

PRUDENTIAL PLC  
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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, 2015

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  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

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

## European Embedded Value (EEV) basis results

## Post-tax operating profit based on longer-term investment returns

## Results analysis by business area

|   | Note | 2014 £m | 2013* £m<br>note (iii) |
|---|------|---------|------------------------|
| Asia operations   |      |         |                        |
| New business  | 3    | 1,162   | 1,139                  |
| Business in force   | 4    | 739     | 753                    |
| Long-term business  |      | 1,901   | 1,892                  |
| Eastspring Investments  |      | 78      | 64                     |
| Development expenses  |      | (1)     | (1)                    |
| Total   |      | 1,978   | 1,955                  |
| US operations   |      |         |                        |
| New business  | 3    | 694     | 706                    |
| Business in force   | 4    | 834     | 820                    |
| Long-term business  |      | 1,528   | 1,526                  |
| Broker-dealer and asset management                                |      | 6       | 39                     |
| Total   |      | 1,534   | 1,565                  |
| UK operations   |      |         |                        |
| New business  | 3    | 270     | 237                    |
| Business in force   | 4    | 476     | 595                    |
| Long-term business  |      | 746     | 832                    |
| General insurance commission                                      |      | 19      | 22                     |
| Total UK insurance operations                                     |      | 765     | 854                    |
| M&G (including Prudential Capital)                                |      | 386     | 346                    |
| Total   |      | 1,151   | 1,200                  |
| Other income and expenditure                                      |      | (531)   | (482)                  |
| Solvency II and restructuring costs                               |      | (36)    | (34)                   |
| Post-tax operating profit based on longer-term investment returns |      | 4,096   | 4,204                  |
| Analysed as profits (losses) from:                                |      |         |                        |
| New business  | 3    | 2,126   | 2,082                  |
| Business in force   | 4    | 2,049   | 2,168                  |
| Long-term business  |      | 4,175   | 4,250                  |
| Asset management  |      | 470     | 449                    |
| Other results   |      | (549)   | (495)                  |
| Total   |      | 4,096   | 4,204                  |

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\* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis. This approach has been adopted throughout this supplementary information.

Notes:

- (i) EEV basis other income and expenditure represents the post-tax IFRS basis result, less the unwind of expected margins on the internal management of the assets of the covered business (as explained in note 16(a)(vii)).
- (ii) Solvency II and restructuring costs comprise the net of tax charge recognised on an IFRS basis and the additional amount recognised on the EEV basis for the shareholders' share incurred by the PAC with-profits fund.
- (iii) The comparative results have been prepared using previously reported average exchange rates for the year. For memorandum disclosure purposes note 2 presents the 2013 results on both actual exchange rates (AER) and constant exchange rates (CER) bases.

Post-tax summarised consolidated income statement

|   | Note | 2014 £m | 2013* £m |
|---|------|---------|----------|
| Post-tax operating profit based on longer-term investment returns |      |         |          |
| Asia operations   |      | 1,978   | 1,955    |
| US operations   |      | 1,534   | 1,565    |
| UK operations   |      | 1,151   | 1,200    |
| Other income and expenditure                                      |      | (531)   | (482)    |
| Solvency II and restructuring costs                               |      | (36)    | (34)     |
| Post-tax operating profit based on longer-term investment returns |      | 4,096   | 4,204    |
| Short-term fluctuations in investment returns                     | 5    | 763     | (564)    |
| Effect of changes in economic assumptions                         | 6    | (369)   | 629      |
| Mark to market value movements on core borrowings                 |      | (187)   | 152      |
| Gain on sale of PruHealth and PruProtect                          | 7    | 44      | -        |
| Loss attaching to held for sale Japan Life business               | 8    | -       | (35)     |
| Costs of domestication of Hong Kong branch                        | 9    | (4)     | (28)     |
| Total post-tax non-operating profit                               |      | 247     | 154      |
| Profit for the year attributable to equity holders of the Company |      | 4,343   | 4,358    |

\* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Movement in shareholders' equity

|  | Note | 2014 £m | 2013* £m |
|--|------|---------|----------|
| Profit for the year attributable to equity shareholders  |      | 4,343   | 4,358    |
| Items taken directly to equity:  |      |         |          |
| Exchange movements on foreign operations and net investment hedges                             |      | 737     | (1,077)  |
| Dividends  |      | (895)   | (781)    |
| New share capital subscribed   |      | 13      | 6        |
| Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes |      | (11)    | (53)     |
| Reserve movements in respect of share-based payments   |      | 106     | 98       |
| Treasury shares:   |      |         |          |
| Movement in own shares in respect of share-based payment plans                                 |      | (48)    | (10)     |
| Movement in own shares purchased by unit trusts consolidated under IFRS                        |      | (6)     | (31)     |

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|   |    |        |        |
|---|----|--------|--------|
| Mark to market value movements on Jackson assets backing surplus and required capital |    | 77     | (97)   |
| Net increase in shareholders' equity  | 12 | 4,316  | 2,413  |
| Shareholders' equity at beginning of year:  |    |        |        |
| As previously reported  | 12 | 24,856 | 22,443 |
| Effect of the domestication of Hong Kong branch on 1 January 2014                     | 9  | (11)   | -      |
|   |    | 24,845 | 22,443 |
| Shareholders' equity at end of year   | 12 | 29,161 | 24,856 |

\* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

| Comprising:   | 31 Dec 2014 £m       |                                       |         | 31 Dec 2013 £m       |                                       |         |
|---|----------------------|---------------------------------------|---------|----------------------|---------------------------------------|---------|
|   | Long-term operations | Asset management and other operations | Total   | Long-term operations | Asset management and other operations | Total   |
|   | note 12              |                                       |         | note 12              |                                       |         |
| Asia operations   | 12,545               | 274                                   | 12,819  | 10,536               | 255                                   | 10,791  |
| US operations   | 8,379                | 157                                   | 8,536   | 6,966                | 134                                   | 7,100   |
| UK insurance operations   | 8,433                | 19                                    | 8,452   | 7,342                | 22                                    | 7,364   |
| M&G   | -                    | 1,646                                 | 1,646   | -                    | 1,602                                 | 1,602   |
| Other operations  | -                    | (2,292)                               | (2,292) | -                    | (2,001)                               | (2,001) |
| Shareholders' equity at end of year                                       | 29,357               | (196)                                 | 29,161  | 24,844               | 12                                    | 24,856  |
| Representing:   |                      |                                       |         |                      |                                       |         |
| Net assets excluding acquired goodwill and holding company net borrowings | 29,124               | 1,542                                 | 30,666  | 24,613               | 1,155                                 | 25,768  |
| Acquired goodwill   | 233                  | 1,230                                 | 1,463   | 231                  | 1,230                                 | 1,461   |
| Holding company net borrowings at market value note 10                    | -                    | (2,968)                               | (2,968) | -                    | (2,373)                               | (2,373) |
|   | 29,357               | (196)                                 | 29,161  | 24,844               | 12                                    | 24,856  |

Summary statement of financial position

|   | Note | 31 Dec 2014 £m | 31 Dec 2013 £m |
|---|------|----------------|----------------|
| Total assets less liabilities, before deduction for insurance funds                               |      | 326,633        | 288,826        |
| Less insurance funds:*  |      |                |                |
| Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds |      | (314,822)      | (279,176)      |
| Less shareholders' accrued interest in the long-term business                                     |      | 17,350         | 15,206         |
|   |      | (297,472)      | (263,970)      |
| Total net assets  | 12   | 29,161         | 24,856         |
| Share capital   |      | 128            | 128            |
| Share premium   |      | 1,908          | 1,895          |
| IFRS basis shareholders' reserves   |      | 9,775          | 7,627          |
| Total IFRS basis shareholders' equity   | 12   | 11,811         | 9,650          |
| Additional EEV basis retained profit  | 12   | 17,350         | 15,206         |

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|   |    |        |        |
|---|----|--------|--------|
| Total EEV basis shareholders' equity (excluding non-controlling interests)                                | 12 | 29,161 | 24,856 |
| * Including liabilities in respect of insurance products classified as investment contracts under IFRS 4. |    |        |        |

Net asset value per share

|   |  |        |        |
|---|--|--------|--------|
|   |  | 31 Dec | 31 Dec |
|   |  | 2014   | 2013   |
| Based on EEV basis shareholders' equity of £29,161 million (2013: £24,856 million) (in pence)   |  | 1,136p | 971p   |
| Number of issued shares at year end (millions)  |  | 2,568  | 2,560  |
| Annualised return on embedded value*  |  | 16%    | 19%    |
| * Annualised return on embedded value is based on EEV post-tax operating profit, as a percentage of opening EEV basis shareholders' equity. |  |        |        |

Notes on the EEV basis results

### 1 Basis of preparation

The EEV basis results have been prepared in accordance with the EEV Principles issued by the European Insurance CFO Forum in May 2004 and subsequently supplemented by Additional Guidance on EEV Disclosure issued in October 2005. Where appropriate, the EEV basis results include the effects of adoption of International Financial Reporting Standards (IFRS). The EEV results are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis.

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles. The auditors have reported on the 2014 EEV basis results supplement to the Company's statutory accounts for 2014. 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. Except for the change in presentation of EEV results from pre-tax to post-tax, as described in the additional unaudited financial information for the 2013 annual report, the 2013 results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2013. The supplement included an unqualified audit report from the auditors.

A detailed description of the EEV methodology and accounting presentation is provided in note 16.

### 2 Results analysis by business area

The 2013 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The 2013 CER comparative results are translated at 2014 average exchange rates.

Annual premium and contribution equivalents (APE) (note 16(a)(ii))

|                 | Note | 2014 £m | 2013 £m |       | % change |     |
|-----------------|------|---------|---------|-------|----------|-----|
|                 |      |         | AER     | CER   | AER      | CER |
| Asia operations |      | 2,237   | 2,125   | 1,946 | 5%       | 15% |
| US operations   |      | 1,556   | 1,573   | 1,494 | (1%)     | 4%  |
| UK operations   |      | 857     | 725     | 725   | 18%      | 18% |
| Total           | 3    | 4,650   | 4,423   | 4,165 | 5%       | 12% |

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Post-tax operating profit

|   | Note | 2014 £m |       | 2013 £m |       | % change |     |
|---|------|---------|-------|---------|-------|----------|-----|
|   |      |         |       | AER     | CER   | AER      | CER |
| Asia operations   |      |         |       |         |       |          |     |
| New business  | 3    | 1,162   | 1,139 | 1,032   | 2%    | 13%      |     |
| Business in force   | 4    | 739     | 753   | 673     | (2)%  | 10%      |     |
| Long-term business  |      | 1,901   | 1,892 | 1,705   | 0%    | 11%      |     |
| Eastspring investments  |      | 78      | 64    | 59      | 22%   | 32%      |     |
| Development costs   |      | (1)     | (1)   | (1)     | 0%    | 0%       |     |
| Total   |      | 1,978   | 1,955 | 1,763   | 1%    | 12%      |     |
| US operations   |      |         |       |         |       |          |     |
| New business  | 3    | 694     | 706   | 670     | (2)%  | 4%       |     |
| Business in force   | 4    | 834     | 820   | 779     | 2%    | 7%       |     |
| Long-term business  |      | 1,528   | 1,526 | 1,449   | 0%    | 5%       |     |
| Broker-dealer and asset management                                |      | 6       | 39    | 37      | (85)% | (84)%    |     |
| Total   |      | 1,534   | 1,565 | 1,486   | (2)%  | 3%       |     |
| UK operations   |      |         |       |         |       |          |     |
| New business  | 3    | 270     | 237   | 237     | 14%   | 14%      |     |
| Business in force   | 4    | 476     | 595   | 595     | (20)% | (20)%    |     |
| Long-term business  |      | 746     | 832   | 832     | (10)% | (10)%    |     |
| General insurance commission                                      |      | 19      | 22    | 22      | (14)% | (14)%    |     |
| Total UK insurance operations                                     |      | 765     | 854   | 854     | (10)% | (10)%    |     |
| M&G (including Prudential Capital)                                |      | 386     | 346   | 346     | 12%   | 12%      |     |
| Total   |      | 1,151   | 1,200 | 1,200   | (4)%  | (4)%     |     |
| Other income and expenditure                                      |      | (531)   | (482) | (482)   | (10)% | (10)%    |     |
| Solvency II and restructuring costs                               |      | (36)    | (34)  | (34)    | (6)%  | (6)%     |     |
| Post-tax operating profit based on longer-term investment returns |      | 4,096   | 4,204 | 3,933   | (3)%  | 4%       |     |
| Analysed as profits from:   |      |         |       |         |       |          |     |
| New business  | 3    | 2,126   | 2,082 | 1,939   | 2%    | 10%      |     |
| Business in force   | 4    | 2,049   | 2,168 | 2,047   | (5)%  | 0%       |     |
| Total long-term business  |      | 4,175   | 4,250 | 3,986   | (2)%  | 5%       |     |
| Asset management  |      | 470     | 449   | 442     | 5%    | 6%       |     |
| Other results   |      | (549)   | (495) | (495)   | (11)% | (11)%    |     |
| Post-tax operating profit based on longer-term investment returns |      | 4,096   | 4,204 | 3,933   | (3)%  | 4%       |     |

Post-tax profit

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|   | Note | 2014 £m | 2013 £m |       | % change |        |
|---|------|---------|---------|-------|----------|--------|
|   |      |         | AER     | CER   | AER      | CER    |
| Post-tax operating profit based on longer-term investment returns |      | 4,096   | 4,204   | 3,933 | (3)%     | 4%     |
| Short-term fluctuations in investment returns                     | 5    | 763     | (564)   | (529) | 235%     | 244%   |
| Effect of changes in economic assumptions                         | 6    | (369)   | 629     | 623   | (159)%   | (159)% |
| Other non-operating profit  |      | (147)   | 89      | 94    | (265)%   | (256)% |
| Total post-tax non-operating profit                               |      | 247     | 154     | 188   | 60%      | 31%    |
| Profit for the year attributable to shareholders                  |      | 4,343   | 4,358   | 4,121 | 0%       | 5%     |

Basic earnings per share (in pence)

|   | 2014   |       | 2013 |        | % change |     |
|---|--------|-------|------|--------|----------|-----|
|   |        | AER   |      | CER    | AER      | CER |
| Based on post-tax operating profit including longer-term investment returns | 160.7p | 165.0 | p    | 154.4p | (3%)     | 4%  |
| Based on post-tax profit  | 170.4p | 171.0 | p    | 161.7p | 0%       | 5%  |
| Average number of shares (millions)   | 2,549  | 2,548 |      | 2,548  |          |     |

3 Analysis of new business contribution

(i) Group Summary

|                          | Annual premium and contribution equivalents (APE) note 18 £m | Present value of new business premiums (PVNBP) note 18 £m | 2014                                |      | New business margin |       |
|--------------------------|--|---|-------------------------------------|------|---------------------|-------|
|                          |  |   | New business contribution (note) £m |      | APE                 | PVNBP |
|                          |  |   |                                     |      | %                   | %     |
| Asia operations(note ii) | 2,237  | 12,331  | 1,162                               |      | 52                  | 9.4   |
| US operations            | 1,556  | 15,555  | 694                                 |      | 45                  | 4.5   |
| UK insurance operations  | 857  | 7,471   | 270                                 |      | 32                  | 3.6   |
| Total                    | 4,650  | 35,357  | 2,126                               |      | 46                  | 6.0   |
|                          |  |   |                                     | 2013 |                     |       |

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|                          | Annual premium and contribution equivalents (APE) note 18 £m | Present value of new business premiums (PVNBP) note 18 £m | New business contribution* (note) £m | New business margin* |       |
|--------------------------|--|---|--------------------------------------|----------------------|-------|
|                          |  |   |                                      | APE                  | PVNBP |
|                          |  |   |                                      | %                    | %     |
| Asia operations(note ii) | 2,125  | 11,375  | 1,139                                | 54                   | 10.0  |
| US operations            | 1,573  | 15,723  | 706                                  | 45                   | 4.5   |
| UK insurance operations  | 725  | 5,978   | 237                                  | 33                   | 4.0   |
| Total                    | 4,423  | 33,076  | 2,082                                | 47                   | 6.3   |

Note:

The increase in new business contribution of £44 million from £2,082 million for 2013 to £2,126 million in 2014 comprises an increase on a CER basis of £187 million, offset by foreign exchange effects of £(143) million. The increase of £187 million on the CER basis comprises a contribution of £277 million reflecting higher sales volumes and the impact of pricing and product actions, offset by a £(90) million adverse effect of reductions in long-term interest rates in the year (analysed as Asia negative £(17) million, US negative £(63) million and UK negative £(10) million).

(ii) Asia operations

|                       | 2014 £m | 2013* £m |       |
|-----------------------|---------|----------|-------|
|                       |         | AER      | CER   |
| China                 | 27      | 28       | 26    |
| Hong Kong             | 405     | 283      | 269   |
| India                 | 12      | 15       | 14    |
| Indonesia             | 296     | 359      | 301   |
| Korea                 | 11      | 25       | 25    |
| Taiwan                | 29      | 31       | 29    |
| Other                 | 382     | 398      | 368   |
| Total Asia operations | 1,162   | 1,139    | 1,032 |

\* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

4 Operating profit from business in force

(i) Group Summary

|   | 2014 £m                   |                          |                                   | Total (note) |
|---|---------------------------|--------------------------|-----------------------------------|--------------|
|   | Asia operations note (ii) | US operations note (iii) | UK insurance operations note (iv) |              |
| Unwind of discount and other expected returns | 648                       | 382                      | 410                               | 1,440        |
| Effect of changes in operating assumptions    | 52                        | 86                       | -                                 | 138          |
| Experience variances and other items          | 39                        | 366                      | 66                                | 471          |
| Total   | 739                       | 834                      | 476                               | 2,049        |



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|   | 2013* £m                        |                                |  | Total<br>(note) |
|---|---------------------------------|--------------------------------|--|-----------------|
|   | Asia<br>operations<br>note (ii) | US<br>operations<br>note (iii) | UK<br>insurance<br>operations<br>note (iv) |                 |
| Unwind of discount and other expected returns | 668                             | 395                            | 437  | 1,500           |
| Effect of changes in operating assumptions    | 5                               | 76                             | 98   | 179             |
| Experience variances and other items          | 80                              | 349                            | 60   | 489             |
| Total   | 753                             | 820                            | 595  | 2,168           |

\* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Note:

The movements in operating profit from business in force of £(119) million from £2,168 million in 2013 to £2,049 million for 2014 comprises:

|   | 2014 £m |
|---|---------|
| Reduction in unwind of discount and other expected returns:   |         |
| Foreign exchange effects  | (80)    |
| Effect of changes in interest rates   | (187)   |
| Effect of growth in opening value and other items   | 207     |
|   | (60)    |
| Non-recurrent benefit in 2013 of reduction in UK corporate tax rates                                | (98)    |
| Year on year change in effects of other operating assumptions, experience variances and other items | 39      |
| Net decrease in operating profit from business in force   | (119)   |

(ii) Asia operations

|   | 2014 £m | 2013* £m |
|---|---------|----------|
| Unwind of discount and other expected returnsnote (a) | 648     | 668      |
| Effect of changes in operating assumptions:           |         |          |
| Mortality and morbiditynote (b)                       | 27      | 19       |
| Persistency and withdrawalsnote (c)                   | (17)    | (23)     |
| Expense   | (5)     | (6)      |
| Othernote (d)   | 47      | 15       |
|   | 52      | 5        |
| Experience variances and other items:                 |         |          |
| Mortality and morbiditynote (e)                       | 23      | 33       |
| Persistency and withdrawalsnote (f)                   | 44      | 36       |
| Expensenote (g)                                       | (27)    | (17)     |
| Other   | (1)     | 28       |
|   | 39      | 80       |
| Total Asia operations                                 | 739     | 753      |

\* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Notes:

- (a) The decrease in unwind of discount and other expected returns of £(20) million from £668 million for 2013 to £648 million for 2014 is impacted by the effect of lower interest rates of £(55) million, and a £(61) million adverse foreign currency translation effect, partially offset by £96 million mainly for the increase in the opening in-force value.
- (b) In 2014 the credit of £27 million for mortality and morbidity assumption changes reflects a number of offsetting items, including the effect of reduced projected mortality rates for Hong Kong. In 2013 the credit of £19 million mainly reflected the beneficial effect arising from the renegotiation of a reinsurance agreement in Indonesia.
- (c) In 2014 the charge of £(17) million for persistency assumptions mainly reflects increased partial withdrawal assumptions on unit-linked business in Korea. For 2013 the charge of £(23) million reflected a number of offsetting items including the effect of strengthening lapse and premium holiday assumptions in Korea.
- (d) In 2014 the credit of £47 million for other assumption changes reflects a number of offsetting items, including the effects of modelling improvements and those arising from asset allocation changes in Hong Kong.
- (e) The favourable effect of mortality and morbidity experience in 2014 of £23 million (2013: £33 million) reflects better than expected experience in Indonesia and Hong Kong, offset by higher claims in Malaysia on medical reimbursement products.
- (f) The positive persistency and withdrawals experience variance in 2014 of £44 million (2013: £36 million) reflects favourable experience principally in Hong Kong across all product groups.
- (g) The expense experience variance at 2014 is negative £(27) million (2013: negative £(17) million). The variance arises in operations which are currently sub-scale (China, Malaysia Takaful and Taiwan), and from short-term overruns in India and Korea.

(iii) US operations

|  | 2014 £m | 2013* £m |
|--|---------|----------|
| Unwind of discount and other expected returnsnote (a)              | 382     | 395      |
| Effect of changes in operating assumptions:                        |         |          |
| Persistencynote (b)  | 55      | 47       |
| Othernote (c)  | 31      | 29       |
|  | 86      | 76       |
| Experience variances and other items:                              |         |          |
| Spread experience variancernote (d)                                | 192     | 217      |
| Amortisation of interest-related realised gains and lossesnote (e) | 56      | 58       |
| Othernote (f)  | 118     | 74       |
|  | 366     | 349      |
| Total US operations  | 834     | 820      |

\* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Notes:

(a) The decrease in unwind of discount and other expected returns of £(13) million from £395 million for 2013 to £382 million for 2014 reflects a £(73) million adverse effect of the 90 basis points reduction in the US 10-year Treasury rate and a £(19) million adverse foreign currency effect, partially offset by a £79 million effect mainly for the underlying growth in the in-force book.

(b) The credit in 2014 of £55 million (2013: £47 million) for persistency assumption changes principally relates to revised assumptions for variable annuity business to more closely reflect recent experience.

(c) The effect of other changes in operating assumptions of £31 million reflects a number of offsetting items and includes the capitalised effect of changes in projected policyholder variable annuity fees of £46 million (2013: £33 million) which vary depending on the size and mix of variable annuity funds.

(d) The spread assumption for Jackson is determined on a longer-term basis, net of provision for defaults (see note 17 (ii)). The spread experience variance in 2014 of £192 million (2013: £217 million) includes the positive effect of transactions undertaken to more closely match the overall asset and liability duration.

(e) The amortisation of interest-related gains and losses reflects the fact that when bonds that are neither impaired nor deteriorating are sold and reinvested there will be a consequent change in the investment yield.

The realised gain or loss is amortised into the result over the year when the bonds would have otherwise matured to better reflect the long-term returns included in operating profits.

(f) The effect of £118 million in 2014 for other experience variances and other items includes the effect of favourable persistency, mortality and tax experience variances, the most significant item arising from the continued positive persistency experience for annuity business of £59 million (2013: £40 million).

(iv) UK insurance operations

|   | 2014 £m | 2013* £m |
|---|---------|----------|
| Unwind of discount and other expected returnsnote (a) | 410     | 437      |
| Effect of change in UK corporate tax ratenote (b)     | -       | 98       |
| Other itemsnote (c)                                   | 66      | 60       |
| Total UK insurance operations                         | 476     | 595      |

\* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Notes:

(a) The decrease in unwind of discount and other expected returns of £(27) million from £437 million for 2013 to £410 million for 2014 reflects a £(59) million adverse impact of the 130 basis point reduction in gilt yields partially offset by £32 million mainly for the underlying growth in the in-force book.

(b) For 2013, the positive contribution from the change in UK corporate tax rates of £98 million reflected the combined effect of the reductions in corporate rates from 23 per cent to 21 per cent from April 2014 and 21 per cent to 20 per cent from April 2015.

(c) Other items of £66 million for 2014 (2013: £60 million) principally reflect the positive effects of rebalancing the investment portfolio backing annuity business (see note 16(b)(ii)).

5 Short-term fluctuations in investment returns

Short-term fluctuations in investment returns included in profit for the year arise as follows:

(i) Group Summary

|                          | 2014 £m | 2013* £m |
|--------------------------|---------|----------|
| Insurance operations:    |         |          |
| Asianote (ii)            | 439     | (308)    |
| USnote (iii)             | (166)   | (280)    |
| UKnote (iv)              | 583     | 28       |
|                          | 856     | (560)    |
| Other operationsnote (v) | (93)    | (4)      |
| Total                    | 763     | (564)    |

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\* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

(ii) Asia operations

The short-term fluctuations in investment returns for Asia operations comprise amounts in respect of:

|                       | 2014 £m | 2013* £m |
|-----------------------|---------|----------|
| Hong Kong             | 178     | (178)    |
| Indonesia             | 35      | (44)     |
| Singapore             | 92      | (80)     |
| Other                 | 134     | (6)      |
| Total Asia operations | 439     | (308)    |

\* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

These fluctuations mainly arise from decreases (2014) and increases (2013) in long-term interest rates as they affect the value of bonds in the portfolios backing liabilities and related capital. The £134 million credit for other operations in 2014 principally arises in Taiwan of £23 million and in Thailand of £49 million for unrealised gains on bonds.

(iii) US operations

The short-term fluctuations in investment returns for US operations comprise:

|   | 2014 £m | 2013* £m |
|---|---------|----------|
| Investment return related experience on fixed income securitiesnote (a)   | 31      | 13       |
| Investment return related impact due to changed expectation of profits on in-force variable annuity business in future periods based on current period separate account return, net of related hedging activitynote (b) | (187)   | (377)    |
| Other items including actual less long-term return on equity based investmentsnote (c)  | (10)    | 84       |
| Total US operations   | (166)   | (280)    |

\* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Notes:

- (a) The credit relating to fixed income securities comprises the following elements:
- the excess of actual realised gains and losses over the amortisation of interest related realised gains and losses recorded in the profit and loss account;
  - credit loss experience (versus the longer-term assumption); and
  - the impact of changes in the asset portfolio.
- (b) This item reflects the net impact of:
- variances in projected future fees and future benefit costs arising from the effect of market fluctuations on the growth in separate account asset values in the current reporting period; and
  - related hedging activity arising from realised and unrealised gains and losses on equity related hedges and interest rate options.
- (c) For 2013, other items of £84 million primarily reflected a beneficial impact of the excess of actual over assumed return from investments in limited partnerships.

(iv) UK insurance operations

The short-term fluctuations in investment returns for UK insurance operations comprise:

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|   | 2014 £m | 2013* £m |
|---|---------|----------|
| Shareholder-backed annuitynote (a)          | 310     | (58)     |
| With-profits, Unit-linked and othernote (b) | 273     | 86       |
|   | 583     | 28       |

\* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Notes:

- (a) Short-term fluctuations in investment returns for shareholder-backed annuity business comprise:
- gains/(losses) on surplus assets compared to the expected long-term rate of return reflecting reductions/(increases) in corporate bond and gilt yields;
    - the difference between actual and expected default experience; and
  - the effect of mismatching for assets and liabilities of different durations and other short-term fluctuations in investment returns.
- (b) The short-term fluctuations in investment returns for with-profits, unit-linked and other business primarily arise from the excess of actual over expected returns for with-profits business, reflecting a total pre-tax return on the fund (including unallocated surplus) in 2014 of 9.5 per cent compared to an assumed rate of return of 5.0 per cent (2013: 8.0 per cent total return compared to assumed rate of 6.0 per cent). In addition, the amount 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 2013. This hedge reduces the risks arising from equity market declines.

(v) Other operations

Short-term fluctuations in investment returns of other operations were negative £(93) million (2013: negative £(4) million) representing unrealised value movements on investments and foreign exchange items.

6 Effect of changes in economic assumptions

The effects of changes in economic assumptions for in-force business included in profit for the year, arise as follows:

(i) Group Summary

|                                  | 2014 £m | 2013* £m |
|----------------------------------|---------|----------|
| Asia operationsnote (ii)         | (269)   | 255      |
| US operationsnote (iii)          | (77)    | 242      |
| UK insurance operationsnote (iv) | (23)    | 132      |
| Total                            | (369)   | 629      |

\* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

(ii) Asia operations

The effect of changes in economic assumptions for Asia operations comprises:

|           | 2014 £m | 2013* £m |
|-----------|---------|----------|
| Hong Kong | (121)   | 289      |
| Malaysia  | 11      | (62)     |
| Indonesia | 25      | (176)    |
| Singapore | (42)    | 90       |
| Taiwan    | (21)    | 92       |

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|                       |       |     |
|-----------------------|-------|-----|
| Other                 | (121) | 22  |
| Total Asia operations | (269) | 255 |

\* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

The negative effect of £(269) million in 2014 principally reflected the overall impact of the reduction in fund earned rates for participating business in Hong Kong, Singapore and Taiwan, driven by the decrease in long-term interest rates. A negative effect has been reported on non-participating business in Korea (adverse £(38) million) and Thailand (adverse £(34) million) for similar reasons. These amounts were partially offset by the positive effect of valuing future health and protection profits at lower discount rates in Indonesia and Malaysia.

The positive impact in 2013 of £255 million reflected the overall impact of an increase in fund earned rates for participating business, principally arising in Hong Kong, Singapore and Taiwan, mainly due to the increase in long-term interest rates. There were partial offsets arising in Indonesia and Malaysia, valuing the negative impact of future health and protection profits at a higher discount rate.

(iii) US operations

The effect of changes in economic assumptions for US operations comprises:

|   | 2014 £m | 2013* £m |
|---|---------|----------|
| Effect of changes in 10-year treasury rates:              |         |          |
| Fixed annuity and other general account business note (a) | 151     | (244)    |
| Variable annuity businessnote (b)                         | (228)   | 382      |
| Decrease in additional allowance for credit risknote (c)  | -       | 104      |
| Totalnote (d)   | (77)    | 242      |

\* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Notes:

(a) For fixed annuity and other general account business, the credit of £151 million in 2014 principally arises from the effect on the future projected spread income of applying a lower discount rate on the opening value of the in-force book, arising from the 90 basis points reduction in the 10-year treasury rates (2013: charge of £(244) million reflecting the 130 basis points increase).

(b) In 2014 there was a 90 basis points decline in 10-year treasury rates. For variable annuity business the charge of £(228) million principally reflects the net effect of the consequent decrease in the assumed future rate of return on the underlying separate account assets, resulting in lower projected fee income and an increase in projected benefit costs, partially offset by the decrease in the risk discount rate. The credit of £382 million in 2013 reflected an increase in the risk free rate of 130 basis points.

(c) For 2013 the £104 million effect of the decrease in the additional allowance for credit risk within the risk discount rate reflected the reduction in credit spreads (50 basis points for spread business and 10 basis points for variable annuity business).

(d) The overall credit in 2013 of £242 million included a charge of £(13) million for the effect of a change in required capital on the EEV basis from 235 per cent to 250 per cent of risk-based capital.

(iv) UK insurance operations

The effect of changes in economic assumptions for UK insurance operations comprises the following:

|  | 2014 £m | 2013* £m |
|--|---------|----------|
|--|---------|----------|

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Effect of changes in expected long-term rates of return, risk discount rates and other changes:

|              |   |             |            |
|--------------|---|-------------|------------|
|              | Shareholder-backed annuity businessnote (a) | 352         | (56)       |
|              | With-profits and other businessnote (b)     | (375)       | 188        |
| <b>Total</b> |   | <b>(23)</b> | <b>132</b> |

\* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

### Notes:

(a) For shareholder-backed annuity business the overall positive effect reflects the effect on the present value of projected spread income arising from the reduction in expected long-term rates of return and risk discount rates, following the swap rate decline in 2014.

(b) For with-profits and other business the total charge in 2014 of £(375) million (2013: credit of £188 million) includes the net effect of the reduction in fund earned rates and risk discount rates (as shown in note 17(iii)), arising from the 130 basis points decrease (2013: increase of 120 basis points) in the 15-year government bond rate and portfolio changes.

### 7 Sale of PruHealth and PruProtect business

On 10 November 2014, the Prudential Assurance Company Limited announced an agreement to sell its 25 per cent equity stake in the PruHealth and PruProtect businesses to Discovery Group Europe Limited. The sale was completed on 14 November 2014. This transaction gave rise to a gain on disposal of £44 million.

### 8 Held for sale Japan Life business

On 5 February 2015, the Group announced that it had completed the sale of its closed book life insurance business in Japan, PCA Life Insurance Company Limited to SBI Holdings, Inc. following regulatory approvals. The loss of Japan Life business in the 2013 results includes the reduction in EEV carrying value to reflect the completion of sale.

### 9 Domestication of the Hong Kong branch business

On 1 January 2014, following consultation with policyholders of PAC and regulators and court approval, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. The 2014 EEV basis results includes opening adjustments arising from the transfer of capital that was previously held within the UK business in respect of the Hong Kong branch operations and additional capital requirements that arise from the newly established subsidiaries as follows:

|  | 2014 £m      |                  |                 |                            |                                     |
|--|--------------|------------------|-----------------|----------------------------|-------------------------------------|
| Adjustment to shareholders' equity at 1 January 2014 | Free surplus | Required capital | Total net worth | Value of in-force business | Total long-term business operations |
| Asia operations                                      | (104)        | 104              | -               | (40)                       | (40)                                |
| UK insurance operations                              | 69           | (69)             | -               | 29                         | 29                                  |
| Opening adjustment                                   | (35)         | 35               | -               | (11)                       | (11)                                |

The net EEV basis effect of £(11) million represents the cost of holding higher required capital levels in the stand-alone Hong Kong shareholder-backed long-term insurance business. The post-tax costs incurred to enable the domestication in 2014 were £4 million (2013: £28 million).

### 10 Net core structural borrowings of shareholder-financed operations

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|   | 31 Dec 2014 £m |                                 |                           | 31 Dec 2013 £m |                                 |                           |
|---|----------------|---------------------------------|---------------------------|----------------|---------------------------------|---------------------------|
|   | IFRS basis     | Mark to market value adjustment | EEV basis at market value | IFRS basis     | Mark to market value adjustment | EEV basis at market value |
| Holding company* cash and short-term investments                  | (1,480)        | -                               | (1,480)                   | (2,230)        | -                               | (2,230)                   |
| Core structural borrowings - central funds                        | 3,869          | 579                             | 4,448                     | 4,211          | 392                             | 4,603                     |
| Holding company net borrowings                                    | 2,389          | 579                             | 2,968                     | 1,981          | 392                             | 2,373                     |
| Core structural borrowings - Prudential Capital                   | 275            | -                               | 275                       | 275            | -                               | 275                       |
| Core structural borrowings - Jackson                              | 160            | 42                              | 202                       | 150            | 38                              | 188                       |
| Net core structural borrowings of shareholder-financed operations | 2,824          | 621                             | 3,445                     | 2,406          | 430                             | 2,836                     |

\* Including central finance subsidiaries.

## 11 Analysis of movement in free surplus

Free surplus is the excess of the regulatory basis net assets for EEV reporting purposes (net worth) over the capital required to support the covered business. Where appropriate, adjustments are made to the net worth so that backing assets are included at fair value rather than cost so as to comply with the EEV Principles.

### (i) Underlying free surplus generated

The 2013 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The 2013 CER comparative results are translated at 2014 average exchange rates.

|  | 2014 £m | 2013 £m |       | * | % change |       |
|--|---------|---------|-------|---|----------|-------|
|  |         | AER     | CER   |   | AER      | CER   |
| Asia operations                                  |         |         |       |   |          |       |
| Underlying free surplus generated from in-force  |         |         |       |   |          |       |
| life business                                    | 860     | 819     | 742   |   | 5%       | 16%   |
| Investment in new businessnotes (ii)(a), (ii)(g) | (346)   | (310)   | (285) |   | (12)%    | (21)% |
| Long-term business                               | 514     | 509     | 457   |   | 1%       | 12%   |
| Eastspring Investmentsnote (ii)(b)               | 78      | 64      | 59    |   | 22%      | 32%   |
| Total  | 592     | 573     | 516   |   | 3%       | 15%   |
| US operations                                    |         |         |       |   |          |       |
| Underlying free surplus generated from in-force  |         |         |       |   |          |       |
| life business                                    | 1,191   | 1,129   | 1,072 |   | 5%       | 11%   |
| Investment in new businessnote (ii)(a)           | (187)   | (298)   | (283) |   | 37%      | 34%   |
| Long-term business                               | 1,004   | 831     | 789   |   | 21%      | 27%   |
| Broker-dealer and asset managementnote (ii)(b)   | 6       | 39      | 37    |   | (85)%    | (84)% |
| Total  | 1,010   | 870     | 826   |   | 16%      | 22%   |
| UK insurance operations                          | 645     | 680     | 680   |   | (5)%     | (5)%  |



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|   |       |       |       |        |        |
|---|-------|-------|-------|--------|--------|
| Underlying free surplus generated from in-force life business |       |       |       |        |        |
| Investment in new businessnote (ii)(a)                        | (73)  | (29)  | (29)  | (152)% | (152)% |
| Long-term business  | 572   | 651   | 651   | (12)%  | (12)%  |
| General insurance commissionnote (ii)(b)                      | 19    | 22    | 22    | (14)%  | (14)%  |
| Total   | 591   | 673   | 673   | (12)%  | (12)%  |
| M&G (including Prudential Capital)note (ii)(b)                | 386   | 346   | 346   | 12%    | 12%    |
| Underlying free surplus generated                             | 2,579 | 2,462 | 2,361 | 5%     | 9%     |

Representing:

Long-term business:

|   |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|
| Expected in-force cashflows (including expected return on net assets)                                 | 2,382 | 2,150 | 2,037 | 11%   | 17%   |
| Effects of changes in operating assumptions, operating experience variances and other operating items | 314   | 478   | 457   | (34)% | (31)% |
| Underlying free surplus generated from in-force life business   | 2,696 | 2,628 | 2,494 | 3%    | 8%    |
| Investment in new businessnotes (ii)(a), (ii)(g)  | (606) | (637) | (597) | 5%    | (2)%  |
| Total long-term business  | 2,090 | 1,991 | 1,897 | 5%    | 10%   |
| Asset managementnote (ii)(b)  | 489   | 471   | 464   | 4%    | 5%    |
| Underlying free surplus generated   | 2,579 | 2,462 | 2,361 | 5%    | 9%    |

(ii) Movement in Free surplus

| Long-term business and asset management operations  | 2014 £m                    |   | 2013 £m  |  |
|---|----------------------------|---|--|--|
|   | Long-term business note 13 | Asset management and UK general insurance commission note (b) | Free surplus of long-term business, asset management and UK general insurance commission | Free surplus of long-term business, asset management and UK general insurance commission |
| Underlying movement:  |                            |   |  |  |
| Investment in new businessnotes (a), (g)  | (606)                      | -   | (606)  | (637)  |
| Business in force:  |                            |   |  |  |
| Expected in-force cash flows (including expected return on net assets)                                | 2,382                      | 489   | 2,871  | 2,621  |
| Effects of changes in operating assumptions, operating experience variances and other operating items | 314                        | -   | 314  | 478  |
|   | 2,090                      | 489   | 2,579  | 2,462  |

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|   |         |       |         |         |
|---|---------|-------|---------|---------|
| Increase in EEV assumed level of required capital                   | -       | -     | -       | (58)    |
| Loss attaching to held for sale Japan Life businessnote 8           | -       | -     | -       | (40)    |
| Gain on sale of PruHealth and PruProtect notes 7, 13                | 130     | -     | 130     | -       |
| Other non-operating itemsnote (c)                                   | (252)   | (14)  | (266)   | (722)   |
|   | 1,968   | 475   | 2,443   | 1,642   |
| Net cash flows to parent companynote (d)                            | (1,170) | (312) | (1,482) | (1,341) |
| Bancassurance agreement and purchase of Thanachart Life             | -       | -     | -       | 365     |
| Exchange movements, timing differences and other itemsnote (e)      | 210     | (80)  | 130     | (352)   |
| Net movement in free surplus  | 1,008   | 83    | 1,091   | 314     |
| Balance at beginning of year:                                       |         |       |         |         |
| As previously reported  | 3,220   | 783   | 4,003   | 3,689   |
| Effect of domestication of Hong Kong branch on 1 January 2014note 9 | (35)    | -     | (35)    | -       |
| Balance at 1 January  | 3,185   | 783   | 3,968   | 3,689   |
| Balance at 31 December 2014 / 31 December 2013note (g)              | 4,193   | 866   | 5,059   | 4,003   |
| Representing:   |         |       |         |         |
| Asia operations   | 1,347   | 213   | 1,560   | 1,379   |
| US operations   | 1,416   | 141   | 1,557   | 1,074   |
| UK operations   | 1,430   | 512   | 1,942   | 1,550   |
|   | 4,193   | 866   | 5,059   | 4,003   |
| Balance at beginning of year:                                       |         |       |         |         |
| Asia operations   | 1,185   | 194   | 1,379   | 1,181   |
| US operations   | 956     | 118   | 1,074   | 1,319   |
| UK operations   | 1,079   | 471   | 1,550   | 1,189   |
|   | 3,220   | 783   | 4,003   | 3,689   |

Notes:

- (a) Free surplus invested in new business represents amounts set aside for required capital and acquisition costs.
- (b) For the purposes of this analysis, free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis post-tax earnings and shareholders' equity.
- (c) Non-operating items are principally short-term fluctuations in investment returns and the effect of changes in economic assumptions for long-term business operations.
- (d) Net cash flows to parent company for long-term business operations reflect the flows as included in the holding company cash flow at transaction rates.

(e) Exchange movements, timing differences and other items represent:

|  | 2014 £m            |  |       |
|--|--------------------|--|-------|
|  | Long-term business | Asset management and UK general insurance commission | Total |
| Exchange movementsnote 13  | 134                | 11   | 145   |
| Mark to market value movements on Jackson assets backing surplus and required capitalnote 12 | 77                 | -  | 77    |
| Shareholders' share of actuarial and other gains and losses on defined                       | (17)               | (1)  | (18)  |

|                         |     |      |      |
|-------------------------|-----|------|------|
| benefit pension schemes |     |      |      |
| Other note (f)          | 16  | (90) | (74) |
|                         | 210 | (80) | 130  |

(f) Other primarily reflects the effect of intra-group loans, contingent loan funding as shown in note 13(i), timing differences and other non-cash items.

(g) Investment in new business includes the annual amortisation charge of amounts incurred to secure exclusive distribution rights through our bancassurance partners at a rate that reflects the pattern in which the future economic benefits are expected to be consumed by reference to new business levels. Included within the overall free surplus balance of our Asian life entities is £304 million representing unamortised amounts incurred to secure exclusive distribution rights through bancassurance partners. These amounts exclude £883 million of Asia distribution rights intangibles that are financed by loan arrangements from central companies, the costs of which are allocated to the Asia life segment as the amortisation cost is incurred.

## 12 Reconciliation of movement in shareholders' equity

|   | 2014 £m                       |               |                         |                                     |                  |             |
|---|-------------------------------|---------------|-------------------------|-------------------------------------|------------------|-------------|
|   | Long-term business operations |               |                         | Total long-term business operations | Other operations | Group Total |
|   | Asia operations               | US operations | UK insurance operations |                                     |                  |             |
|   | note (i)                      |               |                         |                                     | note (i)         |             |
| Post-tax operating profit (based on longer-term investment returns) |                               |               |                         |                                     |                  |             |
| Long-term business:   |                               |               |                         |                                     |                  |             |
| New business note 3   | 1,162                         | 694           | 270                     | 2,126                               | -                | 2,126       |
| Business in force note 4  | 739                           | 834           | 476                     | 2,049                               | -                | 2,049       |
|   | 1,901                         | 1,528         | 746                     | 4,175                               | -                | 4,175       |
| Asset management  | -                             | -             | -                       | -                                   | 470              | 470         |
| Other results   | (1)                           | -             | (20)                    | (21)                                | (528)            | (549)       |
| Post-tax operating profit based on longer-term investment returns   | 1,900                         | 1,528         | 726                     | 4,154                               | (58)             | 4,096       |
| Total post-tax non-operating profit                                 | 170                           | (245)         | 600                     | 525                                 | (278)            | 247         |
| Profit for the year   | 2,070                         | 1,283         | 1,326                   | 4,679                               | (336)            | 4,343       |
| Other items taken directly to equity                                |                               |               |                         |                                     |                  |             |
| Exchange movements on foreign operations and net investment hedges  | 375                           | 483           | -                       | 858                                 | (121)            | 737         |
| Intra-group dividends (including statutory transfers) note (ii)     | (410)                         | (413)         | (200)                   | (1,023)                             | 1,023            | -           |
| Investment in operations note (iii)                                 | 3                             | -             | -                       | 3                                   | (3)              | -           |
| External dividends  | -                             | -             | -                       | -                                   | (895)            | (895)       |
| Other movements note (iv)   | 9                             | (17)          | (64)                    | (72)                                | 126              | 54          |

|   |        |       |       |        |       |        |
|---|--------|-------|-------|--------|-------|--------|
| Mark to market value movements on Jackson assets backing surplus and required capital | -      | 77    | -     | 77     | -     | 77     |
| Net increase in shareholders' equity  | 2,047  | 1,413 | 1,062 | 4,522  | (206) | 4,316  |
| Shareholders' equity at beginning of year:  |        |       |       |        |       |        |
| As previously reported  | 10,305 | 6,966 | 7,342 | 24,613 | 243   | 24,856 |
| Effect of domestication of Hong Kong branch on 1 January 2014 <sup>note 9</sup>       | (40)   | -     | 29    | (11)   | -     | (11)   |
| Shareholders' equity at 31 December 2014 <sup>note (i)</sup>                          | 12,312 | 8,379 | 8,433 | 29,124 | 37    | 29,161 |
| Representing:   |        |       |       |        |       |        |
| Statutory IFRS basis shareholders' equity:  |        |       |       |        |       |        |
| Net assets  | 3,315  | 4,067 | 3,785 | 11,167 | (819) | 10,348 |
| Goodwill  | -      | -     | -     | -      | 1,463 | 1,463  |
| Total IFRS basis shareholders' equity   | 3,315  | 4,067 | 3,785 | 11,167 | 644   | 11,811 |
| Additional retained profit (loss) on an EEV basis <sup>note (v)</sup>                 | 8,997  | 4,312 | 4,648 | 17,957 | (607) | 17,350 |
| EEV basis shareholders' equity Balance at 31 December 2013                            | 12,312 | 8,379 | 8,433 | 29,124 | 37    | 29,161 |
| Representing:   |        |       |       |        |       |        |
| Statutory IFRS basis shareholders' equity:  |        |       |       |        |       |        |
| Net assets  | 2,564  | 3,446 | 2,976 | 8,986  | (797) | 8,189  |
| Goodwill  | -      | -     | -     | -      | 1,461 | 1,461  |
| Total IFRS basis shareholders' equity   | 2,564  | 3,446 | 2,976 | 8,986  | 664   | 9,650  |
| Additional retained profit (loss) on an EEV basis <sup>note (v)</sup>                 | 7,741  | 3,520 | 4,366 | 15,627 | (421) | 15,206 |
| EEV basis shareholders' equity  | 10,305 | 6,966 | 7,342 | 24,613 | 243   | 24,856 |

## Notes:

(i) For the purposes of the table above, goodwill of £233 million (2013: £231 million) related to Asia long-term operations is included in Other operations.

(ii) Intra-group dividends (including statutory transfers) represent dividends that have been declared in the year and amounts accrued in respect of statutory transfers. The amounts included in note 11 for these items are as per the holding company cashflow at transaction rates. The difference primarily relates to intra-group loans, timing differences arising on statutory transfers, and other non-cash items.

(iii) Investment in operations reflects increases in share capital.

(iv) Included in other movements there was a charge of £(11) million (2013: £(53) million) for the shareholders' share of actuarial and other gains and losses on the defined benefit schemes.

(v) The additional retained loss on an EEV basis for Other operations primarily represents the mark to market value adjustment for holding company net borrowings of a charge of £(579) million (2013: £(392) million), as shown in note 10.

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13 Reconciliation of movement in net worth and value of in-force for long-term business

|  | 2014 £m      |                  |                 |                                       | Total                         |
|--|--------------|------------------|-----------------|---------------------------------------|-------------------------------|
|  | Free Surplus | Required capital | Total net worth | Value of in-force business note (iii) | long-term business operations |
| Group  | note 11      |                  |                 |                                       |                               |
| Shareholders' equity at beginning of year:   |              |                  |                 |                                       |                               |
| As previously reported   | 3,220        | 3,954            | 7,174           | 17,439                                | 24,613                        |
| Effect of domestication of Hong Kong branch on 1 January 2014<br>note 9                        | (35)         | 35               | -               | (11)                                  | (11)                          |
|  | 3,185        | 3,989            | 7,174           | 17,428                                | 24,602                        |
| New business contribution<br>notes (ii) and 3  | (606)        | 453              | (153)           | 2,279                                 | 2,126                         |
| Existing business - transfer to net worth  | 2,276        | (316)            | 1,960           | (1,960)                               | -                             |
| Expected return on existing business<br>note 4   | 106          | 81               | 187             | 1,253                                 | 1,440                         |
| Changes in operating assumptions and experience variances<br>note 4                            | 335          | 36               | 371             | 238                                   | 609                           |
| Development expenses, solvency II and restructuring costs                                      | (21)         | -                | (21)            | -                                     | (21)                          |
| Post-tax operating profit based on longer-term investment returns                              | 2,090        | 254              | 2,344           | 1,810                                 | 4,154                         |
| Gain on sale of PruHealth and PruProtect<br>note 7   | 130          | (32)             | 98              | (54)                                  | 44                            |
| Other non-operating items  | (252)        | 220              | (32)            | 513                                   | 481                           |
| Post-tax profit from long-term business  | 1,968        | 442              | 2,410           | 2,269                                 | 4,679                         |
| Exchange movements on foreign operations and net investment hedges                             | 134          | 125              | 259             | 599                                   | 858                           |
| Intra-group dividends (including statutory transfers) and investment in operations<br>note (i) | (1,099)      | -                | (1,099)         | 79                                    | (1,020)                       |
| Other movements  | 5            | -                | 5               | -                                     | 5                             |
| Shareholders' equity at 31 December 2014   | 4,193        | 4,556            | 8,749           | 20,375                                | 29,124                        |
| Representing:  |              |                  |                 |                                       |                               |
| Asia operations  |              |                  |                 |                                       |                               |
| Shareholders' equity at beginning of year:   |              |                  |                 |                                       |                               |
| As previously reported   | 1,185        | 977              | 2,162           | 8,143                                 | 10,305                        |
| Effect of domestication of Hong Kong branch on 1 January 2014<br>note 9                        | (104)        | 104              | -               | (40)                                  | (40)                          |
|  | 1,081        | 1,081            | 2,162           | 8,103                                 | 10,265                        |
| New business contribution<br>notes (ii) and 3  | (346)        | 130              | (216)           | 1,378                                 | 1,162                         |
| Existing business - transfer to net worth  | 828          | (23)             | 805             | (805)                                 | -                             |
| Expected return on existing business<br>note 4   | 62           | -                | 62              | 586                                   | 648                           |
| Changes in operating assumptions and experience variances<br>note 4                            | (29)         | 44               | 15              | 76                                    | 91                            |
| Development expenses   | (1)          | -                | (1)             | -                                     | (1)                           |
| Post-tax operating profit based on longer-term investment returns                              | 514          | 151              | 665             | 1,235                                 | 1,900                         |
| Other non-operating items  | 118          | 70               | 188             | (18)                                  | 170                           |
| Post-tax profit from long-term business  | 632          | 221              | 853             | 1,217                                 | 2,070                         |

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|  |       |       |       |       |        |
|--|-------|-------|-------|-------|--------|
| Exchange movements on foreign operations and net investment hedges | 56    | 25    | 81    | 294   | 375    |
| Intra-group dividends and investment in operations                 | (407) | -     | (407) | -     | (407)  |
| Other movements  | (15)  | -     | (15)  | 24    | 9      |
| Shareholders' equity at 31 December 2014                           | 1,347 | 1,327 | 2,674 | 9,638 | 12,312 |

US operations

|  |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|
| Shareholders' equity at 1 January 2014                             | 956   | 1,607 | 2,563 | 4,403 | 6,966 |
| New business contribution notes (ii) and 3                         | (187) | 216   | 29    | 665   | 694   |
| Existing business - transfer to net worth                          | 883   | (210) | 673   | (673) | -     |
| Expected return on existing business note 4                        | 30    | 48    | 78    | 304   | 382   |
| Changes in operating assumptions and experience variances note 4   | 278   | 4     | 282   | 170   | 452   |
| Post-tax operating profit based on longer-term investment returns  | 1,004 | 58    | 1,062 | 466   | 1,528 |
| Other non-operating items  | (269) | (55)  | (324) | 79    | (245) |
| Post-tax profit from long-term business                            | 735   | 3     | 738   | 545   | 1,283 |
| Exchange movements on foreign operations and net investment hedges | 78    | 100   | 178   | 305   | 483   |
| Intra-group dividends  | (413) | -     | (413) | -     | (413) |
| Other movements  | 60    | -     | 60    | -     | 60    |
| Shareholders' equity at 31 December 2014                           | 1,416 | 1,710 | 3,126 | 5,253 | 8,379 |

UK insurance operations

|  |  |       |       |       |       |       |
|--|--|-------|-------|-------|-------|-------|
| Shareholders' equity at beginning of year:                           |  |       |       |       |       |       |
| As previously reported   |  | 1,079 | 1,370 | 2,449 | 4,893 | 7,342 |
| Effect of domestication of Hong Kong branch on 1 January 2014 note 9 |  | 69    | (69)  | -     | 29    | 29    |
|  |  | 1,148 | 1,301 | 2,449 | 4,922 | 7,371 |
| New business contribution notes (ii) and 3                           |  | (73)  | 107   | 34    | 236   | 270   |
| Existing business - transfer to net worth                            |  | 565   | (83)  | 482   | (482) | -     |
| Expected return on existing business note 4                          |  | 14    | 33    | 47    | 363   | 410   |
| Changes in operating assumptions and experience variances note 4     |  | 86    | (12)  | 74    | (8)   | 66    |
| Solvency II and restructuring costs                                  |  | (20)  | -     | (20)  | -     | (20)  |
| Post-tax operating profit based on longer-term investment returns    |  | 572   | 45    | 617   | 109   | 726   |
| Gain on sale of PruHealth and PruProtect note 7                      |  | 130   | (32)  | 98    | (54)  | 44    |
| Other non-operating items  |  | (101) | 205   | 104   | 452   | 556   |
| Post-tax profit from long-term business                              |  | 601   | 218   | 819   | 507   | 1,326 |
| Intra-group dividends (including statutory transfers) note (i)       |  | (279) | -     | (279) | 79    | (200) |
| Other movements  |  | (40)  | -     | (40)  | (24)  | (64)  |
| Shareholders' equity at 31 December 2014                             |  | 1,430 | 1,519 | 2,949 | 5,484 | 8,433 |

Notes:

(i) The amounts shown in respect of free surplus and the value of in-force business for UK insurance operations for intra-group dividends (including statutory transfers) include the repayment of contingent loan funding. Contingent loan funding represents amounts whose repayment to the lender is contingent upon future surpluses emerging from certain contracts specified under the arrangement. If insufficient surplus emerges on those contracts, there is no recourse to other assets of the Group and the liability is not payable to the degree of shortfall.

(ii) New business contribution per £1 million of free surplus invested:

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|   | 2014 £m         |               |                         |                                     | 2013 £m         |               |                         |                                     |
|---|-----------------|---------------|-------------------------|-------------------------------------|-----------------|---------------|-------------------------|-------------------------------------|
|   | Asia operations | US operations | UK insurance operations | Total long-term business operations | Asia operations | US operations | UK insurance operations | Total long-term business operations |
| Post-tax new business contribution <sup>note 3</sup>                      | 1,162           | 694           | 270                     | 2,126                               | 1,139           | 706           | 237                     | 2,082                               |
| Free surplus invested in new business                                     | (346)           | (187)         | (73)                    | (606)                               | (310)           | (298)         | (29)                    | (637)                               |
| Post-tax new business contribution<br>£1 million of free surplus invested | 3.4             | 3.7           | 3.7                     | 3.5                                 | 3.7             | 2.4           | 8.2                     | 3.3                                 |

(iii) The value of in-force business comprises the value of future margins from current in-force business less the cost of holding required capital as shown below:

|   | 31 Dec 2014 £m  |               |                         |                                     | 31 Dec 2013 £m  |               |                         |                                     |
|---|-----------------|---------------|-------------------------|-------------------------------------|-----------------|---------------|-------------------------|-------------------------------------|
|   | Asia operations | US operations | UK insurance operations | Total long-term business operations | Asia operations | US operations | UK insurance operations | Total long-term business operations |
| Value of in-force business before deduction of cost of capital and time value of guarantees | 10,168          | 5,914         | 5,756                   | 21,838                              | 8,540           | 4,769         | 5,135                   | 18,444                              |
| Cost of capital   | (417)           | (199)         | (272)                   | (888)                               | (347)           | (220)         | (242)                   | (809)                               |
| Cost of time value of guarantees <sup>note (iv)</sup>                                       | (113)           | (462)         | -                       | (575)                               | (50)            | (146)         | -                       | (196)                               |
| Net value of in-force business  | 9,638           | 5,253         | 5,484                   | 20,375                              | 8,143           | 4,403         | 4,893                   | 17,439                              |

(iv) The increase in the cost of time value of guarantees for US operations from £(146) million at 2013 to £(462) million at 2014 primarily relates to variable annuity business. It mainly arises from the decrease in the expected long-term separate account rate of return following the 90 basis points decline in the US 10-year treasury bond rate and the impact from new business written in the year, partly offset by the level of equity performance.

#### 14 Expected transfer of value of in-force business to free surplus

The discounted value of in-force business and required capital can be reconciled to the 2014 and 2013 totals in the tables below for the emergence of free surplus as follows:

|   | 2014 £m | 2013 £m |
|---|---------|---------|
| Required capital <sup>note 13</sup>   | 4,556   | 3,954   |
| Value of in-force (VIF) <sup>note 13</sup>                                  | 20,375  | 17,439  |
| Add back: deduction for cost of time value of guarantees <sup>note 13</sup> | 575     | 196     |
| Expected cashflow from sale of Japan Life business                          | (23)    | (25)    |
| Other items <sup>note</sup>   | (1,382) | (1,157) |
| Total   | 24,101  | 20,407  |

Note:

'Other items' represent amounts incorporated into VIF where there is no definitive timeframe for when the payments will be made or receipts received. In particular, other items includes the deduction of the value of the shareholders' interest in the estate, the value of which is derived by increasing final bonus rates so as to exhaust the estate over the lifetime of the in-force with-profits business. This is an assumption to give an appropriate valuation. To be conservative this item is excluded from the expected free surplus generation profile below.

Cash flows are projected on a deterministic basis and are discounted at the appropriate risk discount rate. The modelled cash flows use the same methodology underpinning the Group's embedded value reporting and so are subject to the same assumptions and sensitivities.

The table below shows how the VIF generated by the in-force business and the associated required capital is modelled as emerging into free surplus over future years.

|                            | 2014 £m  |           |             |             |              |             |           |
|----------------------------|--|-----------|-------------|-------------|--------------|-------------|-----------|
|                            | Expected period of conversion of future post tax distributable earnings and required capital flows to free surplus |           |             |             |              |             |           |
|                            | 2014 Total<br>as shown<br>above  | 1-5 years | 6 -10 years | 11-15 years | 16 -20 years | 21-40 years | 40+ years |
| Asia operations*           | 10,859   | 3,660     | 2,289       | 1,553       | 1,026        | 1,874       | 457       |
| US operations              | 7,471  | 3,867     | 2,298       | 873         | 334          | 99          | -         |
| UK insurance<br>operations | 5,771  | 2,111     | 1,464       | 973         | 606          | 604         | 13        |
| Total                      | 24,101   | 9,638     | 6,051       | 3,399       | 1,966        | 2,577       | 470       |
|                            | 100%   | 40%       | 25%         | 14%         | 8%           | 11%         | 2%        |

|                            | 2013 £m  |           |             |             |              |             |           |
|----------------------------|--|-----------|-------------|-------------|--------------|-------------|-----------|
|                            | Expected period of conversion of future post tax distributable earnings and required capital flows to free surplus |           |             |             |              |             |           |
|                            | 2013 Total<br>as shown<br>above  | 1-5 years | 6 -10 years | 11-15 years | 16 -20 years | 21-40 years | 40+ years |
| Asia operations*           | 9,021  | 3,168     | 1,883       | 1,275       | 855          | 1,465       | 375       |
| US operations              | 6,234  | 3,326     | 1,845       | 653         | 271          | 139         | -         |
| UK insurance<br>operations | 5,152  | 1,915     | 1,326       | 870         | 536          | 487         | 18        |
| Total                      | 20,407   | 8,409     | 5,054       | 2,798       | 1,662        | 2,091       | 393       |
|                            | 100%   | 41%       | 25%         | 14%         | 8%           | 10%         | 2%        |

\*Following its reclassification as held for sale, the Asia cashflows exclude any cashflows in respect of Japan.

## 15 Sensitivity of results to alternative assumptions

### (a) Sensitivity analysis - economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2014 (31 December 2013) and the post-tax new business contribution after the effect of required capital for 2014 and 2013 to:

- 1 per cent increase in the discount rates;
- 1 per cent increase and decrease in interest rates, including all consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);



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- 1 per cent rise in equity and property yields;
- 10 per cent fall in market value of equity and property assets (embedded value only);
- The statutory minimum capital level (by contrast to EEV basis required capital), (for embedded value only);
  - 5 basis point increase in UK long-term expected defaults; and
  - 10 basis point increase in the liquidity premium for UK annuities.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised economic conditions.

New business contribution

|  | 2014 £m         |               |                      |  | 2013* £m        |               |                      |  |
|--|-----------------|---------------|----------------------|--|-----------------|---------------|----------------------|--|
|  | Asia operations | US operations | insurance operations | Total UK long-term business operations | Asia operations | US operations | insurance operations | Total UK long-term business operations |
| Post-tax new business contribution note 3    | 1,162           | 694           | 270                  | 2,126                                  | 1,139           | 706           | 237                  | 2,082                                  |
| Discount rates - 1% increase                 | (176)           | (27)          | (38)                 | (241)                                  | (148)           | (34)          | (29)                 | (211)                                  |
| Interest rates - 1% increase                 | 13              | 61            | (15)                 | 59                                     | 23              | 47            | (1)                  | 69                                     |
| Interest rates - 1% decrease                 | (52)            | (101)         | 19                   | (134)                                  | (55)            | (69)          | -                    | (124)                                  |
| Equity/property yields - 1% rise             | 46              | 73            | 12                   | 131                                    | 45              | 63            | 10                   | 118                                    |
| Long-term expected defaults - 5 bps increase | -               | -             | (10)                 | (10)                                   | -               | -             | (6)                  | (6)                                    |
| Liquidity premium - 10 bps increase          | -               | -             | 20                   | 20                                     | -               | -             | 12                   | 12                                     |

\* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Embedded value of long-term business operations

|  | 2014 £m         |               |                      |  | 2013 £m         |               |                      |  |
|--|-----------------|---------------|----------------------|--|-----------------|---------------|----------------------|--|
|  | Asia operations | US operations | insurance operations | Total UK long-term business operations | Asia operations | US operations | insurance operations | Total UK long-term business operations |
| Shareholders' equity note 12                 | 12,312          | 8,379         | 8,433                | 29,124                                 | 10,305          | 6,966         | 7,342                | 24,613                                 |
| Discount rates - 1% increase                 | (1,214)         | (268)         | (602)                | (2,084)                                | (992)           | (266)         | (529)                | (1,787)                                |
| Interest rates - 1% increase                 | (462)           | (232)         | (362)                | (1,056)                                | (297)           | (65)          | (380)                | (742)                                  |
| Interest rates - 1% decrease                 | 211             | 16            | 452                  | 679                                    | 200             | (12)          | 443                  | 631                                    |
| Equity/property yields - 1% rise             | 435             | 365           | 282                  | 1,082                                  | 370             | 250           | 210                  | 830                                    |
| Equity/property market values - 10% fall     | (221)           | (129)         | (380)                | (730)                                  | (183)           | (90)          | (238)                | (511)                                  |
| Statutory minimum capital                    | 129             | 139           | 4                    | 272                                    | 109             | 153           | 4                    | 266                                    |
| Long-term expected defaults - 5 bps increase | -               | -             | (139)                | (139)                                  | -               | -             | (114)                | (114)                                  |
| Liquidity premium - 10 bps increase          | -               | -             | 278                  | 278                                    | -               | -             | 228                  | 228                                    |

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The sensitivities shown above are for the impact of instantaneous changes on the embedded value of long-term business operations and include the combined effect on the value of in-force business and net assets at the balance sheet dates indicated. If the change in assumption shown in the sensitivities were to occur, then the effect shown above would be recorded within two components of the profit analysis for the following year. These are for the effect of economic assumption changes and short-term fluctuations in investment returns. In addition to the sensitivity effects shown above, the other components of the profit for the following year would be calculated by reference to the altered assumptions, for example new business contribution and unwind of discount, together with the effect of other changes such as altered corporate bond spreads. In addition for Jackson, the fair value movements on assets backing surplus and required capital which are taken directly to shareholders' equity would also be affected by changes in interest rates.

(b) Sensitivity analysis - non-economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2014 (31 December 2013) and the post-tax new business contribution after the effect of required capital for 2014 and 2013 to:

- 10 per cent proportionate decrease in maintenance expenses (a 10 per cent sensitivity on a base assumption of £10 per annum would represent an expense assumption of £9 per annum);
- 10 per cent proportionate decrease in lapse rates (a 10 per cent sensitivity on a base assumption of 5 per cent would represent a lapse rate of 4.5 per cent per annum); and
  - 5 per cent proportionate decrease in base mortality and morbidity rates (i.e. increased longevity).

New business contribution

|   | 2014 £m         |                         |                                  |       | 2013* £m        |                         |                                  |       |
|---|-----------------|-------------------------|----------------------------------|-------|-----------------|-------------------------|----------------------------------|-------|
|   | Asia operations | US insurance operations | UK long-term business operations | Total | Asia operations | US insurance operations | UK long-term business operations | Total |
| Post-tax new business contribution note 3 | 1,162           | 694                     | 270                              | 2,126 | 1,139           | 706                     | 237                              | 2,082 |
| Maintenance expenses - 10% decrease       | 23              | 8                       | 3                                | 34    | 23              | 8                       | 3                                | 34    |
| Lapse rates - 10% decrease                | 88              | 27                      | 6                                | 121   | 85              | 27                      | 6                                | 118   |
| Mortality and morbidity - 5% decrease     | 52              | 2                       | (20)                             | 34    | 58              | 4                       | (6)                              | 56    |
| Change representing effect on:            |                 |                         |                                  |       |                 |                         |                                  |       |
| Life business                             | 52              | 2                       | 1                                | 55    | 58              | 4                       | 2                                | 64    |
| UK annuities                              | -               | -                       | (21)                             | (21)  | -               | -                       | (9)                              | (9)   |

\* The 2014 EEV results of the Group are presented on a post-tax basis and, accordingly, the 2013 results are shown on a comparable basis - see note 1.

Embedded value of long-term business operations

|                              | 2014 £m         |                         |                                  |        | 2013 £m         |                         |                                  |        |
|------------------------------|-----------------|-------------------------|----------------------------------|--------|-----------------|-------------------------|----------------------------------|--------|
|                              | Asia operations | US insurance operations | UK long-term business operations | Total  | Asia operations | US insurance operations | UK long-term business operations | Total  |
| Shareholders' equity note 12 | 12,312          | 8,379                   | 8,433                            | 29,124 | 10,305          | 6,966                   | 7,342                            | 24,613 |

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|                                       |     |     |       |       |     |     |       |       |
|---------------------------------------|-----|-----|-------|-------|-----|-----|-------|-------|
| Maintenance expenses - 10% decrease   | 136 | 71  | 56    | 263   | 126 | 59  | 58    | 243   |
| Lapse rates - 10% decrease            | 422 | 354 | 67    | 843   | 352 | 294 | 79    | 725   |
| Mortality and morbidity - 5% decrease | 433 | 163 | (347) | 249   | 377 | 154 | (254) | 277   |
| Change representing effect on:        |     |     |       |       |     |     |       |       |
| Life business                         | 433 | 163 | 9     | 605   | 377 | 154 | 20    | 551   |
| UK annuities                          | -   | -   | (356) | (356) | -   | -   | (274) | (274) |

## 16 Methodology and accounting presentation

### (a) Methodology

#### Overview

The embedded value is the present value of the shareholders' interest in the earnings distributable from assets allocated to covered business after sufficient allowance has been made for the aggregate risks in that business. The shareholders' interest in the Group's long-term business comprises:

- the present value of future shareholder cash flows from in-force covered business (value of in-force business), less deductions for:
  - the cost of locked-in required capital; and
  - the time value of cost of options and guarantees;
    - locked-in required capital; and
- the shareholders' net worth in excess of required capital (free surplus).

The value of future new business is excluded from the embedded value.

Notwithstanding the basis of presentation of results (as explained in note 16(b)(iii)) no smoothing of market or account balance values, unrealised gains or investment return is applied in determining the embedded value or profit. Separately, the analysis of profit is delineated between operating profit based on longer-term investment returns and other constituent items (as explained in note 16(b)(i)).

#### (i) Covered business

The EEV results for the Group are prepared for 'covered business', as defined by the EEV Principles. Covered business represents the Group's long-term insurance business for which the value of new and in-force contracts is attributable to shareholders. The post-tax EEV basis results for the Group's covered business are then combined with the post-tax IFRS basis results of the Group's other operations. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management, as described in note 16(a)(vii).

The definition of long-term business operations is consistent with previous practice and comprises those contracts falling under the definition for regulatory purposes together with, for US operations, contracts that are in substance the same as guaranteed investment contracts (GICs) but do not fall within the technical definition.

Covered business comprises the Group's long-term business operations, with two exceptions:

- the closed Scottish Amicable Insurance Fund (SAIF) which is excluded from covered business. SAIF is a ring-fenced sub-fund of the Prudential Assurance Company (PAC) long-term fund, established by a Court approved Scheme of Arrangement in October 1997. SAIF is closed to new business and the assets and liabilities of the fund are wholly attributable to the policyholders of the fund.
- the presentational treatment of the Group's principal defined benefit pension scheme, the Prudential Staff Pension Scheme (PSPS). The partial recognition of the surplus for PSPS is recognised in 'Other' operations.

A small amount of UK group pensions business is also not modelled for EEV reporting purposes.

(ii) Valuation of in-force and new business

The embedded value results are prepared incorporating best estimate assumptions about all relevant factors including levels of future investment returns, expenses, persistency and mortality (as described in note 17). These assumptions are used to project future cash flows. The present value of the future cash flows is then calculated using a discount rate which reflects both the time value of money and the non-diversifiable risks associated with the cash flows that are not otherwise allowed for.

New business

In determining the EEV basis value of new business, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for statutory basis reporting.

New business premiums reflect those premiums attaching to covered business, including premiums for contracts classified as investment products for IFRS basis reporting. New business premiums for regular premium products are shown on an annualised basis. Internal vesting business is classified as new business where the contracts include an open market option.

The post-tax contribution from new business represents profits determined by applying operating assumptions as at the end of the year.

For UK immediate annuity business and single premium Universal Life products in Asia, primarily in Singapore, the new business contribution is determined by applying economic assumptions reflecting point-of-sale market conditions. This is consistent with how the business is priced as crediting rates are linked to yields on specific assets and the yield is locked-in when the assets are purchased at the point-of-sale of the policy. For other business within the Group, end of year economic assumptions are used.

New business profitability is a key metric for the Group's management of the development of the business. In addition, post-tax new business margins are shown by reference to annual premium equivalents (APE) and the present value of new business premiums (PVNBP). These margins are calculated as the percentage of the value of new business profit to APE and PVNBP. APE is calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts. PVNBP is calculated as equalling single premiums plus the present value of expected premiums of new regular premium business, allowing for lapses and other assumptions made in determining the EEV new business contribution.

Valuation movements on investments

With the exception of debt securities held by Jackson, investment gains and losses during the year (to the extent that changes in capital values do not directly match changes in liabilities) are included directly in the profit for the year and shareholders' equity as they arise.

The results for any covered business conceptually reflect the aggregate of the IFRS results and the movements on the additional shareholders' interest recognised on the EEV basis. Thus the start point for the calculation of the EEV results for Jackson, as for other businesses, reflects the market value movements recognised on the IFRS basis.

However, in determining the movements on the additional shareholders' interest, the basis for calculating the Jackson EEV result acknowledges that, for debt securities backing liabilities, the aggregate EEV results reflect the fact that the value of in-force business instead incorporates the discounted value of future spread earnings. This value is not affected generally by short-term market movements on securities that broadly speaking, are held for the longer-term.

Fixed income securities backing the free surplus and required capital for Jackson are accounted for at fair value. However, consistent with the treatment applied under IFRS for Jackson securities classified as available-for-sale, movements in unrealised appreciation on these securities are accounted for in equity rather than in the income statement, as shown in the movement in shareholders' equity.

(iii) Cost of capital

A charge is deducted from the embedded value for the cost of capital supporting the Group's long-term business. This capital is referred to as required capital. The cost is the difference between the nominal value of the capital and the discounted value of the projected releases of this capital allowing for investment earnings (post-tax) on the capital.

The annual result is affected by the movement in this cost from year-to-year which comprises a charge against new business profit and generally a release in respect of the reduction in capital requirements for business in force as this runs off.

Where required capital is held within a with-profits long-term fund, the value placed on surplus assets in the fund is already discounted to reflect its release over time and no further adjustment is necessary in respect of required capital.

(iv) Financial options and guarantees

Nature of financial options and guarantees in Prudential's long-term business

Asia operations

Subject to local market circumstances and regulatory requirements, the guarantee features described below in respect of UK business broadly apply to similar types of participating contracts principally written in the Hong Kong, Singapore and Malaysia. Participating products have both guaranteed and non-guaranteed elements.

There are also various non-participating long-term products with guarantees. The principal guarantees are those for whole of life contracts with floor levels of policyholder benefits that accrue at rates set at inception and do not vary subsequently with market conditions.

US operations (Jackson)

The principal financial options and guarantees in Jackson are associated with the fixed annuity and variable annuity (VA) lines of business.

Fixed annuities provide that, at Jackson's discretion, it may reset the interest rate credited to policyholders' accounts, subject to a guaranteed minimum. The guaranteed minimum return varies from 1.0 per cent to 5.5 per cent for 2014 and 2013, depending on the particular product, jurisdiction where issued, and date of issue. For 2014, 86 per cent (2013: 86 per cent) of the account values on fixed annuities are for policies with guarantees of 3 per cent or less. The average guarantee rate is 2.7 per cent (2013: 2.8 per cent).

Fixed annuities also present a risk that policyholders will exercise their option to surrender their contracts in periods of rapidly rising interest rates, possibly requiring Jackson to liquidate assets at an inopportune time.

Jackson issues VA contracts where it contractually guarantees to the contract holder either: a) return of no less than total deposits made to the contract adjusted for any partial withdrawals; b) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return; or c) the highest contract value on a specified anniversary date adjusted for any withdrawals following the specified contract anniversary. These guarantees include benefits that are payable at specified dates during the accumulation period (Guaranteed Minimum Withdrawal Benefit (GMWB)), as death benefits (Guaranteed Minimum Death Benefits (GMDB)) or as income benefits (Guaranteed Minimum Income Benefits (GMIB)). These guarantees generally protect the policyholder's value in the event of poor equity market performance. Jackson hedges the GMDB and GMWB guarantees through the use of equity options and futures contracts, and fully reinsures the GMIB guarantees.

Jackson also issues fixed index annuities that enable policyholders to obtain a portion of an equity-linked return while providing a guaranteed minimum return. The guaranteed minimum returns are of a similar nature to those described above for fixed annuities.

#### UK insurance operations

For covered business the only significant financial options and guarantees in the UK insurance operations arise in the with-profits fund.

With-profits products provide returns to policyholders through bonuses that are smoothed. There are two types of bonuses - annual and final. Annual bonuses are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular product. Unlike annual bonuses, final bonuses are guaranteed only until the next bonus declaration. The with-profits fund also held a provision on the Pillar I Peak 2 basis of £50 million at 31 December 2014 (31 December 2013: £36 million) to honour guarantees on a small number of guaranteed annuity option products.

The Group's main exposure to guaranteed annuity options in the UK is through the non-covered business of SAIF. A provision on the Pillar I Peak 2 basis of £549 million was held in SAIF at 31 December 2014 (31 December 2013: £328 million) to honour the guarantees. As described in note 16(a)(i) above, the assets and liabilities are wholly attributable to the policyholders of the fund. Therefore the movement in the provision has no direct impact on shareholders.

#### Time value

The value of financial options and guarantees comprises two parts. One is given by a deterministic valuation on best estimate assumptions (the intrinsic value). The other part arises from the variability of economic outcomes in the future (the time value). Where appropriate, a full stochastic valuation has been undertaken to determine the time value of the financial options and guarantees.

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations. Assumptions specific to the stochastic calculations reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of long-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes but with an allowance for correlation between the various asset classes. Details of the key characteristics of each model are given in notes 17(iv),(v) and (vi).

In deriving the time value of financial options and guarantees, management actions in response to emerging investment and fund solvency conditions have been modelled. Management actions encompass, but are not confined to investment allocation decisions, levels of reversionary and terminal bonuses and credited rates. Bonus rates are projected from current levels and varied in accordance with assumed management actions applying in the emerging investment and fund solvency conditions.

In all instances, the modelled actions are in accordance with approved local practice and therefore reflect the options actually available to management. For the PAC with-profits fund, the actions assumed are consistent with those set out in the Principles and Practices of Financial Management which explains how regular and final bonus rates within the discretionary framework are determined, subject to the general legislative requirements applicable.

#### (v) Level of required capital

In adopting the EEV Principles, Prudential has based required capital on its internal targets subject to it being at least the local statutory minimum requirements. For with-profits business written in a segregated life fund, as is the case in Asia and the UK, the capital available in the fund is sufficient to meet the required capital requirements. For shareholder-backed business the following capital requirements apply:

- Asia operations: the level of required capital has been set to an amount at least equal to the higher of local statutory requirements and the internal target;
- US operations: the level of required capital has been set at 250 per cent of the risk-based capital required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level (CAL); and
- UK insurance operations: the capital requirements are set to an amount at least equal to the higher of Pillar I and Pillar II requirements for shareholder-backed business of UK insurance operations as a whole.

(vi) With-profits business and the treatment of the estate

The proportion of surplus allocated to shareholders from the PAC with-profits fund has been based on the present level of 10 per cent. The value attributed to the shareholders' interest in the estate is derived by increasing final bonus rates (and related shareholder transfers) so as to exhaust the estate over the lifetime of the in-force with-profits business. In any scenarios where the total assets of the life fund are insufficient to meet policyholder claims in full, the excess cost is fully attributed to shareholders. Similar principles apply, where appropriate, for other with-profits funds of the Group's Asia operations.

(vii) Internal asset management

The new business and in-force results from long-term business include the projected value of profits or losses from asset management and service companies that support the Group's covered insurance businesses. The results of the Group's asset management operations include the current year profits from the management of both internal and external funds. EEV basis shareholders' other income and expenditure is adjusted to deduct the unwind of the expected internal asset management profit margin for the year. The deduction is on a basis consistent with that used for projecting the results for covered insurance business. Group operating profit accordingly includes the variance between actual and expected profit in respect of management of the covered business assets.

(viii) Allowance for risk and risk discount rates

Overview

Under the EEV Principles, discount rates used to determine the present value of future cash flows are set by reference to risk-free rates plus a risk margin. The risk margin should reflect any non-diversifiable risk associated with the emergence of distributable earnings that is not allowed for elsewhere in the valuation. Prudential has selected a granular approach to better reflect differences in market risk inherent in each product group. The risk discount rate so derived does not reflect an overall Group market beta but instead reflects the expected volatility associated with the cash flows for each product category in the embedded value model.

Since financial options and guarantees are explicitly valued under the EEV methodology, discount rates under EEV are set excluding the effect of these product features.

The risk margin represents the aggregate of the allowance for market risk, additional allowance for credit risk where appropriate, and allowance for non-diversifiable non-market risk. No allowance is required for non-market risks where these are assumed to be fully diversifiable.

Market risk allowance

The allowance for market risk represents the beta multiplied by an equity risk premium. Except for UK shareholder-backed annuity business (as explained below) such an approach has been used for all of the Group's businesses.

The beta of a portfolio or product measures its relative market risk. The risk discount rates reflect the market risk inherent in each product group and hence the volatility of product cash flows. These are determined by considering how the profits from each product are affected by changes in expected returns on various asset classes. By converting this into a relative rate of return it is possible to derive a product specific beta.

Product level betas reflect the most recent product mix to produce appropriate betas and risk discount rates for each major product grouping.

#### Additional credit risk allowance

The Group's methodology is to allow appropriately for credit risk. The allowance for total credit risk is to cover:

- expected long-term defaults;
- credit risk premium (to reflect the volatility in downgrade and default levels); and
- short-term downgrades and defaults.

These allowances are initially reflected in determining best estimate returns and through the market risk allowance described above. However, for those businesses which are largely backed by holdings of debt securities these allowances in the projected returns and market risk allowances may not be sufficient and an additional allowance may be appropriate.

The practical application of the allowance for credit risk varies depending upon the type of business as described below.

#### Asia operations

For Asia operations, the allowance for credit risk incorporated in the projected rates of return and the market risk allowance are sufficient. Accordingly no additional allowance for credit risk is required.

The projected rates of return for holdings of corporate bonds comprise the risk-free rate plus an assessment of long-term spread over the risk-free rate.

#### US operations (Jackson)

For Jackson business, the allowance for long-term defaults is reflected in the risk margin reserve (RMR) charge which is deducted in determining the projected spread margin between the earned rate on the investments and the policyholder crediting rate.

The risk discount rate incorporates an additional allowance for credit risk premium and short-term downgrades and defaults as shown in note 17(ii). In determining this allowance a number of factors have been considered. These factors, in particular, include:

- (a) How much of the credit spread on debt securities represents an increased credit risk not reflected in the RMR long-term default assumptions, and how much is liquidity premium (which is the premium required by investors to compensate for the risk of longer-term investments which cannot be easily converted into cash, and converted at the fair market value). In assessing this effect, consideration has been given to a number of approaches to estimating the liquidity premium by considering recent statistical data; and
- (b) Policyholder benefits for Jackson fixed annuity business are not fixed. It is possible in adverse economic scenarios to pass on a component of credit losses to policyholders (subject to guarantee features) through lower investment return rates credited to policyholders. Consequently, it is only necessary to allow for the balance of the credit risk in the risk discount rate.

The level of the additional allowance is assessed at each reporting period to take account of prevailing credit conditions and as the business in force alters over time. The additional allowance for variable annuity business has been set at one-fifth of the non-variable annuity business to reflect the proportion of the allocated holdings of general account debt securities.

The level of allowance differs from that for UK annuity business for investment portfolio differences and to take account of the management actions available in adverse economic scenarios to reduce crediting rates to policyholders, subject to guarantee features of the products.



## UK operations

### (1) Shareholder-backed annuity business

For Prudential's UK shareholder-backed annuity business, Prudential has used a market consistent embedded value (MCEV) approach to derive an implied risk discount rate which is then applied to the projected best estimate cash flows.

In the annuity MCEV calculations as the assets are generally held to maturity to match long duration liabilities, the future cash flows are discounted using the swap yield curve plus an allowance for liquidity premium based on Prudential's assessment of the expected return on the assets backing the annuity liabilities after allowing for:

- (a) expected long-term defaults derived as a percentage of historical default experience based on Moody's data for the period 1970 to 2009 and the definition of the credit rating assigned to each asset held is the second highest credit rating published by Moody's, Standard & Poor's and Fitch;
- (b) a credit risk premium, which is derived as the excess over the expected long-term defaults, of the 95th percentile of historical cumulative defaults based on Moody's data for the period 1970 to 2009, and subject to a minimum margin over expected long-term defaults of 50 per cent;
- (c) an allowance for a 1 notch downgrade of the asset portfolio subject to credit risk and;
- (d) an allowance for short-term downgrades and defaults.

For the purposes of presentation in the EEV results, the results on this basis are reconfigured. Under this approach the projected earned rate of return on the debt securities held is determined after allowing for expected long-term defaults and, where necessary, an additional allowance for an element of short-term downgrades and defaults to bring the allowance in the earned rate up to best estimate levels. The allowances for credit risk premium, 1 notch downgrade and the remaining element of short-term downgrade and default allowances are incorporated into the risk margin included in the discount rate, as shown in note 17(iii)(b).

### (2) With-profits fund non-profit annuity business

For UK non-profit annuity business including that attributable to the PAC with-profits fund, the basis for determining the aggregate allowance for credit risk is consistent with that applied for UK shareholder-backed annuity business (as described above). The allowance for credit risk for this business is taken into account in determining the projected cash flows to the with-profits fund, which are in turn discounted at the risk discount rate applicable to all of the projected cash flows of the fund.

### (3) With-profits fund holdings of debt securities

The UK with-profits fund holds debt securities as part of its investment portfolio backing policyholder liabilities and unallocated surplus. The assumed earned rate for with-profit holdings of corporate bonds is defined as the risk-free rate plus an assessment of the long-term spread over gilts, net of expected long-term defaults. This approach is similar to that applied for equities and properties for which the projected earned rate is defined as the risk-free rate plus a long-term risk premium.

## Allowance for non-diversifiable non-market risks

The majority of non-market and non-credit risks are considered to be diversifiable. Finance theory cannot be used to determine the appropriate component of beta for non-diversifiable non-market risks since there is no observable risk premium associated with it that is akin to the equity risk premium. Recognising this, a pragmatic approach has been applied.

A base level allowance of 50 basis points is applied to cover the non-diversifiable non-market risks associated with the Group's businesses. For the Group's US business and UK business other than shareholder-backed annuity, no additional allowance is necessary. For UK shareholder-backed annuity business a further allowance of 50 basis points is used to reflect the longevity risk which is of particular relevance. For the Group's Asia operations in China, India, Indonesia, the Philippines, Taiwan, Thailand and Vietnam, additional allowances are applied for emerging market risk

ranging from 100 to 250 basis points.

(ix) Foreign currency translation

Foreign currency profits and losses have been translated at average exchange rates for the year. Foreign currency assets and liabilities have been translated at year end rates of exchange. The principal exchange rates are shown in note A1 of the IFRS statements.

(x) Taxation

In determining the post-tax profit for the year for covered business, the overall tax rate includes the impact of tax effects determined on a local regulatory basis. Tax payments and receipts included in the projected cash flows to determine the value of in-force business are calculated using rates that have been announced and substantively enacted by the end of the reporting period.

(xi) Inter-company arrangements

The EEV results for covered business incorporate annuities established in the PAC non-profit sub-fund from vesting pension policies in SAIF (which is not covered business). The EEV results also incorporate the effect of the reinsurance arrangement of non-profit immediate pension annuity liabilities of SAIF to PRIL. In addition, the free surplus and value of in-force business are calculated after taking account of the impact of contingent loan arrangements between Group companies (movements in the contingent loan liability are reflected via the projected cash flows in the value of in-force and the related funding is reflected in free surplus).

(b) Accounting presentation

(i) Analysis of post-tax profit

To the extent applicable, the presentation of the EEV post-tax profit for the year is consistent in the classification between operating and non-operating results with the basis that the Group applies for the analysis of IFRS basis results. Operating results reflect underlying results including longer-term investment returns (which are determined as described in note 16(b)(ii) below) and incorporate the following:

- new business contribution, as defined in note 16(a)(ii);
- unwind of discount on the value of in-force business and other expected returns, as described in note 16(b)(iii) below;
- the impact of routine changes of estimates relating to non-economic assumptions, as described in note 16(b)(iv) below; and
- non-economic experience variances, as described in note 16(b)(v) below.

Non-operating results comprise the following:

- short-term fluctuations in investment returns;
- the mark to market value movements on core borrowings;
- the effect of changes in economic assumptions;
- the gain on sale of PruHealth and PruProtect in 2014;
- the costs associated with the domestication of the Hong Kong branch which became effective on 1 January 2014; and
- the loss attaching to the held for sale Japan Life business.

Total profit attributable to shareholders and basic earnings per share include these items, together with actual investment returns. The Company believes that operating profit, as adjusted for these items, better reflects underlying performance.

(ii) Investment returns included in operating profit

For the investment element of the assets covering the net worth of long-term insurance business, investment returns are recognised in operating results at the expected long-term rate of return. These expected returns are calculated by

reference to the asset mix of the portfolio. For the purpose of calculating the longer-term investment return to be included in the operating result of the PAC with-profits fund of UK operations, where assets backing the liabilities and unallocated surplus are subject to market volatility, asset values at the beginning of the reporting period are adjusted to remove the effects of short-term market movements as explained in note 16(b)(iii) below.

For the purpose of determining the long-term returns for debt securities of US operations for fixed annuity and other general account business, a risk margin charge is included which reflects the expected long-term rate of default based on the credit quality of the portfolio. For Jackson, interest-related realised gains and losses are amortised to the operating results over the maturity period of the sold bonds and for equity-related investments, a long-term rate of return is assumed, which reflects the aggregation of end of period risk-free rates and equity risk premium. For US variable annuity separate account business, operating profit includes the unwind of discount on the opening value of in-force adjusted to reflect end of period projected rates of return with the excess or deficit of the actual return recognised within non-operating profit, together with the related hedging activity.

For UK annuity business, rebalancing of the asset portfolio backing the liabilities to policyholders may, from time to time, take place to align it more closely with the internal benchmark of credit quality that management applies. Such rebalancing will result in a change in the projected yield on the asset portfolio and the allowance for default risk. The net effect of these changes is included in the result for the year.

(iii) Unwind of discount and other expected returns

The unwind of discount and other expected returns is determined by reference to:

- the value of in-force business at the beginning of the period (adjusted for the effect of current period economic and operating assumption changes); and
- required capital and surplus assets.

In applying this general approach, the unwind of discount included in operating profit for the with-profits business of UK insurance operations is determined by reference to the opening value of in-force, as adjusted for the effects of short-term investment volatility due to market movements (i.e. smoothed). In the summary statement of financial position and for total profit reporting, asset values and investment returns are not smoothed. At 31 December 2014 the shareholders' interest in the smoothed surplus assets used for this purpose only, were £194 million lower (31 December 2013: £136 million lower) than the surplus assets carried in the statement of financial position.

(iv) Effect of changes in operating assumptions

Operating profit includes the effect of changes to operating assumptions on the value of in-force at the end of the period. For presentational purposes, the effect of change is delineated to show the effect on the opening value of in-force with the experience variance being determined by reference to the end of period assumptions.

(v) Operating experience variances

Operating profits include the effect of experience variances on non-economic assumptions, which are calculated with reference to the embedded value assumptions at the end of the reporting period, such as persistency, mortality and morbidity, expenses and other factors.

(vi) Effect of changes in economic assumptions

Movements in the value of in-force business at the beginning of the period caused by changes in economic assumptions, net of the related change in the time value of cost of options and guarantees, are recorded in non-operating results.

## 17 Assumptions

### Principal economic assumptions

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The EEV basis results for the Group's operations have been determined using economic assumptions where the long-term expected rates of return on investments and risk discount rates are set by reference to period end rates of return on government bonds. Expected returns on equity and property asset classes and corporate bonds are derived by adding a risk premium, based on the Group's long-term view, to the risk-free rate.

The total profit that emerges over the lifetime of an individual contract as calculated using the embedded value basis is the same as that calculated under the IFRS basis. Since the embedded value basis reflects discounted future cash flows, under this methodology the profit emergence is advanced, thus more closely aligning the timing of the recognition of profits with the efforts and risks of current management actions, particularly with regard to business sold during the year.

(i) Asia operations note

(b)

|  | Risk discount rate % |             |             |             | 10-year government bond yield % |             | Expected long-term Inflation % |             |
|--|----------------------|-------------|-------------|-------------|---------------------------------|-------------|--------------------------------|-------------|
|  | New business         |             | In force    |             | 31 Dec 2014                     | 31 Dec 2013 | 31 Dec 2014                    | 31 Dec 2013 |
|  | 31 Dec 2014          | 31 Dec 2013 | 31 Dec 2014 | 31 Dec 2013 |                                 |             |                                |             |
| China                                      | 10.2                 | 11.2        | 10.2        | 11.2        | 3.7                             | 4.7         | 2.5                            | 2.5         |
| Hong Kong notes (b), (c)                   | 3.7                  | 4.9         | 3.7         | 4.8         | 2.2                             | 3.1         | 2.3                            | 2.3         |
| India                                      | 13.0                 | 14.0        | 13.0        | 14.0        | 8.0                             | 9.0         | 4.0                            | 4.0         |
| Indonesia                                  | 12.0                 | 12.5        | 12.0        | 12.5        | 7.9                             | 8.6         | 5.0                            | 5.0         |
| Korea                                      | 6.7                  | 7.4         | 6.5         | 7.6         | 2.6                             | 3.6         | 3.0                            | 3.0         |
| Malaysian note (c)                         | 6.6                  | 6.5         | 6.6         | 6.5         | 4.1                             | 4.2         | 2.5                            | 2.5         |
| Philippines                                | 10.8                 | 10.5        | 10.8        | 10.5        | 4.0                             | 3.8         | 4.0                            | 4.0         |
| Singapore note (c)                         | 4.3                  | 4.6         | 5.0         | 5.3         | 2.3                             | 2.6         | 2.0                            | 2.0         |
| Taiwan                                     | 4.2                  | 4.3         | 4.1         | 4.1         | 1.6                             | 1.7         | 1.0                            | 1.0         |
| Thailand                                   | 9.5                  | 10.7        | 9.5         | 10.7        | 2.7                             | 3.9         | 3.0                            | 3.0         |
| Vietnam                                    | 14.0                 | 15.7        | 14.0        | 15.7        | 7.2                             | 9.0         | 5.5                            | 5.5         |
| Total weighted risk discount rate note (a) | 6.9                  | 8.1         | 6.6         | 7.2         |                                 |             |                                |             |

Equity risk premiums in Asia (excluding those for the held for sale Japan Life business) range from 3.5 per cent to 8.7 per cent for 2014 and 2013.

Notes:

(a) The weighted risk discount rates for Asia operations shown above have been determined by weighting each country's risk discount rates by reference to the post-tax EEV basis new business result and the closing value of in-force business. The changes in the risk discount rates for individual Asia territories reflect the movements in government bond yields, together with the effects of movements in the allowance for market risk and changes in product mix.

(b) For Hong Kong the assumptions shown are for US dollar denominated business. For other territories, the assumptions are for local currency denominated business.

(c) The mean equity return assumptions for the most significant equity holdings of the Asia operations were:

|           | 31 Dec 2014 | 31 Dec 2013 |
|-----------|-------------|-------------|
|           | %           | %           |
| Hong Kong | 6.2         | 7.1         |
| Malaysia  | 10.1        | 10.1        |

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Singapore 8.3 8.6

(ii) US operations

|   | 31 Dec<br>2014 % | 31 Dec<br>2013 % |
|---|------------------|------------------|
| Assumed new business spread margins:*   |                  |                  |
| Fixed Annuity business:**   |                  |                  |
| January to June issues  | 1.5              | 1.2              |
| July to December issues   | 1.5              | 1.75             |
| Fixed Index Annuity business:   |                  |                  |
| January to June issues  | 2.0              | 1.45             |
| July to December issues   | 2.0              | 2.0              |
| Institutional business  | 0.7              | 0.75             |
| Allowance for long-term defaults included in projected spreadnote 16(a)(viii)           | 0.25             | 0.25             |
| Risk discount rate:   |                  |                  |
| Variable annuity:   |                  |                  |
| Risk discount rate  | 6.9              | 7.6              |
| Additional allowance for credit risk included in risk discount<br>ratenote 16 (a)(viii) | 0.2              | 0.2              |
| Non-variable annuity:   |                  |                  |
| Risk discount rate  | 3.9              | 4.8              |
| Additional allowance for credit risk included in risk discount<br>ratenote 16 (a)(viii) | 1.0              | 1.0              |
| Weighted average total:   |                  |                  |
| New business  | 6.7              | 7.4              |
| In force  | 6.2              | 6.9              |
| US 10-year treasury bond rate at end of year  | 2.2              | 3.1              |
| Pre-tax expected long-term nominal rate of return for US equities                       | 6.2              | 7.1              |
| Expected long-term rate of inflation  | 2.8              | 2.6              |
| Equity risk premium   | 4.0              | 4.0              |
| S&P equity return volatility note 17 (v)  | 18.0             | 19.0             |

\* including the proportion of variable annuity business invested in the general account and fixed index annuity business, the assumed spread margin grades up linearly by 25 basis points to a long-term assumption over five years.

\*\* including the proportion of variable annuity business invested in the general account.

(iii) UK insurance operations

|  | 31 Dec<br>2014 % | 31 Dec<br>2013 % |
|--|------------------|------------------|
| Shareholder-backed annuity business:note (b)   |                  |                  |
| Risk discount rate:  |                  |                  |
| New business   | 6.5              | 6.8              |
| In forcenote (a)   | 6.9              | 8.3              |
| Pre-tax expected long-term nominal rate of return for shareholder-backed annuity business: |                  |                  |
| New business   | 4.1              | 4.2              |
| In forcenote (a)   | 3.2              | 4.3              |

Other business:

Risk discount rate:

|              |     |     |
|--------------|-----|-----|
| New business | 5.3 | 6.1 |
| In force     | 5.9 | 6.8 |

Pre-tax expected long-term nominal rates of investment return:

|                   |            |            |
|-------------------|------------|------------|
| UK equities       | 6.2        | 7.5        |
| Overseas equities | 6.2 to 9.0 | 7.1 to 9.2 |
| Property          | 4.9        | 6.2        |
| 15-year gilt rate | 2.2        | 3.5        |
| Corporate bonds   | 3.8        | 5.1        |

Expected long-term rate of inflation

3.0 3.4

Equity risk premium

4.0 4.0

Notes:

(a) For shareholder-backed annuity business, the movements in the pre-tax long-term nominal rates of return and the risk discount rates for in-force business mainly reflect the effect of changes in asset yields.

(b) Credit spread treatment: For Prudential Retirement Income Limited, which has approximately 90 per cent of UK shareholder-backed annuity business, the credit assumptions used in the underlying MCEV calculation (see note 16(a)(viii)) and the residual liquidity premium element of the bond spread over swap rates are as follows:

|                             | Individual annuity new business |             | Total in-force business |             |
|-----------------------------|---------------------------------|-------------|-------------------------|-------------|
|                             | 31 Dec 2014                     | 31 Dec 2013 | 31 Dec 2014             | 31 Dec 2013 |
|                             | (bps)                           | (bps)       | (bps)                   | (bps)       |
| Bond spread over swap rates | 108                             | 117         | 143                     | 133         |
| Total credit risk allowance | 29                              | 37          | 58                      | 62          |
| Liquidity premium           | 79                              | 80          | 85                      | 71          |

\* The new business liquidity premium is based on the weighted average of the point of sale liquidity premia.

The overall allowance for credit risk is prudent by comparison with historic rates of default and would be sufficient to withstand a wide range of extreme credit events over the expected lifetime of the annuity business.

Stochastic assumptions

Details are given below of the key characteristics of the models used to determine the time value of the financial options and guarantees as referred to in note 16(a)(iv).

(iv) Asia operations

- The stochastic cost of guarantees is primarily of significance for the Hong Kong, Korea, Malaysia, Singapore and Taiwan operations.
  - The principal asset classes are government and corporate bonds.
  - The asset return models are similar to the models as described for UK insurance operations below.
  - The volatility of equity returns ranges from 18 per cent to 35 per cent in both years, and the volatility of government bond yields ranges from 0.9 per cent to 2.3 per cent in both years.

(v) US operations (Jackson)

- Interest rates and equity returns are projected using a log-normal generator reflecting historical market data.
- Corporate bond returns are based on Treasury yields plus a spread that reflects current market conditions.
- The volatility of equity returns ranges from 18 per cent to 27 per cent (2013: 19 per cent to 32 per cent) and the standard deviation of interest rates ranges from 2.2 per cent to 2.5 per cent for both years.

(vi) UK insurance operations

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- Interest rates are projected using a stochastic interest rate model calibrated to the current market yields.
  - Equity returns are assumed to follow a log-normal distribution.
- The corporate bond return is calculated based on a risk-free bond return plus a mean-reverting spread.
- Property returns are also modelled on a risk-free bond return plus a risk premium with a stochastic process reflecting total property returns.
  - The standard deviation of equities and property ranges from 15 per cent to 20 per cent for both years.

### Operating assumptions

#### Best estimate assumptions

Best estimate assumptions are used for the cash flow projections, where best estimate is defined as the mean of the distribution of future possible outcomes. The assumptions are reviewed actively and changes are made when evidence exists that material changes in future experience are reasonably certain.

Assumptions required in the calculation of the value of options and guarantees, for example relating to volatilities and correlations, or dynamic algorithms linking liabilities to assets, have been set equal to the best estimates and, wherever material and practical, reflect any dynamic relationships between the assumptions and the stochastic variables.

#### Demographic assumptions

Persistency, mortality and morbidity assumptions are based on an analysis of recent experience but also reflect expected future experience. Where relevant, when calculating the time value of financial options and guarantees, policyholder withdrawal rates vary in line with the emerging investment conditions according to management's expectations.

#### Expense assumptions

Expense levels, including those of service companies that support the Group's long-term business operations, are based on internal expense analysis investigations and are appropriately allocated to acquisition of new business and renewal of in-force business. Exceptional expenses are identified and reported separately. For mature business, it is Prudential's policy not to take credit for future cost reduction programmes until the savings have been delivered. For businesses which are currently sub-scale (China, Malaysia Takaful and Taiwan) and India (where the business model is being adapted as the industry continues to adjust to regulatory changes), expense overruns are reported where these are expected to be short-lived.

For Asia operations, the expenses comprise costs borne directly and recharged costs from the Asia regional head office, that are attributable to covered business. The assumed future expenses for these operations also include projections of these future recharges. Development expenses are charged as incurred.

Corporate expenditure, which is included in other income and expenditure, comprises:

- Expenditure for Group head office, to the extent not allocated to the PAC with-profits funds, together with Solvency II implementation and restructuring costs, which are charged to the EEV basis results as incurred; and
- Expenditure of the Asia regional head office that is not allocated to the covered business or asset management operations which is charged as incurred. These costs are primarily for corporate related activities and are included within corporate expenditure.

#### Tax rates

The assumed long term effective tax rates for operations reflect the incidence of taxable profits and losses in the projected cash flows as explained in note 16(a)(x).

The local standard corporate tax rates applicable for the most significant operations for 2014 and 2013, are as follows:

|                              |       |
|------------------------------|-------|
| Standard corporate tax rates | %     |
| Asia operations:             |       |
| Hong Kong                    | 16.5* |

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|               |                             |
|---------------|-----------------------------|
| Indonesia     | 25.0                        |
| Malaysia      | 2015: 25.0; From 2016: 24.0 |
| Singapore     | 17.0                        |
| US operations | 35.0                        |
| UK operations | 20.0                        |

\* 16.5 per cent on 5 per cent of premium income

18 New business premiums and contributions note (i)

|                                 | Single |        | Regular |       | Annual premium and contribution equivalents (APE)<br>note 16(a)(ii) |       | Present value of new business premiums (PVNBP)<br>note 16(a)(ii) |        |
|---------------------------------|--------|--------|---------|-------|---|-------|--|--------|
|                                 | 2014   | 2013   | 2014    | 2013  | 2014  | 2013  | 2014   | 2013   |
|                                 | £m     | £m     | £m      | £m    | £m  | £m    | £m   | £m     |
| Group insurance operations      |        |        |         |       |   |       |  |        |
| Asia                            | 2,272  | 2,136  | 2,010   | 1,911 | 2,237   | 2,125 | 12,331   | 11,375 |
| US                              | 15,555 | 15,712 | -       | 2     | 1,556   | 1,573 | 15,555   | 15,723 |
| UK                              | 6,681  | 5,128  | 189     | 212   | 857   | 725   | 7,471  | 5,978  |
| Group total                     | 24,508 | 22,976 | 2,199   | 2,125 | 4,650   | 4,423 | 35,357   | 33,076 |
| Asia insurance operations       |        |        |         |       |   |       |  |        |
| Cambodia                        | -      | -      | 3       | 1     | 3   | 1     | 16   | 3      |
| Hong Kong                       | 419    | 326    | 603     | 455   | 645   | 487   | 3,861  | 2,795  |
| Indonesia                       | 280    | 303    | 357     | 445   | 385   | 477   | 1,619  | 1,943  |
| Malaysia                        | 117    | 114    | 189     | 197   | 201   | 208   | 1,284  | 1,352  |
| Philippines                     | 121    | 193    | 39      | 34    | 51  | 53    | 248  | 299    |
| Singapore                       | 677    | 571    | 289     | 304   | 357   | 361   | 2,683  | 2,588  |
| Thailand                        | 92     | 66     | 74      | 61    | 83  | 68    | 392  | 289    |
| Vietnam                         | 4      | 2      | 61      | 54    | 61  | 54    | 247  | 204    |
| SE Asia operations inc.         |        |        |         |       |   |       |  |        |
| Hong Kong                       | 1,710  | 1,575  | 1,615   | 1,551 | 1,786   | 1,709 | 10,350   | 9,473  |
| Chinanote (ii)                  | 239    | 114    | 81      | 71    | 105   | 83    | 550  | 409    |
| Korea                           | 212    | 311    | 92      | 82    | 113   | 113   | 609  | 641    |
| Taiwan                          | 83     | 102    | 116     | 107   | 124   | 117   | 462  | 491    |
| Indianote (iii)                 | 28     | 34     | 106     | 100   | 109   | 103   | 360  | 361    |
| Total Asia insurance operations | 2,272  | 2,136  | 2,010   | 1,911 | 2,237   | 2,125 | 12,331   | 11,375 |
| US insurance operations         |        |        |         |       |   |       |  |        |
| Variable annuities              | 10,899 | 10,795 | -       | -     | 1,090   | 1,079 | 10,899   | 10,795 |
| Elite access (variable annuity) | 3,108  | 2,585  | -       | -     | 311   | 259   | 3,108  | 2,585  |
| Fixed annuities                 | 527    | 555    | -       | -     | 53  | 55    | 527  | 555    |
| Fixed index annuities           | 370    | 907    | -       | -     | 37  | 91    | 370  | 907    |
| Life                            | -      | 1      | -       | 2     | -   | 2     | -  | 12     |
| Wholesale                       | 651    | 869    | -       | -     | 65  | 87    | 651  | 869    |
| Total US insurance operations   | 15,555 | 15,712 | -       | 2     | 1,556   | 1,573 | 15,555   | 15,723 |



|  |        |        |       |       |       |       |        |        |  |
|--|--------|--------|-------|-------|-------|-------|--------|--------|--|
| UK and Europe insurance operations       |        |        |       |       |       |       |        |        |  |
| Direct and partnership annuities         | 162    | 284    | -     | -     | 16    | 28    | 162    | 284    |  |
| Intermediated annuities                  | 139    | 488    | -     | -     | 14    | 49    | 139    | 488    |  |
| Internal vesting annuities               | 764    | 1,305  | -     | -     | 76    | 131   | 764    | 1,305  |  |
| Total individual annuities               | 1,065  | 2,077  | -     | -     | 106   | 208   | 1,065  | 2,077  |  |
| Corporate pensions                       | 92     | 120    | 138   | 161   | 147   | 173   | 592    | 686    |  |
| Onshore bonds                            | 2,318  | 1,754  | -     | -     | 232   | 176   | 2,321  | 1,756  |  |
| Other products                           | 1,496  | 901    | 51    | 51    | 201   | 140   | 1,783  | 1,183  |  |
| Wholesale                                | 1,710  | 276    | -     | -     | 171   | 28    | 1,710  | 276    |  |
| Total UK and Europe insurance operations | 6,681  | 5,128  | 189   | 212   | 857   | 725   | 7,471  | 5,978  |  |
| Group total                              | 24,508 | 22,976 | 2,199 | 2,125 | 4,650 | 4,423 | 35,357 | 33,076 |  |

## Notes:

- (i) The tables shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not, and not intended to be, reflective of premium income recorded in the IFRS income statement.
- (ii) New business in China is included at Prudential's 50 per cent interest in the China life operation.
- (iii) New business in India is included at Prudential's 26 per cent interest in the India life operation.

## Additional Unaudited Financial Information

## A New Business

## BASIS OF PREPARATION

The format of the schedules is consistent with the distinction between insurance and investment products as applied for previous financial reporting periods. With the exception of some US institutional business, products categorised as 'insurance' refer to those classified as contracts of long-term insurance business for regulatory reporting purposes, i.e falling within one of the classes of insurance specified in part II of Schedule 1 to the Regulated Activities Order under PRA regulations.

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

New business premiums for regular premium products are shown on an annualised basis. Internal vesting business is classified as new business where the contracts include an open market option. New business premiums reflect those premiums attaching to covered business, including premiums for contracts designed as investment products for IFRS reporting.

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

New Business Profit (post-tax) has been determined using the European Embedded Value (EEV) methodology set out in our EEV preliminary report.

In determining the EEV basis value of new business written in the period policies incept, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for statutory basis reporting.

Annual premium equivalent (APE) sales are subject to rounding.

Notes to Schedules A(i) to A(x)

(1) Prudential plc reports its results using both actual exchange rates (AER) and constant exchange rates (CER) so as to eliminate the impact of exchange translation.

|                   |              | 2014 vs 2013<br>(depreciation) appreciation<br>of local currency against |           |       |
|-------------------|--------------|--|-----------|-------|
| Local currency: £ |              | 2014*  | 2013*     | GBP   |
| Hong Kong         | Average Rate | 12.78  | 12.14     | (5)%  |
|                   | Closing Rate | 12.09  | 12.84     | 6%    |
| Indonesia         | Average Rate | 19,538.56  | 16,376.89 | (16)% |
|                   | Closing Rate | 19,311.31  | 20,156.57 | 4%    |
| Malaysia          | Average Rate | 5.39   | 4.93      | (9)%  |
|                   | Closing Rate | 5.45   | 5.43      | 0%    |
| Singapore         | Average Rate | 2.09   | 1.96      | (6)%  |
|                   | Closing Rate | 2.07   | 2.09      | 1%    |
| India             | Average Rate | 100.53   | 91.75     | (9)%  |
|                   | Closing Rate | 98.42  | 102.45    | 4%    |
| Vietnam           | Average Rate | 34,924.62  | 32,904.71 | (6)%  |
|                   | Closing Rate | 33,348.46  | 34,938.60 | 5%    |
| Thailand          | Average Rate | 53.51  | 48.11     | (10)% |
|                   | Closing Rate | 51.30  | 54.42     | 6%    |
| US                | Average Rate | 1.65   | 1.56      | (5)%  |
|                   | Closing Rate | 1.56   | 1.66      | 6%    |

\*Average rate is for the full year to 31 December

(1a) Insurance new business for overseas operations are converted using the year-to-date average exchange rate applicable at the time (AER). The sterling results for individual quarters represent the difference between the year-to-date reported sterling results at successive quarters and will include foreign exchange movements from earlier periods.

(1b) Insurance new business for overseas operations for 2013 has been calculated using constant exchange rates (CER).

(1c) Constant exchange rates have been used to calculate insurance new business for overseas operations for all periods in 2013 and 2014.

(2) Annual Equivalents, calculated as regular new business contributions plus 10 per cent of single new business contributions, are subject to roundings. Present value of new business premiums (PVNBPs) are calculated as equalling single premiums plus the present value of expected premiums of new regular premium business. In determining the present value, allowance is made for lapses and other assumptions applied in determining the EEV new business profit.

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(3) Balance includes segregated and pooled pension funds, private finance assets and other institutional clients. Other movements reflect the net flows arising from the cash component of a tactical asset allocation fund managed by PPM South Africa.

(4) New business in India is included at Prudential's 26 per cent interest in the India life operation.

(5) Balance Sheet figures have been calculated at the closing exchange rate.

(6) New business in China is included at Prudential's 50 per cent interest in the China life operation.

(7) Mandatory Provident Fund (MPF) product sales in Hong Kong are included at Prudential's 36 per cent interest in Hong Kong MPF operation.

(8) Investment flows for the period exclude year-to-date Eastspring Money Market Funds (MMF) gross inflows of £67,749 million (2013: £62,536 million) and net inflows of £10 million (2013 net inflows: £522 million). For the discrete fourth quarter the MMF gross inflows were £17,353 million (2013: £17,072 million) and net outflows were £48 million (2013: net inflows of £604 million).

(9) Excludes Curian Variable Series Trust funds (internal funds under management).

(10) Total M&G and Eastspring excluding MMF. Funds under management for MMF amounted to £4,801 million at 31 December 2014 (31 December 2013: £4,297 million).

(11) With effect from 1 January 2015, APE and new business data for the UK and Europe Insurance Operations will be presented using revised product groupings shown in Schedule A(x). This aims to reflect the evolving revenue streams and present greater detail of for certain elements currently included within "Other".

Schedule A(i) - New Business Insurance Operations (Actual Exchange Rates)

|                               | Single |             | Regular |             |       | Annual      |       |             | PVNBP |             |        |       |
|-------------------------------|--------|-------------|---------|-------------|-------|-------------|-------|-------------|-------|-------------|--------|-------|
|                               | 2014   | 2013        | 2014    | 2013        | 2014  | 2013        | 2014  | 2013        | 2014  | 2013        |        |       |
|                               | YTD    | YTD +/- (%) | YTD     | YTD +/- (%) | YTD   | YTD +/- (%) | YTD   | YTD +/- (%) | YTD   | YTD +/- (%) |        |       |
|                               | £m     | £m          | £m      | £m          | £m    | £m          | £m    | £m          | £m    | £m          |        |       |
| Group Insurance Operations    |        |             |         |             |       |             |       |             |       |             |        |       |
| Asia (1a)                     | 2,272  | 2,136       | 6%      | 2,010       | 1,911 | 5%          | 2,237 | 2,125       | 5%    | 12,331      | 11,375 | 8%    |
| US(1a)                        | 15,555 | 15,712      | (1)%    | -           | 2     | (100)%      | 1,556 | 1,573       | (1)%  | 15,555      | 15,723 | (1)%  |
| UK                            | 6,681  | 5,128       | 30%     | 189         | 212   | (11)%       | 857   | 725         | 18%   | 7,471       | 5,978  | 25%   |
| Group Total                   | 24,508 | 22,976      | 7%      | 2,199       | 2,125 | 3%          | 4,650 | 4,423       | 5%    | 35,357      | 33,076 | 7%    |
| Asia Insurance Operations(1a) |        |             |         |             |       |             |       |             |       |             |        |       |
| Cambodia                      | -      | -           | N/A     | 3           | 1     | 200%        | 3     | 1           | 200%  | 16          | 3      | 433%  |
| Hong Kong                     | 419    | 326         | 29%     | 603         | 455   | 33%         | 645   | 487         | 32%   | 3,861       | 2,795  | 38%   |
| Indonesia                     | 280    | 303         | (8)%    | 357         | 445   | (20)%       | 385   | 477         | (19)% | 1,619       | 1,943  | (17)% |
| Malaysia                      | 117    | 114         | 3%      | 189         | 197   | (4)%        | 201   | 208         | (3)%  | 1,284       | 1,352  | (5)%  |
| Philippines                   | 121    | 193         | (37)%   | 39          | 34    | 15%         | 51    | 53          | (4)%  | 248         | 299    | (17)% |
| Singapore                     | 677    | 571         | 19%     | 289         | 304   | (5)%        | 357   | 361         | (1)%  | 2,683       | 2,588  | 4%    |
| Thailand                      | 92     | 66          | 39%     | 74          | 61    | 21%         | 83    | 68          | 22%   | 392         | 289    | 36%   |
| Vietnam                       | 4      | 2           | 100%    | 61          | 54    | 13%         | 61    | 54          | 13%   | 247         | 204    | 21%   |
| SE Asia Operations            |        |             |         |             |       |             |       |             |       |             |        |       |
| inc. Hong Kong                | 1,710  | 1,575       | 9%      | 1,615       | 1,551 | 4%          | 1,786 | 1,709       | 5%    | 10,350      | 9,473  | 9%    |
| China(6)                      | 239    | 114         | 110%    | 81          | 71    | 14%         | 105   | 83          | 27%   | 550         | 409    | 34%   |
| Korea                         | 212    | 311         | (32)%   | 92          | 82    | 12%         | 113   | 113         | 0%    | 609         | 641    | (5)%  |
| Taiwan                        | 83     | 102         | (19)%   | 116         | 107   | 8%          | 124   | 117         | 6%    | 462         | 491    | (6)%  |
| India(4)                      | 28     | 34          | (18)%   | 106         | 100   | 6%          | 109   | 103         | 6%    | 360         | 361    | (0)%  |

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|  |        |        |        |       |       |        |       |       |        |        |        |        |
|--|--------|--------|--------|-------|-------|--------|-------|-------|--------|--------|--------|--------|
| Total Asia Insurance Operations                    | 2,272  | 2,136  | 6%     | 2,010 | 1,911 | 5%     | 2,237 | 2,125 | 5%     | 12,331 | 11,375 | 8%     |
| US Insurance Operations(1a)                        |        |        |        |       |       |        |       |       |        |        |        |        |
| Variable Annuities Elite Access (Variable Annuity) | 10,899 | 10,795 | 1%     | -     | -     | N/A    | 1,090 | 1,079 | 1%     | 10,899 | 10,795 | 1%     |
| Fixed Annuities                                    | 3,108  | 2,585  | 20%    | -     | -     | N/A    | 311   | 259   | 20%    | 3,108  | 2,585  | 20%    |
| Fixed Index Annuities                              | 527    | 555    | (5)%   | -     | -     | N/A    | 53    | 55    | (4)%   | 527    | 555    | (5)%   |
| Life   | 370    | 907    | (59)%  | -     | -     | N/A    | 37    | 91    | (59)%  | 370    | 907    | (59)%  |
| Wholesale  | -      | 1      | (100)% | -     | 2     | (100)% | -     | 2     | (100)% | -      | 12     | (100)% |
| Total US Insurance Operations                      | 651    | 869    | (25)%  | -     | -     | N/A    | 65    | 87    | (25)%  | 651    | 869    | (25)%  |
| UK & Europe Insurance Operations(11)               |        |        |        |       |       |        |       |       |        |        |        |        |
| Direct and Partnership Annuities                   | 162    | 284    | (43)%  | -     | -     | N/A    | 16    | 28    | (43)%  | 162    | 284    | (43)%  |
| Intermediated Annuities                            | 139    | 488    | (72)%  | -     | -     | N/A    | 14    | 49    | (71)%  | 139    | 488    | (72)%  |
| Internal Vesting Annuities                         | 764    | 1,305  | (41)%  | -     | -     | N/A    | 76    | 131   | (42)%  | 764    | 1,305  | (41)%  |
| Total Individual Annuities                         | 1,065  | 2,077  | (49)%  | -     | -     | N/A    | 106   | 208   | (49)%  | 1,065  | 2,077  | (49)%  |
| Corporate Pensions                                 | 92     | 120    | (23)%  | 138   | 161   | (14)%  | 147   | 173   | (15)%  | 592    | 686    | (14)%  |
| On-shore Bonds                                     | 2,318  | 1,754  | 32%    | -     | -     | N/A    | 232   | 176   | 32%    | 2,321  | 1,756  | 32%    |
| Other Products                                     | 1,496  | 901    | 66%    | 51    | 51    | 0%     | 201   | 140   | 44%    | 1,783  | 1,183  | 51%    |
| Wholesale  | 1,710  | 276    | 520%   | -     | -     | N/A    | 171   | 28    | 511%   | 1,710  | 276    | 520%   |
| Total UK & Europe Insurance Operations             | 6,681  | 5,128  | 30%    | 189   | 212   | (11)%  | 857   | 725   | 18%    | 7,471  | 5,978  | 25%    |
| Group Total  | 24,508 | 22,976 | 7%     | 2,199 | 2,125 | 3%     | 4,650 | 4,423 | 5%     | 35,357 | 33,076 | 7%     |

Schedule A(ii) - New Business Insurance Operations (Constant Exchange Rates)

Note: In schedule A(ii) constant exchange rates have been used to calculate insurance new business for overseas operations for 2013.

|                            | Single   |          |         | Regular  |          |         | Annual Equivalent(2) |          |         | PVNBP    |          |         |
|----------------------------|----------|----------|---------|----------|----------|---------|----------------------|----------|---------|----------|----------|---------|
|                            | 2014 YTD | 2013 YTD | +/- (%) | 2014 YTD | 2013 YTD | +/- (%) | 2014 YTD             | 2013 YTD | +/- (%) | 2014 YTD | 2013 YTD | +/- (%) |
|                            | £m       | £m       |         | £m       | £m       |         | £m                   | £m       |         | £m       | £m       |         |
| Group Insurance Operations |          |          |         |          |          |         |                      |          |         |          |          |         |
| Asia (1a) (1b)             | 2,272    | 1,982    | 15%     | 2,010    | 1,748    | 15%     | 2,237                | 1,946    | 15%     | 12,331   | 10,482   | 18%     |
| US(1a) (1b)                | 15,555   | 14,920   | 4%      | -        | 2        | (100)%  | 1,556                | 1,494    | 4%      | 15,555   | 14,931   | 4%      |
| UK                         | 6,681    | 5,128    | 30%     | 189      | 212      | (11)%   | 857                  | 725      | 18%     | 7,471    | 5,978    | 25%     |

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|  |        |        |        |       |       |        |       |       |        |        |        |        |
|--|--------|--------|--------|-------|-------|--------|-------|-------|--------|--------|--------|--------|
| Group Total                            | 24,508 | 22,030 | 11%    | 2,199 | 1,962 | 12%    | 4,650 | 4,165 | 12%    | 35,357 | 31,391 | 13%    |
| Asia Insurance Operations(1a) (1b)     |        |        |        |       |       |        |       |       |        |        |        |        |
| Cambodia                               | -      | -      | N/A    | 3     | 1     | 200%   | 3     | 1     | 200%   | 16     | 3      | 433%   |
| Hong Kong                              | 419    | 310    | 35%    | 603   | 433   | 39%    | 645   | 464   | 39%    | 3,861  | 2,655  | 45%    |
| Indonesia                              | 280    | 254    | 10%    | 357   | 374   | (5)%   | 385   | 399   | (4)%   | 1,619  | 1,629  | (1)%   |
| Malaysia                               | 117    | 104    | 13%    | 189   | 180   | 5%     | 201   | 190   | 6%     | 1,284  | 1,237  | 4%     |
| Philippines                            | 121    | 176    | (31)%  | 39    | 30    | 30%    | 51    | 48    | 6%     | 248    | 272    | (9)%   |
| Singapore                              | 677    | 536    | 26%    | 289   | 284   | 2%     | 357   | 338   | 6%     | 2,683  | 2,428  | 11%    |
| Thailand                               | 92     | 59     | 56%    | 74    | 55    | 35%    | 83    | 61    | 36%    | 392    | 260    | 51%    |
| Vietnam                                | 4      | 2      | 100%   | 61    | 51    | 20%    | 61    | 51    | 20%    | 247    | 192    | 29%    |
| SE Asia Operations inc. Hong Kong      |        |        |        |       |       |        |       |       |        |        |        |        |
| China(6)                               | 1,710  | 1,441  | 19%    | 1,615 | 1,408 | 15%    | 1,786 | 1,552 | 15%    | 10,350 | 8,676  | 19%    |
| Korea                                  | 239    | 108    | 121%   | 81    | 68    | 19%    | 105   | 78    | 35%    | 550    | 387    | 42%    |
| Taiwan                                 | 212    | 307    | (31)%  | 92    | 81    | 14%    | 113   | 112   | 1%     | 609    | 633    | (4)%   |
| India(4)                               | 83     | 95     | (13)%  | 116   | 100   | 16%    | 124   | 110   | 13%    | 462    | 457    | 1%     |
| India(4)                               | 28     | 31     | (10)%  | 106   | 91    | 16%    | 109   | 94    | 16%    | 360    | 329    | 9%     |
| Total Asia Insurance Operations        | 2,272  | 1,982  | 15%    | 2,010 | 1,748 | 15%    | 2,237 | 1,946 | 15%    | 12,331 | 10,482 | 18%    |
| US Insurance Operations(1a) (1b)       |        |        |        |       |       |        |       |       |        |        |        |        |
| Variable Annuities Elite Access        | 10,899 | 10,251 | 6%     | -     | -     | N/A    | 1,090 | 1,025 | 6%     | 10,899 | 10,251 | 6%     |
| (Variable Annuity)                     | 3,108  | 2,455  | 27%    | -     | -     | N/A    | 311   | 246   | 26%    | 3,108  | 2,455  | 27%    |
| Fixed Annuities                        | 527    | 527    | 0%     | -     | -     | N/A    | 53    | 53    | 0%     | 527    | 527    | 0%     |
| Fixed Index Annuities                  | 370    | 861    | (57)%  | -     | -     | N/A    | 37    | 86    | (57)%  | 370    | 861    | (57)%  |
| Life                                   | -      | 1      | (100)% | -     | 2     | (100)% | -     | 2     | (100)% | -      | 12     | (100)% |
| Wholesale                              | 651    | 825    | (21)%  | -     | -     | N/A    | 65    | 82    | (21)%  | 651    | 825    | (21)%  |
| Total US Insurance Operations          | 15,555 | 14,920 | 4%     | -     | 2     | (100)% | 1,556 | 1,494 | 4%     | 15,555 | 14,931 | 4%     |
| UK & Europe Insurance Operations(11)   |        |        |        |       |       |        |       |       |        |        |        |        |
| Direct and Partnership Annuities       | 162    | 284    | (43)%  | -     | -     | N/A    | 16    | 28    | (43)%  | 162    | 284    | (43)%  |
| Intermediated Annuities                | 139    | 488    | (72)%  | -     | -     | N/A    | 14    | 49    | (71)%  | 139    | 488    | (72)%  |
| Internal Vesting Annuities             | 764    | 1,305  | (41)%  | -     | -     | N/A    | 76    | 131   | (42)%  | 764    | 1,305  | (41)%  |
| Total Individual Annuities             | 1,065  | 2,077  | (49)%  | -     | -     | N/A    | 106   | 208   | (49)%  | 1,065  | 2,077  | (49)%  |
| Corporate Pensions                     | 92     | 120    | (23)%  | 138   | 161   | (14)%  | 147   | 173   | (15)%  | 592    | 686    | (14)%  |
| On-shore Bonds                         | 2,318  | 1,754  | 32%    | -     | -     | N/A    | 232   | 176   | 32%    | 2,321  | 1,756  | 32%    |
| Other Products                         | 1,496  | 901    | 66%    | 51    | 51    | 0%     | 201   | 140   | 44%    | 1,783  | 1,183  | 51%    |
| Wholesale                              | 1,710  | 276    | 520%   | -     | -     | N/A    | 171   | 28    | 511%   | 1,710  | 276    | 520%   |
| Total UK & Europe Insurance Operations | 6,681  | 5,128  | 30%    | 189   | 212   | (11)%  | 857   | 725   | 18%    | 7,471  | 5,978  | 25%    |

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|             |        |        |     |       |       |     |       |       |     |        |        |     |
|-------------|--------|--------|-----|-------|-------|-----|-------|-------|-----|--------|--------|-----|
| Group Total | 24,508 | 22,030 | 11% | 2,199 | 1,962 | 12% | 4,650 | 4,165 | 12% | 35,357 | 31,391 | 13% |
|-------------|--------|--------|-----|-------|-------|-----|-------|-------|-----|--------|--------|-----|

Schedule A(iii) - Total Insurance New Business APE - By Quarter (Actual Exchange Rates)

|   | 2013     |          |          |          | 2014     |          |          |          |
|---|----------|----------|----------|----------|----------|----------|----------|----------|
|   | Q1<br>£m | Q2<br>£m | Q3<br>£m | Q4<br>£m | Q1<br>£m | Q2<br>£m | Q3<br>£m | Q4<br>£m |
| Group Insurance Operations              |          |          |          |          |          |          |          |          |
| Asia (1a)                               | 495      | 515      | 513      | 602      | 507      | 489      | 548      | 693      |
| US(1a)                                  | 358      | 439      | 405      | 371      | 432      | 439      | 364      | 321      |
| UK                                      | 185      | 170      | 185      | 185      | 237      | 196      | 215      | 209      |
| Group Total                             | 1,038    | 1,124    | 1,103    | 1,158    | 1,176    | 1,124    | 1,127    | 1,223    |
| Asia Insurance<br>Operations(1a)        |          |          |          |          |          |          |          |          |
| Cambodia                                | -        | -        | -        | 1        | -        | 1        | 1        | 1        |
| Hong Kong                               | 107      | 107      | 121      | 152      | 128      | 130      | 166      | 221      |
| Indonesia                               | 112      | 128      | 108      | 129      | 86       | 98       | 80       | 121      |
| Malaysia                                | 46       | 53       | 52       | 57       | 43       | 48       | 48       | 62       |
| Philippines                             | 14       | 15       | 12       | 12       | 11       | 11       | 13       | 16       |
| Singapore                               | 80       | 90       | 87       | 104      | 87       | 85       | 86       | 99       |
| Thailand                                | 11       | 14       | 22       | 21       | 25       | 17       | 18       | 23       |
| Vietnam                                 | 10       | 13       | 14       | 17       | 11       | 12       | 16       | 22       |
| SE Asia Operations inc.<br>Hong Kong    | 380      | 420      | 416      | 493      | 391      | 402      | 428      | 565      |
| China(6)                                | 27       | 20       | 21       | 15       | 38       | 19       | 23       | 25       |
| Korea                                   | 30       | 32       | 23       | 28       | 26       | 22       | 32       | 33       |
| Taiwan                                  | 19       | 26       | 28       | 44       | 24       | 30       | 34       | 36       |
| India(4)                                | 39       | 17       | 25       | 22       | 28       | 16       | 31       | 34       |
| Total Asia Insurance<br>Operations      | 495      | 515      | 513      | 602      | 507      | 489      | 548      | 693      |
| US Insurance<br>Operations(1a)          |          |          |          |          |          |          |          |          |
| Variable Annuities                      | 240      | 298      | 271      | 270      | 317      | 297      | 260      | 216      |
| Elite Access (Variable<br>Annuity)      | 54       | 73       | 64       | 68       | 69       | 80       | 80       | 82       |
| Fixed Annuities                         | 14       | 16       | 14       | 11       | 12       | 15       | 14       | 12       |
| Fixed Index Annuities                   | 34       | 28       | 22       | 7        | 8        | 10       | 10       | 9        |
| Life                                    | 1        | -        | -        | 1        | -        | -        | -        | -        |
| Wholesale                               | 15       | 24       | 34       | 14       | 26       | 37       | -        | 2        |
| Total US Insurance<br>Operations        | 358      | 439      | 405      | 371      | 432      | 439      | 364      | 321      |
| UK & Europe Insurance<br>Operations(11) |          |          |          |          |          |          |          |          |
| Direct and Partnership<br>Annuities     | 8        | 7        | 7        | 6        | 5        | 5        | 4        | 2        |
| Intermediated Annuities                 | 15       | 14       | 12       | 8        | 7        | 3        | 2        | 2        |
| Internal Vesting Annuities              | 32       | 35       | 31       | 33       | 24       | 19       | 17       | 16       |

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|  |       |       |       |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Individual Annuities             | 55    | 56    | 50    | 47    | 36    | 27    | 23    | 20    |
| Corporate Pensions                     | 53    | 40    | 45    | 35    | 40    | 39    | 38    | 30    |
| On-shore Bonds                         | 45    | 38    | 43    | 50    | 49    | 53    | 60    | 70    |
| Other Products                         | 32    | 36    | 32    | 40    | 39    | 46    | 57    | 59    |
| Wholesale                              | -     | -     | 15    | 13    | 73    | 31    | 37    | 30    |
| Total UK & Europe Insurance Operations | 185   | 170   | 185   | 185   | 237   | 196   | 215   | 209   |
| Group Total                            | 1,038 | 1,124 | 1,103 | 1,158 | 1,176 | 1,124 | 1,127 | 1,223 |

Schedule A(iv) - Total Insurance New Business APE - By Quarter (2013 at Constant Exchange Rates)

Note: In schedule A(iv) constant exchange rates have been used to calculate insurance new business for overseas operations for all periods in 2013. Discrete quarters in 2014 are presented on actual exchange rates.

|                                   | 2013     |          |          |          | 2014     |          |          |          |
|-----------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
|                                   | Q1<br>£m | Q2<br>£m | Q3<br>£m | Q4<br>£m | Q1<br>£m | Q2<br>£m | Q3<br>£m | Q4<br>£m |
| Group Insurance Operations        |          |          |          |          |          |          |          |          |
| Asia(1b)                          | 437      | 454      | 473      | 582      | 507      | 489      | 548      | 693      |
| US(1b)                            | 337      | 410      | 381      | 366      | 432      | 439      | 364      | 321      |
| UK                                | 185      | 170      | 185      | 185      | 237      | 196      | 215      | 209      |
| Group Total                       | 959      | 1,034    | 1,039    | 1,133    | 1,176    | 1,124    | 1,127    | 1,223    |
| Asia Insurance Operations(1b)     |          |          |          |          |          |          |          |          |
| Cambodia                          | -        | -        | -        | 1        | -        | 1        | 1        | 1        |
| Hong Kong                         | 101      | 100      | 114      | 149      | 128      | 130      | 166      | 221      |
| Indonesia                         | 87       | 98       | 91       | 123      | 86       | 98       | 80       | 121      |
| Malaysia                          | 40       | 47       | 49       | 54       | 43       | 48       | 48       | 62       |
| Philippines                       | 12       | 13       | 11       | 12       | 11       | 11       | 13       | 16       |
| Singapore                         | 73       | 83       | 82       | 100      | 87       | 85       | 86       | 99       |
| Thailand                          | 9        | 13       | 19       | 20       | 25       | 17       | 18       | 23       |
| Vietnam                           | 9        | 12       | 13       | 17       | 11       | 12       | 16       | 22       |
| SE Asia Operations inc. Hong Kong | 331      | 366      | 379      | 476      | 391      | 402      | 428      | 565      |
| China(6)                          | 26       | 18       | 20       | 14       | 38       | 19       | 23       | 25       |
| Korea                             | 29       | 32       | 23       | 28       | 26       | 22       | 32       | 33       |
| Taiwan                            | 18       | 24       | 26       | 42       | 24       | 30       | 34       | 36       |
| India(4)                          | 33       | 14       | 25       | 22       | 28       | 16       | 31       | 34       |
| Total Asia Insurance Operations   | 437      | 454      | 473      | 582      | 507      | 489      | 548      | 693      |
| US Insurance Operations(1b)       |          |          |          |          |          |          |          |          |
| Variable Annuities                | 226      | 278      | 255      | 266      | 317      | 297      | 260      | 216      |
| Elite Access (Variable Annuity)   | 51       | 68       | 60       | 67       | 69       | 80       | 80       | 82       |
| Fixed Annuities                   | 13       | 15       | 13       | 12       | 12       | 15       | 14       | 12       |
| Fixed Index Annuities             | 32       | 26       | 21       | 7        | 8        | 10       | 10       | 9        |
| Life                              | 1        | -        | -        | 1        | -        | -        | -        | -        |

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|  |     |       |       |       |       |       |       |       |
|--|-----|-------|-------|-------|-------|-------|-------|-------|
| Wholesale                              | 14  | 23    | 32    | 13    | 26    | 37    | -     | 2     |
| Total US Insurance Operations          | 337 | 410   | 381   | 366   | 432   | 439   | 364   | 321   |
| UK & Europe Insurance Operations(11)   |     |       |       |       |       |       |       |       |
| Direct and Partnership Annuities       | 8   | 7     | 7     | 6     | 5     | 5     | 4     | 2     |
| Intermediated Annuities                | 15  | 14    | 12    | 8     | 7     | 3     | 2     | 2     |
| Internal Vesting Annuities             | 32  | 35    | 31    | 33    | 24    | 19    | 17    | 16    |
| Total Individual Annuities             | 55  | 56    | 50    | 47    | 36    | 27    | 23    | 20    |
| Corporate Pensions                     | 53  | 40    | 45    | 35    | 40    | 39    | 38    | 30    |
| On-shore Bonds                         | 45  | 38    | 43    | 50    | 49    | 53    | 60    | 70    |
| Other Products                         | 32  | 36    | 32    | 40    | 39    | 46    | 57    | 59    |
| Wholesale                              | -   | -     | 15    | 13    | 73    | 31    | 37    | 30    |
| Total UK & Europe Insurance Operations | 185 | 170   | 185   | 185   | 237   | 196   | 215   | 209   |
| Group Total                            | 959 | 1,034 | 1,039 | 1,133 | 1,176 | 1,124 | 1,127 | 1,223 |

Schedule A(v) - Total Insurance New Business APE - By Quarter (2014 and 2013 at Constant Exchange Rates)

Note: In schedule A(v) constant exchange rates have been used to calculate insurance new business for overseas operations for all periods in 2013 and 2014 i.e the average exchange rate for the period ended 31 December 2014 is applied to each discrete quarter for 2013 and 2014.

|                                   | 2013     |          |          |          | 2014     |          |          |          |
|-----------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
|                                   | Q1<br>£m | Q2<br>£m | Q3<br>£m | Q4<br>£m | Q1<br>£m | Q2<br>£m | Q3<br>£m | Q4<br>£m |
| Group Insurance Operations        |          |          |          |          |          |          |          |          |
| Asia(1c)                          | 437      | 454      | 473      | 582      | 510      | 496      | 550      | 681      |
| US(1c)                            | 337      | 410      | 381      | 366      | 434      | 448      | 370      | 304      |
| UK                                | 185      | 170      | 185      | 185      | 237      | 196      | 215      | 209      |
| Group Total                       | 959      | 1,034    | 1,039    | 1,133    | 1,181    | 1,140    | 1,135    | 1,194    |
| Asia Insurance Operations(1c)     |          |          |          |          |          |          |          |          |
| Cambodia                          | -        | -        | -        | 1        | -        | 1        | 1        | 1        |
| Hong Kong                         | 101      | 100      | 114      | 149      | 130      | 131      | 169      | 215      |
| Indonesia                         | 87       | 98       | 91       | 123      | 86       | 99       | 79       | 121      |
| Malaysia                          | 40       | 47       | 49       | 54       | 44       | 48       | 47       | 62       |
| Philippines                       | 12       | 13       | 11       | 12       | 11       | 12       | 13       | 15       |
| Singapore                         | 73       | 83       | 82       | 100      | 86       | 86       | 87       | 98       |
| Thailand                          | 9        | 13       | 19       | 20       | 25       | 18       | 17       | 23       |
| Vietnam                           | 9        | 12       | 13       | 17       | 11       | 13       | 15       | 22       |
| SE Asia Operations inc. Hong Kong | 331      | 366      | 379      | 476      | 393      | 408      | 428      | 557      |
| China(6)                          | 26       | 18       | 20       | 14       | 38       | 19       | 24       | 24       |
| Korea                             | 29       | 32       | 23       | 28       | 27       | 22       | 32       | 32       |
| Taiwan                            | 18       | 24       | 26       | 42       | 24       | 30       | 35       | 35       |
| India(4)                          | 33       | 14       | 25       | 22       | 28       | 17       | 31       | 33       |
|                                   | 437      | 454      | 473      | 582      | 510      | 496      | 550      | 681      |



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Total Asia Insurance  
Operations

US Insurance Operations(1c)

|                                 |     |     |     |     |     |     |     |     |
|---------------------------------|-----|-----|-----|-----|-----|-----|-----|-----|
| Variable Annuities              | 226 | 278 | 255 | 266 | 319 | 303 | 264 | 204 |
| Elite Access (Variable Annuity) | 51  | 68  | 60  | 67  | 69  | 82  | 81  | 79  |
| Fixed Annuities                 | 13  | 15  | 13  | 12  | 12  | 15  | 15  | 11  |
| Fixed Index Annuities           | 32  | 26  | 21  | 7   | 8   | 10  | 10  | 9   |
| Life                            | 1   | -   | -   | 1   | -   | -   | -   | -   |
| Wholesale                       | 14  | 23  | 32  | 13  | 26  | 38  | -   | 1   |
| Total US Insurance Operations   | 337 | 410 | 381 | 366 | 434 | 448 | 370 | 304 |

UK & Europe Insurance  
Operations(11)

|  |     |       |       |       |       |       |       |       |
|--|-----|-------|-------|-------|-------|-------|-------|-------|
| Direct and Partnership Annuities       | 8   | 7     | 7     | 6     | 5     | 5     | 4     | 2     |
| Intermediated Annuities                | 15  | 14    | 12    | 8     | 7     | 3     | 2     | 2     |
| Internal Vesting Annuities             | 32  | 35    | 31    | 33    | 24    | 19    | 17    | 16    |
| Total Individual Annuities             | 55  | 56    | 50    | 47    | 36    | 27    | 23    | 20    |
| Corporate Pensions                     | 53  | 40    | 45    | 35    | 40    | 39    | 38    | 30    |
| On-shore Bonds                         | 45  | 38    | 43    | 50    | 49    | 53    | 60    | 70    |
| Other Products                         | 32  | 36    | 32    | 40    | 39    | 46    | 57    | 59    |
| Wholesale                              | -   | -     | 15    | 13    | 73    | 31    | 37    | 30    |
| Total UK & Europe Insurance Operations | 185 | 170   | 185   | 185   | 237   | 196   | 215   | 209   |
| Group Total                            | 959 | 1,034 | 1,039 | 1,133 | 1,181 | 1,140 | 1,135 | 1,194 |

Schedule A(vi) - Investment Operations - By Quarter (Actual Exchange Rates)

|                                       | 2013     |          |          |          | 2014     |          |          |          |
|---------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
|                                       | Q1<br>£m | Q2<br>£m | Q3<br>£m | Q4<br>£m | Q1<br>£m | Q2<br>£m | Q3<br>£m | Q4<br>£m |
| Group Investment Operations           |          |          |          |          |          |          |          |          |
| Opening FUM                           | 129,498  | 138,926  | 137,407  | 142,820  | 143,916  | 147,914  | 153,849  | 157,533  |
| Net Flows:(8)                         | 3,502    | 2,344    | 5,093    | 126      | 2,571    | 4,123    | 2,893    | 2,930    |
| - Gross Inflows                       | 13,409   | 14,561   | 13,528   | 11,006   | 12,146   | 14,045   | 12,847   | 13,670   |
| - Redemptions                         | (9,907)  | (12,217) | (8,435)  | (10,880) | (9,575)  | (9,922)  | (9,954)  | (10,740) |
| Other Movements                       | 5,926    | (3,863)  | 320      | 970      | 1,427    | 1,812    | 791      | 1,917    |
| Total Group Investment Operations(10) | 138,926  | 137,407  | 142,820  | 143,916  | 147,914  | 153,849  | 157,533  | 162,380  |
| M&G Retail                            |          |          |          |          |          |          |          |          |
| Opening FUM                           | 54,879   | 61,427   | 62,655   | 64,504   | 67,202   | 68,981   | 71,941   | 73,012   |
| Net Flows:                            | 2,446    | 2,308    | 1,132    | 1,456    | 1,291    | 2,493    | 1,531    | 1,371    |
| - Gross Inflows                       | 7,213    | 8,138    | 5,919    | 6,789    | 7,305    | 7,468    | 6,801    | 7,414    |
| - Redemptions                         | (4,767)  | (5,830)  | (4,787)  | (5,333)  | (6,014)  | (4,975)  | (5,270)  | (6,043)  |
| Other Movements                       | 4,102    | (1,080)  | 717      | 1,242    | 488      | 467      | (460)    | (94)     |

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|  |         |         |         |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| Closing FUM                                | 61,427  | 62,655  | 64,504  | 67,202  | 68,981  | 71,941  | 73,012  | 74,289  |
| Comprising amounts for:                    |         |         |         |         |         |         |         |         |
| UK   | 41,194  | 39,953  | 40,955  | 42,016  | 42,199  | 42,392  | 41,756  | 40,705  |
| Europe (excluding UK)                      | 18,696  | 21,198  | 22,064  | 23,699  | 25,244  | 27,927  | 29,622  | 31,815  |
| South Africa                               | 1,537   | 1,504   | 1,485   | 1,487   | 1,538   | 1,622   | 1,634   | 1,769   |
|  | 61,427  | 62,655  | 64,504  | 67,202  | 68,981  | 71,941  | 73,012  | 74,289  |
| Institutional(3)                           |         |         |         |         |         |         |         |         |
| Opening FUM                                | 56,989  | 57,745  | 55,484  | 59,810  | 58,787  | 59,736  | 60,830  | 61,572  |
| Net Flows:                                 | (15)    | (899)   | 3,928   | (866)   | 152     | 275     | 138     | (164)   |
| - Gross Inflows                            | 2,656   | 2,591   | 5,364   | 2,163   | 1,655   | 2,894   | 2,295   | 2,185   |
| - Redemptions                              | (2,671) | (3,490) | (1,436) | (3,029) | (1,503) | (2,619) | (2,157) | (2,349) |
| Other Movements                            | 771     | (1,362) | 398     | (157)   | 797     | 819     | 604     | 1,350   |
| Closing FUM                                | 57,745  | 55,484  | 59,810  | 58,787  | 59,736  | 60,830  | 61,572  | 62,758  |
| Total M&G Investment Operations            | 119,172 | 118,139 | 124,314 | 125,989 | 128,717 | 132,771 | 134,584 | 137,047 |
| PPM South Africa FUM included in Total M&G | 4,701   | 4,509   | 4,633   | 4,513   | 4,720   | 4,815   | 4,905   | 5,203   |
| Eastspring - excluding MMF(8)              |         |         |         |         |         |         |         |         |
| Equity/Bond/Other(7)                       |         |         |         |         |         |         |         |         |
| Opening FUM                                | 15,457  | 17,206  | 16,756  | 16,133  | 16,109  | 16,753  | 18,259  | 19,893  |
| Net Flows:                                 | 795     | 838     | 65      | 118     | 540     | 1,063   | 1,127   | 1,640   |
| - Gross Inflows                            | 3,122   | 3,596   | 2,214   | 1,982   | 2,546   | 3,285   | 3,583   | 3,760   |
| - Redemptions                              | (2,327) | (2,758) | (2,149) | (1,864) | (2,006) | (2,222) | (2,456) | (2,120) |
| Other Movements                            | 954     | (1,288) | (688)   | (142)   | 104     | 443     | 507     | 360     |
| Closing FUM(5)                             | 17,206  | 16,756  | 16,133  | 16,109  | 16,753  | 18,259  | 19,893  | 21,893  |
| Third Party Institutional Mandates         |         |         |         |         |         |         |         |         |
| Opening FUM                                | 2,173   | 2,548   | 2,512   | 2,373   | 1,818   | 2,444   | 2,819   | 3,056   |
| Net Flows:                                 | 276     | 97      | (32)    | (582)   | 588     | 292     | 97      | 83      |
| - Gross Inflows                            | 418     | 236     | 31      | 72      | 640     | 398     | 168     | 311     |
| - Redemptions                              | (142)   | (139)   | (63)    | (654)   | (52)    | (106)   | (71)    | (228)   |
| Other Movements                            | 99      | (133)   | (107)   | 27      | 38      | 83      | 140     | 301     |
| Closing FUM(5)                             | 2,548   | 2,512   | 2,373   | 1,818   | 2,444   | 2,819   | 3,056   | 3,440   |
| Total Eastspring Investment Operations     | 19,754  | 19,268  | 18,506  | 17,927  | 19,197  | 21,078  | 22,949  | 25,333  |
| US Curian - FUM(5) (9)                     | 6,315   | 6,466   | 6,371   | 6,601   | 6,781   | 6,948   | 7,421   | 7,933   |

Schedule A(vii) - Total Insurance New Business Profit (Actual Exchange Rates)

2013

2014

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|   | Q1<br>YTD<br>£m | Q2<br>YTD<br>£m | Q3<br>YTD<br>£m | Q4<br>YTD<br>£m | Q1<br>YTD<br>£m | Q2<br>YTD<br>£m | Q3<br>YTD<br>£m | Q4<br>YTD<br>£m |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Post-tax analysis                       |                 |                 |                 |                 |                 |                 |                 |                 |
| New Business Profit(1a)                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Total Asia Insurance Operations         | 237             | 502             | 767             | 1,139           | 243             | 494             | 775             | 1,162           |
| Total US Insurance Operations           | 125             | 311             | 492             | 706             | 195             | 376             | 530             | 694             |
| Total UK & Europe Insurance Operations  | 48              | 100             | 163             | 237             | 91              | 145             | 209             | 270             |
| Group Total                             | 410             | 913             | 1,422           | 2,082           | 529             | 1,015           | 1,514           | 2,126           |
| Annual Equivalent(1a) (2)               |                 |                 |                 |                 |                 |                 |                 |                 |
| Total Asia Insurance Operations         | 495             | 1,010           | 1,523           | 2,125           | 507             | 996             | 1,544           | 2,237           |
| Total US Insurance Operations           | 358             | 797             | 1,202           | 1,573           | 432             | 871             | 1,235           | 1,556           |
| Total UK & Europe Insurance Operations  | 185             | 355             | 540             | 725             | 237             | 433             | 648             | 857             |
| Group Total                             | 1,038           | 2,162           | 3,265           | 4,423           | 1,176           | 2,300           | 3,427           | 4,650           |
| New Business Margin (NBP as % of APE)   |                 |                 |                 |                 |                 |                 |                 |                 |
| Total Asia Insurance Operations         | 48%             | 50%             | 50%             | 54%             | 48%             | 50%             | 50%             | 52%             |
| Total US Insurance Operations           | 35%             | 39%             | 41%             | 45%             | 45%             | 43%             | 43%             | 45%             |
| Total UK & Europe Insurance Operations  | 26%             | 28%             | 30%             | 33%             | 38%             | 33%             | 32%             | 32%             |
| Group Total                             | 39%             | 42%             | 44%             | 47%             | 45%             | 44%             | 44%             | 46%             |
| PVNBP(1a) (2)                           |                 |                 |                 |                 |                 |                 |                 |                 |
| Total Asia Insurance Operations         | 2,734           | 5,524           | 8,206           | 11,375          | 2,690           | 5,378           | 8,408           | 12,331          |
| Total US Insurance Operations           | 3,581           | 7,957           | 12,006          | 15,723          | 4,323           | 8,703           | 12,352          | 15,555          |
| Total UK & Europe Insurance Operations  | 1,540           | 2,943           | 4,398           | 5,978           | 2,072           | 3,741           | 5,598           | 7,471           |
| Group Total                             | 7,855           | 16,424          | 24,610          | 33,076          | 9,085           | 17,822          | 26,358          | 35,357          |
| New Business Margin (NBP as % of PVNBP) |                 |                 |                 |                 |                 |                 |                 |                 |
| Total Asia Insurance Operations         | 8.7%            | 9.1%            | 9.3%            | 10.0%           | 9.0%            | 9.2%            | 9.2%            | 9.4%            |
| Total US Insurance Operations           | 3.5%            | 3.9%            | 4.1%            | 4.5%            | 4.5%            | 4.3%            | 4.3%            | 4.5%            |
| Total UK & Europe Insurance Operations  | 3.1%            | 3.4%            | 3.7%            | 4.0%            | 4.4%            | 3.9%            | 3.7%            | 3.6%            |
| Group Total                             | 5.2%            | 5.6%            | 5.8%            | 6.3%            | 5.8%            | 5.7%            | 5.7%            | 6.0%            |

Schedule A(viii) - Total Insurance New Business Profit (2013 at Constant Exchange Rates)

Note: In schedule A(viii) constant exchange rates have been used to calculate insurance new business for overseas operations for all periods in 2013. The year-to-date amounts for 2014 are presented on actual exchange rates.

|  | 2013      |           |           |           | 2014      |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|  | Q1<br>YTD | Q2<br>YTD | Q3<br>YTD | Q4<br>YTD | Q1<br>YTD | Q2<br>YTD | Q3<br>YTD | Q4<br>YTD |

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|   | £m    | £m     | £m     | £m     | £m    | £m     | £m     | £m     |
|---|-------|--------|--------|--------|-------|--------|--------|--------|
| Post-tax analysis                       |       |        |        |        |       |        |        |        |
| New Business Profit(1b)                 |       |        |        |        |       |        |        |        |
| Total Asia Insurance Operations         | 204   | 433    | 678    | 1,032  | 243   | 494    | 775    | 1,162  |
| Total US Insurance Operations           | 118   | 292    | 461    | 670    | 195   | 376    | 530    | 694    |
| Total UK & Europe Insurance Operations  | 48    | 100    | 163    | 237    | 91    | 145    | 209    | 270    |
| Group Total                             | 370   | 825    | 1,302  | 1,939  | 529   | 1,015  | 1,514  | 2,126  |
| Annual Equivalent(1b) (2)               |       |        |        |        |       |        |        |        |
| Total Asia Insurance Operations         | 437   | 891    | 1,364  | 1,946  | 507   | 996    | 1,544  | 2,237  |
| Total US Insurance Operations           | 337   | 747    | 1,128  | 1,494  | 432   | 871    | 1,235  | 1,556  |
| Total UK & Europe Insurance Operations  | 185   | 355    | 540    | 725    | 237   | 433    | 648    | 857    |
| Group Total                             | 959   | 1,993  | 3,032  | 4,165  | 1,176 | 2,300  | 3,427  | 4,650  |
| New Business Margin (NBP as % of APE)   |       |        |        |        |       |        |        |        |
| Total Asia Insurance Operations         | 47%   | 49%    | 50%    | 53%    | 48%   | 50%    | 50%    | 52%    |
| Total US Insurance Operations           | 35%   | 39%    | 41%    | 45%    | 45%   | 43%    | 43%    | 45%    |
| Total UK & Europe Insurance Operations  | 26%   | 28%    | 30%    | 33%    | 38%   | 33%    | 32%    | 32%    |
| Group Total                             | 39%   | 41%    | 43%    | 47%    | 45%   | 44%    | 44%    | 46%    |
| PVNBP(1b) (2)                           |       |        |        |        |       |        |        |        |
| Total Asia Insurance Operations         | 2,434 | 4,912  | 7,409  | 10,482 | 2,690 | 5,378  | 8,408  | 12,331 |
| Total US Insurance Operations           | 3,374 | 7,456  | 11,267 | 14,931 | 4,323 | 8,703  | 12,352 | 15,555 |
| Total UK & Europe Insurance Operations  | 1,540 | 2,943  | 4,398  | 5,978  | 2,072 | 3,741  | 5,598  | 7,471  |
| Group Total                             | 7,348 | 15,311 | 23,074 | 31,391 | 9,085 | 17,822 | 26,358 | 35,357 |
| New Business Margin (NBP as % of PVNBP) |       |        |        |        |       |        |        |        |
| Total Asia Insurance Operations         | 8.4%  | 8.8%   | 9.2%   | 9.8%   | 9.0%  | 9.2%   | 9.2%   | 9.4%   |
| Total US Insurance Operations           | 3.5%  | 3.9%   | 4.1%   | 4.5%   | 4.5%  | 4.3%   | 4.3%   | 4.5%   |
| Total UK & Europe Insurance Operations  | 3.1%  | 3.4%   | 3.7%   | 4.0%   | 4.4%  | 3.9%   | 3.7%   | 3.6%   |
| Group Total                             | 5.0%  | 5.4%   | 5.6%   | 6.2%   | 5.8%  | 5.7%   | 5.7%   | 6.0%   |

Schedule A(ix) - Total Insurance New Business Profit (2014 and 2013 at Constant Exchange Rates)

Note: In schedule A(ix) constant exchange rates have been used to calculate insurance new business for overseas operations for all periods in 2013 and 2014, i.e the average exchange rates for the period ended 31 December 2014 are applied to each period for 2013 and 2014.

|  | 2013 |     |     |     | 2014 |     |     |     |
|--|------|-----|-----|-----|------|-----|-----|-----|
|  | Q1   | Q2  | Q3  | Q4  | Q1   | Q2  | Q3  | Q4  |
|  | YTD  | YTD | YTD | YTD | YTD  | YTD | YTD | YTD |
|  | £m   | £m  | £m  | £m  | £m   | £m  | £m  | £m  |

## Post-tax analysis

## New Business Profit(1c)

|  |     |     |       |       |     |       |       |       |
|--|-----|-----|-------|-------|-----|-------|-------|-------|
| Total Asia Insurance Operations        | 204 | 433 | 678   | 1,032 | 244 | 498   | 781   | 1,162 |
| Total US Insurance Operations          | 118 | 292 | 461   | 670   | 196 | 381   | 537   | 694   |
| Total UK & Europe Insurance Operations | 48  | 100 | 163   | 237   | 91  | 145   | 209   | 270   |
| Group Total                            | 370 | 825 | 1,302 | 1,939 | 531 | 1,024 | 1,527 | 2,126 |

## Annual Equivalent(1c) (2)

|  |     |       |       |       |       |       |       |       |
|--|-----|-------|-------|-------|-------|-------|-------|-------|
| Total Asia Insurance Operations        | 437 | 891   | 1,364 | 1,946 | 510   | 1,006 | 1,556 | 2,237 |
| Total US Insurance Operations          | 337 | 747   | 1,128 | 1,494 | 434   | 882   | 1,252 | 1,556 |
| Total UK & Europe Insurance Operations | 185 | 355   | 540   | 725   | 237   | 433   | 648   | 857   |
| Group Total                            | 959 | 1,993 | 3,032 | 4,165 | 1,181 | 2,321 | 3,456 | 4,650 |

## New Business Margin (NBP as % of APE)

|  |     |     |     |     |     |     |     |     |
|--|-----|-----|-----|-----|-----|-----|-----|-----|
| Total Asia Insurance Operations        | 47% | 49% | 50% | 53% | 48% | 50% | 50% | 52% |
| Total US Insurance Operations          | 35% | 39% | 41% | 45% | 45% | 43% | 43% | 45% |
| Total UK & Europe Insurance Operations | 26% | 28% | 30% | 33% | 38% | 33% | 32% | 32% |
| Group Total                            | 39% | 41% | 43% | 47% | 45% | 44% | 44% | 46% |

## PVNBP(1c) (2)

|  |       |        |        |        |       |        |        |        |
|--|-------|--------|--------|--------|-------|--------|--------|--------|
| Total Asia Insurance Operations        | 2,434 | 4,912  | 7,409  | 10,482 | 2,708 | 5,432  | 8,477  | 12,331 |
| Total US Insurance Operations          | 3,374 | 7,456  | 11,267 | 14,931 | 4,343 | 8,818  | 12,516 | 15,555 |
| Total UK & Europe Insurance Operations | 1,540 | 2,943  | 4,398  | 5,978  | 2,072 | 3,741  | 5,598  | 7,471  |
| Group Total                            | 7,348 | 15,311 | 23,074 | 31,391 | 9,123 | 17,991 | 26,591 | 35,357 |

## New Business Margin (NBP as % of PVNBP)

|  |      |      |      |      |      |      |      |      |
|--|------|------|------|------|------|------|------|------|
| Total Asia Insurance Operations        | 8.4% | 8.8% | 9.2% | 9.8% | 9.0% | 9.2% | 9.2% | 9.4% |
| Total US Insurance Operations          | 3.5% | 3.9% | 4.1% | 4.5% | 4.5% | 4.3% | 4.3% | 4.5% |
| Total UK & Europe Insurance Operations | 3.1% | 3.4% | 3.7% | 4.0% | 4.4% | 3.9% | 3.7% | 3.6% |
| Group Total                            | 5.0% | 5.4% | 5.6% | 6.2% | 5.8% | 5.7% | 5.7% | 6.0% |

## Schedule A(x) - Total UK and Europe Insurance Operations New Business APE

With effect from 1 January 2015, New Business APE for the UK and Europe Insurance Operations will be presented using revised product groupings. This aims to bring greater focus to products and groupings that reflect the evolving UK market and the business strategy of our UK business. This schedule shows the 2014 and 2013 numbers on this revised basis that will be presented from the first quarter of 2015.

## (a) Total UK &amp; Europe Insurance New Business APE (AER)

## (i) Current presentation

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|  | Single    |           | Regular    |           |           | Annual<br>Equivalents(2) |           |           | PVNBP      |           |           |       |
|--|-----------|-----------|------------|-----------|-----------|--------------------------|-----------|-----------|------------|-----------|-----------|-------|
|  | 2014      | 2013      | +/-<br>(%) | 2014      | 2013      | +/-<br>(%)               | 2014      | 2013      | +/-<br>(%) | 2014      | 2013      |       |
|  | YTD<br>£m | YTD<br>£m |            | YTD<br>£m | YTD<br>£m |                          | YTD<br>£m | YTD<br>£m |            | YTD<br>£m | YTD<br>£m |       |
| Direct and Partnership Annuities       | 162       | 284       | (43)%      | -         | -         | N/A                      | 16        | 28        | (43)%      | 162       | 284       | (43)% |
| Intermediated Annuities                | 139       | 488       | (72)%      | -         | -         | N/A                      | 14        | 49        | (71)%      | 139       | 488       | (72)% |
| Internal Vesting Annuities             | 764       | 1,305     | (41)%      | -         | -         | N/A                      | 76        | 131       | (42)%      | 764       | 1,305     | (41)% |
| Total Individual Annuities             | 1,065     | 2,077     | (49)%      | -         | -         | N/A                      | 106       | 208       | (49)%      | 1,065     | 2,077     | (49)% |
| Corporate Pensions                     | 92        | 120       | (23)%      | 138       | 161       | (14)%                    | 147       | 173       | (15)%      | 592       | 686       | (14)% |
| On-shore Bonds                         | 2,318     | 1,754     | 32%        | -         | -         | N/A                      | 232       | 176       | 32%        | 2,321     | 1,756     | 32%   |
| Other Products                         | 1,496     | 901       | 66%        | 51        | 51        | -                        | 201       | 140       | 44%        | 1,783     | 1,183     | 51%   |
| Wholesale                              | 1,710     | 276       | 520%       | -         | -         | N/A                      | 171       | 28        | 511%       | 1,710     | 276       | 520%  |
| Total UK & Europe Insurance Operations | 6,681     | 5,128     | 30%        | 189       | 212       | (11)%                    | 857       | 725       | 18%        | 7,471     | 5,978     | 25%   |

(ii) Revised presentation from 2015

|  | Single    |           | Regular    |           |           | Annual<br>Equivalents(2) |           |           | PVNBP      |           |       |       |
|--|-----------|-----------|------------|-----------|-----------|--------------------------|-----------|-----------|------------|-----------|-------|-------|
|  | 2014      | 2013      | +/-<br>(%) | 2014      | 2013      | +/-<br>(%)               | 2014      | 2013      | +/-<br>(%) | 2014      | 2013  |       |
|  | YTD<br>£m | YTD<br>£m |            | YTD<br>£m | YTD<br>£m |                          | YTD<br>£m | YTD<br>£m |            | YTD<br>£m |       |       |
| Individual Annuities                   | 1,065     | 2,077     | (49)%      | -         | -         | N/A                      | 106       | 208       | (49)%      | 1,065     | 2,077 | (49)% |
| Bonds                                  | 2,934     | 2,187     | 34%        | -         | -         | N/A                      | 294       | 219       | 34%        | 2,937     | 2,190 | 34%   |
| Corporate Pensions                     | 92        | 120       | (23)%      | 138       | 161       | (14)%                    | 147       | 173       | (15)%      | 592       | 686   | (14)% |
| Individual Pensions                    | 508       | 298       | 70%        | 22        | 21        | 5%                       | 72        | 50        | 44%        | 595       | 377   | 58%   |
| Income Drawdown                        | 352       | 146       | 141%       | -         | -         | N/A                      | 35        | 15        | 133%       | 352       | 146   | 141%  |
| Wholesale                              | 1,710     | 276       | 520%       | -         | -         | N/A                      | 171       | 28        | 511%       | 1,710     | 276   | 520%  |
| Other Products                         | 20        | 24        | (17)%      | 29        | 30        | (3)%                     | 32        | 32        | 0%         | 220       | 226   | (3)%  |
| Total UK & Europe Insurance Operations | 6,681     | 5,128     | 30%        | 189       | 212       | (11)%                    | 857       | 725       | 18%        | 7,471     | 5,978 | 25%   |

Schedule A(x) - Total UK and Europe Insurance Operations New Business APE (continued)

(b) Total UK & Europe Insurance New Business APE - By Quarter (AER)

(i) Current presentation

|                                  | 2013     |          |          |          | 2014     |          |          |          |
|----------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
|                                  | Q1<br>£m | Q2<br>£m | Q3<br>£m | Q4<br>£m | Q1<br>£m | Q2<br>£m | Q3<br>£m | Q4<br>£m |
| Direct and Partnership Annuities | 8        | 7        | 7        | 6        | 5        | 5        | 4        | 2        |
| Intermediated Annuities          | 15       | 14       | 12       | 8        | 7        | 3        | 2        | 2        |

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|  |     |     |     |     |     |     |     |     |
|--|-----|-----|-----|-----|-----|-----|-----|-----|
| Internal Vesting Annuities             | 32  | 35  | 31  | 33  | 24  | 19  | 17  | 16  |
| Total Individual Annuities             | 55  | 56  | 50  | 47  | 36  | 27  | 23  | 20  |
| Corporate Pensions                     | 53  | 40  | 45  | 35  | 40  | 39  | 38  | 30  |
| On-shore Bonds                         | 45  | 38  | 43  | 50  | 49  | 53  | 60  | 70  |
| Other Products                         | 32  | 36  | 32  | 40  | 39  | 46  | 57  | 59  |
| Wholesale                              | -   | -   | 15  | 13  | 73  | 31  | 37  | 30  |
| Total UK & Europe Insurance Operations | 185 | 170 | 185 | 185 | 237 | 196 | 215 | 209 |

(i) Revised presentation from 2015

|  | 2013     |          |          |          | 2014     |          |          |          |
|--|----------|----------|----------|----------|----------|----------|----------|----------|
|  | Q1<br>£m | Q2<br>£m | Q3<br>£m | Q4<br>£m | Q1<br>£m | Q2<br>£m | Q3<br>£m | Q4<br>£m |
| Individual Annuities                   | 55       | 56       | 50       | 47       | 36       | 27       | 23       | 20       |
| Bonds                                  | 52       | 48       | 55       | 64       | 63       | 67       | 77       | 87       |
| Corporate Pensions                     | 53       | 40       | 45       | 35       | 40       | 39       | 38       | 30       |
| Individual Pensions                    | 13       | 13       | 11       | 13       | 12       | 15       | 21       | 24       |
| Income Drawdown                        | 3        | 3        | 4        | 5        | 5        | 7        | 11       | 12       |
| Wholesale                              | -        | -        | 15       | 13       | 73       | 31       | 37       | 30       |
| Other Products                         | 9        | 10       | 5        | 8        | 8        | 10       | 8        | 6        |
| Total UK & Europe Insurance Operations | 185      | 170      | 185      | 185      | 237      | 196      | 215      | 209      |

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

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

In addition to showing the amounts, both discounted and undiscounted, expected to be generated from all in-force business at 31 December 2014, the tables also present the expected future free surplus to be generated from the investment made in new business during 2014 over the same 40 year period.

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

|                              | 2014 £m   |       |     |       |  |     |    |       |
|------------------------------|---|-------|-----|-------|--|-----|----|-------|
|                              | Undiscounted expected generation from all in-force business at 31 December* |       |     |       | Undiscounted expected generation from 2014 long-term new business written* |     |    |       |
| Expected period of emergence | Asia  | US    | UK  | Total | Asia   | US  | UK | Total |
| 2015                         | 953   | 1,054 | 506 | 2,513 | 124  | 241 | 25 | 390   |
| 2016                         | 920   | 902   | 514 | 2,336 | 144  | 108 | 22 | 274   |
| 2017                         | 883   | 844   | 501 | 2,228 | 149  | 118 | 23 | 290   |
| 2018                         | 846   | 792   | 503 | 2,141 | 119  | 29  | 22 | 170   |
| 2019                         | 819   | 866   | 494 | 2,179 | 118  | 114 | 23 | 255   |
| 2020                         | 796   | 801   | 482 | 2,079 | 104  | 96  | 23 | 223   |
| 2021                         | 795   | 774   | 473 | 2,042 | 107  | 86  | 24 | 217   |
| 2022                         | 790   | 744   | 465 | 1,999 | 108  | 131 | 24 | 263   |

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|  |        |        |        |        |       |       |     |       |
|--|--------|--------|--------|--------|-------|-------|-----|-------|
| 2023   | 780    | 662    | 470    | 1,912  | 103   | 113   | 24  | 240   |
| 2024   | 751    | 540    | 459    | 1,750  | 111   | 97    | 23  | 231   |
| 2025   | 739    | 464    | 448    | 1,651  | 96    | 83    | 24  | 203   |
| 2026   | 744    | 392    | 436    | 1,572  | 105   | 71    | 23  | 199   |
| 2027   | 735    | 335    | 423    | 1,493  | 93    | 63    | 22  | 178   |
| 2028   | 719    | 290    | 411    | 1,420  | 95    | 56    | 22  | 173   |
| 2029   | 695    | 248    | 401    | 1,344  | 103   | 49    | 22  | 174   |
| 2030   | 668    | 204    | 388    | 1,260  | 92    | 40    | 22  | 154   |
| 2031   | 654    | 186    | 375    | 1,215  | 92    | 35    | 22  | 149   |
| 2032   | 637    | 196    | 366    | 1,199  | 90    | 30    | 22  | 142   |
| 2033   | 621    | 113    | 348    | 1,082  | 88    | 24    | 22  | 134   |
| 2034   | 607    | 104    | 327    | 1,038  | 96    | 24    | 24  | 144   |
| 2035-2039  | 2,921  | 19     | 1,327  | 4,267  | 434   | (14)  | 107 | 527   |
| 2040-2044  | 2,542  | -      | 1,110  | 3,652  | 387   | -     | 97  | 484   |
| 2045-2049  | 2,161  | -      | 521    | 2,682  | 335   | -     | 82  | 417   |
| 2050-2054  | 1,801  | -      | 287    | 2,088  | 289   | -     | 29  | 318   |
| Total free surplus expected to emerge in the next 40 years | 24,577 | 10,530 | 12,035 | 47,142 | 3,582 | 1,594 | 773 | 5,949 |

\* The analysis excludes amounts incorporated into VIF at 31 December 2014 where there is no definitive timeframe for when the payments will be made or receipts received. In particular it excludes the value of the shareholders' interest in the estate. It also excludes any free surplus emerging after 2054. Following their sale, the cash flows exclude any cash flows in respect of Japan and PruHealth and PruProtect.

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

| New business   | 2014 £m |       |       |         |
|--|---------|-------|-------|---------|
|  | Asia    | US    | UK    | Total   |
| Undiscounted expected free surplus generation for years 2015-2054                      | 3,582   | 1,594 | 773   | 5,949   |
| Less: discount effect  | (2,111) | (532) | (451) | (3,094) |
| Discounted expected free surplus generation for years 2015-2054                        | 1,471   | 1,062 | 322   | 2,855   |
| Discounted expected free surplus generation for years 2054+                            | 91      | -     | 2     | 93      |
| PruHealth and PruProtect free surplus generation for new business not included above** | -       | -     | 19    | 19      |
| Less: Free surplus investment in new business note 13                                  | (346)   | (187) | (73)  | (606)   |
| Other items***   | (54)    | (181) | -     | (235)   |
| Post-tax EEV new business profit note 13   | 1,162   | 694   | 270   | 2,126   |

\*\* In November 2014 the Group disposed of its stake in the PruHealth and PruProtect businesses for an EEV profit of £44 million. New business profit for the year includes new business written by the businesses prior to the disposed date. For the analysis above such profits have been excluded as the Group has realised the cash through sale in 2014.

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

The undiscounted expected free surplus generation from all in-force business at 31 December 2014 shown below can be reconciled to the amount that was expected to be generated as at 31 December 2013 as follows:



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| Group   | 2014<br>£m | 2015<br>£m | 2016<br>£m | 2017<br>£m | 2018<br>£m | 2019<br>£m | Other<br>£m | Total<br>£m |
|---|------------|------------|------------|------------|------------|------------|-------------|-------------|
| 2013 expected free surplus generation for years 2014-2053** | 2,165      | 2,109      | 2,025      | 1,911      | 1,884      | 1,814      | 31,638      | 43,546      |
| Less: Amounts expected to be realised in the current year   | (2,165)    | -          | -          | -          | -          | -          | -           | (2,165)     |
| Add: Expected free surplus to be generated in year 2054*    | -          | -          | -          | -          | -          | -          | 367         | 367         |
| Foreign exchange differences                                | -          | 77         | 73         | 67         | 65         | 63         | 850         | 1,195       |
| New business  | -          | 390        | 274        | 290        | 170        | 255        | 4,570       | 5,949       |
| Sale of PruHealth and PruProtect                            | -          | (2)        | (2)        | (5)        | (7)        | (7)        | (48)        | (71)        |
| Operating movements   | -          | 9          | (9)        | 18         | 47         | 58         | (1,632)     | (1,679)     |
| Non-operating and other movements                           | -          | (70)       | (25)       | (53)       | (18)       | (4)        |             |             |
| 2014 expected free surplus generation for years 2015-2054** | -          | 2,513      | 2,336      | 2,228      | 2,141      | 2,179      | 35,745      | 47,142      |
| Asia  | 2014<br>£m | 2015<br>£m | 2016<br>£m | 2017<br>£m | 2018<br>£m | 2019<br>£m | Other<br>£m | Total<br>£m |
| 2013 expected free surplus generation for years 2014-2053** | 801        | 821        | 798        | 735        | 705        | 682        | 17,471      | 22,013      |
| Less: Amounts expected to be realised in the current year   | (801)      | -          | -          | -          | -          | -          | -           | (801)       |
| Add: Expected free surplus to be generated in year 2054 *   | -          | -          | -          | -          | -          | -          | 324         | 324         |
| Foreign exchange differences                                | -          | 25         | 26         | 23         | 22         | 21         | 548         | 665         |
| New business  | -          | 124        | 144        | 149        | 119        | 118        | 2,928       | 3,582       |
| Operating movements   | -          | -          | (29)       | (1)        | 7          | 13         | (1,115)     | (1,206)     |
| Non-operating and other movements                           | -          | (17)       | (19)       | (23)       | (7)        | (15)       |             |             |
| 2014 expected free surplus generation for years 2015-2054** | -          | 953        | 920        | 883        | 846        | 819        | 20,156      | 24,577      |
| US  | 2014<br>£m | 2015<br>£m | 2016<br>£m | 2017<br>£m | 2018<br>£m | 2019<br>£m | Other<br>£m | Total<br>£m |
| 2013 expected free surplus generation for years 2014-2053   | 902        | 817        | 760        | 709        | 700        | 666        | 4,834       | 9,388       |
| Less: Amounts expected to be realised in the current year   | (902)      | -          | -          | -          | -          | -          | -           | (902)       |
| Add: Expected free surplus to be generated in year 2054 *   | -          | -          | -          | -          | -          | -          | -           | -           |
| Foreign exchange differences                                | -          | 52         | 47         | 44         | 43         | 42         | 302         | 530         |
| New business  | -          | 241        | 108        | 118        | 29         | 114        | 984         | 1,594       |
| Operating movements   | -          | (10)       | 7          | 10         | 37         | 35         | (48)        | (80)        |
| Non-operating and other movements                           | -          | (46)       | (20)       | (37)       | (17)       | 9          |             |             |
| 2014 expected free surplus generation for years 2015-2054   | -          | 1,054      | 902        | 844        | 792        | 866        | 6,072       | 10,530      |
|   | 2014       | 2015       | 2016       | 2017       | 2018       | 2019       | Other       | Total       |

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| UK  | £m    | £m  | £m  | £m  | £m  | £m  | £m    | £m     |
|---|-------|-----|-----|-----|-----|-----|-------|--------|
| 2013 expected free surplus generation for years 2014-2053 | 462   | 471 | 467 | 467 | 479 | 466 | 9,333 | 12,145 |
| Less: Amounts expected to be realised in the current year | (462) | -   | -   | -   | -   | -   | -     | (462)  |
| Add: Expected free surplus to be generated in year 2054*  | -     | -   | -   | -   | -   | -   | 43    | 43     |
| New business  | -     | 25  | 22  | 23  | 22  | 23  | 658   | 773    |
| Sale of PruHealth and PruProtect                          | -     | (2) | (2) | (5) | (7) | (7) | (48)  | (71)   |
| Operating movements                                       | -     | 19  | 13  | 9   | 3   | 10  | (469) | (393)  |
| Non-operating and other movements                         | -     | (7) | 14  | 7   | 6   | 2   |       |        |
| 2014 expected free surplus generation for years 2015-2054 | -     | 506 | 514 | 501 | 503 | 494 | 9,517 | 12,035 |

\* Excluding 2014 new business.

\*\* Includes the removal of Japan life business following the sale.

At 31 December 2014 the total free surplus expected to be generated over the next five years (years 2015-2019 inclusive), using the same assumptions and methodology as those underpinning our embedded value reporting was £11.4 billion, an increase of £1.7 billion from the £9.7 billion expected over the same period at the end of 2013.

This increase primarily reflects the new business written in 2014, which is expected to generate £1,379 million of free surplus over the next five years. Operating, non-operating and disposal of our share of PruHealth and PruProtect and other items are expected to decrease free surplus generation by £70 million over the next five years, which is more than offset by the favourable foreign exchange movements of £345 million.

At 31 December 2014 the total free surplus expected to be generated on an undiscounted basis in the next forty years is £47.1 billion, up from the £43.5 billion expected at end of 2013 reflecting the effect of new business written across all three business operations and a positive foreign exchange translation effect arising in the US and Asia operations of £1.2 billion. These positive effects have been offset by a £(1.7) billion adverse effect reflecting operating, market assumption changes and the disposal of our share of PruHealth and PruProtect and other items. These principally reflect the impact of falling interest rates, particularly in Asia. The overall growth in the undiscounted value of free surplus reflects our ability to write both growing and profitable new business.

Actual underlying free surplus generated in 2014 from life business in-force at the end of 2014 was £2.7 billion inclusive of £0.3 billion of changes in operating assumptions and experience variances. This compares with the expected 2014 realisation at the end of 2013 of £2.2 billion. This can be analysed further as follows:

|   | Asia<br>£m | US<br>£m | UK<br>£m | Total<br>£m |
|---|------------|----------|----------|-------------|
| Transfer to free surplus in 2014                                      | 828        | 883      | 565      | 2,276       |
| Expected return on free assets  | 62         | 30       | 14       | 106         |
| Changes in operating assumptions and experience variances             | (30)       | 278      | 66       | 314         |
| Underlying free surplus generated from in-force life business in 2014 | 860        | 1,191    | 645      | 2,696       |
| 2014 free surplus expected to be generated at 31 December 2013        | 801        | 902      | 462      | 2,165       |

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

| Expected period of emergence  | 2014 £m  |       |       |        |   |       |     |       |
|---|--|-------|-------|--------|---|-------|-----|-------|
|   | Discounted expected generation from all in-force business at 31 December |       |       |        | Discounted expected generation from long-term 2014 new business written |       |     |       |
|   | Asia   | US    | UK    | Total  | Asia  | US    | UK  | Total |
| 2015  | 908  | 1,017 | 471   | 2,396  | 118   | 233   | 23  | 374   |
| 2016  | 807  | 820   | 457   | 2,084  | 125   | 97    | 20  | 242   |
| 2017  | 720  | 724   | 419   | 1,863  | 119   | 101   | 19  | 239   |
| 2018  | 644  | 642   | 397   | 1,683  | 88  | 23    | 18  | 129   |
| 2019  | 581  | 664   | 367   | 1,612  | 81  | 86    | 18  | 185   |
| 2020  | 529  | 576   | 337   | 1,442  | 67  | 68    | 16  | 151   |
| 2021  | 494  | 526   | 312   | 1,332  | 65  | 56    | 16  | 137   |
| 2022  | 459  | 478   | 289   | 1,226  | 61  | 81    | 15  | 157   |
| 2023  | 424  | 406   | 274   | 1,104  | 54  | 65    | 14  | 133   |
| 2024  | 383  | 312   | 252   | 947    | 54  | 52    | 13  | 119   |
| 2025  | 354  | 255   | 231   | 840    | 43  | 42    | 12  | 97    |
| 2026  | 335  | 204   | 212   | 751    | 45  | 33    | 11  | 89    |
| 2027  | 311  | 165   | 193   | 669    | 37  | 28    | 10  | 75    |
| 2028  | 289  | 137   | 176   | 602    | 36  | 23    | 10  | 69    |
| 2029  | 264  | 112   | 161   | 537    | 37  | 19    | 9   | 65    |
| 2030  | 239  | 90    | 146   | 475    | 32  | 15    | 8   | 55    |
| 2031  | 221  | 80    | 133   | 434    | 30  | 12    | 8   | 50    |
| 2032  | 204  | 83    | 122   | 409    | 28  | 10    | 7   | 45    |
| 2033  | 188  | 42    | 109   | 339    | 26  | 7     | 7   | 40    |
| 2034  | 174  | 39    | 96    | 309    | 28  | 7     | 7   | 42    |
| 2035-2039   | 747  | 99    | 321   | 1,167  | 112   | 4     | 27  | 143   |
| 2040-2044   | 518  | -     | 195   | 713    | 82  | -     | 18  | 100   |
| 2045-2049   | 362  | -     | 63    | 425    | 60  | -     | 12  | 72    |
| 2050-2054   | 247  | -     | 25    | 272    | 43  | -     | 4   | 47    |
| Total discounted free surplus expected to emerge in the next 40 years | 10,402   | 7,471 | 5,758 | 23,631 | 1,471   | 1,062 | 322 | 2,855 |

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

|   | Total £m |
|---|----------|
| Discounted expected generation from all in-force business for years 2015-2054                           | 23,631   |
| Discounted expected generation from all in-force business for years after 2054                          | 470      |
| Discounted expected generation from all in-force business (excluding Japan) at 31 December 2014 note 14 | 24,101   |
| Add: Free surplus of life operations held at 31 December 2014 note 13                                   | 4,193    |
| Less: Time value of guarantees note 14  | (575)    |
| Expected cashflow from the sale of Japan Life business*   | 23       |
| Other non-modelled items** note 14  | 1,382    |
| Total EEV for life operations   | 29,124   |

\* Upon completion of the sale of the Japan life business £23 million of free surplus will be released. See note 8 and note 14 of the EEV basis results section for further details.

\*\* These relate to items where there is no definitive timeframe for when the payments will be made or receipts received and are, consequently, excluded from the amounts incorporated into the tables above showing the expected generation of free surplus from in-force business at 31 December 2014. In particular it excludes the value of the shareholders' interest in the estate.

#### C Foreign currency source of key metrics

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

##### Free surplus and IFRS 2014 results

|                            | Underlying free<br>surplus<br>generated <sup>2</sup><br>% | Pre-tax<br>Operating<br>profit <sup>2,3,4</sup><br>% | Shareholders'<br>funds <sup>2,3,4</sup><br>% |
|----------------------------|---|--|--|
| US\$ linked <sup>1</sup>   | 14  | 17   | 14   |
| Other Asia currencies      | 9   | 18   | 18   |
| Total Asia                 | 23  | 35   | 32   |
| UK sterling <sup>3,4</sup> | 38  | 20   | 46   |
| US\$ 4                     | 39  | 45   | 22   |
| Total                      | 100   | 100  | 100  |

##### EEV 2014 results

|                            | Post-tax New<br>Business profits<br>% | Post-tax<br>Operating<br>Profit <sup>2,3,4</sup><br>% | Shareholders'<br>Funds <sup>2,3,4</sup><br>% |
|----------------------------|---------------------------------------|---|--|
| US\$ linked <sup>1</sup>   | 36                                    | 35  | 29   |
| Other Asia currencies      | 18                                    | 13  | 15   |
| Total Asia                 | 54                                    | 48  | 44   |
| UK sterling <sup>3,4</sup> | 13                                    | 14  | 33   |
| US\$ <sup>4</sup>          | 33                                    | 38  | 23   |
| Total                      | 100                                   | 100   | 100  |

##### Notes:

1US\$ linked - comprising the Hong Kong and Vietnam operations where the currencies are pegged to the US dollar and the Malaysia and Singapore operations where the currencies are managed against a basket of currencies including the US dollar.

2Includes long-term, asset management business and other businesses.

3For operating profit and shareholders' funds UK sterling includes amounts in respect of central operations as well as UK insurance operations and M&G.

4 For shareholders' funds, the US\$ grouping includes US\$ denominated core structural borrowings. Sterling operating profits include all interest payable as sterling denominated, reflecting interest rate currency swaps in place.

#### D Results of sold PruHealth and PruProtect business

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The tables below show the results of the sold PruHealth and PruProtect business which were included in the Group's results for full year and half year 2014.

IFRS 2014 results

|                          | 2014 £m   |           |
|--------------------------|-----------|-----------|
|                          | Full year | Half year |
| Pre-tax operating profit | 23        | 8         |

EEV 2014 post-tax results

|                           | 2014 £m   |           |
|---------------------------|-----------|-----------|
|                           | Full year | Half year |
| APE sales                 | 23        | 14        |
| Operating profit          |           |           |
| New business contribution | 11        | 6         |
| Total operating profit    | 11        | 8         |

APE and new business contribution

|                | 2014 £m                                |    |
|----------------|--|----|
|                | Post-tax new business APE contribution |    |
| Full year 2014 | 23                                     | 11 |
| Q3 2014        | 20                                     | 9  |
| Half year 2014 | 14                                     | 6  |
| Q1 2014        | 7                                      | 3  |

SIGNATURES

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date 10 March 2015

PRUDENTIAL PUBLIC LIMITED COMPANY

By: /s/ Nic Nicandrou

Nic Nicandrou  
Chief Financial Officer