PRUDENTIAL PLC
Form 6-K
March 12, 2014

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

For the month of March, 2014

PRUDENTIAL PUBLIC LIMITED COMPANY

(Translation of registrant's name into English)

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

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

Form 20-F X Form 40-F

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

Yes No X

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

Enclosures: Prudential plc - FY13 Results - IFRS

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED INCOME STATEMENT

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

Earnings per share (in pence)		2013	2012*
Based on profit attributable to the equity holders of the Company:	B6		
Basic		52.8p	85.1p
Diluted		52.7p	85.0p

Dividends per share (in pence)		2013	2012*
Dividends relating to reporting year:	B7		
Interim dividend		9.73p	8.40p

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

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

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

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	Note	2013 £m	2012* £m
Profit for the year		1,346	2,163
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the year		(255)	(214)
Related tax		-	(2)
		(255)	(216)
Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:			
Net unrealised holding (losses) gains arising during the year		(2,025)	930
Net gains included in the income statement on disposal and impairment		(64)	(68)
Total	C3.3	(2,089)	862
Related change in amortisation of deferred acquisition costs	C5.1(b)	498	(270)
Related tax		557	(205)
		(1,034)	387
Total		(1,289)	171
Items that will not be reclassified to profit or loss			
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes:			

Gross	(62)	45
Related tax	14	(11)
	(48)	34
Other comprehensive (loss) income for the year, net of related tax	(1,337)	205
Total comprehensive income for the year	9	2,368

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

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

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

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

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

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

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

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

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

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

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

Notes

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

(ii) Other non-cash items consist of the adjustment of non-cash items to profit before tax together with other net items, net purchases of treasury shares and other net movements in equity.

(iii) The acquisition of Thanachart Life and the related distribution agreements in 2013 resulted in a net cash outflow of £396 million. The acquisition of REALIC in 2012, resulted in a net cash outflow of £224 million and a further cash payment of £9 million in 2013. See note D1 for further details.

The net cash inflow of £23 million for change in Group's holdings in 2012 was in respect of the dilution of M&G's holdings in PPM South Africa resulting in a reclassification from a subsidiary to an associate.

(iv) Structural borrowings of shareholder-financed operations exclude borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.

(v) Interest paid on structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds, which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.

International Financial Reporting Standards (IFRS) Basis Results
NOTES

A BACKGROUND

A1 Background and basis of preparation

These statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU) as required by EU law (IAS Regulation EC1606/2032). EU-endorsed IFRS may differ from IFRS issued by the IASB if, at any point in time, new or amended IFRS have not been endorsed by the EU. At 31 December 2013, there were no unendorsed standards effective for the two years ended 31 December 2013 affecting the consolidated financial information of the Group and there were no differences between IFRS endorsed by the EU and IFRS issued by the IASB in terms of their application to the Group.

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

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

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

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

A2 Adoption of new and amended accounting standards in 2013

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

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

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

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

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

B EARNINGS PERFORMANCE

B1 Analysis of performance by segment

B1.1 Segment results – profit before tax

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

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

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

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

Notes

(i) The Group's UK insurance operations transferred its general insurance business to Churchill in 2002. General insurance commission represents the commission receivable net of expenses for Prudential-branded general insurance products as part of this arrangement.

(ii) Corporate expenditure as shown above is for Group Head Office and Asia Regional Head Office.

(iii) Restructuring costs are incurred in the UK and represent one-off expenses incurred in securing expense savings.

(iv) During 2012, M&G reduced its holdings in PPM South Africa resulting in a reclassification from a subsidiary to an associate giving rise to a gain on dilution of £42 million.

(v) To facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the held for sale Japan Life business are included separately within the supplementary analysis of profit above.

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

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

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

Notes

(i) General overview of defaults

The Group did not experience any defaults on its shareholder-backed debt securities portfolio in 2013 or 2012.

(ii) Asia insurance operations

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

(iii) US insurance operations

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

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

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

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

Notes

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

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

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

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

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

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

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

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

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

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

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

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

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

The amounts reflect the net effect of:

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

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

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

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

(iv) UK insurance operations

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

(v) Economic hedge value movement

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

(vi) Other

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

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

Operating segments

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

Insurance operations

- Asia
- US (Jackson)
- UK

Asset management operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) US variable and fixed index annuity business

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

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

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

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

(c) Other derivative value movements

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

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

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

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

Examples where such bifurcation is necessary are:

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

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

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

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

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

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

B2 Profit before tax – Asset management operations

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

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

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

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

Notes

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

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

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

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

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

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

B3 Acquisition costs and other expenditure

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

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

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

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

(a) Asia insurance operations

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

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

(b) US insurance operations

Amortisation of deferred acquisition costs

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

Other

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

(c) UK insurance operations

Annuity business: allowance for credit risk

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

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

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

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

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

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

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

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

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

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

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

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

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

B5 Tax charge

(a) Total tax charge by nature of expense
The total tax charge in the income statement is as follows:

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

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

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

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

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

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

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

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

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

b Reconciliation of effective tax rate

Reconciliation of tax charge on profit attributable to shareholders

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

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

dependent on the mix of profits.

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

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

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

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

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

B6 Earnings per share

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

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

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

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

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

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

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

B7 Dividends

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

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

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

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

C BALANCE SHEET

C1 Analysis of Group position by segment and business type

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

C1.1 Group statement of financial position analysis by segment

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

assets										
Investments of long-term business and other operations:										
Investment properties		1	28	11,448	11,477	-	-		11,477	10,554
Investments in joint ventures and associates accounted for using the equity method		268	-	449	717	92	-		809	635
Financial investments:										
Loans	C3.4	922	6,375	4,173	11,470	1,096	-		12,566	12,743
Equity securities and portfolio holdings in unit trusts		14,383	66,008	39,745	120,136	65	21		120,222	98,626
Debt securities	C3.3	18,554	30,292	82,014	130,860	2,045	-		132,905	138,907
Other investments		41	1,557	4,603	6,201	61	3		6,265	7,547
Deposits		896	-	11,252	12,148	65	-		12,213	12,248
Total investments		35,065	104,260	153,684	293,009	3,424	24		296,457	281,260
Assets held for sale	D1	916	-	-	916	-	-		916	98
Cash and cash equivalents		1,522	604	2,586	4,712	1,562	511		6,785	6,126
Total assets	C3.1	39,954	117,756	162,493	320,203	7,711	5,108	(7,090)	325,932	307,644

					2013 £m					2012* £m
		Insurance operations								
By operating segment	Note	Asia	US	UK	Total insurance operations	Asset management operations	Unallocated to a segment (central operations)	Intra -group eliminations	31 Dec Group Total	31 Dec Group Total
Equity and liabilities										
Equity										
Shareholders' equity		2,795	3,446	2,998	9,239	1,991	(1,580)		9,650	10,359
		1	-	-	1	-	-		1	5

Non-controlling interests										
Total equity		2,796	3,446	2,998	9,240	1,991	(1,580)	-	9,651	10,364
Liabilities										
Policyholder liabilities and unallocated surplus of with-profits funds:										
Insurance contract liabilities		31,540	104,971	81,674	218,185	-	-		218,185	205,484
Investment contract liabilities with discretionary participation features		240	-	35,352	35,592	-	-		35,592	33,812
Investment contract liabilities without discretionary participation features		130	2,440	17,606	20,176	-	-		20,176	18,378
Unallocated surplus of with-profits funds		77	-	11,984	12,061	-	-		12,061	10,589
Total policyholder liabilities and unallocated surplus of with-profits funds	C4	31,987	107,411	146,616	286,014	-	-	-	286,014	268,263
Core structural borrowings of shareholder-financed operations:										
Subordinated debt		-	-	-	-	-	3,662		3,662	2,577
Other		-	150	-	150	275	549		974	977
Total	C6.1	-	150	-	150	275	4,211	-	4,636	3,554
Operational borrowings attributable to shareholder-financed operations	C6.2	-	142	74	216	3	1,933		2,152	2,245
Borrowings attributable to	C6.2	-	-	895	895	-	-		895	968

with-profits operations										
Obligations under funding, securities lending and sale and repurchase agreements		-	794	1,280	2,074	-	-		2,074	2,381
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		1,038	26	4,214	5,278	-	-		5,278	5,145
Deferred tax liabilities	C8.1	594	1,948	1,213	3,755	14	9		3,778	3,964
Current tax liabilities	C8.2	45	-	181	226	8	161		395	443
Accruals and deferred income		106	-	383	489	302	33		824	751
Other creditors		1,797	666	3,240	5,703	4,684	10	(7,090)	3,307	2,701
Provisions		85	11	166	262	298	75		635	591
Derivative liabilities		58	515	804	1,377	112	200		1,689	2,832
Other liabilities		580	2,647	429	3,656	24	56		3,736	3,442
Total		4,303	6,607	11,910	22,820	5,442	544	(7,090)	21,716	22,250
Liabilities held for sale	D1(c)	868	-	-	868	-	-		868	-
Total liabilities		37,158	114,310	159,495	310,963	5,720	6,688	(7,090)	316,281	297,280
Total equity and liabilities	C3.1	39,954	117,756	162,493	320,203	7,711	5,108	(7,090)	325,932	307,644

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

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

Goodwill	C5.1	-	-	231	1,230	-	-	1,461	1,469
Deferred acquisition costs and other intangible assets	C5.1	-	-	5,256	20	19	-	5,295	4,177
Total		-	-	5,487	1,250	19	-	6,756	5,646
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes		177	-	-	-	-	-	177	178
Deferred acquisition costs and other intangible assets		72	-	-	-	-	-	72	78
Total		249	-	-	-	-	-	249	256
Total		249	-	5,487	1,250	19	-	7,005	5,902
Deferred tax assets	C8	83	1	2,155	119	54	-	2,412	2,306
Other non-investment and non-cash assets		3,331	599	9,661	1,356	4,500	(7,090)	12,357	11,952
Investments of long-term business and other operations:									
Investment properties		9,260	645	1,572	-	-	-	11,477	10,554
Investments in joint ventures and associates accounted for using the equity method		383	-	334	92	-	-	809	635
Financial investments:									
Loans	C3.4	3,346	-	8,124	1,096	-	-	12,566	12,743

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

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

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

C2 Analysis of segment position by business type

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

C2.1 Asia insurance operations

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

Deferred acquisition costs and other intangible assets					
Total	-	-	1,257	1,257	1,058
Intangible assets attributable to with-profits funds:					
Deferred acquisition costs and other intangible assets	66	-	-	66	72
Deferred tax assets	-	1	54	55	76
Other non-investment and non-cash assets	320	131	622	1,073	1,023
Investments of long-term business and other operations:					
Investment properties	-	-	1	1	2
Investments in joint ventures and associates accounted for using the equity method	-	-	268	268	284
Financial investments:					
Loans C3.4	522	-	400	922	1,006
Equity securities and portfolio holdings in unit trusts	4,538	9,274	571	14,383	12,730
Debt securities C3.3	9,736	2,451	6,367	18,554	20,067
Other investments	8	21	12	41	927
Deposits	304	260	332	896	851
Total investments	15,108	12,006	7,951	35,065	35,867
Assets held for sale	-	328	588	916	-
Cash and cash equivalents	392	332	798	1,522	1,545
Total assets	15,886	12,798	11,270	39,954	39,641
Equity and liabilities					
Equity					
Shareholders' equity	-	-	2,795	2,795	2,529
Non-controlling interests	-	-	1	1	4
Total equity	-	-	2,796	2,796	2,533
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds:					
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	13,138	11,918	6,854	31,910	31,501
Unallocated surplus of with-profits funds note (ii)	77	-	-	77	63
TotalC4.1(b)	13,215	11,918	6,854	31,987	31,564
Operational borrowings attributable to shareholder-financed operations	-	-	-	-	7
Deferred tax liabilities	403	44	147	594	582
Other non-insurance liabilities	2,268	508	933	3,709	4,955
Liabilities held for sale	-	328	540	868	-
Total liabilities	15,886	12,798	8,474	37,158	37,108
Total equity and liabilities	15,886	12,798	11,270	39,954	39,641

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

Notes

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

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

C2.2 US insurance operations

	31 Dec 2013 £m			31 Dec 2012 £m
	Variable annuity separate account assets and liabilities note (i)	Fixed annuity, GIC and other business note (i)	Total	Total
Assets				
Intangible assets attributable to shareholders:				
Deferred acquisition costs and other intangibles	-	4,140	4,140	3,222
Total	-	4,140	4,140	3,222
Deferred tax assets	-	2,042	2,042	1,889
Other non-investment and non-cash assetsnote (iv)	-	6,710	6,710	6,792
Investments of long-term business and other operations:				
Investment properties	-	28	28	24
Financial investments:				
LoansC3.4	-	6,375	6,375	6,235
Equity securities and portfolio holdings in unit trustsnote (iii)	65,681	327	66,008	49,551
Debt securitiesC3.3	-	30,292	30,292	32,993
Other investmentsnote (ii)	-	1,557	1,557	2,296
Deposits	-	-	-	211
Total investments	65,681	38,579	104,260	91,310
Cash and cash equivalents	-	604	604	513
Total assets	65,681	52,075	117,756	103,726
Equity and liabilities				
Equity				
Shareholders' equitynote (vi)	-	3,446	3,446	4,343
Total equity	-	3,446	3,446	4,343
Liabilities				
Policyholder liabilities:				
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) note (v)	65,681	41,730	107,411	92,261
TotalC4.1 (c)	65,681	41,730	107,411	92,261
Core structural borrowings of shareholder-financed operations	-	150	150	153
Operational borrowings attributable to shareholder-financed operations	-	142	142	26
Deferred tax liabilities	-	1,948	1,948	2,168
Other non-insurance liabilitiesnote (v)	-	4,659	4,659	4,775
Total liabilities	65,681	48,629	114,310	99,383
Total equity and liabilities	65,681	52,075	117,756	103,726

Notes

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

(ii) Other investments comprise:

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

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

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

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

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

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

(vi) Changes in shareholders' equity

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

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

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

C2.3 UK insurance operations

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

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

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

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

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

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

Notes

(i) The PAC with-profits sub-fund (WPSF) mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). Included in the PAC with-profits fund is £12.2 billion (2012: £13.3 billion) of non-profits annuities liabilities. The WPSF's profits are apportioned 90 per cent to its policyholders and 10 per cent to shareholders as surplus for distribution is determined via the annual actuarial valuation. For the purposes of this table and subsequent explanation, references to the WPSF also include, for convenience, the amounts attaching to the Defined Charges Participating Sub-fund which comprises 3.6 per cent of the total assets of the WPSF and includes the with-profits annuity business transferred to Prudential from the Equitable Life Assurance Society on 1 December 2007 (with assets of approximately £1.7 billion). Profits to shareholders on this with-profits annuity business emerge on a 'charges less expenses' basis and policyholders are entitled to 100 per cent of the investment earnings.

(ii) The Hong Kong branch balance is reported within the unallocated surplus of the PAC with-profits sub-fund and excludes policyholder liabilities of the Hong Kong branch of PAC.

(iii) The fund is solely for the benefit of policyholders of SAIF. Shareholders have no interest in the profits of this fund although they are entitled to asset management fees on this business. SAIF is a separate sub-fund within the PAC long-term business fund.

(iv) Other investments comprise:

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

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

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

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

C2.4 Asset management operations

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

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

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

Notes

(i) The M&G statement of financial position includes the assets and liabilities in respect of Prudential Capital.

(ii) Intra-group debt represented by operational borrowings at Group level.

Operational borrowings for M&G are in respect of Prudential Capital's short-term fixed income security programme and comprise:

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

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

C3 Assets and Liabilities - Classification and Measurement

C3.1 Group assets and liabilities - Classification

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

	2013 £m					2012* £m				
	At fair value		Cost/ Amortised cost/ IFRS 4 basis valuenote (i)	Total carrying value	Fair value, where applicable	At fair value		Cost/ Amortised cost/ IFRS 4 basis valuenote (i)	Total carrying value	Fair value, where applicable
	Through profit	Available for sale				Through profit	Available for sale			

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

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

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

	2013 £m					2012* £m				
	At fair value Through profit and loss	At fair value Available for sale	Cost/ Amortised cost/ IFRS 4 basis value note (i)	Total carrying value	Fair value, where applicable	At fair value Through profit and loss	At fair value Available for sale	Cost/ Amortised cost/ IFRS 4 basis value note (i)	Total carrying value	Fair value, where applicable
Liabilities										
Policyholder liabilities and unallocated surplus of with-profits funds:										
Insurance contract liabilities	-	-	218,185	218,185		-	-	205,484	205,484	
	-	-	35,592	35,592		-	-	33,812	33,812	

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

Liabilities held for sale								
Total liabilities	27,903	-	288,378	316,281	26,606	-	270,674	297,280

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

Notes

(i) Assets carried at cost or amortised cost are subject to impairment testing where appropriate under IFRS requirements. This category also includes assets which are valued by reference to specific IFRS standards such as reinsurers' share of insurance contract liabilities, deferred tax assets and investments accounted for under the equity method.

(ii) Realised gains and losses on the Group's investments for 2013 recognised in the income statement amounted to a net gain of £2.5 billion (2012: £6.8 billion).

(iii) The carrying value of investment contracts with discretionary participation features is on IFRS 4 basis. It is impractical to determine the fair value of these contracts due to the lack of a reliable basis to measure participation features.

C3.2 Group assets and liabilities - Measurement

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

(a) Determination of fair value

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

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

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

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

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

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

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

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

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

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

Financial instruments at fair value

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

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

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

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

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

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

Investment properties at fair value

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

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

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

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

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

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

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

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

Valuation approach for Level 3 fair valued assets and liabilities

Financial instruments at fair value

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

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

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

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

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

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

(a) Debt securities of £118 million (2012: £75 million), which were either valued on a discounted cash flow method with an internally developed discount rate or on external prices adjusted to reflect the specific known conditions relating to these securities (eg distressed securities or securities which were being restructured).

(b) Private equity and venture investments of £878 million (2012: £904 million) which were valued internally based on management information available for these investments. These investments were principally held by consolidated investment funds which are managed on behalf of third-parties.

(c) Liabilities of £(1,301) million (2012: £(1,199) million) for the Net asset value attributable to external unit holders respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities are valued by reference to the underlying assets.

(d) Other sundry individual financial investments of £1 million (2012: £7 million).

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

(e) A net liability of £(380) million (2012: net liability of £(240) million) was held by the Group's participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments.

(f) A net asset of nil (2012: £3 million) was held by the Group's unit-linked funds for which the investment return is wholly attributable to policyholders.

(g) A net asset of £76 million (2012: £24 million) was held to support non-linked shareholder-backed business. If the value of all the level 3 instruments held to support non-linked shareholder-backed business valued internally was varied downwards by 10 per cent, the change in valuation would be £8 million (2012: £2 million), which would reduce shareholders' equity by this amount before tax. Of this amount, a decrease of £6 million (2012: an increase of £1 million) would pass through the income statement substantially as part of short-term fluctuations in investment returns outside of operating profit and a £2 million decrease (2012: a £3 million decrease) would be included as part of other comprehensive income, being unrealised movements on assets classified as available-for-sale.

Other assets at fair value – Investment properties

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

(e) Transfers into and transfers out of levels

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

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

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

(f) Valuation processes applied by the Group

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

C3.3 Debt securities

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

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

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

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

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

(a) Asia insurance operations

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

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

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

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

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

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

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

(b) US insurance operations

(i) Overview

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

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

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

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

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

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

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

Movements in unrealised gains and losses

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

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

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

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

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

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

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

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

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

(b) Unrealised losses by maturity of security

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

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

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

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

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

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

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

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

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

(iii) Ratings

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

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

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

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

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

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

(c) UK insurance operations

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

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

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

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

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

(d) Asset management operations

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

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