation impact of £6 million. Excluding the currency volatility, the increase in £22 million, or 32 per cent is reflects the benefit of higher average funds under management. The decrease in US broker dealer and asset management operations of £47 million followed a provision related primarily to the potential refund of certain fees by Curian.

The effective tax rate on profits from asset management operations decreased from 22 per cent in 2013 to 20 per cent in 2014, principally due to a reduction in the main rate of UK corporation tax.

Total profit from asset management decreased from £480 million in 2012 to £466 million in 2013. The decrease of £23 million in profit before shareholder tax in 2013 compared to 2012 resulted mainly from a decrease for M&G by £48 million from £511 million in 2012 to £463 million in 2013. The profit before shareholder tax for Eastspring Investments increased by £5 million from £69 million in 2012 to £74 million in 2013. US broker dealer and asset management operations profit before shareholder tax increased by £20 million from £39 million in 2012 to £59 million in 2013.

The £48 million decrease in the profit before shareholder tax of M&G primarily reflects an increase of £70 million in operating profit based on longer-term investment returns to £441 million offset by an adverse change in short-term fluctuations in investment returns for shareholder-backed business of £76 million. In addition, the M&G results in 2012 included a one-off gain of £42 million arising on the dilution of M&G s investment holding in PPM South Africa.

The effective tax rate on profits from asset management operations remained at 22 per cent in 2012 and in 2013.

Unallocated corporate result

The following table shows the movement in the unallocated corporate result for 2014, 2013 and 2012.

	Year Ended 31 December £m		
	2014	**2013**	**2012**
Loss before shareholder tax	**(757)**	(648)	(576)
Shareholder tax	**170**	162	99
Loss after tax	**(587)**	(486)	(477)

Total net charges for unallocated corporate activity increased by £101 million from £486 million in 2013 to £587 million in 2014 and increased by £9 million from £477 million in 2012 to £486 million in 2013.

The loss before shareholder tax increased by £109 million from £648 million in 2013 to £757 million at 2014. Net other expenditure (including restructuring and Solvency II implementation costs) increased by £62 million from £599 million in 2013 to £661 million in 2014. This was combined with an adverse change of £47 million in short-term fluctuations in investment returns from a loss of £49 million in 2013 to a loss of £96 million in 2014.

The effective tax credit on unallocated corporate result changed from 25 per cent at 2013 to 22 per cent at 2014, reflecting the release of provisions no longer required.

Total net charges for unallocated corporate activity increased by £9 million from £477 million in 2012 to £486 million in 2013 and increased by £117 million to £477 million in 2012.

The loss before shareholder tax increased by £72 million from £576 million in 2012 to £648 million at 2013. Net other expenditure (including restructuring and Solvency II implementation costs) increased by £34 million from £565 million in 2012 to £599 million in 2013. This was combined with an adverse change of £38 million in short-term fluctuations in investment returns from a loss of £11 million in 2012 to a loss of £49 million in 2013.

The effective tax rate on unallocated corporate result changed from 17 per cent at 2012 to 25 per cent at 2013, reflecting the settlement of prior year balances in the UK and Asia following agreement with taxation authorities.

(c) Additional explanation of performance measures and analysis of consolidated results by business segment and geographical region

Prudential uses a performance measure of operating profit based on longer-term investment returns. The directors believe that this performance measure better reflects underlying performance. It is the basis used by management for the reasons outlined below. It is also the basis on which analysis of the Group s results has been provided to UK shareholders and the UK financial market for some years under long standing conventions for reporting by proprietary UK life assurers.

Prudential determines and presents operating segments based on the information that is internally provided to the Group Executive Committee (GEC), which is Prudential s chief operating decision maker.

An operating segment is a component of Prudential that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of Prudential s other components. An operating segment s operating results are reviewed regularly by the GEC to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The operating segments identified by Prudential reflect its organisational structure, which is by both geography (Asia, US and UK) and by product line (insurance operations and asset management).

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

Insurance operations:	**Asset management operations:**
Asia	Eastspring Investments
US (Jackson)	US broker-dealer and asset management (including Curian)
UK	M&G (including Prudential Capital)

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

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

operating profit based on long-term investment returns from other constituents of the total profit as follows:

- Short-term fluctuations in investment returns;
- Gain on the sale the Group s interest of PruHealth and PruProtect in 2014 as explained in note D1 to the consolidated financial statements in Item 18;
- 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;
- (Loss) profit attaching to the held for sale Japan Life business. See note D1 for further details;
- The costs associated with the domestication of the Hong Kong branch which became effective on 1 January 2014 ; and
- For 2012, gain on dilution of the Group s holdings in PPM South Africa.

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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.

Determination of operating profit based on longer-term investment return for investment and liability movements:

(a) ***General principles***

(i) UK style with-profits business
The operating profit based on longer-term returns reflects the statutory transfer gross of attributable tax. Value movements in the underlying assets of the with-profits funds do not affect directly the determination of operating profit.

(ii) Unit linked 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 both the unit liabilities and the backing assets.

(iii) US Variable Annuity and Fixed Index Annuity business
This business has guarantee liabilities which are measured on a combination of fair value and other, US GAAP derived, principles. These liabilities are subject to an extensive derivative programme to manage equity and, with those of the general account, interest rate exposures. The principles for determination of the operating profit and short-term fluctuations are necessarily bespoke, as discussed in section (c) below.

(iv) Business where policyholder liabilities are sensitive to market conditions
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 (i.e. after allocated investment return and change for policyholder benefits) the operating result reflects longer-term market returns.

Examples of where such bifurcation is necessary are in Hong Kong and for UK shareholder-backed annuity business, as explained in notes (b)(i) and (d)(i), respectively:

(v) 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.

Except in the case of assets backing liabilities which are directly matched (such as linked business) or closely correlated with value movements (as discussed below) operating profit based on longer-term investment returns for shareholder-financed business is determined on the basis of expected longer-term investment returns.

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.

At 31 December 2014, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £467 million (2013: £461 million; 2012: £495 million).

Equity type securities

For equity-type securities, the longer-term rates of return are estimates of the long-term trend investment returns 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.

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, as discussed below in note (c).

(b) ***Asia insurance operations***

(i) Business where policyholder liabilities are sensitive to market conditions

For certain Asia non-participating business, for example in Hong Kong, 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 certain other types of non-participating business, longer-term interest rates are used to determine the movement in policyholder liabilities for determining operating results.

(ii) Other Asia shareholder-financed business

Debt securities

For this business 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.

Equity-type securities

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 £932 million as at 31 December 2014 (2013: £571 million; 2012: £474 million). The rates of return applied in the years 2014, 2013 and 2012 ranged from 2.73 per cent to 13.75 per cent with the rates applied varying by territory. These rates 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.

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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.

(c) ***US Insurance operations***

(i) Separate account business

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.

(ii) 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. See note B1.2 note (ii) to the consolidated financial statements in Item 18:

- 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 below);
- Movements in accounts carrying value of Guaranteed Minimum Death Benefit and Guaranteed Minimum Withdrawal Benefit for life and Guaranteed Minimum Income Benefit 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.

Embedded derivatives for variable annuity guarantee features

The Guaranteed Minimum Income Benefit liability, which is essentially 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.

(iii) Other derivative value movements

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.

(iv) Other US shareholder-financed business

Debt securities

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 to the consolidated financial statements in Item 18.

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Equity-type securities

As at 31 December 2014, the equity-type securities for US insurance non-separate account operations amounted to £1,094 million (2013: £1,118 million; 2012: £1,004 million). For these operations, the longer-term rates of return for income and capital applied in 2014 and 2013, which reflect the combination of the average risk free rates over the period and appropriate risk premiums are as follows:

	2014	2013	2012
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	**6.2% to 6.7%**	5.7% to 6.8%	5.5% to 6.2%
Other equity-type securities such as investments in limited partnerships and private equity funds	**8.2% to 8.7%**	7.7% to 9.0%	7.5% to 8.2%

(d) ***UK Insurance operations***

(i) Shareholder-backed annuity business

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.

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. Positive or negative experience compared to assumptions is included within short-term fluctuations in investment returns without further adjustment. 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.

(ii) Non-linked shareholder-financed business

For debt securities backing non-linked shareholder-financed business of the UK insurance operations (other than the annuity business) 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.

(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 in the operating result with temporary unrealised gains and losses being included in short-term fluctuations. 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.

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Reconciliation of total profit (loss) by business segment and geography to IFRS operating profit based on longer-term investment returns

Analysis of IFRS operating profit based on longer-term investment returns and IFRS total profit

A reconciliation of profit (loss) before tax (including tax attributable to policyholders returns) to profit (loss) before tax attributable to shareholders and profit for the period is shown below.

		AER	CER	AER
	2014 £m	**2013 £m**	**2013 £m**	**2012 £m**
Insurance business				
Long-term business[(ii)]				
Asia	**1,052**	1,003	907	913
US	**1,431**	1,243	1,181	964
UK	**752**	706	706	703
Development expenses	**(2)**	(2)	(2)	(7)
Long-term business operating profit	**3,233**	2,950	2,792	2,573
UK general insurance commission [(iii)]	**24**	29	29	33
Asset management business				
M&G	**488**	441	441	371
Eastspring Investments	**90**	74	68	69
US broker-dealer and asset management	**12**	59	56	39
	3,847	3,553	3,386	3,085
Other income and expenditure	**(619)**	(558)	(558)	(498)
Solvency II implementation costs	**(28)**	(29)	(29)	(48)
Restructuring costs	**(14)**	(12)	(12)	(19)
Total IFRS operating profit based on longer-term investment returns [(i)]	**3,186**	2,954	2,787	2,520
Short-term fluctuations in investment returns[(iv)]				
Insurance operations	**(461)**	(1,083)	(1,036)	100
Other operations	**(113)**	(27)	(27)	87
Total short-term fluctuations in investment returns	**(574)**	(1,110)	(1,063)	187
Gain on dilution of Group s holdings	**-**	-	-	42
Amortisation of acquisition accounting adjustments	**(79)**	(72)	(68)	(19)
Gain on sale of PruProtect and PruHealth	**86**	-	-	-
(Loss)/Profit attaching to held for sale Japan Life business	**-**	(102)	(89)	17
Costs of domestication of Hong Kong branch`	**(5)**	(35)	(35)	-
Profit before tax from continuing operations attributable to shareholders	**2,614**	1,635	1,532	2,747
Tax (charge) credit attributable to shareholders returns	**(398)**	(289)	(262)	(584)
Total profit for the year attributable to equity holders of Prudential	**2,216**	1,346	1,270	2,163

(i) **Operating profit based on longer-term investment returns**

The Group provides supplementary analysis of IFRS profit before tax attributable to shareholders so as to distinguish operating profit based on longer-term investment returns from other elements of total profit. Operating profit based on longer-term investment returns is the basis on which management regularly reviews the performance of Prudential s segments as defined by IFRS 8. Further discussion on the determination of operating profit based on longer-term investment returns is provided in B1.3 to the consolidated financial statements in Item 18 and section c Additional explanation of performance measures and analysis of consolidated results by business segment and geographical region above.

(ii) **Effect of changes to assumptions, estimates and bases of determining life assurance liabilities**

The results of the Group s long-term business operations are affected by changes to assumptions, estimates and bases of preparation.

Where applicable, these are described in note B4 to the consolidated financial statements in Item 18.

(iii) UK operations transferred its general insurance business to Churchill in 2002, with general insurance commission representing the commission received net of expenses for Prudential-branded general insurance products as part of this arrangement. Restructuring costs are incurred in the UK and represent one-off expenses incurred in securing expense savings.

(iv) Short-term fluctuations in investment returns on shareholder-backed business comprise:

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	2014 £m	AER 2013 £m	AER 2012 £m
Insurance operations:			
Asia note (i)	**178**	(204)	54
US note (ii)	**(1,103)**	(625)	(90)
UK note (iii)	**464**	(254)	136
Other operations note (iv)	**(113)**	(27)	87
Total	**(574)**	(1,110)	187

Further details on the short-term fluctuations in investment returns are provided below under Charge for short-term fluctuations in investment returns and also in note B1.2 in the consolidated financial statements in Item 18.

Reconciliation of IFRS operating profit based on longer-term investment returns to IFRS total profit

The following tables reconcile Prudential s operating profit based on longer-term investment returns to Prudential s total profit after tax for 2014, 2013 and 2012.

	2014 £m								
	Insurance operations			Asset management					
	Asia	**US**	**UK**	**M&G**	**US**	**Eastspring Investments**	**Total segment**	**Unallo-cated to a segment (central operations)**	**Group total**
Operating profit based on longer-term investment returns	**1,050**	**1,431**	**776**	**488**	**12**	**90**	**3,847**	**(661)**	**3,186**
Short-term fluctuations in investment returns on shareholder-backed business	**178**	**(1,103)**	**464**	**(17)**	**-**	**-**	**(478)**	**(96)**	**(574)**
Gain on sale of PruHealth and PruProtect	**-**	**-**	**86**	**-**	**-**	**-**	**86**	**-**	**86**
Amortisation of acquisition accounting adjustments	**(8)**	**(71)**	**-**	**-**	**-**	**-**	**(79)**	**-**	**(79)**
Costs of domestication of Hong Kong branch	**-**	**-**	**(5)**	**-**	**-**	**-**	**(5)**	**-**	**(5)**
Profit (loss) before tax attributable to shareholders	**1,220**	**257**	**1,321**	**471**	**12**	**90**	**3,371**	**(757)**	**2,614**
									(398)

Tax attributable to shareholders	
Profit for the year	**2,216**

	2013 £m (AER)								
	Insurance operations			Asset management					
	Asia	US	UK	M&G	US	Eastspring Investments	Total segment	Unallocated to a segment (central operations)	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
Tax attributable to shareholders									(289)
Profit for the year									1,346

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	2013 £m (CER)								
	Insurance operations			Asset management					
	Asia	US	UK	M&G	US	Eastspring Investments	Total segment	Unallocated to a segment (central operations)	Group total
Operating profit based on longer-term investment returns	905	1,181	735	441	56	68	3,386	(599)	2,787
Short-term fluctuations in investment returns on shareholder-backed business	(189)	(593)	(254)	22	-	-	(1,014)	(49)	(1,063)
Amortisation of acquisition accounting adjustments	(7)	(61)	-	-	-	-	(68)	-	(68)
Loss attaching to held for sale Japan life business	(89)	-	-	-	-	-	(89)	-	(89)
Costs of domestication of Hong Kong branch	-	-	(35)	-	-	-	(35)	-	(35)
Profit (loss) before tax attributable to shareholders	620	527	446	463	56	68	2,180	(648)	1,532
Tax attributable to shareholders									(262)
Profit for the year									1,270

	2012 £m (AER)								
	Insurance operations			Asset management					
	Asia	US	UK	M&G	US	Eastspring Investments	Total segment	Unallocated to a segment (central operations)	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
Tax attributable to shareholders									(584)
Profit for the year									2,163

IFRS operating profit based on longer-term investment returns

Total IFRS operating profit based on longer-term investment returns increased by 14 per cent in 2014 to £3,186 million (2013: £2,954 million), driven by higher contributions from both life insurance and asset management.

Consistent with the explanations made in the currency volatility section above comparison of the 2014 and 2013 performance is partially affected by the movements in average exchange rates used to translate into sterling the results of our overseas operations. Therefore, to facilitate explanations of changes in underlying performance, in the commentary on 2014 compared to 2013 discussions below, every time we comment on the performance of our businesses, we focus on their performance measured on the constant exchange rates basis unless otherwise stated. Growth rates based on actual exchange rates are also shown in the tables presented above. The 2013 commentary on compared to 2012 discussions are on an actual exchange rate rather than constant exchange rate basis as the movements in average exchange rates between the two years were not sufficiently material to mask reporting of underlying performance.

Insurance Operations

2014 compared to 2013 (CER)

Operating profit based on longer- term investment returns from our insurance operations in Asia, the US and the UK increased 15 per cent to £3,257 million (9 per cent on an actual exchange rate basis). This increase reflects the growth in the scale of these operations, driven primarily by positive business inflows. We track the progress that we make in growing our life business by reference to the scale of our obligations to our customers, which are referred to in the financial statements as policyholder liabilities. Each year these liabilities increase as we collect premiums and decrease as we pay claims and policies mature. The overall scale of these policyholder liabilities is relevant in evaluating our profit potential, in that it reflects our ability to earn fees on the unit-linked element and it sizes the risk that we carry on the insurance element, for which Prudential needs to be rewarded.

IFRS operating profit from Asia life insurance was up 16 per cent (5 per cent on an actual exchange rate) to £1,050 million, driven by the increasing scale of the in-force portfolio and our emphasis on growing the proportion of our income that is sourced from regular premium health and protection business. Indonesia IFRS operating profit, our largest market on this measure, was up by 27 per cent (6 per cent on an actual exchange rate basis) to £309 million, reflecting growth in insurance and fee income following the high level of protection and savings product sales in recent years. We also see further progress among our smaller, fast-growing businesses in South-east Asia, with Thailand, the Philippines and Vietnam now accounting for 15 per cent of Asia s life operating profit compared to just 5 per cent only 2 years ago.

In the US, life IFRS operating profit increased by 21 per cent (15 per cent on an actual exchange rate basis) to £1,431 million, primarily as a result of a 26 per cent increase in fee income, which is now Jackson s main source of income. The uplift in fee income reflects the growth in average separate account assets from £57.1 billion in 2013 to £72.5 billion in 2014, equating to an increase of 27 per cent on a constant exchange rate basis, driven by variable annuity net premium inflows and appreciation in US equity markets. The contribution from insurance margin has also increased by 20 per cent, as we continue to realise the benefits of the REALIC acquisition. We remain focused on improving the balance of Jackson s profits and diversifying its sources of earnings and we are pleased with the growing contribution to sales of Elite Access, our variable annuity product without living benefits.

UK life IFRS operating profit was 7 per cent higher than 2013 at £752 million (2013: £706 million), principally due to a £105 million profit contribution from bulk annuity transactions (2013: £25 million), reflecting our selective approach of only writing this business on attractive returns. The UK market reforms announced in March 2014 had a dramatic effect on the overall individual annuity market. Our business was equally impacted, experiencing a sharp decline in profits from new retail annuity sales of £53 million (from £110 million in 2013 to £57 million in 2014). Operating profit includes a contribution of £23 million which relates to earnings from our 25 per cent equity stake in the PruHealth and PruProtect businesses.

2013 (AER) compared to 2012 (AER)

Operating profit based on longer-term investment returns from our insurance operations in Asia, the US and the UK increased 14 per cent to £2,979 million (2012: £2,606 million). The increase in the profitability of our life operations reflects the growth in the scale of our life business, driven primarily by positive business flows. We track the progress that we make in growing our life book of business by reference to the scale of our obligations to our customers, which are referred to in the financial statements as the policyholder liabilities. Each year these liabilities increase as we collect premiums and decrease as we pay claims. The overall scale of these policyholder liabilities is relevant in evaluating our profit potential, in that it is reflective of our ability to earn fees on the unit-linked element and it sizes

the risk that we carry on the insurance element, for which Prudential needs to be rewarded.

Our Asia life insurance business continues to benefit from the growth of the in-force portfolio and our focus on building the proportion of our business that comprises health and protection, with operating profit based on longer-term investment returns of £1,001 million (2012: £906 million) up10 per cent. Adjusting for the 2012 one-off gain on the sale of our holding in China Life Insurance Company in Taiwan and currency movements, underlying growth was 20 per cent. The principal driver of our profitability in the region is our health and protection business which delivered 68 per cent or £679 million (2012: £589 million) of total life profits. Indonesia IFRS operating profit,

our largest market on this measure, was up by 23 per cent at constant exchange rates, reflecting increased insurance and fee income from the high level of regular premium health and protection and unit-linked sales in recent years. Our other large established markets of Hong Kong, Malaysia and Singapore, also showed collective double digit growth in IFRS operating profit, driven by higher insurance margin and in the case of Hong Kong, higher bonus rates on with-profits business. There was encouraging progress in our smaller, fast-growing South-east Asia businesses in Thailand, the Philippines and Vietnam. Their combined operating profit based on longer-term investment returns of £125 million has increased by 166 per cent during 2013, and now accounts for 12 per cent of the Asia life total compared to 5 per cent in 2012. In Thailand, the inclusion of profits since May 2013 from the acquired Thanachart in-force portfolio together with profits on new business written through our exclusive partnership with Thanachart Bank contributed operating profit based on longer-term investment returns of £30 million.

In the US, long-term business operating profit based on longer-term investment returns was up 29 per cent in 2013 to £1,243 million (2012: £964 million), which includes a contribution of £128 million from REALIC (2012: £67 million). Jackson s total income increased by 24 per cent to £2,514 million (2012: £2,031 million) outpacing the 19 per cent growth in total expenses net of deferred acquisition cost adjustments totalling £1,271 million (2012: £1,067 million). Fee income has become Jackson s main source of earnings and has grown by 34 per cent to £1,172 million (2012: £875 million). The uplift in fee income is in line with the 33 per cent growth in separate account assets in the period to £65.7 billion (2012: £49.3 billion) reflecting the benefit of variable annuity premium inflows and the rise in US equity markets since December 2012. Insurance margin at £588 million (2012: £399 million) is now a more significant contributor to Jackson s earnings following the acquisition of REALIC s seasoned book of term insurance business. Spread income has increased 4 per cent to £730 million (2012: £702 million). We continue to focus on improving the balance of Jackson s profits and diversifying its sources of earnings and we are pleased that the earnings from REALIC have been consistent with expectations at the time of the acquisition.

UK long-term business operating profit based on longer-term investment returns was in line with 2012 at £735 million (2012: £736 million). The comparative result included a £31 million profit from writing wholesale contracts, compared with £25 million for 2013. Excluding these contracts, UK Retail operating profit based on longer-term investment returns increased 1 per cent, and included the £34 million positive impact of a longevity swap entered into this year to further optimise the capital position of the business. Consistent with our focused product strategy in the UK, the operating result is driven by profits from shareholder-backed individual annuities and with-profits business, which accounted for 92 per cent of the retail operating profit based on longer-term investment returns.

Asset management business

2014 compared to 2013 (CER)

Our asset management businesses in the UK and Asia collectively contributed IFRS operating profit of £578 million, up 14 per cent on 2013 (12 per cent on an actual exchange rate basis). Similar to our life operations, growth in asset management operating profit primarily reflects the increased scale of this business, as measured by funds managed on behalf of external institutional and retail customers and our internal life insurance operations. Net flows from external parties into these funds, excluding Money Market Funds (MMF), were £12.5 billion in 2014 (2013: £11.1 billion on an actual exchange rate basis) and helped drive external retail and institutional funds under management (excluding MMF) to £162.4 billion at 31 December 2014 compared to £143.9 billion at 31 December 2013.

M&G s IFRS operating profit increased 13 per cent to £446 million (2013: £395 million), reflecting a 12 per cent rise in underlying profit to £400 million (2013: £358 million), contributions of £33 million from performance-related payments and £13 million from earnings from associates were also higher in 2014 (2013: £25 million and £12 million, respectively). The increase in underlying profit was principally driven by higher average levels of funds under

management, following a period of strong net inflows and positive market movements. The increasing proportion of higher-margin external retail business has improved M&G s average fee income to 38 basis points (2013: 37 basis points), with higher income helping to absorb the current phase of increased headcount and infrastructure investment. Reflecting this, the underlying cost income ratio, which excludes revenue from performance-related payments and earnings from associates, improved to 58 per cent (2013: 59 per cent).

Our Asia asset management business, Eastspring Investments, has also seen the benefit of higher average funds under management, with IFRS operating profit of £90 million up 32 per cent (22 per cent on an actual exchange rate basis). In the US, our asset management businesses, PPM America and Curian, and our broker-dealer network, National Planning Holdings, collectively generated an IFRS operating profit of £12 million (2013: profit of £56 million on a constant exchange rate basis: profit of £59 million on actual exchange rate basis) after a £38 million charge related primarily to the refund of certain fees by Curian.

2013 (AER) compared to 2012 (AER)

Total operating profit based on longer-term investment return for 2013 from M&G and Prudential Capital increased by 19 per cent, from £371 million in 2012 to £441 million in 2013, primarily reflecting positive net inflows into M&G during 2012 and 2013.

M&G s operating profit based on longer-term investment returns increased 23 per cent to a new record level of £395 million (2012: £320 million). Underlying profits, excluding performance-related payments and earnings from associates, increased 20 per cent to £358 million (2012: £298 million), reflecting both a 13 per cent uplift in external funds under management following a period of strong net inflows and positive market movements, and also the positive mix effect from the growing proportion of higher margin retail business. M&G s average fee income across all the external and internal funds it manages was up slightly at 37 basis points (2012: 36 basis points), with higher income helping to absorb the current phase of increased headcount and infrastructure investment, maintaining a cost income ratio at 59 per cent (2012: 59 per cent).

Our Asia asset management business, Eastspring Investments, has also seen the combination of net inflows and more favourable equity market conditions, partially offset by adverse currency movement, contribute to a 7 per cent increase in operating profit based on longer-term investment returns to £74 million (2012: £69 million). Higher funds under management resulted in a 10 per cent uplift in revenue, outstripping a 5 per cent increase in expenses which included ongoing investment to expand the Eastspring Investments platform into new markets.

In the US, our asset management businesses, PPM America and Curian, and our broker-dealer network, National Planning Holdings, collectively generated operating profits based on longer-term investment returns of £59 million (2012: £39 million). Curian s profit increased from £15 million in 2012 to £29 million in 2013 due to higher average assets under management, particularly reflecting the addition of assets managed for Jackson s Elite Access product.

Unallocated corporate result

Operating loss based on longer-term investment returns for 2014 of £661 million (2013: £599 million; 2012: £565 million) comprises the following items:

	2014 £m	**2013 £m**	**2012 £m**
Investment return and other income	**15**	10	13
Interest payable on core structural borrowings	**(341)**	(305)	(280)
Corporate expenditure for Group Head Office and Asia Regional Head Office	**(293)**	(263)	(231)
Total	**(619)**	(558)	(498)

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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:

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.**

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.

With-profits business represents the gross of tax shareholders transfer from the with-profits fund for the year.

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

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

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).

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

Analysis of pre-tax IFRS operating profit by source and Margin analysis of Group long-term insurance business

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

	2014 £m					
	Asia	US	UK	Total	Average	Total

					Liability	bps
	note (v)				note (iv)	note (ii)
Spread income	**125**	**734**	**272**	**1,131**	**67,252**	**168**
Fee income	**155**	**1,402**	**61**	**1,618**	**110,955**	**146**
With-profits	**43**	**-**	**255**	**298**	**101,290**	**29**
Insurance margin	**675**	**670**	**96**	**1,441**		
Margin on revenues	**1,545**	**-**	**176**	**1,721**		
Expenses:						
Acquisition costs[note (i)]	**(1,031)**	**(887)**	**(96)**	**(2,014)**	**4,650**	**(43)%**
Administration expenses	**(618)**	**(693)**	**(143)**	**(1,454)**	**186,049**	**(78)**
DAC adjustments[note (vi)]	**92**	**191**	**(6)**	**277**		
Expected return on shareholder assets	**64**	**14**	**137**	**215**		
Long-term business operating profit	**1,050**	**1,431**	**752**	**3,233**		

See notes at the end of this section.

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	2013 AER £m					
					Average	Total
	Asia	US	UK	Total	Liability	bps
	note (v)				note (iv)	note (ii)
Spread income	115	730	228	1,073	64,312	167
Fee income	154	1,172	65	1,391	96,337	144
With-profits	47	-	251	298	97,393	31
Insurance margin	679	588	89	1,356		
Margin on revenues	1,562		187	1,749		
Expenses:						
Acquisition costs note (i)	(1,015)	(914)	(110)	(2,039)	4,423	(46)%
Administration expenses	(634)	(670)	(124)	(1,428)	169,158	(84)
DAC adjustments note (vi)	35	313	(14)	334		
Expected return on shareholder assets	58	24	134	216		
Long-term business operating profit	1,001	1,243	706	2,950		

See notes at the end of this section.

	2013 CER £m note (iii)					
					Average	Total
	Asia	US	UK	Total	Liability	bps
	note (v)				note (iv)	note (ii)
Spread income	107	694	228	1,029	62,909	164
Fee income	140	1,113	65	1,318	93,339	141
With-profits	44	-	251	295	97,374	30
Insurance margin	616	559	89	1,264		
Margin on revenues	1,413	-	187	1,600		
Expenses:						
Acquisition costs note (i)	(921)	(868)	(110)	(1,899)	4,165	(46)%
Administration expenses	(578)	(636)	(124)	(1,338)	164,362	(81)
DAC adjustments note (vi)	32	297	(14)	315		
Expected return on shareholder assets	52	22	134	208		
Long-term business operating profit	905	1,181	706	2,792		

See notes at the end of this section.

	2012 AER £m					
					Average	Margin
	Asia	US	UK	Total	liability	bps
	note (v)				note (iv)	note (ii)
Spread income	93	702	266	1,061	61,432	173

Fee income	141	875	61	1,077	78,433	137
With-profits	39	-	272	311	95,681	33
Insurance margin	589	399	39	1,027		
Margin on revenues	1,439	-	216	1,655		
Expenses:						
Acquisition costs	(903)	(972)	(122)	(1,997)	4,195	(48)%
Administration expenses	(570)	(537)	(128)	(1,235)	142,205	(87)
DAC adjustments	(16)	442	(8)	418		
Expected return on shareholder assets	43	55	107	205		
Gain on China Life (Taiwan) shares	51	-	-	51		
Long-term business operating profit	906	964	703	2,573		

See Notes at the end of the section.

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Margin analysis of long-term insurance business Asia notes (iii)(v)

	2014			2013 AER			2013 CER			2012 AER		
	Profit	Average Liability note (iv)	Margin note (ii)	Profit	Average Liability note (iv)	Margin	Profit	Average Liability note (iv)	Margin note (ii)	Profit	Average Liability note (iv)	Marg note (
g-term business	£m	£m	bps	£m	£m	bps	£m	£m	bps	£m	£m	b
ead income	**125**	**9,183**	**136**	115	7,446	154	107	7,419	144	93	5,978	1:
income	**155**	**14,987**	**103**	154	13,714	112	140	13,317	105	141	12,648	1
h-profits	**43**	**14,823**	**29**	47	13,263	35	44	13,244	33	39	12,990	
urance margin	**675**			679			616			589		
rgin on revenues	**1,545**			1,562			1,413			1,439		
enses:												
quisition costs note (i)	**(1,031)**	**2,237**	**(46)%**	(1,015)	2,125	(48)%	(921)	1,946	(47)%	(903)	1,897	(48)
ministration enses	**(618)**	**24,170**	**(256)**	(634)	21,160	(300)	(578)	20,736	(279)	(570)	18,626	(30
C adjustments note	**92**			35			32			(16)		
ected return on reholder assets	**64**			58			52			43		
n on China Life iwan) shares				-						51.00		
erating profit	**1,050**			1,001			905			906		

See notes at the end of the section.

Analysis of Asia operating profit drivers

2014 Compared to 2013 (CER unless otherwise stated)

Spread income has increased by 17 per cent at constant exchange rate (AER 9 per cent) to £125 million in 2014, predominantly reflecting the growth of the Asia non-linked policyholder liabilities.
Fee income has increased by 11 per cent at constant exchange rates (AER 1 per cent) from £140 million in full year 2013 to £155 million in 2014, broadly in line with the increase in movement in average unit-linked liabilities.
Insurance margin has increased by £59 million at constant exchange rates to £675 million in 2014 (and decreased by £4 million on AER basis) predominantly reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products. 2014 insurance margin includes non-recurring items of £27 million (2013: £52 million at AER; £48 million on CER).
Excluding the adverse impact of currency fluctuations, margin on revenues has increased by £132 million from £1,413 million in 2013 to £1,545 million in 2014 primarily reflecting higher premium income recognised in the period.
Acquisition costs have increased by 12 per cent at constant exchange rates (AER 2 per cent) to £1,031 million in 2014, compared to the 15 per cent increase in sales (AER 5 per cent increase), resulting in a modest decrease in the acquisition costs 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 66 per cent (2013:

65 per cent at CER), broadly consistent with the prior year.

Administration expenses have increased by 7 per cent at constant exchange rates (AER 3 per cent decrease) to £618 million in 2014 as the business continues to expand. On constant exchange rates, the administration expense ratio has reduced from 279 basis points in 2013 (and from 300 basis points on AER basis) to 256 basis points in 2014.

Expected return on shareholder assets have increased from £52 million in 2013(and by £58 million on AER basis) to £64 million in 2014 primarily due to higher income from increased shareholder assets.

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2013 (AER) compared to 2012 (AER)

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 period.

Acquisition costs have increased from £903 million in 2012 to £1,015 million in 2013, broadly 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 £635 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).

Margin analysis of long-term insurance business US[note (iii)]

	2014			2013 AER			2013 CER			2012 AER		
	Profit	Average Liability note (iv)	Margin note (ii)	Profit	Average Liability note (iv)	Margin note (ii)	Profit	Average Liability note (iv)	Margin note (ii)	Profit	Average Liability note (iv)	Margin note (ii
ong-term usiness	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**
pread income	**734**	**28,650**	**256**	**730**	**29,648**	246	694	28,272	246	702	29,416	239
ee income	**1,402**	**72,492**	**193**	**1,172**	**59,699**	196	1,113	57,098	195	875	44,046	199
surance argin	**670**			**588**			559			399		
xpenses												
cquisition ostsnote (i)	**(887)**	**1,556**	**(57)%**	**(914)**	**1,573**	(58)%	(868)	1,494	(58)%	(972)	1,462	(66)%
dministration penses	**(693)**	**108,984**	**(64)**	**(670)**	**97,856**	(68)	(636)	93,484	(68)	(537)	75,802	(71)
AC ljustments	**191**			**313**			297			442		
xpected turn on areholder sets	**14**			**24**			22			55		
perating ofit	**1,431**			**1,243**			1,181			964		

See notes at the end of this section

Analysis of US operating profit drivers:

2014 Compared to 2013 (CER unless otherwise stated)

Spread income has increased by 6 per cent at constant exchange rates (AER increased by 1 per cent) to £734 million during 2014. The reported spread margin increased to 256 basis points from 246 basis points in 2013 (2013 AER: 246 basis points). Spread income benefited from swap transactions previously entered into to more closely match the asset and liability duration. Excluding this effect, the spread margin would have been 182 basis points (2013 CER: 183 basis points)

Fee income has increased by 26 per cent at constant exchange rates (AER 20 per cent) to £1,402 million during 2014, primarily due to higher average separate account balances resulting from positive net cash flows from variable annuity business and overall market appreciation. Fee income margin has remained broadly consistent with the prior year at 193 basis points (2013 CER: 195 basis points and AER: 196 basis points), with the decrease primarily attributable to a change in the mix of business.

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Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Positive net flows from variable annuity business with life contingent and other guarantee fees, coupled with a benefit from re-pricing actions and an increased contribution from REALIC, have increased the insurance margin by 20 per cent at constant exchange rates (AER 14 per cent) to £670 million during 2014.
Acquisition costs, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, have decreased slightly in absolute terms and as a percentage of APE compared to 2013. As a percentage of APE, acquisition costs have remained relatively flat in comparison to 2013.
Administration expenses increased to £693 million during 2014 compared to £636 million for 2013 at a constant exchange rate (AER £670 million), primarily as a result of higher asset based commissions paid on the larger 2014 separate account balance subject to these trail commissions. These are paid upon policy anniversary dates and are treated as an administration expense in this analysis. Excluding these trail commissions, the resulting administration expense ratio would be lower at 36 basis points (2013: CER 44 basis points and AER 44 basis points), reflecting the benefits of operational leverage.
DAC adjustments decreased to £191 million during 2014 compared to £297 million at a constant exchange rate (AER £313 million) during 2013, with 2013 benefitting from a £78m (AER £82 million) deceleration in DAC amortisation due to strong equity market returns in that year. This was not repeated in 2014, which experienced an accelerated DAC amortisation charge of £13 million.

2013 (AER) compared to 2012 (AER)

Spread income has increased by 4 percent to £730 million in 2013 from £702 million in 2012. The reported spread margin increased to 246 basis points from 239 basis points in 2012 primarily as a result of lower crediting rates. In addition, spread income benefited from swap transactions previously entered into to more closely match the overall asset and liability duration. Excluding this effect, the spread margin would have been 182 basis points (2012: 186 basis points).
Fee income has increased by 34 per cent to £1,172 million in 2013, compared to £875 million in 2012, primarily due to higher average separate account balances due to positive net cash flows from variable annuity business and market appreciation. Fee income margin has remained broadly consistent with the prior year at 196 bps (2012: 199 bps), with the decrease primarily attributable to the change in the mix of business.
Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Positive net flows into variable annuity business with life contingent and other guarantee fees, coupled with benefit in the period of 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 period 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.

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

	2014 £m				2013 AER £m				2013 CER £m note (iii)				2012	
		Acquisition costs				Acquisition costs				Acquisition costs				Acquis
	Other operating profits	Incurred	Deferred	Total	Other operating profits	Incurred	Deferred	Total	Other operating profits	Incurred	Deferred	Total	Other operating profits	Incurre
it osts ts	**2,127**			**2,127**	1,844			1,844	1,752			1,752	1,494	
train		**(887)**	**678**	**(209)**		(914)	716	(198)		(868)	680	(188)		(972
ents -														
			(474)	**(474)**			(485)	(485)			(461)	(461)		
erated			**(13)**	**(13)**			82	82			78	78		
	2,127	**(887)**	**191**	**1,431**	1,844	(914)	313	1,243	1,752	(868)	297	1,181	1,494	(972

Margin analysis of long-term insurance business UK

	2014 Profit	2014 Average Liability	2014 Margin	2013 Profit	2013 Average Liability	2013 Margin	2012 Profit	2012 Average Liability	2012 Margin
		note (iv)	note (ii)		note (iv)			note (iv)	note (ii)
Long-term business	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	**272**	**29,419**	**92**	228	27,218	84	266	26,038	102
Fee income	**61**	**23,476**	**26**	65	22,924	28	61	21,739	28
With-profits	**255**	**86,467**	**29**	251	84,130	30	272	82,691	33
Insurance margin	**96**			89			39		
Margin on revenues	**176**			187			216		
Expenses:									
Acquisition costs[note (i)]	**(96)**	**857**	**(11)%**	(110)	725	(15)%	(122)	836	(15)%
Administration expenses	**(143)**	**52,895**	**(27)**	(124)	50,142	(25)	(128)	47,777	(27)
DAC adjustments	**(6)**			(14)			(8)		
Expected return on shareholders assets	**137**			134			107		

Operating profit	**752**	706	703

Analysis of UK operating profit drivers:

2014 compared to 2013

Spread income has increased from £228 million in 2013 to £272 million in 2014 following an increase in bulk annuity sales which contributed £105 million (2013: £25 million) in the year partially offset by lower individual annuity sales.
Fee income has reduced from £65 million in 2013 to £61 million in 2014 due to a change in product mix towards those with lower asset management charges, partly offset by an increase in funds under management.
Insurance margin has increased from £89 million for 2013 to £96 million for 2014 primarily due to improved profits from protection business.
Margin on revenues represents premiums charges for expenses and other sundry net income received by the UK. 2014 income was £176 million, £11 million lower than in 2013.
Acquisition costs as a percentage of new business sales for 2014 decreased to 11 per cent from 2013 at 15 per cent, principally driven by the effect on this percentage ratio of business mix. 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, excluding the bulk annuity transactions, were 36 per cent in 2014 (2013: 35 per cent).

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Administration expenses have increased from £124 million in 2013 to £143 million in 2014 largely due to increased investment spend to realign our business following the pension reforms announced in the UK Budget.

2013 compared to 2012

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. Expressed as an asset management charge it is equivalent to 28 basis points (2012: 28bps).

With-profits income has decreased by £21 million from £272 million in 2012 to £251 million in2013 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, favourable mortality experience on our annuity book and £34 million positive impact of undertaking a longevity swap on certain aspects of the UK s annuity back-book liabilities in the first half of 2013.

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

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

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

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 period and higher surplus assets.

Notes

(i) The ratio for acquisition costs is calculated as a percentage of APE sales including with-profits sales. Acquisition costs include only those relating to shareholder-backed business. APE is defined under the section EEV Basis and New Business Results in Item 3 of this annual report.

(ii) Margin represents the operating return earned in the year as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus.

(iii) The 2013 comparative information has been presented at Actual Exchange Rate (AER) and Constant Exchange Rates (CER) so as to eliminate the impact of exchange translation. CER results are calculated by translating prior year results using the current year foreign exchange rates. All CER profit figures have been translated at current year average rates. For Asia CER average liability calculations the policyholder liabilities have been translated using current year opening and closing exchange rates. For the US CER average liability calculations the policyholder liabilities have been translated at the current year month end closing exchange rates.

(iv) 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. Average liabilities used to calculate the administrative expense margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson. Average liabilities are adjusted for business acquisitions and disposals in the period.

(v)

The 2014, 2013 and 2012 analyses exclude 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.

(vi) The DAC adjustment contains £11 million in respect of joint ventures in 2014 (2013: AER £1 million; 2012: nil).

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Asia operations analysis of operating profit by territory

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

	2014 £m	AER 2013 £m	CER 2013 £m	2013 AER vs 2014	2013 CER vs 2014	AER 2012 £m
Hong Kong	**109**	101	96	8%	14%	88
Indonesia	**309**	291	244	6%	27%	260
Malaysia	**118**	137	125	(14)%	(6)%	118
Philippines	**28**	18	16	56%	75%	15
Singapore	**214**	219	205	(2)%	4%	206
Thailand	**53**	53	48	0%	10%	7
Vietnam	**72**	54	51	33%	41%	25
SE Asia Operations inc. Hong Kong	**903**	873	785	3%	15%	719
China	**13**	10	10	30%	30%	16
India	**49**	51	47	(4)%	4%	50
Korea	**32**	17	17	88%	88%	16
Taiwan	**15**	12	11	25%	36%	18
Other	**(9)**	(4)	(4)	(125)%	(125)%	(5)
Non-recurrent items note (ii)	**49**	44	41	11%	20%	48
Operating profit before gain on China Life of Taiwan	**1,052**	1,003	907	5%	16%	862
Gain on sale of stake in China Life of Taiwan	**-**	-	-	-	-	51
Total insurance operations note (i)	**1,052**	1,003	907	5%	16%	913
Development expenses	**(2)**	(2)	(2)	0%	0%	(7)
Total long-term business operating profit	**1,050**	1,001	905	5%	16%	906
Eastspring Investments	**90**	74	68	22%	32%	69
Total Asia operations	**1,140**	1,075	973	6%	17%	975

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:

	2014 £m	2013 £m		2012 £m
		AER	CER	AER
New business strain*	(18)	(15)	(18)	(46)
Business in force	1,021	974	884	860
Non-recurrent items: note (ii)				
Other non-recurrent items	49	44	41	48
Gain on sale of stake in China Life of Taiwan	-	-	-	51
Total	1,052	1,003	907	913

* The IFRS new business strain corresponds to approximately 1 per cent of new business APE premiums for 2014 (2013: approximately 1 per cent of new business APE).

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) Other non-recurrent items of £49 million in 2014 (2013: £44 million; 2012: £48 million) represent a number of items none of which are individually significant that are not anticipated to re-occur in future. During 2012, the Group sold its 7.74 per cent stake in China Life (Taiwan) for £97 million crystallising a gain of £51 million.

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Analysis of asset management operating profit based on longer-term investment returns

	2014 £m				
		Eastspring			
	M&G	Investments	PruCap	US	Total
	note (ii)	note (ii)			
Operating income before performance-related fees	**954**	**240**	**130**	**303**	**1,627**
Performance-related fees	**33**	**1**	**-**	**-**	**34**
Operating income(net of commission)note (i)	**987**	**241**	**130**	**303**	**1661**
Operating expensenote (i)	**(554)**	**(140)**	**(88)**	**(291)**	**(1,073)**
Share of associate s results	**13**	**-**	**-**	**-**	**13**
Group s share of tax on joint ventures operating profit	**-**	**(11)**	**-**	**-**	**(11)**
Operating profit based on longer-term investment returns	**446**	**90**	**42**	**12**	**590**
Average funds under management	**£250.0bn**	£68.8bn			
Margin based on operating income*	**38bps**	35bps			
Cost / income ratio**	**58%**	59%			

	2013 £m				
		Eastspring			
	M&G	Investments	PruCap	US	Total
	note (ii)	note (ii),(iii)			
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	£233.8 bn	£61.9 bn			
Margin based on operating income*	37 bps	35 bps			
Cost / income ratio**	59%	62%			

	2012 £m				
		Eastspring			
	M&G	Investments	PruCap	US	Total
	note (ii)	note (ii)			
	734	201	**120.00**	**296.00**	**1,351**

Operating income before performance-related fees					
Performance-related fees	9	2	**-**	**-**	**11**
Operating income (net of commision)note (i)	743	203	**120**	**296**	**1,362**
Operating expense	(436)	(128)	**(69)**	**(257)**	**(890)**
Share of associate s results	13	-	**-**	**-**	**13**
Group s share of tax on joint ventures operating profit	-	(6)	**-**	**-**	**(6)**
Operating profit based on longer-term investment returns	320	69	**51**	**39**	**479**
Average funds under management*	£205.1 bn	£55.0 bn			
Margin based on operating income*	36 bps	37 bps			
Cost / income ratio**	59%	64%			

(i) Operating income and expense includes the Group s Share of contributions from Joint Ventures (but excludes any contribution from associates. In the incomes statement as showing in note B2 to the Prudential s consolidated financial statements in Item 18.

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

	M&G Operating income before performance related fees							Eastspring Investments Operating income before performance related fees					
	Retail	Margin of FUM*	Institu-tional	Margin of FUM*	Total	Margin of FUM*		Retail	Margin of FUM*	Institu-tional	Margin of FUM*	Total	Margin of FUM*
	£m	bps	£m	bps	£m	bps		£m	bps	£m	bps	£m	bps
2014	**593**	**84**	**361**	**20**	**954**	**38**	**2014**	**139**	**60**	**101**	**22**	**240**	**35**
2013	550	89	313	18	863	37	2013	127	60	88	22	215	35
2012	438	91	297	19	734	36	2012	118	64	83	24	201	37

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

** Cost/income ratio represents cost as a percentage of operating income before performance related fees. Institutional includes internal funds.

Charge for short-term fluctuations in investment returns

IFRS operating profit is based on longer-term investment return assumptions. The difference between actual investment returns recorded in the income statement and these longer-term returns is reported within short-term fluctuations in investment returns. In 2014 the total short-term investment fluctuations relating to the life operations were negative £461 million, comprising positive £178 million for Asia, negative £1,103 million in the US and positive £464 million in the UK.

In Asia, the positive short-term fluctuations of £178 million primarily reflect net unrealised gains on fixed income securities following falls in bond yields across the region during the year.

Negative short-term fluctuations of £1,103 million in the US mainly reflect the net value movement on the guarantees offered by Jackson and the associated derivatives held to manage market exposures. Under IFRS accounting the movement in the valuation of derivatives, which are fair valued, is asymmetrical to the movement in the guarantee liabilities, which are not fair valued in all cases. The rise in equity markets in 2014 has generated negative value movements on the equity derivatives that are held to mitigate against the downside risk of a decline in equity markets. Due to IFRS accounting practice, the corresponding offset in the valuation of obligations to customers is not fully recognised leading to a negative movement overall within IFRS profits. Declining interest rates and unfavourable movements in implied volatility also led to net negative value movements, due to similar accounting asymmetries. Jackson designs its hedge programme to protect the economics of the business from large movements in investment markets and therefore accepts a degree of accounting volatility. Viewed through the regulatory surplus lens, the hedge programme was essentially breakeven on this basis, as movements in hedge assets and guarantee reserves broadly offset. Jackson s regulatory risk-based capital ratio was broadly unchanged at 456 per cent at the end of 2014 (31 December 2013: 450 per cent).

The positive short-term fluctuations of £464 million in the UK include net unrealised gains on fixed income assets supporting the capital of the shareholder-backed annuity business.

In 2013 for our insurance operations these total negative £1,083 million comprising negative £204 million for Asia, negative £625 million in the US and negative £254 million in the UK.

In Asia, the negative short-term fluctuations of £204 million primarily reflect net unrealised movements on bond holdings following rises in bond yields across the region during the year.

Negative short-term fluctuations of £625 million in the US mainly represent the net unrealised value movement on derivatives held to manage the Group s exposure to market movements following rises in equity values. Jackson hedges the guarantees offered under its variable annuity proposition on an economic basis and, thus, accepts a degree of variability in its IFRS results in the short term in order to achieve the appropriate economic result.

The negative fluctuations of £254 million in the UK include net unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business.

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

In 2012 short-term fluctuations in investment returns for our insurance operations of positive £100 million comprised of positive £54 million for Asia, negative £90 million in the US and positive £136 million in the UK.

The positive short-term fluctuations of £54 million for our Asia operations in 2012 relates to unrealised gains on bond assets held across the region following the fall in long-term yields in the period.

The combination of higher equity markets and lower market volatility in the US has reduced the technical reserves held for the variable annuity guarantees. This favourable effect was more than offset by the net unrealised value movement on derivative instruments held to manage the Group s exposure to these guarantees, producing a net £90 million negative fluctuation in our US operation.

The positive short-term fluctuations of £136 million for our UK operations primarily reflect net valuation gains on fixed income assets supporting the capital of the shareholder-backed annuity business.

Short-term fluctuations for other operations were positive £87 million. This primarily represents appreciation on Prudential Capital s bond portfolio partially offset by net realised and unrealised losses in the year on derivatives held centrally to manage market risks.

Amortisation of acquisition accounting adjustments

This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012.

Gain on sale of PruProtect and PruHealth

In November 2014, PAC sold its 25 per cent equity stake in the PruHealth and PruProtect business to Discovery Group Europe Limited for £155 million, giving rise to a gain on disposal of £86 million.

Costs associated with the domestication of the Hong Kong branch

On 1 January 2014, following consultation with policyholders of PAC and regulators and court approval, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. The costs of enabling the domestication in 2013 were £35 million. Within the Group s supplementary analysis of profit, these costs have been presented as a separate category of items excluded from operating profit based on longer-term investment returns.

(Loss)/Profit attaching to held for sale Japan Life business

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. See note D1 (c) to the consolidated financial statements in Item 18.

Gain on dilution of Group s holdings

On 22 February 2012, M&G completed transactions to reduce its majority holding in PPM South Africa from 75 per cent to 49.99 per cent. Under IFRS the transactions give rise to a gain on dilution of £42 million in 2012, which has been excluded from the Group s IFRS operating profit.

Earnings per share

	Actual Exchange Rate			Constant Exchange Rate		Actual Exchange Rate
	2014 pence	**2013 pence**	**Change %**	**2013 pence**	**Change %**	2012
Basic earnings per share based on operating profit after tax	**96.6**	90.9	6	85.9	12	76.9
Basic earnings per share based on total profit after tax	**86.9**	52.8	65	49.8	74	85.1

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IFRS effective tax rates

In 2014, the effective tax rate on IFRS operating profit based on longer-term investment returns was 23 per cent, in line with the 22 per cent equivalent rate in 2013 and the 23 per cent equivalent rate in 2012.

The 2014 effective tax rate on the total IFRS profit was 15 per cent (2013: 18 per cent; 2012: 21 per cent), reflecting corporate tax rate reductions in certain jurisdictions and a change in the overall geographic mix of profit which is subject to different tax rates.

Total tax contribution

The Group continues to make significant tax contributions in the countries in which it operates, with £2,237 million remitted to tax authorities in 2014. This was higher than the equivalent amount of £1,797 million in 2013, reflecting increased profits and the non-recurrence of the 2013 tax refunds for previous overpaid taxes.

	2014 £m				**2013 £m**			
	Corporation taxes	**Other taxes**	**Taxes collected**	**Total**	**Corporation taxes**	**Other taxes**	**Taxes collected**	**Total**
Taxes paid in:								
Asia	**199**	**52**	**87**	**338**	148	48	123	319
US	**205**	**35**	**375**	**615**	(58)	35	315	292
UK	**314**	**202**	**759**	**1,275**	327	152	702	1,181
Other	**3**	**4**	**2**	**9**	1	1	3	5
Total tax paid	**721**	**293**	**1,223**	**2,237**	418	236	1,143	1,797

Corporation taxes include amounts paid on taxable profits which, in certain countries such as the UK, include policyholder investment returns on certain life insurance products. Other taxes include property taxes, withholding taxes, 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 include sales taxes, employee and annuitant payroll taxes.

Explanation of Movements in Profits Before Shareholder Tax by Nature of Revenue and Charges

The following table shows Prudential s consolidated total revenue and consolidated total charges for the periods presented:

	Actual Exchange Rate		
	2014 £m	**2013 £m**	**2012 £m**
Gross premiums earned[(a)]	**32,832**	30,502	29,113
Outward reinsurance premiums	**(799)**	(658)	(491)
Earned premiums, net of reinsurance	**32,033**	29,844	28,622
Investment return[(b)]	**25,787**	20,347	23,931
Other income	**2,306**	2,184	1,885
Total revenue, net of reinsurance	**60,126**	52,375	54,438
Benefits and claims	**(50,736)**	(42,227)	(44,116)
Outward reinsurers share of benefit and claims	**631**	622	259
Movement in unallocated surplus of with-profits funds	**(64)**	(1,549)	(1,287)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance[(c)]	**(50,169)**	(43,154)	(45,144)
Acquisition costs and other expenditure[(d)]	**(6,752)**	(6,861)	(6,032)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(341)**	(305)	(280)
Remeasurement of carrying value of Japan life business classified as held for sale	**(13)**	(120)	-
Total charges, net of reinsurance	**(57,275)**	(50,440)	(51,456)
Share of profits from joint ventures and associates, net of related tax	**303**	147	135
Profit before tax *(being tax attributable to shareholders and policyholders returns)**	**3,154**	2,082	3,117
Less tax charge attributable to policyholders returns	**(540)**	(447)	(370)
Profit before tax attributable to shareholders	**2,614**	1,635	2,747
Total tax charge attributable to policyholders and shareholders	**(938)**	(736)	(954)
Adjustment to remove tax charge attributable to policyholders returns	**540**	447	370
Tax charge attributable to shareholders returns	**(398)**	(289)	(584)
Profit for the year attributable to equity holders of the Company	**2,216**	1,346	2,163

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

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(a) Gross earned premiums

	Year ended 31 December £m		
	2014	**2013**	**2012**
Asian operations	**9,820**	9,061	7,433
US operations	**15,654**	15,661	14,660
UK operations	**7,358**	5,780	7,020
Total	**32,832**	30,502	29,113

Gross earned premiums for insurance operations totalled £32,832 million in 2014, up 8 per cent from £30,502 million in 2013. The increase of £2,330 million was driven by growth of £1,578 million in the UK operations; £759 million in the Asian operations offset by a reduction of £7 million in the US operations.

Gross earned premiums for insurance operations totalled £30,502 million in 2013, up 5 per cent from £29,113 million in 2012. The increase of £1,389 million was driven by growth of £1,628 million in the Asian operations; £1,001 million in the US operations offset by a reduction of £1,240 million in the UK operations.

Asia

Gross earned premiums increased by 8 per cent from £9,061 million in 2013 to £9,820 million in 2014 and by 22 per cent from £7,433 million in 2012 to £9,061 million in 2013 on an actual exchange rate basis. The premiums reflect the aggregate of single and recurrent premiums of new business sold in the year and premiums on annual business sold in previous years. The growth in earned premiums reflects increases for both factors.

Excluding the impact of exchange translation, gross earned premiums in Asia increased by 17 per cent from 2013 to 2014, from £8,380 million on a constant exchange rate in 2013 to £9,820 million in 2014.

Our consistent delivery in Asia is underpinned by our focus on regular premium, protection-orientated solutions that genuinely address the long term financial needs of Asia s growing middle classes in the sweet spot markets[27] of South-East Asia and Hong Kong. Our strategy is to be strongly diversified in terms of geography, products and distribution in a world economy that is increasingly hard to predict. That diversification is at the heart of our ability to continue to perform well across a broad range of metrics as the breadth of our portfolio provides considerable resilience against the impacts of short-term market disturbances in individual countries, such as the elections and natural disasters experienced during 2014.

Our multi-channel distribution platform continues to play a key role in our strategy:

1. In the agency channel we have continued to add to the existing scale of our platform during 2014 through recruitment. In parallel we have also improved individual productivity, thanks to our investments in agency management technology and analytics.
2. Regarding our bank partnerships, we announced in the first quarter that we extended and expanded our long-established and market-leading partnership with Standard Chartered Bank for another 15 years to 2029, effective since July 2014. Encouragingly second-half sales via Standard Chartered Bank grew strongly compared to the same period in 2013, including a record month in December. The distribution channel mix remained in line with prior year with agency generating the majority of the sales followed by bancassurance.

In our product portfolio, the proportion of protection business has remained consistent with prior years. Within the savings products, we have seen an increase in participating business, driven mainly by strong demand for our established with-profits products in Hong Kong. We continue to innovate with new benefits and features, with a

significant proportion of sales in 2014 coming from products that were launched in the past two years.

(27) Sweet spot markets are Indonesia, Singapore, Hong Kong, Malaysia, Philippines, Vietnam and Thailand.

United States

Gross premiums in 2014 of £15,654 million are in line with the 2013 amount of £15,661 million on an actual exchange rate basis. Excluding the impact of exchange translation, gross premiums in the US increased by 5 per cent from 2013 to 2014, from £14,872 million on a constant exchange rate in 2013 to £15,654 million in 2014.

Total variable annuity sales increased in 2014 largely driven by a continuing increase in sales of Elite Access. The economics of our variable annuity business continue to be very attractive. With the success of Elite Access, we continue to improve the diversification of our product mix, contributing to an increase in the share of non-living benefit variable annuity sales to a new high.

Fixed annuity sales remained relatively flat compared to 2013, while fixed index annuity sales decreased significantly, primarily as a result of product changes implemented in late 2013 to ensure appropriate returns on shareholder capital.

Gross earned premiums increased by 7 per cent from £14,660 million in 2012 to £15,661 million in 2013, driven principally by the rapid progress of Elite Access, our variable annuity (VA) without guarantees launched in 2012. Excluding Elite Access, variable annuity sales were lower than 2012, which is the direct result of Jackson s disciplined approach to the management of the economic cycle in the annuity market.

Jackson remains focused on proactively managing sales volumes of variable annuities with living benefits to match our annual risk appetite.

United Kingdom

Gross premiums for UK operations increased from £5,780 million in 2013 to £7,358 million in 2014, mainly due to seven new bulk annuity deals in 2014 (2013: three) with premiums of £1,710 million (2013: £276 million) and increased sales of onshore bonds and other retail products, partially offset by the decline in the sales of individual annuities. The UK market continues to be heavily influenced by a high level of regulatory and legislative change. The decline in the sale of individual annuities reflects the market contraction since the 2014 UK Budget announcement. Our approach to bulk transactions in the UK will continue to be one of selective participation, where we can bring both significant value to our customers and meet our shareholder return requirements.

Gross earned premiums for UK operations decreased from £7,020 million in 2012 to £5,780 million in 2013 driven principally by declines in sales of onshore bonds and individual annuities. The onset of the Retail Distribution Review significantly impacted the timing of sales volumes in the UK retail investments markets over 2013 and 2012. For Prudential, this resulted in very strong sales of onshore bonds in 2012, due to heightened activity prior to the implementation of the Retail Distribution Review, while in 2013 volumes returned to levels consistent with 2011, the last undisturbed year. In individual annuities, market volumes declined during the year against a strong 2012 comparative, due to increased activity in 2012 prior to the introduction of Gender Neutral Pricing and the Retail Distribution Review. Further, our annuity sales sourced from internal vesting decreased as more customers are opting to defer their retirement date, the effect of which was partly offset by higher average fund values.

(b) Investment return

Year ended 31 December £m

	2014	2013	2012
Asia operations	**3,891**	894	2,971
US operations	**5,436**	10,014	6,199
UK operations	**16,551**	9,515	14,775
Unallocated corporate and intra-group elimination	**(91)**	(76)	(14)
Total	**25,787**	20,347	23,931

Investment return principally comprises interest income, dividends, investment appreciation/depreciation (realised and unrealised gains and losses) on investments designated as fair value through profit and loss and realised gains and losses, including impairment losses, on Jackson s debt securities designated as available-for-sale. Movements in unrealised appreciation/depreciation of Jackson s debt securities designated as available for-sale are not reflected in investment return but are recorded in other comprehensive income.

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Allocation of investment return between policyholders and shareholders

Investment return is attributable to policyholders and shareholders. A key feature of the accounting policies under IFRS is that the investment return included in the income statement relates to all investment assets of the Group, irrespective of whether the return is attributable to shareholders, or to policyholders or the unallocated surplus of with-profits funds, the latter two of which have no direct impact on shareholders profit. The table below provides a breakdown of the investment return for each regional operation attributable to each type of business.

	2014 £m	2013 £m	2012 £m
Asia operations			
Policyholder returns			
Assets backing unit-linked liabilities	**1,069**	542	1,207
With-profits business	**1,915**	82	1,208
	2,984	624	2,415
Shareholder returns	**907**	270	556
Total	**3,891**	894	2,971
US operations			
Policyholder returns			
Policyholder returns - Assets held to back (separate account) unit-linked liabilities	**3,793**	10,254	5,217
Shareholder returns	**1,643**	(240)	982
Total	**5,436**	10,014	6,199
UK operations			
Policyholder returns			
Scottish Amicable Insurance Fund (SAIF)	**1,848**	2,604	791
Assets held to back unit-linked liabilities	**608**	585	2,320
With-profits fund (excluding SAIF)	**8,958**	5,761	8,390
	11,414	8,950	11,501
Shareholder returns			
Prudential Retirement Income Limited (PRIL)	**3,657**	380	2,196
Other business	**1,480**	185	1,078
	5,137	565	3,274
Total	**16,551**	9,515	14,775
Unallocated corporate			
Shareholder returns	**(91)**	(76)	(14)
Group Total			
Policyholder returns	**18,191**	19,828	19,133
Shareholder returns	**7,596**	519	4,798
Total	**25,787**	20,347	23,931

Policyholder returns

The returns shown in the table above are delineated between those returns allocated to policyholders and those allocated to shareholders. In making this distinction, returns allocated to policyholders are those from investments in which shareholders have no direct economic interest, namely:

unit-linked business in the UK and Asia and SAIF in the UK, for which the investment return is wholly attributable to policyholders;

separate account business of US operations, the investment return of which is also wholly attributable to policyholders; and

with-profits business (excluding SAIF) in the UK and Asia (in which the shareholders economic interest, and the basis of recognising IFRS basis profits, is restricted to a share of the actuarially determined surplus for distribution (in the UK 10 per cent)). Except for this surplus the investment return of the with-profits funds is attributable to policyholders (through the asset-share liabilities) or the unallocated surplus, which is accounted for as a liability under IFRS 4.

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The investment return related to the types of business above does not impact shareholders profits directly. However, there is an indirect impact, for example, investment-related fees and the effect of investment return on the shareholders share of the cost of bonuses of with-profits funds.

Investment returns for unit-linked and similar products have reciprocal impact on benefits and claims, with a decrease in market returns on the attached pool of assets affecting policyholder benefits on these products. Similarly for with-profits funds there is a close correlation between increases or decreases in investment returns and the level of combined charge for policyholder benefits and movement on unallocated surplus that arises from such returns.

Shareholder returns

Changes in shareholder investment returns for US operations reflect primarily movements in the investment income, movements in the value of derivative instruments, and realised gains and losses. The derivatives are held to manage general account assets and liabilities, and variable annuity guarantees under a dynamic hedging programme.

The majority of the investments held to back the US general account business are debt securities for which the available-for-sale designation is applied for IFRS basis reporting. Under this designation the return included in the income statement reflects the aggregate of investment income and realised gains and losses (including impairment losses). However, movements in unrealised appreciation or depreciation are recognised in other comprehensive income. The return on these assets is attributable to shareholders.

For shareholder-backed non-participating business of the UK (comprising PRIL and other non-linked non-participating business) and of the Asian operations, the investment return is not directly attributable to policyholders and therefore does impact shareholders profit directly. However, it should be noted that for UK shareholder-backed annuity business, principally PRIL, where the durations of asset and liability cash flows are closely matched, the discount rate applied to measure liabilities to policyholders (under grandfathered UK GAAP and under IFRS 4) reflects movements in asset yields (after allowances for the future defaults) of the backing portfolios. Therefore, the net impact on the shareholders profits of the investment return of the assets backing liabilities of the UK shareholder-backed annuity business is after taking into account the consequential effect on the movement in policyholder liabilities.

Reasons for year-on-year changes in investment returns

With two exceptions, all Prudential investments are carried at fair value in the statement of financial position with fair value movements, which are volatile from year to year, recorded in the income statement. The exceptions are for:

(i) debt securities in the general account of US operations, the return on which is attributable to shareholders and which are accounted for on an IAS 39 available-for-sale basis. In this respect realised gains and losses (including impairment losses) are recorded in the income statement, while movements in unrealised appreciation (depreciation) are booked as other comprehensive income. As a result, the changes in unrealised fair value of these debt securities are not reflected in Prudential s investment return in the income statement. The unrealised gains and losses in the income statement of US operations primarily arise on the assets of the US separate account business; and

(ii) loans and receivables, which are carried at amortised cost.

Subject to the effect of these two exceptions, the year-on-year changes in investment return primarily reflect the generality of overall market movements for equities, debt securities and, in the UK, for investment property. In addition, for Asian and US separate account business, foreign exchange rates affect the sterling value of the translated income. Consistent with the treatment applied for other items of income and expenditure, investment returns for overseas operations are translated at average exchange rates.

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Asia

The table below provides an analysis of investment return attributable to Asia operations for the years presented:

	Year ended 31 December £m		
	2014	**2013**	**2012**
Interest/dividend income (including foreign exchange gains and losses)	**1,030**	772	593
Investment appreciation (depreciation)	**2,861**	122	2,378
Total	**3,891**	894	2,971

In Prudential s Asia operations, debt securities accounted for 52 per cent, 53 per cent and 56 per cent of the total investment portfolio as at 31 December 2014, 2013 and 2012, respectively, with equities comprising 43 per cent; 41 per cent and 35 per cent respectively. The remaining 5 per cent, 6 per cent and 9 per cent of the total investment portfolio, respectively, primarily comprised loans and deposits with credit institutions. Investment return increased from £894 million in 2013 to £3,891 million in 2014. This increase was due to an increase of £258 million in interest and dividend income (including foreign exchange gains and losses) and an increase of £2,739 million in investment appreciation. The increase of £2,739 million in investment appreciation was driven primarily by favourable movements on debt securities values following falls in bond yields across the region during the year and more favourable equity market movements compared to 2013.

Investment return decreased from £2,971 million in 2012 to £894 million in 2013. This decrease was due to an increase of £179 million in interest and dividend income (including foreign exchange gains and losses) and a decrease of £2,256 million in investment appreciation. The decrease of £2,256 million in investment appreciation was driven primarily by adverse movements on debt securities values following rises in bond yields across the region during the year and less favourable equity market movements compared to 2012.

United States

The table below provides an analysis of investment return attributable to US operations for the periods presented:

	Year ended 31 December £m		
	2014	**2013**	**2012**
Investment return of investments backing US separate account liabilities	**3,793**	10,254	5,217
Other investment return	**1,643**	(240)	982
Total	**5,436**	10,014	6,199

In the US, investment return decreased from £10,014 million in 2013 to £5,436 million in 2014. This £4,578 million adverse change arose from a decrease of £6,461 million in the investment return on investments backing variable separate account liabilities from a gain of £10,254 million in 2013 to £3,793 million in 2014 and an increase in other investment return from negative £(240) million to £1,643 million. The primary driver for the decrease in investment return on investments backing variable annuity separate account liabilities as compared to 2013 was relatively less favourable movements in the US equity markets in 2014 on a larger separate account asset balance. The increase of £1,883 million in other investment return reflects the value movements in derivatives held to manage interest rate and equity risk exposures as discussed in note B1.2 to the consolidated financial statements in Item 18.

In the US, investment return increased from £6,199 million in 2012 to £10,014 million in 2013. This £3,815 million favourable change arose from an increase of £5,037 million in the investment return on investments backing variable separate account liabilities from a gain of £5,217 million in 2012 to £10,254 million in 2013 and a reduction in other investment return from £982 million to negative £240 million. The primary driver for the increase in investment return on investments backing variable annuity separate account liabilities as compared to 2012 was favourable movements in the US equity markets in 2013 on a larger separate account asset balance. The decrease of £1,222 million in other investment return reflects the value movements in derivatives held to manage interest rate and equity risk exposures as discussed in note B1.2 to the consolidated financial statements in Item 18.

United Kingdom

The table below provides an analysis of investment return attributable to UK operations for the periods presented:

	Year ended 31 December £m		
	2014	**2013***	**2012***
Interest/dividend income	**6,056**	6,385	6,351
Investment appreciation and other investment return	**10,495**	3,130	8,424
Total	**16,551**	9,515	14,775

In Prudential s UK operations, equities accounted for 26 per cent, 25 per cent and 24 per cent of the total investment portfolio as at 31 December 2014, 2013 and 2012, respectively. Debt securities comprised 53 per cent, 54 per cent and 56 per cent, respectively, with investment properties accounting for 8 per cent, 7 per cent and 7 per cent of the total investment portfolio in each respective year. The remaining 13 per cent, 14 per cent and 13 per cent of the total investment portfolio as at 31 December 2014 , 2013 and 2012, respectively, related to loans, deposits with credit institutions, investments in partnerships in investment pools and derivative assets. Within debt securities of £89 billion (2013: £84 billion; 2012: £86 billion) as at 31 December 2014, 70 per cent (2013: 71 per cent; 2012: 73 per cent) was comprised of corporate debt securities

Interest and dividend income decreased, by £329 million from £6,385 in 2013 to £6,056 million in 2014, and by £34 million from £6,351 million in 2012 to £6,385 million in 2013.

The increase in investment appreciation and other investment return of £7,365 million from £3,130 million in 2013 to £10,495 million in 2014 principally reflects value movement on debt securities due to falling bond yields partially offset by less favourable equity market movements.

The decrease in investment appreciation and other investment return of £5,294 million from £8,424 million in 2012 to £3,130 million in 2013 principally reflects value movement on debt securities due to rising bond yields.

Unallocated corporate and intragroup elimination

Investment return for unallocated corporate and intragroup elimination was negative £91 million in 2014 compared to the negative £76 million in 2013 and negative £14 million in 2012.

(c) Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance

	Year ended 31 December £m		
	2014	**2013**	**2012**
Asia operations	**(9,794)**	(6,930)	(7,570)
US operations	**(19,761)**	(23,706)	(18,711)
UK operations	**(20,614)**	(12,518)	(18,863)
Total	**(50,169)**	(43,154)	(45,144)

Benefits and claims represent payments, including final bonuses, to policyholders in respect of maturities, surrenders and deaths plus changes in technical provisions (which primarily represent the movement in amounts owed to

policyholders). Benefits and claims are amounts attributable to policyholders. The movement in unallocated surplus of with-profits funds represents the transfer to (from) the unallocated surplus each year through a charge (credit) to the income statement of the annual excess (shortfall) of income over expenditure of the with-profits funds, after declaration and attribution of the cost of bonuses to policyholders and shareholders.

The underlying reasons for the year-on-year changes in benefits and claims and movement in unallocated surplus in each of Prudential s regional operations are changes in the incidence of claims incurred, increases or decreases in policyholders liabilities, and movements in unallocated surplus of with-profits funds.

Total benefit and claims and movements in unallocated surplus of with-profits funds increased by £7,015 million in 2014 to a charge of £50,169 million compared to a charge of £43,154 million in 2013 and a charge of £45,144 in 2012. The amounts of this year on year charge attributable to each of the underlying reasons as stated above are shown below.

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Benefits and claims and movements in unallocated surplus of with-profits funds net of reinsurance can be further analysed as follows.

	Year ended 31 December £m		
	2014	**2013**	**2012**
Claims incurred	**(22,331)**	(21,881)	(19,230)
Increase in policyholder liabilities	**(27,701)**	(19,724)	(24,627)
Movement in unallocated surplus of with-profits funds	**(137)**	(1,549)	(1,287)
Benefits and claims and movement in unallocated surplus	**(50,169)**	(43,154)	(45,144)

The charge for benefits and claims and movements in unallocated surplus, net of reinsurance of £50,169 million (2013: £43,154 million; 2012: £45,144 million) shown in the table above includes the effect of accounting for investment contracts without discretionary participation features (as defined by IFRS 4) in accordance with IAS 39 to reflect the deposit nature of the arrangement.

Additionally the movement in policyholder liabilities and unallocated surplus of with-profits funds represents the amount recognised in the income statement and therefore excludes the effect of foreign exchange translation differences on the policyholder liabilities of foreign subsidiaries and the movement in liabilities arising on acquisition and disposals of subsidiaries in the year.

The principal driver for variations in amounts allocated to policyholders is changes to investment return reflected in the statement of financial position measurement of liabilities for Prudential s with-profits, SAIF and unit-linked policies (including US separate account business). In addition, for those liabilities under IFRS, in particular, liabilities relating to the UK annuity business (principally PRIL), where the measurement reflects the yields on assets backing the liabilities, the year to year changes in investment yields also contribute significantly to variations in the measurement of policyholder liabilities. The principal driver for variations in the change in unallocated surplus of with-profits funds is the value movements on the investment assets of the with-profits funds to the extent not reflected in policyholder liabilities.

The principal variations are for the increases or decreases in policyholder liabilities and movements in unallocated surplus of with-profits funds for each regional operation are discussed below.

Asia

In 2014, benefits and claims and movements in unallocated surplus of with-profits funds totalled £9,794 million, representing an increase of £2,864 million compared to the charge of £6,930 million in 2013. In 2013, benefits and claims and movements in unallocated surplus of with-profits funds totalled £6,930 million, representing a decrease of £640 million compared to the charge of £7,570 million in 2012.

The amounts of the year-on-year change attributable to each of the underlying reasons are shown below:

	Year ended 31 December £m		
	2014	**2013**	**2012**
Claims incurred	**(4,351)**	(3,976)	(3,130)
Increase in policyholder liabilities	**(5,390)**	(2,699)	(3,922)

Movement in unallocated surplus of with-profits funds	**(53)**	(255)	(518)
Benefits and claims and movement in unallocated surplus	**(9,794)**	(6,930)	(7,570)

The growth in the policyholder liabilities in Asia over the three-year period partially reflected the increase due to the strong growth in new business in the region. The variations in the increases or decreases in policyholder liabilities in individual years were, however, primarily due to movement in investment returns. This was as a result of asset value movements that are reflected in the unit value of the unit-linked policies, which represent a significant proportion of the Asian operations business. In addition, the policyholder liabilities of the Asia operations with-profits policies also fluctuated with the investment performance of the funds.

The variations in the increases or decreases in policyholder liabilities in individual periods were however, primarily due to movements in investment returns. This was as a result of asset value movements, which are reflected in the unit value of the unit-linked policies that represent a significant proportion of Asian business. In addition, the policyholder liabilities of the Asian operations with-profits policies also fluctuated with the investment performance of the funds.

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United States

Except for institutional products and certain term annuities which are classified as investment products under IAS 39 for the purposes of IFRS reporting, deposits into the US operations products are recorded as premiums, withdrawals and surrenders and are included in benefits and claims, and the resulting net movement is recorded under other reserve movements within benefits and claims. Benefits and claims also include interest credited to policyholders in respect of deposit products less fees charged on these policies.

In 2014, the accounting charge for benefits and claims decreased by £3,945 million to £19,761 million compared to £23,706 million in 2013. In 2013, the accounting charge for benefits and claims increased by £4,995 million to £23,706 million compared to £18,711 million in 2012.

The amounts of the year-on-year change attributable to each of the underlying reasons are shown below:

	Year ended 31 December £m		
	2014	**2013**	**2012**
Claims incurred	**(8,506)**	(7,560)	(5,843)
Increase in policyholder liabilities	**(11,255)**	(16,146)	(12,868)
Benefits and claims	**(19,761)**	(23,706)	(18,711)

The movements year-on-year in the claims incurred for the US operations as shown in the table above also included the effects of translating the US dollar results into pounds sterling at the average exchange rates for the relevant years.

The charges in each year comprise amounts in respect of variable annuity and other business. For variable annuity business, there are two principal factors that contribute to the variations in the charge, and for which the fluctuations in the years presented broadly offset each other. First, the investment return on the assets backing the variable annuity separate account liabilities changed to a £3,793 million credit in 2014 from a £10,254 million credit in 2013 and a £5,217 million credit in 2012 as shown in the section Investment return (b) United States above. The second principal effect is the growth of the variable annuity business in force. This can be illustrated by the net cash flows of the US insurance operations variable annuity separate account liabilities in note C4.1(c) Reconciliation of movement in policyholder liabilities to the consolidated financial statements in Item 18 of this annual report. The net flows of the variable annuity separate account liabilities shown in that note for 2014 were £7,974 million as compared with £7,986 million for 2013 and £7,808 million for 2012.

United Kingdom

Overall, benefits and claims and the movement in unallocated surplus recorded in the income statement was a charge of £20,614 million in 2014 compared to a £12,518 million charge in 2013 and a £18,863 million charge in 2012. The year-on-year changes attributable to each of the underlying reasons are shown below, together with a further analysis of the amounts included in respect of the movements in policyholder liabilities by type of business:

	Year ended 31 December £m		
	2014	**2013**	**2012**
Claims incurred	**(9,474)**	(10,346)	(10,642)
Decrease/(increase) in policyholder liabilities			

SAIF	**366**	780	665
PRIL	**(2,157)**	155	(1,867)
Unit-linked and other non-participating business	**(3,536)**	(1,616)	(2,261)
With-profits (excluding SAIF)	**(5,729)**	(197)	(3,989)
	(11,056)	(878)	(7,452)
Movement in unallocated surplus of with-profits funds	**(84)**	(1,294)	(769)
Benefits and claims and movement in unallocated surplus	**(20,614)**	(12,518)	(18,863)

Claims incurred in the UK operations in 2014 were £9,474 million, compared to £10,346 million in 2013 and £10,642 million in 2012.

As has been explained above, the principal driver for variations in amounts allocated to the policyholders is changes to investment returns.

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In aggregate, as a result of the more positive market returns in 2014 compared to 2013 there has been a corresponding impact on benefits and claims and movements in unallocated surplus of with-profits funds in the period, moving from a net charge of £12,518 million in 2013 to a net charge of £20,614 million in 2014. Conversely, the market returns in 2013 were less positive compared to 2012, resulting in a movement from a net charge of £18,863 million in 2012 to a net charge of £12,518 million in 2013.

SAIF is a ring-fenced fund with no new business written. The decrease in policyholder liabilities in SAIF reflects the underlying decreasing policyholder liabilities as the liabilities run off. The variations from year to year are, however, affected by the market valuation movement of the investments held by SAIF, which are wholly attributable to policyholders.

For PRIL, the increases in policyholder liabilities reflect the effect of altered investment yield reflected in the discount rate applied in the measurement of the liabilities, together with other factors such as changes in premium income for new business and altered assumptions.

For unit-linked business, the variations in the increases in the policyholder liabilities were primarily due to the movement in the market value of the unit-linked assets as reflected in the unit value of the unit-linked policies.

The part of Prudential where variations in amounts attributed to policyholder liabilities and unallocated surplus are most significant is the UK with-profits business (excluding SAIF). As explained in note C4.2 to the consolidated financial statements in Item 18, the liabilities for UK with-profits policyholders are determined on an asset-share basis that incorporates the accumulation of investment returns and all other items of income and outgoings that are relevant to each policy type. Accordingly, the movement in policyholder liabilities in the income statement will fluctuate with the investment return of the fund. Separately, the excess of assets over liabilities of the fund represents the unallocated surplus. This surplus will also fluctuate on a similar basis to the market value movement on the investment assets of the fund with the movement reflected in the income statement. In addition, other items of income and expenditure affect the level of movement in policyholder liabilities (to the extent reflected in assets shares) and unallocated surplus.

The correlation between total net income (loss) before benefits and claims and movement in unallocated surplus, on the one hand, and the (charge) credit for benefits and claims and movement in unallocated surplus, on the other, for the UK component of the PAC with-profits fund (excluding SAIF) is illustrated numerically by the table below for each of the years presented. In summary, the correlation principally arises due to the following factors:

(a) Investment return is included in full in the income statement and is attributable either to contracts or unallocated surplus.

(b) Investment return, to the extent attributable to contracts, directly affects asset-share liabilities, which are reflected in the income statement through changes in policyholder liabilities.

(c) Investment return, to the extent attributable to unallocated surplus, forms the majority part of the movement in such surplus in the income statement.

	Year ended 31 December £m		
	2014	**2013**	**2012**
Earned premiums, net of reinsurance(i)	**3,007**	3,801	4,558
Investment return	**8,958**	5,757	8,390
Other income	**72**	52	39
Acquisition costs and other expenditure	**(961)**	(1,025)	(907)
Share of profit from joint ventures	**129**	88	27
Tax charge	**(440)**	(308)	(286)
Total net income before benefit and claims and movement in unallocated surplus, net of reinsurance	**10,765**	8,365	11,821
Charges of:			
Claims incurred	**(6,115)**	(6,681)	(6,857)
(Increase)/decrease in policyholder liabilities(i)	**(4,366)**	(197)	(3,989)
Movement in unallocated surplus of with-profits funds	**(84)**	(1,294)	(769)
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	**(10,565)**	(8,172)	(11,615)
Shareholders profit after tax	**200**	193	206

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Note

(i) For the purposes of presentation in Prudential s consolidated financial information, references to the UK with-profits fund also include, for convenience, the amounts attaching to Prudential s UK Defined Charge Participating Sub-fund which includes the with-profits annuity business transferred to Prudential from the Equitable Life Assurance Society on 31 December 2007. Profits to shareholders emerge on a charges less expenses basis and policyholders are entitled to 100 per cent of the investment earnings.

Separately, the cost of current year bonuses which is attributable to policyholders is booked within the movement in policyholder liabilities. One-ninth of the declared cost of policyholders bonus is attributable to shareholders and represents the shareholders profit. Both of these amounts, by comparison with the investment return, movement in other constituent elements of the change in policyholder liabilities and the change in unallocated surplus, are relatively stable from period to period.

In 2014, the income statement of the UK component of the PAC with-profits funds was charged with a transfer of £84 million from the unallocated surplus. This transfer, together with a corresponding transfer in the unallocated surplus of the Asia with-profits funds and the effect of exchange rate movements, resulted in an increase in Prudential s unallocated surplus from £12.1 billion in 2013 to £12.5 billion in 2014. This movement reflected the net effect of changes in the value of assets, liabilities (incorporating policyholder bonuses and other elements of asset shares attributable to policyholders), and the shareholders share of the cost of bonuses for 2014.

The surplus for distribution in future years will reflect the aggregate of policyholder bonuses and the cost of bonuses attributable to shareholders, which is currently set at 10 per cent. The policyholder bonuses comprise the aggregate of regular and final bonuses. When determining policy payouts, including final bonuses, Prudential considers asset shares of specimen policies.

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

In the unlikely circumstance that the depletion of excess assets within the long-term fund was such that Prudential s ability to treat its customers fairly was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders funds to the long-term funds to provide financial support.

The factors that the PAC Board considers in setting bonus rates are described in more detail in the section headed With-profits products in Item 4, in the section headed United Kingdom Basis of profits Bonus Rates and are summarised in note C4.1(d)(ii) to the consolidated financial statements in Item 18.

(d) Acquisition costs and other expenditure

	Year ended 31 December £m		
	2014	**2013**	**2012**
Asia operations	**(2,616)**	(2,208)	(1,938)
US operations	**(1,589)**	(1,919)	(1,771)
UK operations	**(2,580)**	(2,790)	(2,326)