PRUDENTIAL

Prudential plc

英國保誠有限公司*

(Incorporated and registered in England and Wales under the number 01397169)

(Stock code: 2378)

PRESS RELEASE AND HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

NEWS RELEASE

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PRUDENTIAL PLC 2015 HALF YEAR RESULTS

PRUDENTIAL DELIVERS BROAD-BASED PROFITABLE GROWTH AND INCREASED CASH GENERATION

Group Performance Highlights (on constant exchange rate basis)
- IFRS operating profit of £1,881 million, up 17 per cent[1]
- EEV new business profit of £1,190 million, up 12 per cent[1,2]
- Underlying free surplus generation[3] (after investment in new business) of £1,418 million, up 12 per cent[1]
- Net cash remittances from business units of £1,068 million, up 10 per cent

Business Units Performance Highlights (on constant exchange rate basis)
- Asia life and asset management IFRS operating profit of £632 million, up 17 per cent[1]
- Jackson life IFRS operating profit of £834 million, up 11 per cent[1]
- UK life IFRS operating profit of £436 million, up 19 per cent[2]
- M&G IFRS operating profit of £251 million, up 11 per cent

Capital & Dividend
- IFRS shareholders' funds of £12.1 billion, up 14 per cent[4]
- EEV shareholders' funds of £30.1 billion, up 16 per cent[4], equivalent to 1,170 pence per share
- Insurance Groups Directive capital surplus[5] estimated at £5.2 billion; solvency requirements covered 2.5 times
- 2015 interim dividend increased by 10 per cent to 12.31 pence per share

Commenting on the results, Mike Wells, Group Chief Executive, said:

"We have delivered a strong, broad-based performance in the first half of 2015. Our consistent strategy, rigorous execution and tight focus on the needs of our customers have ensured that we continue to deliver profitable growth and increased cash generation.

"Group IFRS operating profit increased 17 per cent to £1,881 million and EEV new business profit grew by 12 per cent to £1,190 million, while underlying free surplus generation increased by 12 per cent to £1,418 million.

"We have seen strong performances from each of our principal business units. In Asia, where we are focused on meeting the protection and savings needs of the growing middle classes through our high-quality agency force and productive bank partnerships, our life and asset management businesses delivered a combined IFRS operating profit of £632 million, up by 17 per cent and free surplus generation of £356 million, up 16 per cent. Life new business profit in the region was up 30 per cent to £664 million, reflecting a 31 per cent increase in APE sales.

"At Eastspring, our Asia-based asset management business, external net inflows of £4.6 billion and positive market movements have driven total funds under management to a record level of £85.3 billion, 28 per cent higher than a year ago.

"In the US, Jackson continues to execute with discipline, delivering growth in both IFRS operating profit and cash, while maintaining a strong focus on value, risk management and capital. In the first half of 2015, we continued to manage proactively sales of variable annuities with living benefits while diversifying our sales mix. Our success in capturing strong variable annuity inflows at attractive margins drove our separate account asset base 11 per cent[6] higher to £85.9 billion at 30 June 2015. Jackson's life IFRS operating profit consequently increased by 11 per cent to £834 million, which represents a new high at the half year stage. Cash remittances also grew by 14 per cent (on an actual exchange rate basis) to £403 million.

[1] Period-on-period percentage increases are stated on a constant exchange rate basis unless otherwise stated. Increases on an actual exchange rate basis, which incorporate the effect of the exchange rate movements, are shown in the Financial Highlights section and in the Chief Financial Officer's report. All amounts are comparable to the six months ended 30 June 2014 unless otherwise indicated.
[2] Following the disposal of the Group's 25 per cent interest in PruHealth and PruProtect in November 2014, the 2014 comparative results of UK insurance operations have been adjusted to exclude results of those businesses.
[3] Underlying free surplus generated comprises free surplus generated based on operating movements from long-term business (net of investment in new business) and that generated from asset management operations.
[4] Comparable to 30 June 2014 on an actual exchange rate basis.
[5] Before allowing for interim dividend.
[6] Comparable to 30 June 2014 on a constant exchange rate basis.

"Our UK life business delivered a strong performance amid an unprecedented level of regulatory change affecting how customers access their savings in retirement. Prudential delivered a 25 per cent increase in retail APE sales to £393 million, despite lower sales of retail annuities. This volume growth, together with the completion of two attractively priced bulk deals in the first half of the year, resulted in a 12 per cent increase in total new business profit. Life IFRS operating profit of £436 million was up 19 per cent, reflecting ongoing active management to unlock value in our in-force business.

"In asset management, M&G delivered operating profit of £251 million, an increase of 11 per cent, reflecting higher average levels of funds under management. This was achieved despite the net outflows experienced in the second quarter of 2015, a consequence of softer consumer sentiment on fixed income assets.

"Our capital-generative business model and our disciplined approach to risk management have driven our shareholders' equity and our estimated Insurance Groups Directive surplus to higher levels at 30 June 2015 than at 31 December 2014. In anticipation of the implementation of Solvency II at the start of 2016, we submitted our internal model to the Prudential Regulation Authority for approval in June. Alongside our UK peers, we expect to hear the outcome of the approval process in early December. Our strong half year performance and sound capital position have enabled us to increase our 2015 interim dividend by 10 per cent to 12.31 pence per share.

"In summary, the first half of the year has demonstrated the success of our disciplined execution of the Group's strategy. We are capturing profitably the opportunities available to us in the growing markets of Asia, while in the US and the UK we are continuing to use our established market position, distribution strength and products that are valued by customers to deliver growth in IFRS operating profit and free surplus generation. In doing so, we are making progress towards our 2017 objectives.

"I am pleased to be able to announce such a strong performance today, the first time I have reported our results after taking over as Group Chief Executive at the beginning of June. Since then I have visited all of our major business operations, which has confirmed to me not only that our strategy is the right one, but that we have all of the capabilities required to execute it successfully.

"Looking ahead, despite ongoing macro-economic uncertainties, we are confident that our proven strategy, strong execution and the quality of our people will continue to deliver great products and service to our 25 million customers and relative outperformance to our shareholders."

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Notes to Editors:

1. The results in this announcement are prepared on two bases: International Financial Reporting Standards (IFRS) and European Embedded Value (EEV). The IFRS basis results form the basis of the Group's statutory financial statements. The supplementary EEV basis results have been prepared in accordance with the European Embedded Value principles issued by the CFO Forum of European Insurance Companies in May 2004. The Group's EEV basis results are stated on a post-tax basis and, where appropriate, include the effects of IFRS. Period-on-period percentage increases are stated on a constant exchange rate basis unless otherwise stated. Constant exchange rates results are calculated by translating prior period results using the current period foreign exchange rate i.e. current period average rates for the income statement and current period closing rates for the balance sheet.

2. Annual Premium Equivalent (APE) sales comprise regular premium sales plus one-tenth of single premium insurance sales.

3. Operating profits are determined on the basis of including longer-term investment returns. EEV and IFRS operating profits are stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions, gain on the sale of PruHealth and PruProtect and the costs arising from the domestication of our Hong Kong business. Furthermore, for the EEV basis results, operating profit based on longer-term investment returns additionally excludes the effect of changes in economic assumptions and the mark to market value movement on core borrowings. Separately on the IFRS basis, operating profit also excludes amortisation of accounting adjustments arising principally on the acquisition of REALIC completed in 2012 and the cumulative foreign exchange loss on the disposal of the Japan Life business that has been recycled from Other Comprehensive Income on completion of the sale process.

4. Total number of Prudential plc shares in issue as at 30 June 2015 was 2,571,064,069.

5. A presentation for analysts and investors will be held today at 11.00am (UK) / 6.00pm (Hong Kong) in the conference suite at Nomura International plc, 1 Angel Lane, London EC4R 3AB. The presentation will be webcast live and as a replay on the corporate website via the link below:
http://prudential.co.uk/investors/results-and-presentations/results-day

A dial-in facility will be available to listen to the presentation. Please allow time ahead of the presentation to join the call (lines open half an hour before the presentation is due to start, i.e. from 10.30am (UK) / 5.30pm (Hong Kong)). Dial-in: +44 (0)20 3059 8125 / 0800 368 0649 (Freephone UK), Passcode: 'Prudential' (this must be quoted to the operator to gain access to the call). Playback: +44 (0)121 260 4861, Passcode: 1320141#. This will be available from approximately 4.00pm (UK) / 11.00pm (Hong Kong) on 11 August 2015 until 11.59pm (UK) on 25 August 2015 and 06.59am (Hong Kong) on 26 August 2015.

6. High-resolution photographs are available to the media free of charge at www.prudential.co.uk/prudential-plc/media/media_library

7. 2015 Interim Dividend

Ex-dividend date	20 August 2015 (UK, Ireland and Hong Kong) 19 August 2015 (Singapore)
Record date	21 August 2015
Payment of dividend	24 September 2015 (UK, Ireland and Hong Kong) On or about 1 October 2015 (Singapore) On or about 1 October 2015 (ADR holders)

8. About Prudential plc

Prudential plc is incorporated in England and Wales, and its affiliated companies constitute one of the world's leading financial service groups serving around 25 million customers and has £505 billion of assets under management (as at 30 June 2015). Prudential plc is listed on the stock exchanges in London, Hong Kong, Singapore and New York. Prudential plc is not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America.

9. Forward-Looking Statements

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

Any forward-looking statements contained in this document speak only as of the date on which they are made. Prudential expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST listing rules or other applicable laws and regulations.

Summary Half Year 2015 financial performance

Financial highlights

Life APE new business sales (APE sales)

	Actual Exchange Rate			Constant Exchange Rate	
	2015 £m	2014 £m	Change %	2014 £m	Change %
	Half year	Half year		Half year	
Asia	**1,366**	996	37	1,042	31
US	**857**	871	(2)	954	(10)
UK[1]	**510**	419	22	419	22
Total Group[1]	**2,733**	2,286	20	2,415	13

Life new business profits and investment in new business

	Actual Exchange Rate						Constant Exchange Rate			
	2015 £m		2014 £m		Change %		2014 £m		Change %	
	New Business Profit	Free surplus invested in new business	New Business Profit	Free surplus invested in new business	New Business Profit	Free surplus investment in new business	New Business Profit	Free surplus investment in new business	New Business Profit	Free surplus investment in new business
Asia	**664**	**213**	494	167	34	28	512	176	30	21
US	**371**	**164**	376	173	(1)	(5)	412	189	(10)	(13)
UK[1]	**155**	**57**	139	36	12	58	139	36	12	58
Total Group[1]	**1,190**	**434**	1,009	376	18	15	1,063	401	12	8

Profit before tax - IFRS

	Actual Exchange Rate			Constant Exchange Rate	
	2015 £m	2014 £m	Change %	2014 £m	Change %
	Half year	Half year		Half year	
Operating profit before tax					
Long-term business:					
Asia[2]	**574**	483	19	497	15
US	**834**	686	22	751	11
UK[1]	**436**	366	19	366	19
Long-term business operating profit before tax [1, 2]	**1,844**	1,535	20	1,614	14
UK general insurance commission	**17**	12	42	12	42
Asset management business:					
M&G	**251**	227	11	227	11
Prudential Capital	**7**	22	(68)	22	(68)
Eastspring Investments	**58**	42	38	43	35
US	**12**	(5)	n/a	(5)	n/a
Other income and expenditure	**(308)**	(320)	4	(320)	4
Results of the sold PruHealth and PruProtect businesses	**-**	8	(100)	8	(100)
Total operating profit based on longer-term investment returns before tax	**1,881**	1,521	24	1,601	17
Non-operating items	**1**	(97)	n/a	(113)	n/a
Profit before tax attributable to shareholders	**1,882**	1,424	32	1,488	26

Post-tax profit - EEV

	Actual Exchange Rate			Constant Exchange Rate	
	2015 £m	2014 £m	Change %	2014 £m	Change %
	Half year	Half year		Half year	
Post-tax operating profit					
Long-term business:					
Asia[2]	**1,072**	832	29	862	24
US	**812**	777	5	851	(5)
UK[1]	**411**	380	8	380	8
Long-term business post-tax operating profit[1, 2]	**2,295**	1,989	15	2,093	10
UK general insurance commission	**14**	9	56	9	56
Asset management business:					
M&G	**203**	182	12	182	12
Prudential Capital	**6**	18	(67)	18	(67)
Eastspring Investments	**50**	36	39	37	35
US	**8**	(5)	n/a	(5)	n/a
Other income and expenditure	**(298)**	(294)	(1)	(294)	(1)
Results of the sold PruHealth and PruProtect businesses	**-**	8	(100)	8	(100)
Post-tax operating profit based on longer-term investment returns	**2,278**	1,943	17	2,048	11
Non-operating items	**(163)**	(9)	n/a	(6)	n/a
Post-tax profit for the period attributable to shareholders	**2,115**	1,934	9	2,042	4

Basic earnings per share - based on operating profit after tax

	Actual Exchange Rate			Constant Exchange Rate	
	2015 pence Half year	2014 pence Half year	Change %	2014 pence Half year	Change %
IFRS	**57.0**	45.2	26	47.4	20
EEV	**89.3**	76.3	17	80.4	11

Underlying free surplus generated[3]

	Actual Exchange Rate						Constant Exchange Rate			
	2015 £m Half year		2014 £m Half year		Change %		2014 £m Half year		Change %	
	Long-term	Total	Long-term	Total	Long-term	Total	Long-term	Total	Long-term	Total
Asia	**306**	**356**	266	302	15	18	271	308	13	16
US	**536**	**544**	461	456	16	19	505	500	6	9
UK[1]	**295**	**309**	253	262	17	18	253	262	17	18
M&G	-	**203**	-	182	-	12	-	182	-	12
Prudential Capital	-	**6**	-	18	-	(67)	-	18	-	(67)
Results of the sold PruHealth and PruProtect businesses	-	**-**	-	(1)	-	100	-	(1)	-	100
Total Group	**1,137**	**1,418**	980	1,219	16	16	1,029	1,269	10	12

Cash remitted by the business units to the Group

	2015 £m Half year	2014 £m Half year	Change %
	Total	Total	Total
Asia	**258**	216	19
US	**403**	352	14
UK	**231**	246	(6)
M&G	**151**	135	12
Prudential Capital	**25**	25	-
Total Group	**1,068**	974	10

Cash and capital

	2015 Half year	2014 Half year	Change %
Dividend per share relating to the reporting period	**12.31p**	11.19p	10
Holding company cash and short-term investments	**£2,094m**	£1,902m	10
IGD capital surplus before interim dividend[4]	**£5.2bn**	£4.1bn	27

Group shareholders' funds (including goodwill attributable to shareholders)

	2015 Half year	2014 Half year	Change %
IFRS	**£12.1bn**	£10.6bn	14
EEV	**£30.1bn**	£25.9bn	16

	2015 % Half year	2014 % Half year
Return on IFRS shareholders' funds[5]	**24**	24
Return on embedded value [5]	**16**	16

	2015 Half year	2014 Half year	Change %
EEV shareholders' funds per share (including goodwill attributable to shareholders)	**1,170p**	1,009p	16
EEV shareholders' funds per share (excluding goodwill attributable to shareholders)	**1,113p**	952p	17

1 Following the disposal of the Group's 25 per cent interest in PruHealth and PruProtect in November 2014, the 2014 comparative results of UK insurance operations have been adjusted to exclude results of those businesses.
2 After Asia development costs.
3 Underlying free surplus generated comprises underlying free surplus generated from the Group's long-term business (net of investment in new business) and that generated from asset management operations.
4 Estimated.
5 Annualised operating profit after tax and non-controlling interests as a percentage of opening shareholders' funds.

Group Chief Executive's Report

In my first update as Group Chief Executive, I am pleased to report a strong, broad-based performance in the first half of 2015.

Our focus on the three main opportunities in Asia, US and UK – serving the protection and investment needs of the growing middle class in Asia, providing income in retirement to American baby boomers and meeting the financial needs of an ageing British population – is unchanged. The Group has distinct strengths and capabilities to execute our strategy successfully: leading market positions in its chosen geographies, strong diversification by geography, currency, product and distribution and a high quality, growing in-force book which generates significant earnings and cash. Our teams continue to leverage these strengths effectively and with discipline, as evidenced by the strong progress in the first half of 2015.

Currency volatility

In both 2014 and 2015 to date, there have been significant fluctuations in the value of sterling against local currencies in the US and in some of our key markets in Asia. These fluctuations continue to be driven by ongoing speculation about relative growth trajectories in the world's major economies and by debate around the timing and size of the withdrawal of the stimulus provided by various central banks. The sizeable component of Prudential's non-sterling earnings and assets means that our headline results and shareholders' equity, which are reported in UK sterling, will also fluctuate from one reporting period to the next.

As our businesses across the various jurisdictions in which we operate are not exposed to any cross-currency trading effects, unless otherwise stated, we have continued to comment on our Asia and US business performance in local currency terms (expressed on a constant exchange rate basis), as this represents a more appropriate basis to outline underlying performance. It is worth noting that so far this year we have experienced a favourable currency translation effect, reflecting weaker sterling in the first half of 2015, compared with the equivalent period last year. As a result and contrary to the financial performance trends that we observed last year, the constant exchange rate basis produces higher sterling comparatives and hence lower overall percentage progressions than those observed on an actual exchange rate basis.

Group performance[1]

Our first-half performance is underpinned by material contributions from all our principal business units.

Our Group **IFRS operating profit** based on longer-term investment returns increased by 17 per cent during the first half of 2015 to £1,881 million, with a broad-based contribution to growth from all four principal business operations – Asia, US, UK and M&G. On an actual exchange rate basis, the Group's IFRS operating profit grew by 24 per cent.

- Asia life and asset management operating profit of £632 million, grew by 17 per cent, reflecting our continuing success in capturing profitable growth in markets which are under-penetrated with growing demand for protection and savings products. Our leading position in 9 out of 12 markets in the region, including Eastspring's position as Asia's largest retail asset manager[2], enables us to meet a wide range of customer needs and deliver a performance that is resilient across the economic cycle.

- US life IFRS operating profit of £834 million was up 11 per cent. A primary driver of our earnings is our growing separate account asset base that has benefitted from both strong net inflows and strong separate account performance.

- UK life IFRS operating profit of £436 million, grew by 19 per cent, reflecting continued pro-active management of our in-force book.

- M&G delivered operating profit of £251 million, an increase of 11 per cent, primarily reflecting higher levels of average funds under management (including internal funds) which are 7 per cent higher at £260.0 billion.

The Group is focused on delivering strong cash generation, which underpins both our strategic and financial flexibility. **Underlying free surplus generation**[3] from our life and asset management businesses, a key indicator of cash generation in these businesses, was 12 per cent higher at £1,418 million after reinvestment in new business. **Net cash remittances** from our businesses increased by 10 per cent on actual exchange rates to £1,068 million. Cash remittances of £258 million from Asia were 19 per cent higher in the first half of 2015 while those from the US increased by 14 per cent to £403 million, both on an actual exchange rate basis. Our UK operations remitted £231 million (2014: £246 million), as we continue to invest in the business in response to the UK market reforms. M&G delivered an increase in remittances of 12 per cent to £151 million, in line with the growth in earnings.

New business profit[4] was up 12 per cent to £1,190 million, primarily reflecting higher overall volumes in Asia and the UK. All three of our life businesses made strong contributions to the total, with £664 million (up 30 per cent) of new business profit from Asia, £371 million (lower by 10 per cent as we continue to execute disciplined sales management) from the US and £155 million (up 12 per cent) from the UK[4].

APE sales[4,5] increased by 13 per cent to £2,733 million. In Asia, APE sales were 31 per cent higher at £1,366 million, with sales volumes reflecting broad-based growth across the region. In the US, APE sales were 10 per cent lower at £857 million as we continued to manage proactively our sales of variable annuities with guarantees. We continue to diversify our product mix with sales of Elite Access, our innovative variable annuity without guarantees, which contributed to the increase in the proportion of variable annuities sold without living benefit guarantees to 34 per cent of total variable annuity sales (2014: 32 per cent). In the UK, APE sales grew by 22 per cent[4] to £510 million, reflecting strong sales volumes of income drawdown, individual pensions and investment bonds as the business made strong progress in launching new products in response to the new pensions freedom. These initiatives helped offset the adverse impact on our UK retail sales from the significant contraction of the retail annuity market.

M&G experienced net outflows of £2.4 billion (2014: inflows of £4.2 billion) driven by retail net outflows of £3.4 billion, mainly reflecting redemptions from bond funds, which more than offset positive net flows from multi-asset funds. Eastspring Investments, our Asia asset management business, delivered record third party net inflows of £4.6 billion (2014: net inflows of £2.5 billion), driven principally by retail flows into equity funds.

Our balance sheet continues to be defensively positioned and at the end of the period our Insurance Groups Directive surplus[6] was estimated at £5.2 billion, equating to coverage of 2.5 times.

We are continuing to make progress towards our 2017 objectives announced in December 2013.

	Reported actuals				Objectives*
				Half year	
Asia Objectives	**2012 £m[7]**	**2013 £m**	**2014 £m**	**2015 £m**	**2017**
Asia life and asset management IFRS operating profit					
Full year	924	1,075	1,140		>£1,858 million**
Half year	435	512	525	632	
Asia Underlying Free Surplus Generation[3]					
Full year	484	573	592		£0.9 - £1.1 billion
Half year	201	292	302	356	

Group Objective for cumulative period 1 January 2014 to 31 December 2017	**Actual**	**Objective**
	1 Jan 2014 to 30 June 2015	**1 Jan 2014 to 31 December 2017**
Cumulative Group Underlying Free Surplus Generation from 2014 onwards	£4.0 billion	> £10 billion

* The objectives assume exchange rates at December 2013 and economic assumptions made by Prudential in calculating the EEV basis supplementary information for the half year ended 30 June 2013, and are based on regulatory and solvency regimes applicable across the Group at the time the objectives were set. The objectives assume that the existing EEV, IFRS and Free Surplus methodology at December 2013 will be applicable over the period.

** Asia life and asset management pre-tax IFRS operating profit to grow at a compound annual rate of at least 15 per cent over the period 2012-2017.

Our operating performance by business unit

Asia

Asia has delivered a strong performance across all of our key metrics. In the first half of 2015, Asia's IFRS operating profit increased by 17 per cent to £632 million (20 per cent on an actual exchange rate basis), driven by 15 per cent growth in our life businesses and 35 per cent growth in Eastspring Investments, our Asia asset management businesses (19 per cent and 38 per cent respectively on an actual exchange rate basis). Underlying free surplus generation grew by 16 per cent to £356 million (18 per cent on an actual exchange rate basis), reflecting continued disciplined new business growth and the increasing scale of our in-force portfolio. Cash remittances were up 19 per cent at £258 million on an actual exchange rate basis.

The macro-economic environment remains broadly supportive, with our markets generating some of the world's highest GDP growth rates and having favourable demographic trends. While in some markets we are seeing local short-term challenges, particularly in Indonesia where the macro-economic outlook remains fragile, our pan-Asian platform across 12 life markets in the region and significant diversification by country, product and channel enables the delivery of a strong regional performance. Our priority remains the provision of products and services that meet the significant savings and financial protection needs of Asia's rapidly growing middle classes while also delivering consistent shareholder returns across the economic cycle.

Our life businesses have delivered excellent levels of new business production in the first half, with APE sales up 31 per cent to £1,366 million, driving a 30 per cent increase to £664 million in new business profit. Our new business sales continue to have a high proportion of regular premiums (91 per cent of APE sales), and a significant amount of premium directed towards health and protection coverage (26 per cent of APE sales) which makes our business less correlated to investment markets. In addition, the breadth and quality of our market-leading distribution platform has seen growth in both agency and bancassurance channels, offering further resilience to our progress as we are able to reach a wider customer base. Agency-generated APE sales increased by 32 per cent over prior period driven by higher numbers of active agents and improvements in agency productivity. Bancassurance APE sales were up by 16 per cent, despite the loss of two relationships in Singapore as previously disclosed, and including growth of 35 per cent from our relationship with Standard Chartered Bank.

In **Hong Kong**, APE sales increased by 84 per cent to £519 million driven by a 41 per cent increase in active agency manpower and improved productivity, together with the continuing success of our longstanding relationship with Standard Chartered Bank as well as the smaller, but fast-growing broker channel. The Hong Kong economy has very close ties with mainland China and the market has seen increasing levels of sales to mainland customers. We have an excellent track record in executing on this opportunity and our US dollar-denominated participating products are particularly attractive.

Our joint venture with CITIC in **China** continues to perform well, with APE sales growing by 44 per cent, reflecting progress in both the agency and bank channels as a result of strong momentum from our efforts to grow scale in a vastly under-penetrated market. We continue to monitor closely the recent developments in the China equity markets but to date have not seen any significant impact on our business.

Consumer sentiment in **Indonesia** remains depressed as the economy faces short to medium-term challenges from weaker global demand for its raw material exports, with President Jokowi's ambitious reform programmes progressing at a slower pace than anticipated. Against this backdrop, our new business APE sales were in line with last period at £183 million, while new business profit was lower, reflecting business mix and adverse interest rate effects. We remain confident in the medium-term potential in this market given modest insurance penetration and a growing middle class. We are, therefore, continuing to build out our platform across the country, which positions us well for when more favourable conditions return. Notwithstanding flat sales, the recurring regular premium nature of the unit-linked and protection business that we write in Indonesia has driven IFRS operating profit higher by 21 per cent to £167 million.

Our **Malaysia** strategy in recent years has been to broaden our approach to include a greater focus on the bumiputra sector of the market and increasing penetration of Takaful products. Progress in this area continues to be highly encouraging which, together with strong growth in bancassurance, has resulted in APE sales for the half year growing by 18 per cent.

In **Singapore**, APE sales, excluding the Maybank and Singpost relationships, which ceased in 2014, are broadly in line with the previous period, while new business profit on the same basis increased by 11 per cent, reflecting our decision to focus on higher-value protection products. On a reported basis, APE sales including these discontinued relationships declined 13 per cent while new business profit remained in line with the equivalent period last year.

In our smaller businesses in South-east Asia, the economy in **Thailand** continues to be sluggish and in the context of a 2.4 per cent decline[8] in the overall insurance market, we are pleased that our business continues to make good progress, with APE sales growth of 4 per cent. We continue to increase the proportion of protection products in the mix of business sold, driving APE from these products 52 per cent higher. The transformation of our business in the **Philippines** is showing significant improvements following a refocussing on the agency channel, with APE sales higher by 21 per cent. **Vietnam** also had an excellent first half, with APE sales growing 36 per cent, driven by increases in agency activity.

In **India** our joint venture with ICICI Bank remains the leader in the private sector and delivered APE sales growth of 45 per cent, driven by unit-linked sales. We continue to assess developments in the regulations regarding foreign ownership limits.

In **Taiwan** and **Korea**, we remain selective in our participation in line with our value strategy. In the first half of the year, APE sales increased by 7 per cent and 48 per cent respectively.

We are also setting the foundations for future growth in new Asian markets. We have successfully launched in **Cambodia** with the market-leading life insurance business, we have opened a representative office in **Myanmar** and we are in the preliminary stages of entering **Laos**.

Eastspring Investments, the largest Asian retail asset manager[2], saw net third-party inflows of £4.6 billion, up 79 per cent from 2014, with robust flows into equity funds, particularly from Japan into our Asia Oceania Fund. Total funds under management as at 30 June 2015 were £85.3 billion, growing 28 per cent period on period as a result of net inflows and positive market movements. IFRS operating profit increased 35 per cent to £58 million, driven by the positive impact on revenue from higher levels of average assets under management.

Asia's results in the first half of 2015 evidence the quality of our diversified business platform and our disciplined execution, which together enable the business to deliver strong, profitable growth across the economic cycle. We have a market-leading franchise in a region which is well supported by the long-term structural tailwinds of low insurance penetration, a rapidly growing and wealthy middle class and limited social insurance, providing significant headroom to create value for customers and shareholders.

US

Jackson continues to benefit from its clear focus on generating earnings and cash. In the first half of 2015, our US business delivered total IFRS operating profit of £846 million, up 13 per cent (24 per cent on an actual exchange rate basis). Jackson's life IFRS operating profit grew 11 per cent (22 per cent on an actual exchange rate basis) to £834 million, reflecting increased fee income from higher levels of separate account assets, which were up 11 per cent period-on-period to £85.9 billion at the end of June 2015 (30 June 2014: £77.7 billion, on a constant exchange rate basis), driven by continued strong net inflows. The growth in earnings also supported strong capital generation, enabling Jackson to remit £403 million of cash to the Group (2014: £352 million), while continuing to maintain a healthy balance sheet.

Despite weak GDP growth in the first quarter of 2015, the US economy has since returned to a path of moderate growth consistent with that seen in the past few years. At 30 June 2015, despite volatility caused by domestic and economic uncertainties, US investment markets closed moderately higher than the start-of-year positions, with the S&P 500 Index up 0.2 per cent and the 10-year Treasury rate increasing by 18 basis points.

The insurance industry continues to deal with emerging regulatory topics, including the Department of Labor's proposed fiduciary standard. Jackson, alongside the rest of the industry, is actively participating in discussions with regulators and industry specialists. The comment period has ended and the public hearing started on 10 August 2015, with any changes not expected to take effect until at least late 2016.

Against this market backdrop, the US competitive landscape continued to see insurers flex the benefits and costs of their variable annuity product offerings and a number of new competitors have entered the investment-only variable annuity market. Jackson remains competitive in its variable annuity offerings and continues to experience success with Elite Access, its investment-only variable annuity.

Jackson remains focused on actively managing sales volumes of variable annuities with living benefits to maintain an appropriate balance of our revenue streams and to match our annual risk appetite. As a result, Jackson experiences fluctuations in quarterly sales volumes as we implement management actions through the year to achieve these goals and continue to price new business on a conservative basis, placing value over volume. In line with this approach, Jackson achieved total retail APE sales of £816 million, a decrease of 8 per cent compared to the first half of 2014 (increase of 1 per cent on an actual exchange rate basis). Including institutional sales, total APE sales decreased 10 per cent to £857 million. New business profit of £371 million was lower by 10 per cent (1 per cent lower on an actual exchange rate basis), in line with the decline in sales volumes. Although interest rates remain low, the beneficial impact of product initiatives implemented in previous years means that the economics of our business remain very attractive and we continue to write highly profitable new business through sales of prudently priced annuity products.

Variable annuity APE sales decreased 8 per cent to £772 million, reflecting the extremely high sales levels achieved in the first half of 2014 and continuing action to manage sales levels. As a result, variable annuity volumes excluding Elite Access were 10 per cent lower period-on-period at £606 million. Sales of Elite Access, our variable annuity without living benefits, were 1 per cent higher than the prior period at £166 million, with two thirds of our first-half sales coming from non-qualified plans. With the contribution from Elite Access, we continue to improve the diversification of our product mix, with 34 per cent of variable annuity APE sales in the first half of 2015 not featuring living benefit guarantees (2014: 32 per cent).

Fixed annuity APE sales of £23 million decreased 21 per cent compared to 2014, primarily as a result of the low interest rate environment. **Fixed index annuity** APE sales of £21 million remained relatively flat compared to the first half of 2014.

Jackson's strategy is unchanged. We continue to price new business on a conservative basis, targeting value over volume. Our hedging remains focused on optimising the economics of our exposures over time while maintaining a strong balance sheet. With this strategy, Jackson has been able to deliver significant profitable growth across the cycle and since 1 January 2008 Jackson has remitted close to US$3.2 billion of cash to the Group. Our performance continues to demonstrate that Jackson's growth translates into value for customers and into profits and cash for shareholders, the ultimate metrics of our successful strategy.

UK, Europe and Africa
In the first half of 2015, Prudential's UK business delivered strong growth in IFRS operating profit, new business profit and free surplus generation. This reflects the successful execution of our UK strategy, focusing on the retail and wholesale business segments where the economics are most attractive. Life IFRS operating profit was 19 per cent[4] higher at £436 million and life free surplus generation (after investment in new business) was 17 per cent higher at £295 million, both driven by our focused approach to new business and effective management of our in-force book. Cash remitted to the Group was £231 million, compared to £246 million in the first half of 2014.

The UK market saw significant disruption from the reforms to the pension industry announced in 2014, which came into force in April 2015. Against this backdrop, our strategic focus on providing risk-managed savings and investment products, development of new products and routes to market and disciplined participation in the bulk annuity market, saw total APE sales rise 22 per cent[4] in the first half of 2015 to £510 million.

Our **retail** business has achieved strong sales performance, with APE sales higher by 25 per cent at £393 million (2014: £315 million[4]) despite the expected slowdown in **individual annuity** APE sales, which were 56 per cent lower at £28 million. Excluding the impact of individual annuities, retail APE sales were 45 per cent higher, driven by the combination of the strength of our investment proposition and the expanding market for flexible retirement income and pension products. There is significant on-going demand for our PruFund multi-asset funds, with customers attracted by both the performance track record and the benefit of a smoothed return to manage market volatility.

We are seeing ongoing diversification in our product portfolio. **Onshore bonds** APE sales of £122 million increased by 19 per cent and **offshore bond** APE sales rose by 22 per cent on the same period last year. Following the pension reforms, we have seen **income drawdown** APE sales more than treble to £39 million and **individual pensions** APE sales more than double to £62 million, offsetting the volume decline from lower individual annuity sales.

Our successful launch in February 2015 of the PruFund range of investment funds within an **ISA** wrapper generated APE sales of £28 million, with assets under management totalling £260 million at the end of June 2015.

In total across all products, PruFund APE sales of £243 million increased by 92 per cent, with total assets under management having increased 18 per cent since the start of the year to £13.7 billion.

In our bulk annuity business, we completed two deals in the first half of 2015, generating £117 million of APE sales and £75 million of new business profit compared to four bulk annuity deals over the same period last year (APE sales of £104 million and new business profit of £69 million). Our approach to bulk transactions in the UK continues to be one of disciplined participation, looking for opportunities where we can both bring significant value to our customers and meet our demanding shareholder return hurdles.

The ongoing focus on the development of our proposition and delivery of excellent customer service that underpins our strategy has been recognised in a number of ways. We received two 5-star ratings at the Financial Adviser Online Service Awards 2015 and were named Company of the Year. We were also awarded best Multi-Asset Manager of the Year (Developed Markets) at the Global Investor 2015 Investment Excellence Awards for our new Dynamic Growth Funds, which launched in March for corporate pensions customers.

While the UK retirement income market continues to undergo significant change, our business remains well placed to prosper in this new environment. Our capabilities in multi-asset investing delivered through the PruFund range, the strength of our brand and diversified distribution position us well to successfully meet evolving customer needs.

In Poland, our life company, Prudential Polska, continues to grow ahead of plan. The business now has 16 branches across the country and 582 financial planning consultants. Its success demonstrates our ability to build a new business franchise by transferring our existing product and distribution strengths to a new market.

In June 2015 we completed the acquisition of Ugandan company Goldstar Life Assurance, a step forward in our strategy of expanding across Sub-Saharan Africa.

M&G

M&G has delivered an 11 per cent increase in IFRS operating profit to £251 million in the first half of 2015. This reflects the growth in average assets under management between the two periods and effective cost control. The higher level of earnings enabled M&G to remit £151 million to the Group in the first half of 2015, representing a 12 per cent increase on the prior period.

Total gross retail and institutional inflows amounted to £20.4 billion, 6 per cent higher than the same period last year. However, larger redemptions saw M&G report overall **retail** net outflows during the first half of 2015 of £3.4 billion (2014: net inflows of £3.8 billion). M&G experienced net retail outflows of £4.0 billion in the second quarter of 2015, including £2.6 billion from Europe, mainly reflecting a change in investor sentiment away from fixed income, a trend we expect to continue into the second half of the year. Our strategy of diversification by fund has helped drive good net inflows into several M&G multi-asset funds. Total retail funds under management at 30 June 2015 were lower at £69.2 billion (30 June 2014: £71.9 billion). Retail funds under management from Continental Europe have increased by 3 per cent to £28.7 billion over the past 12 months and now represent 42 per cent of total retail assets, up from 39 per cent a year ago.

Institutional net inflows increased to £1.0 billion (2014: net inflows of £0.4 billion). The M&G Alpha Opportunities Fund has been particularly popular, attracting net inflows of £1.3 billion. External institutional funds under management have increased to £64.2 billion, up 6 per cent compared with 30 June 2014. The Institutional business continues to have a strong pipeline of new business – money committed by clients but not yet invested – across a diverse range of strategies, thanks to consistently good investment performance and a reputation for innovation.

Total external client assets of £133.4 billion (30 June 2014: £132.8 billion) now account for 52 per cent of total funds under management of £256.5 billion (30 June 2014: £253.7 billion).

Underlying IFRS operating profit[9] increased by 14 per cent to £243 million. The beneficial impact on revenues from higher average levels of funds under management, with operating costs unchanged, has resulted in a cost-income ratio of 51 per cent (2014: 54 per cent).

M&G remains well placed to service clients thanks to its long-held strategy of diversification by asset class, product and geography and its focus on long-term investment performance.

Capital and risk management

We continue to take a disciplined approach to capital management and have implemented a number of measures over the last few years to enable us to make our capital work more efficiently for the Group. Based on the Insurance Groups Directive solvency measure, our surplus position at 30 June 2015 was estimated at £5.2 billion before allowing for the interim dividend (30 June 2014: £4.1 billion; 31 December 2014: £4.7 billion before final dividend). The Insurance Groups Directive surplus at 30 June 2015 is equivalent to a cover of 2.5 times.

In July 2013, Prudential plc was listed by the Financial Stability Board as one of nine companies to be designated as a Global Systemically Important Insurer. In July 2014, the International Association of Insurance Supervisors released a consultation paper on the Basic Capital Requirement, one of the two types of capital requirement proposed under this framework. Prudential is monitoring the development and potential impact of the framework of policy measures and engaging closely with the Prudential Regulation Authority on the implications of this designation.

Solvency II is scheduled to come into force on 1 January 2016. In preparation for this, we submitted our Solvency II internal model applications to the Prudential Regulation Authority in June 2015. The Prudential Regulation Authority have indicated that they will conclude their review and approval process of our internal model along with our UK peers in December 2015. We welcome the clarification provided by the Prudential Regulation Authority that their assessments of the ability of UK entities to make distributions will be based on capital levels after allowance for transitional measures.

Overall we are confident that the final Solvency II outcome will confirm Prudential’s position as a strongly capitalised Group. In the meantime our businesses are continuing to produce strong operating earnings, which generate significant economic capital.

Dividend

Due to the continued strong operating performance of the Group, the Board decided to rebase the 2014 full year dividend upwards to 36.93 pence per share, representing an increase of 10 per cent over 2013. As in previous years, the interim dividend for 2015 has been calculated formulaically as one third of the prior year’s full year dividend. The Board has approved a 2015 interim dividend of 12.31 pence per share, which equates to an increase of 10 per cent over the 2014 interim dividend.

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

Outlook

The Group has made strong progress in the first half of 2015. Our teams remain focused on executing our well defined and successful strategy. The first-half performance builds on a long track record of delivery, meeting the significant customer demand for our products while delivering sustainable shareholder returns.

The macro and geo-political environment remains both uncertain and volatile. Investment markets are progressively pricing in the possibility of interest rate increases in the US, resulting in a stronger dollar, which when combined with commodity price declines is leading to softer global growth prospects. Reflecting these pressures, emerging markets in Asia are now expected by the International Monetary Fund to grow more slowly than recent rates in the short term, but they are still forecast to comfortably outpace developed economy growth rates. Equally, as developed economies recover to growth, this will over time provide a tailwind to emerging markets. We have some distinct advantages - diversification by country, currency, product and channel; clear focus on long-term growth opportunities; a large, growing and profitable in-force book and an emphasis on growing insurance margin which is uncorrelated to markets – providing a strong foundation to prosper in a volatile environment.

Over the long term, Prudential's geographic footprint provides us with strong organic growth prospects driven by our leadership positions in the three fastest-growing geographies in the world - Asia, the US and the UK. In Asia, we have leadership positions in vastly under-penetrated insurance markets, with our prospects underpinned by significant, growing demand for protection and savings products from a rapidly growing uninsured middle class. We have a strong track record of market outperformance in the region across economic and market cycles, which is testament to the quality of our business platform and the team's focus on execution. In the US, we have implemented our strategy with discipline, meeting the significant needs of the baby boomers for retirement income. In the UK, our life business is positively transitioning to a changing landscape of pension and savings provision, while M&G, despite near-term headwinds, remains well-positioned to build long-term wealth for its customers. The diversity of our businesses, the tailwinds from supportive demographics across our three markets and our disciplined execution, underpinned by strong capital and cash generation, position us well to be able to deliver long-term sustainable shareholder returns.

I am pleased to be leading Prudential at such an exciting point for the company. We are in the right markets, with the right products with a proven management team who are executing well on our strategy. My priority is to continue our focus on delivering a strong financial performance through delivering great products and services to our customers, while also ensuring that we continue to develop our capabilities to capture the significant, long-term growth opportunities available to us. We remain confident of being able to deliver strong, sustainable, profitable growth while delivering quality products and services to a large and rapidly growing customer base.

Notes:

1. The comparative results referenced above and elsewhere in this document have been prepared using constant exchange rates basis except where otherwise stated. Comparative results on an actual exchange rate basis are also shown in financial tables in the Chief Financial Officer's report on our half year 2015 financial performance.
2. Asia Asset Management, September 2014 issue (ranked according to participating regional players only). Based on assets sourced from the region (excluding Japan, Australia and New Zealand) as of June 2014.
3. Underlying free surplus generation comprises underlying free surplus released from long-term business (net of investment in new business) and that generated from asset management operations. The 2012 comparative is based on the retrospective application of new and amended accounting standards and excludes the 2012 one-off gain of £51 million from the sale of the Group's holding in China Life Insurance Company of Taiwan.
4. Following the disposal of the Group's 25 per cent interest in PruHealth and PruProtect in November 2014, the 2014 comparative results of UK insurance operations have been adjusted to exclude results of those businesses.
5. Annual Premium Equivalent (APE) sales comprise regular premium sales plus one-tenth of single premium insurance sales.
6. Before allowing for interim dividend.
7. Asia 2012 IFRS operating profit of £924 million is based on the retrospective application of new and amended accounting standards as at 31 December 2013, and excludes the 2012 one-off gain of £51 million from the sale of the Group's holding in China Life Insurance Company of Taiwan.
8. Source: Thailand Life Assurance Association. Since 30 June 2014.
9. Excluding performance fees, carried interest and share of profits from associate entity, PPM South Africa.

Chief Financial Officer's report on our 2015 first half financial performance

In the first half of 2015 Prudential reported strong performance in our 'growth and cash' metrics, of IFRS operating profit, operating free surplus generation and new business profit. This performance was broad-based with strong contributions from our principal business operations. The Group's overall financial performance and its resilience to events outside our direct control, increasingly benefits from ongoing enhancements in the quality of our earnings delivered through stronger growth in non-interest sensitive sources and from the balance of profit and cash across different geographies, products and distribution channels. The strength of our earnings is underpinned by our focus on business with high return fast payback characteristics and by our cautious approach to risk management. Prudential's balance sheet remains conservatively positioned, our Group solvency under the Insurance Group's Directive (IGD) remains robust and our preparation for the implementation of Solvency II on 1 January 2016 is well advanced.

During the first half of 2015, investment markets have seen on-going volatility, although overall movements in both equity and bond markets have been modest. As a result, the impact of short-term market driven effects on non-operating results in the first half of 2015 has been relatively muted.

In 2014 we adopted the approach of evaluating the financial performance of the Group by presenting percentage growth rates before the impact of the fluctuations in the value of sterling against local currencies in the US and Asia. In a period of currency volatility this approach allows a more meaningful assessment of underlying performance trends. This is because our businesses in the US and Asia receive premiums and pay claims in local currencies and are, therefore, not exposed to any cross-currency trading effects. To maintain comparability in the discussion below the same basis has been applied. Growth rates based on actual exchange rates are also shown in the financial tables presented in this report. It is worth noting that so far this year, we have experienced favourable currency movements. As a result and contrary to last year, the constant exchange rate basis that we have used below produces lower progressions than the actual exchange rate basis. Consistent with previous reporting periods, the assets and liabilities of our overseas businesses are translated at period-end exchange rates so the effect of currency movements has been fully incorporated within reported shareholders' equity.

The key financial highlights of the first half of 2015 were as follows:

- **Group IFRS operating profit** was 17 per cent higher at £1,881 million.
- **Group profit before tax attributable to shareholders** on an IFRS basis increased 26 per cent to £1,882 million including the financial impact of short-term movements in investment values and other items reported outside the operating result.
- **Underlying free surplus generation**[1] (net of investment in new business) rose by 12 per cent to £1,418 million.
- On the European Embedded Value (EEV) basis of reporting performance, **new business profit**[2] increased 12 per cent to £1,190 million, contributing to **EEV operating profit** of £2,278 million, up 11 per cent.
- **EEV basis shareholders' funds** at 30 June 2015 increased to £30.1 billion, 16 per cent higher than the position twelve months ago.

IFRS Profits

	Actual Exchange Rate			Constant Exchange Rate	
	2015 £m	**2014 £m**	**Change**	**2014 £m**	**Change**
	Half year	**Half year**	**%**	**Half year**	**%**
Operating profit before tax					`
Long-term business:					
Asia[3]	**574**	483	19	497	15
US	**834**	686	22	751	11
UK[2]	**436**	366	19	366	19
Long-term business operating profit before tax[2, 3]	**1,844**	1,535	20	1,614	14
UK general insurance commission	**17**	12	42	12	42
Asset management business:					
M&G	**251**	227	11	227	11
Prudential Capital	**7**	22	(68)	22	(68)
Eastspring Investments	**58**	42	38	43	35
US	**12**	(5)	n/a	(5)	n/a
Other income and expenditure[4]	**(308)**	(320)	4	(320)	4
Results of the sold PruHealth and PruProtect businesses	**-**	8	(100)	8	(100)
Total operating profit based on longer-term investment returns before tax	**1,881**	1,521	24	1,601	17
Short-term fluctuations in investment returns:					
Insurance operations	**75**	(14)	n/a	(26)	n/a
Other operations	**11**	(31)	n/a	(31)	n/a
	86	(45)	n/a	(57)	n/a
Other non-operating items[4]	**(85)**	(52)	(63)	(56)	(52)
Profit before tax attributable to shareholders	**1,882**	1,424	32	1,488	26
Tax charge attributable to shareholders' returns	**(444)**	(279)	(59)	(293)	(52)
Profit for the period attributable to shareholders	**1,438**	1,145	26	1,195	20

IFRS Earnings per share

	Actual Exchange Rate			Constant Exchange Rate	
	2015 pence	**2014 pence**	**Change %**	**2014 pence**	**Change %**
	Half year	**Half year**		**Half year**	
Basic earnings per share based on operating profit after tax	**57.0**	45.2	26	47.4	20
Basic earnings per share based on total profit after tax	**56.3**	45.0	25	46.9	20

IFRS Operating Profit

Total IFRS operating profit increased by 17 per cent in the first half of 2015 to £1,881 million. The improvement in profitability was broad-based, with all of our principal business operations in Asia, the US, UK Life and M&G reporting higher operating profit.

- **Asia total operating profit** of £632 million was 17 per cent higher than the previous period, (20 per cent on an actual exchange rate basis), with strong growth in both life insurance and Eastspring Investments, our Asia-based asset management business.
- **US total operating profit** at £846 million increased by 13 per cent (24 per cent on an actual exchange rate basis), driven by higher fee income from growth in separate account assets held by the life operations.
- **UK total operating profit** was 20 per cent[2] higher at £453 million, driven by our focused approach to new business and ongoing active management to unlock value in our in-force business.
- **M&G operating profit** was 11 per cent higher at £251 million, benefiting from continued growth in assets managed.

Life insurance operations: Taken together, IFRS operating profit from our life insurance operations in Asia, the US and the UK increased 14 per cent[2] to £1,844 million (20 per cent on an actual exchange rate basis). This increase reflects the growth in the scale of these operations, driven primarily by positive business inflows. We track the progress that we make in growing our life insurance business by reference to the scale of our obligations to our customers, which are described in the financial statements as policyholder liabilities. Each year these liabilities increase as we collect premiums and decrease as we pay claims and policies mature. The overall scale of these policyholder liabilities is relevant in evaluating our profit potential, in that it reflects, for example, our ability to earn fees on the unit-linked element and it sizes the risk that we carry on the insurance element, for which Prudential earns premiums.

Shareholder-backed policyholder liabilities and net liability flows

	2015 £m				2014 £m			
	Half year				Half year			
	Actual Exchange Rate				Actual Exchange Rate			
	At 1 January 2015	Net liability flows[6]	Market and other movements	At 30 June 2015	At 1 January 2014	Net liability flows[6]	Market and other movements	At 30 June 2014
Asia[5]	**26,410**	**834**	**57**	**27,301**	21,931	891	597	23,419
US	**126,746**	**4,351**	**(1,430)**	**129,667**	107,411	4,977	(379)	112,009
UK	**55,009**	**(856)**	**503**	**54,656**	50,779	(140)	2,048	52,687
Total Group	**208,165**	**4,329**	**(870)**	**211,624**	180,121	5,728	2,266	188,115

Focusing on the business supported by shareholder capital, which generates the majority of the life profits, in the course of the first half of 2015 policyholder liabilities increased from £208.2 billion at the start of the year to £211.6 billion at 30 June 2015. The consistent addition of high-quality profitable new business and proactive management of the existing in-force portfolio underpins this increase, resulting in positive net flows[5,6] into policyholder liabilities of £4.3 billion in the first half of 2015 driven by our US and Asia businesses. Net flows into our Jackson business in the US were £4.4 billion in the first half of 2015, reflecting continued success in attracting new variable annuity business. Net flows into Asia continue to be positive at £0.8 billion, representing the high proportion of flows that is derived from ongoing regular premium receipts on in-force policies and increased levels of new regular premium business added this year. Net flows in the UK shareholder business continue to exhibit a degree of variability as it is influenced by large individual transfers into or out of corporate pension schemes. Favourable investment market and other movements have contributed a further £1.1 billion to the increase in policyholder liabilities since the start of the year, offset by a £2.0 billion negative foreign currency translation effect.

Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver[2, 7]

	Actual Exchange Rate						Constant Exchange Rate		
	2015 £m			2014 £m			2014 £m		
	Half year			Half year			Half year		
	Operating profit	Average liability	Margin bps	Operating profit	Average liability	Margin bps	Operating profit	Average liability	Margin bps
Spread income	**574**	**72,890**	**157**	557	64,741	172	594	67,672	176
Fee income	**951**	**125,581**	**151**	764	106,052	144	829	112,561	147
With-profits	**154**	**106,205**	**29**	150	98,046	31	151	98,560	31
Insurance margin	**857**			672			713		
Margin on revenues	**920**			808			830		
Acquisition costs*	**(1,095)**	**2,733**	**(40)%**	(1,000)	2,286	(44)%	(1,061)	2,415	(44)%
Administration expenses	**(829)**	**206,167**	**(80)**	(701)	178,649	(78)	(745)	188,814	(79)
DAC adjustments	**192**			169			184		
Expected return on shareholder assets	**120**			116			119		
Operating profit based on longer-term investment returns	**1,844**			1,535			1,614		

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

In the first half of 2015, alongside growing our overall level of life operating profit we continued to focus on improving its quality. We achieved this by maintaining our bias for sources of income such as insurance margin and fee income, ahead of spread income: insurance margin because it is relatively insensitive to the equity and interest rate cycle and fee income because it is capital efficient. Our strategic emphasis on growth in risk products such as health and protection, was reflected in a 20 per cent increase in insurance margin (28 per cent on an actual exchange rate basis), while fee income was up 15 per cent (24 per cent on an actual exchange rate basis) primarily as a result of the growth in the level of assets that we manage on behalf of our customers. In contrast, the contribution to our profits from spread income was 3 per cent lower (up 3 per cent on an actual exchange rate basis) mainly due to lower spread margin in our US fixed annuity business. The fact that insurance margin and fee income generated a higher and growing proportion of our overall income represents a healthy evolution in the quality, resilience and balance of our earnings. Our share of returns from with-profits operations was in line with 2014, providing a stable and reliable source of income for both shareholders and customers invested in these funds.

The costs we have incurred in writing new business and in administering the in-force life businesses also increased but at a more modest rate than total income, highlighting the advantages of increased scale as we build out our business, while maintaining control of costs.

IFRS operating profit from our portfolio of life insurance operations in **Asia** was up 15 per cent to £574 million, driven by the increasing scale of the in-force business and our regular premium health and protection oriented product focus. We continue to see strong profit growth in Indonesia, up 21 per cent, and in Hong Kong, up 23 per cent, reflecting the benefit of sales growth over recent years on the size of the in-force portfolio and increased levels of protection business. The combined contribution of the smaller South-east Asia operations of the Philippines, Thailand and Vietnam increased 26 per cent to £87 million. Insurance margin remains the key driver of growth at a regional level, up 20 per cent, reflecting Asia's ongoing success in achieving high levels of health and protection penetration, in line with our strategic preference for high return, fast payback business.

In the **US,** life IFRS operating profit increased by 11 per cent to £834 million, primarily as a result of a 15 per cent increase in fee income, which is Jackson's main source of income. The uplift in fee income reflects the growth in average separate account assets from £74.5 billion in the first half of 2014 to £86.3 billion in the first half of 2015, representing an increase of 16 per cent on a constant exchange rate basis, driven by variable annuity net premium inflows and positive market movements. Spread profits declined by 6 per cent as the ongoing lower interest rate environment continues to compress margins on our US fixed and indexed annuity business.

UK life IFRS operating profit was 19 per cent[2] higher than the first half of 2014 at £436 million (2014: £366 million[2]). New annuity business contributed £66 million (2014: £85 million) to IFRS earnings, including £49 million (2014: £60 million) from bulk transactions completed in the period. Active management of our in-force business generated £370 million (2014: £281 million), including £61 million (2014: nil) from a longevity reinsurance transaction.

Asset management net inflows and external funds under management[8]

	External net inflows					External funds under management		
	Actual Exchange Rate			Constant Exchange Rate				
	2015 £m	2014 £m	Change %	2014 £m	Change %	2015 £m	2014 £m	Change %
	Half year	Half year				Half year	Half year	
M&G								
Retail	**(3,418)**	3,784	(190)	3,784	(190)	**69,158**	71,941	(4)
Institutional	**1,043**	427	144	427	144	**64,242**	60,830	6
M&G	**(2,375)**	4,211	(156)	4,211	(156)	**133,400**	132,771	-
Eastspring[9]	**4,561**	2,483	84	2,546	79	**30,088**	21,078	43
Total asset management	**2,186**	6,694	(67)	6,757	(68)	**163,488**	153,849	6
Total asset management (inc. MMF)	**2,795**	6,642	(58)	6,702	(58)	**168,916**	158,149	7

Asset management: Our asset management businesses, M&G and Eastspring collectively contributed IFRS operating profit of £309 million, a 14 per cent increase over the first half of 2014. Similar to the trend observed in our life operations, growth in asset management operating profit primarily reflects the increased scale of these businesses, as measured by funds managed on behalf of external institutional and retail customers and our internal life insurance operations.

M&G's IFRS operating profit increased 11 per cent to £251 million (2014: £227 million), primarily reflecting a 14 per cent rise in underlying profit[10] to £243 million (2014: £214 million). The increase in underlying profit[10] was principally driven by higher average levels of funds under management, following the recent period of strong net inflows and positive market movements. While institutional net inflows remained robust at £1.0 billion, M&G experienced sizeable outflows in the second quarter, bringing the total net outflows for the first six months of 2015 to £3.4 billion. As these are driven by consumer sentiment moving away from fixed income funds, the trend is expected to persist in the second half of the year, dampening profits. M&G maintained an average asset management fee margin of 38 basis points and with operating costs unchanged, the underlying cost income ratio improved to 51 per cent (2014: 54 per cent). As in previous years, we expect the cost income ratio to increase by the end of 2015 as M&G's cost run rate is typically higher over the second half of the year.

Our Asia asset management business, **Eastspring Investments**, has also benefited from growth in funds under management, with IFRS operating profit higher by 35 per cent at £58 million. Average funds under management increased by 31 per cent to £81.6 billion compared to the first half of 2014, driven by record levels of net inflows particularly from the retail sector into equity funds and the positive impact of market appreciation. Higher operating income outpaced the increase in operating costs, producing an improved cost income ratio of 58 per cent (2014: 59 per cent). External funds now account for 42 per cent of Eastspring's total funds under management (2014: 38 per cent).

In the US, our asset management businesses, PPM America and Curian, together with our broker-dealer network, National Planning Holdings, collectively generated IFRS operating profit of £12 million (2014: loss of £5 million).

Prudential Capital produced IFRS operating profit of £7 million in the first half of 2015 (2014: £22 million) reflecting a reduction in assets managed.

IFRS Short-term fluctuations

IFRS operating profit is based on longer-term investment return assumptions. The difference between actual investment returns recorded in the income statement and the assumed longer-term returns is reported within short-term fluctuations in investment returns. In the first half of 2015 the total short-term fluctuations in investment returns relating to the life operations were positive £75 million, comprising negative £57 million for Asia, positive £228 million in the US and negative £96 million in the UK.

In Asia, negative short-term fluctuations of £57 million primarily reflect net unrealised losses on fixed income securities following rises in bond yields across most countries in the region during the period.

Short-term fluctuations in the US mainly reflect the net value movement on the guarantees offered by Jackson and the associated derivatives held to manage market exposures. Under IFRS accounting the movement in the valuation of derivatives, which are fair valued, is asymmetrical to the movement in the guarantee liabilities, which are not fair valued in all cases. Jackson designs its hedge programme to protect the economics of the business from large movements in investment markets and therefore accepts variability in the accounting results. The positive short-term fluctuations of £228 million in 2015 were primarily attributable to the net favourable movement in guarantee reserves relative to the hedge instruments, due to the impact of higher interest rates on the accounting reserves.

Negative short-term fluctuations of £96 million in the UK include net unrealised losses on fixed income assets supporting the excess capital held within the shareholder-backed annuity business.

IFRS Effective tax rates

In the first half of 2015, the effective tax rate on IFRS operating profit based on longer-term investment returns was 23 per cent (2014: 24 per cent) reflecting lower corporate tax rates in certain jurisdictions.

The effective tax rate on the total IFRS profit was 24 per cent in the first half of 2015 (2014: 20 per cent), reflecting a larger contribution to the total profit from Jackson which attracts a higher rate of tax.

Total tax contribution

The Group continues to make significant tax contributions in the countries in which it operates, with £1,574 million remitted to tax authorities in the first half of 2015. This was higher than the equivalent amount of £1,151 million in the first half of 2014, reflecting increased profits.

	2015 £m				2014 £m	
	Half year				Half year	Full year
	Corporation taxes	Other taxes	Taxes collected	Total	Total	Total
Taxes paid in:						
Asia	**87**	**36**	**41**	**164**	157	338
US	**214**	**22**	**225**	**461**	288	615
UK	**389**	**108**	**444**	**941**	701	1,275
Other	**3**	**2**	**3**	**8**	5	9
Total tax paid	**693**	**168**	**713**	**1,574**	1,151	2,237

Corporation taxes include amounts paid on taxable profits which, in certain countries such as the UK, include policyholder investment returns on certain life insurance products. Other taxes include property taxes, withholding taxes, employer payroll taxes and irrecoverable indirect taxes. Taxes collected are other taxes that Prudential remits to tax authorities that it is obliged to collect from employees, customers and third parties which include taxes on sales, and those associated with employee and annuitant payrolls.

Free surplus generation

Free surplus generation is the financial metric we use to measure the internal cash generation of our business operations. For life insurance operations it represents amounts maturing from the in-force business during the period, net of amounts reinvested in writing new business. For asset management it equates to post-tax IFRS profit for the period. In the first half of 2015 underlying free surplus generation, after investment in new business, increased by 12 per cent to £1,418 million (16 per cent on an actual exchange rate basis).

Free surplus generation

	Actual Exchange Rate			Constant Exchange Rate	
	2015 £m	2014 £m	Change	2014 £m	Change
	Half year	Half year	%	Half year	%
Free surplus generation[1]					
Asia	**569**	469	21	484	18
US	**708**	629	13	689	3
UK[2]	**366**	298	23	298	23
M&G	**203**	182	12	182	12
Prudential Capital	**6**	18	(67)	18	(67)
Underlying free surplus generated from in-force life business and asset management[2]	**1,852**	1,596	16	1,671	11
Investment in new business	**(434)**	(376)	(15)	(401)	(8)
Results of the sold PruHealth and PruProtect businesses	**-**	(1)	100	(1)	100
Underlying free surplus generated	**1,418**	1,219	16	1,269	12
Market related movements, timing differences and other movements	**(105)**	(27)			
Net cash remitted by business units	**(1,068)**	(974)			
Total movement in free surplus	**245**	218			
Free surplus at 1 January	**5,059**	4,003			
Effect of domestication of Hong Kong branch	**-**	(35)			
Free surplus at end of period	**5,304**	4,186			

The increase in free surplus generated by our life insurance businesses reflects our growing scale and the highly capital generative nature of our business model. We drive this metric by targeting markets and products that have low-strain, high-return and fast payback profiles and by delivering both good service and value to improve customer retention. Our ability to generate both growth and cash is a distinctive feature of Prudential in our industry. The closing value of free surplus in our life and asset management operations increased to £5,304 million at 30 June 2015 (31 December 2014: £5,059 million, on an actual exchange rate basis), after financing reinvestment in new business and funding cash remittances from the business units to Group.

In **Asia**, growth in the in-force life portfolio, and a 35 per cent increase in post-tax asset management profits from Eastspring Investments, contributed to free surplus generation of £569 million, up 18 per cent. In the **US**, free surplus generation increased by 3 per cent, as the positive effect of growth in the in-force portfolio was partially offset by the impact of lower yields. In the **UK**, a higher underlying contribution from the in-force business, including a contribution of £52 million from the longevity reinsurance transaction completed in the period, contributed to free surplus generation of £366 million, up 23 per cent.

We invested £434 million of the free surplus generated during the period in writing new business (2014: £401 million) equivalent to an increase of 8 per cent, lower than the increase in APE sales of 13 per cent due to changes in business mix. **Asia** remained the primary destination of our new business investment, 21 per cent higher at £213 million, given the superior profitable growth opportunities available in that region. In the **US**, new business investment decreased by 13 per cent to £164 million, as a result of lower sales volumes, favourable business mix and proactive actions to reduce commissions. New business investment in the **UK** increased to £57 million (2014: £36 million), also reflecting higher volumes and changes in business mix.

The internal rates of return achieved on new business remain attractive at over 20 per cent across all three business operations and the average payback period[11] for business written in 2015 was 3 years for Asia, 2 years for the US and 5 years for the UK.

We continue to manage cashflows across the Group with a view to achieving a balance between ensuring sufficient remittances are made to service central requirements (including paying the external dividend) and maximising value to shareholders through retention and reinvestment of capital in business opportunities.

Holding company cash[12]

	Actual Exchange Rate		
	2015 £m	2014 £m	Change
	Half year	Half year	%
Net cash remitted by business units:			
Asia	**258**	216	19
US	**403**	352	14
UK	**231**	246	(6)
M&G	**151**	135	12
Prudential Capital	**25**	25	-
Net cash remitted by business units	**1,068**	974	10
Holding company cash at 30 June	**2,094**	1,902	

Cash remitted by the business units to the corporate centre in the first half of 2015 increased by 10 per cent to £1,068 million with significant contributions from each of our four principal business units. The higher remittance from the US reflects business growth and its effective approach to risk management. Asia's remittances in 2015 are adversely impacted by stronger sterling and include the proceeds from the sale of Japan (£42 million). M&G's increased remittances reflect growth in post-tax earnings while those from the UK are lower due to the short term investment we are making to upgrade our UK pre and post retirement customer proposition, as previously announced.

Cash remitted to the Group in the first half of 2015 was used to meet central costs of £168 million (2014: £155 million), pay the 2014 final dividend and finance the second of three up-front payments for the renewal of the distribution agreement with Standard Chartered Bank. The issue of hybrid debt in June 2015 raised net proceeds of £590 million. Reflecting these movements in the period, total holding company cash at 30 June 2015 was £2,094 million compared to £1,480 million at the end of 2014.

EEV Profits

	Actual Exchange Rate			Constant Exchange Rate	
	2015 £m	2014 £m	Change	2014 £m	Change
	Half year	Half year	%	Half year	%
Post -tax operating profit					
Long-term business:					
Asia[3]	**1,072**	832	29	862	24
US	**812**	777	5	851	(5)
UK[2]	**411**	380	8	380	8
Long-term business post-tax operating profit[2, 3]	**2,295**	1,989	15	2,093	10
UK general insurance commission	**14**	9	56	9	56
Asset management business:					
M&G	**203**	182	12	182	12
Prudential Capital	**6**	18	(67)	18	(67)
Eastspring Investments	**50**	36	39	37	35
US	**8**	(5)	n/a	(5)	n/a
Other income and expenditure[13]	**(298)**	(294)	(1)	(294)	(1)
Results of the sold PruHealth and PruProtect businesses	**-**	8	(100)	8	(100)
Post-tax operating profit based on longer-term investment returns	**2,278**	1,943	17	2,048	11
Short-term fluctuations in investment returns:					
Insurance operations	**(382)**	452	n/a	481	n/a
Other operations	**15**	(20)	n/a	(20)	n/a
	(367)	432	n/a	461	n/a
Effect of changes in economic assumptions	**80**	(368)	n/a	(393)	n/a
Other non-operating items[13]	**124**	(73)	n/a	(74)	n/a
Profit for the period attributable to shareholders	**2,115**	1,934	9	2,042	4

Earnings per share

	Actual Exchange Rate			Constant Exchange Rate	
	2015 pence	2014 pence	Change %	2014 pence	Change %
	Half year	Half year		Half year	
Basic earnings per share based on post-tax operating profit	**89.3**	76.3	17	80.4	11
Basic earnings per share based on post-tax total profit	**82.9**	75.9	9	80.2	3

EEV Operating Profit

On an EEV basis, Group post-tax operating profit based on longer-term investment returns was 11 per cent higher (17 per cent on an actual exchange rate basis) at £2,278 million in the first half of 2015. The increase is primarily due to higher new business profit from the Group's life businesses, which increased by 12 per cent (18 per cent on an actual exchange rate basis) to £1,190 million (2014: £1,063 million) and profit from unwind of the in-force business, which was also higher at £892 million (2014: £776 million) reflecting ongoing business growth. Our focus on managing the life in-force business for value generated profits from positive experience and assumption changes net of development costs of £213 million (2014: £254 million).

In **Asia**, EEV life operating profit was up 24 per cent to £1,072 million[3], with in-force profit up 17 per cent to £408 million[3], benefitting from increased scale across our operations. Asia new business profit was 30 per cent higher at £664 million, primarily reflecting volume growth from the continued build out of our distribution platform. The increase in new business profit continues to benefit from strong contributions from our businesses in South-east Asia and Hong Kong, delivering a collective increase of 31 per cent. New business profit from health and protection also rose strongly by 27 per cent.

Jackson's EEV life operating profit was down 5 per cent to £812 million, due to a combination of factors. New business profit was 10 per cent lower at £371 million. The reduction was in line with decrease in sales, with ongoing product and pricing actions offsetting the adverse impact of the 20 basis points reduction in 10-year Treasury yields from those at the end-June 2014. In-force profit of £441 million (2014: £439 million) continued to benefit from spread and persistency profits, resulting from our disciplined approach to the way we manage and reserve for the risks of this business, totalling £205 million (2014: £229 million). Expected returns are higher at £236 million (2014: £210 million), reflecting business growth.

In the **UK**, EEV life operating profit increased by 8 per cent to £411 million (2014: £380 million). New business profit was 12 per cent higher at £155 million (2014: £139 million), reflecting a contribution of £75 million from two bulk annuity transactions in the first half of 2015 (2014: four, £69 million). Retail new business profit was also 14 per cent higher at £80 million (2014: £70 million) due to the positive effect of higher sales volumes partially offset by business mix. In-force profit of £256 million (2014: £241 million), includes a £46 million charge from the longevity reinsurance transaction entered during the period.

EEV non-operating result

EEV operating profit is based on longer-term investment returns and excludes the effect of short-term volatility arising from market movements and the effect of changes from economic assumptions. These items are included in the analysis of non-operating profit which reduced the first half of 2015 results by a net £163 million (2014: net reduction of £9 million on an actual exchange rate basis).

EEV short-term fluctuations

Short-term fluctuations in investment returns reflect the element of non-operating profit which relates to the difference between the actual investment returns achieved and those assumed in arriving at the reported operating profit.

Short-term fluctuations in investment returns for life operations of negative £382 million include negative £79 million for Asia, negative £271 million for our US operations and negative £32 million in the UK.

In Asia and the UK, negative short-term fluctuations principally reflect unrealised movements on bond holdings in the period. In the US, the variance principally represents the net value movements on derivatives held to manage the Group's equity and interest rates exposure.

Effect of changes in economic assumption

The increase in long-term yields since the end of 2014 has a beneficial impact on the overall level of future earnings that we expect to generate from our existing book of business. Once this and other changes in investment market conditions are factored into the EEV calculations they give rise to a positive movement of £80 million in the first half of 2015 (2014: negative £368 million on an actual exchange rate basis) partly offsetting the overall negative short-term fluctuations reported in the period.

Capital position, financing and liquidity

Capital position

We continue to operate with a strong solvency position, while maintaining high levels of liquidity and capital generation. At 30 June 2015 our Insurance Groups Directive surplus is estimated at £5.2 billion before deducting the 2015 interim dividend, equivalent to a solvency cover of 2.5 times.

All of our subsidiaries continue to hold strong capital positions on a local regulatory basis. We experienced low levels of default losses and impairments across our fixed income securities portfolios. Notwithstanding, we have retained our cautious stance on credit risk and have maintained our £2.2 billion credit default reserves in our UK annuity operations. Further information on our capital and solvency position is provided in the Group Chief Risk Officer's report.

Solvency II is scheduled to come into force on 1 January 2016. In preparation for this, we submitted our Solvency II internal model applications to the Prudential Regulation Authority in June 2015.

At the time of publishing our full year 2014 Group economic capital surplus of £9.7 billion, we highlighted that the Group is strongly capitalised and that our business model is highly capital generative. We also noted at the time that certain aspects of our economic capital methodology are different to those required under Solvency II and that the outcome under Solvency II would be lower than our reported economic capital level. This remains the case.

There is a significant amount of regulatory judgement and interpretation of the Solvency II rules required of the Prudential Regulation Authority in approving the internal capital model calibration. The Prudential Regulation Authority have indicated that they will conclude their review and approval process of our internal model along with our UK peers in December 2015. Our applications include those for the use of transitional measures in the UK and Deduction & Aggregation for our US business. In addition, we are having positive discussions with the Prudential Regulation Authority on the contribution of our Asian operations to the Group surplus. We welcome the clarification provided by the Prudential Regulation Authority that their assessments of the ability of UK entities to make distributions will be based on capital levels after allowance for transitional measures.

Overall we are confident that the final Solvency II outcome will confirm Prudential's position as a strongly capitalised Group. In the meantime our businesses are continuing to produce strong operating earnings, which generate significant economic capital.

Financing and liquidity

Shareholders' net core structural borrowings and ratings

	30 June 2015 £m			30 June 2014 £m			31 December 2014 £m		
	IFRS basis	Mark to market value	EEV basis	IFRS basis	Mark to market value	EEV basis	IFRS basis	Mark to market value	EEV basis
Shareholders' borrowings in holding company	**4,446**	**442**	**4,888**	4,146	452	4,598	3,869	579	4,448
Prudential Capital	**275**	**-**	**275**	275	-	275	275	-	275
Jackson surplus notes	**159**	**51**	**210**	146	41	187	160	42	202
Total	**4,880**	**493**	**5,373**	4,567	493	5,060	4,304	621	4,925
Less: Holding company cash and short-term investments	**(2,094)**	**-**	**(2,094)**	(1,902)	-	(1,902)	(1,480)	-	(1,480)
Net core structural borrowings of shareholder-financed operations	**2,786**	**493**	**3,279**	2,665	493	3,158	2,824	621	3,445

Our financing and liquidity position remained strong throughout the period. Our central cash resources amounted to £2.1 billion at 30 June 2015, compared with £1.5 billion at the end of 2014, and we currently retain a further £2.6 billion of untapped committed liquidity facilities.

On an IFRS basis the Group's core structural borrowings at 30 June 2015 were £4,880 million (31 December 2014: £4,304 million on an actual exchange rate basis) and comprised £4,446 million (31 December 2014: £3,869 million on an actual exchange rate basis) of debt held by the holding company, and £434 million (31 December 2014: £435 million on an actual exchange rate basis) of debt held by the Group's subsidiaries, Prudential Capital and Jackson. In June 2015, Prudential issued £600 million 5.0 per cent Tier 2 subordinated notes, increasing funds available for general corporate purposes.

In addition to its net core structural borrowings of shareholder-financed operations set out above, the Group also has access to funding via the money markets and has in place an unlimited global commercial paper programme. As at 30 June 2015, we had issued commercial paper under this programme totalling £277 million and US$2,045 million, to finance non-core borrowings.

Prudential's holding company currently has access to £2.6 billion of syndicated and bilateral committed revolving credit facilities, provided by 19 major international banks, expiring in 2019 and 2020. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 30 June 2015. The medium-term note programme, the SEC registered US shelf programme, the commercial paper programme and the committed revolving credit facilities are all available for general corporate purposes and to support the liquidity needs of Prudential's holding company and are intended to maintain a strong and flexible funding capacity.

Prudential manages the Group's core debt within a target level consistent with its current debt ratings. At 30 June 2015, the gearing ratio (core debt, net of cash and short-term investments, as a proportion of IFRS shareholders' funds plus net core debt) was 19 per cent, compared to 19 per cent at 31 December 2014. Prudential plc has strong debt ratings from Standard & Poor's, Moody's and Fitch. Prudential plc's long-term senior debt is rated A+, A2 and A from Standard & Poor's, Moody's and Fitch, while short-term ratings are A-1, P-1 and F1 respectively. All ratings on Prudential and its subsidiaries are on stable outlook except PAC, which was placed on negative outlook by Moody's in April 2014 following the UK market reforms announced in the March 2014 UK Budget.

The financial strength of PAC is rated AA by Standard & Poor's, Aa2 by Moody's and AA by Fitch.

Jackson National Life Insurance Company's financial strength is rated AA by Standard & Poor's, A1 by Moody's and AA by Fitch.

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

Shareholders' Funds

	IFRS			EEV		
	2015 £m	2014 £m		2015 £m	2014 £m	
	Half year	Half year	Full year	Half year	Half year	Full year
Profit after tax for the period	**1,438**	1,145	2,216	**2,115**	1,934	4,343
Exchange movements, net of related tax	**(120)**	(117)	220	**(554)**	(377)	737
Unrealised gains and losses on Jackson securities classified as available for sale[14]	**(388)**	527	565	**-**	-	-
Dividends	**(659)**	(610)	(895)	**(659)**	(610)	(895)
Other	**22**	30	55	**11**	101	131
Net increase in shareholders' funds	**293**	975	2,161	**913**	1,048	4,316
Shareholders' funds at beginning of the period	**11,811**	9,650	9,650	**29,161**	24,856	24,856
Effect of domestication of Hong Kong branch	**-**	-	-	**-**	(11)	(11)
Shareholders' funds at end of the period	**12,104**	10,625	11,811	**30,074**	25,893	29,161
Shareholders' value per share	**471p**	414p	460p	**1,170p**	1,009p	1,136p
Return on Shareholders' funds[15]	**25%**	24%	26%	**16%**	16%	16%

In the first half of 2015 UK sterling saw a modest appreciation relative to non-sterling currencies. With approximately 55 per cent of the Group's IFRS net assets (66 per cent of the Group's EEV net assets) denominated in non-sterling currencies this generated a negative foreign exchange movement on net assets in the period. In addition, the small rise in US 10-year treasury rates between the end of December 2014 and the end of June 2015, produced unrealised losses on fixed income securities held by Jackson that are accounted through other comprehensive income.

Taking these non-operating movements into account, the Group's IFRS shareholders' funds at 30 June 2015 increased by 14 per cent to £12.1 billion (30 June 2014: £10.6 billion on an actual exchange rate basis).

The Group's EEV shareholders' funds also increased by 16 per cent to £30.1 billion (30 June 2014: £25.9 billion on an actual exchange rate basis). On a per share basis the Group's embedded value at 30 June 2015 stood at 1,170 pence, up from 1,009 pence at 30 June 2014.

Corporate transactions

Entrance into Uganda life insurance market
In June 2015 we completed the acquisition of Ugandan company Goldstar Life Assurance and signed a long-term co-operation agreement with Crane Bank of Uganda.

Dividend

Due to the continued strong performance of the Group, the Board decided to rebase the 2014 full year dividend upwards to 36.93 pence per share, representing an increase of 10 per cent over 2013. As in previous years the interim dividend for 2015 has been calculated formulaically as one third of the prior year's full year dividend. The Board has approved a 2015 interim dividend of 12.31 pence per share, which equates to an increase of 10 per cent over the 2014 interim dividend.

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

Notes:

1 Free surplus generation represents 'underlying free surplus' based on operating movements, including the general insurance commission earned during the period and excludes market movements, foreign exchange, capital movements, shareholders' other income and expenditure and centrally arising restructuring and Solvency II implementation costs. In addition, following its reclassification as held for sale during 2013, operating results exclude the result of the Japan Life Insurance business.

2 Following the disposal of the Group's 25 per cent interest in PruHealth and PruProtect in November 2014, the 2014 comparative results of UK insurance operations have been adjusted to exclude results of those businesses.

3 After Asia development costs.

4 Refer to note B1.1 in IFRS financial statements for the break-down of other income and expenditure, and other non-operating items.

5 Includes Group's proportionate share of the liabilities and associated flows of the insurance joint ventures in Asia.

6 Defined as movements in shareholder-backed policyholder liabilities arising from premiums (net of charges), surrenders/withdrawals, maturities and deaths.

7 For basis of preparation see note I (a) of Additional Unaudited IFRS financial information.

8 Includes Group's proportionate share in PPM South Africa and the Asia asset management joint ventures.

9 Net inflows exclude Asia Money Market Fund (MMF) inflows of £609 million (2014: net outflows £52 million). External funds under management exclude Asia MMF balances of £5,428 million (2014: £4,300 million).

10 Excluding performance fees, carried interest and share of profits from associate entity, PPM South Africa.

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

12 The full Holding Company Cashflow is disclosed in note II (a) of Additional unaudited IFRS financial information.

13 Refer to the EEV basis supplementary information – Post-tax operating profit based on longer-term investment returns and Post-tax summarised consolidated income statement, for the break-down of other income and expenditure, and other non-operating items.

14 Net of related charges to deferred acquisition costs and tax.

15 Annualised operating profit after tax and non-controlling interests as percentage of opening shareholders' funds.

Group Chief Risk Officer's Summary of the risks facing our business and our capital strength

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

Group Risk Framework

Our Group Risk Framework describes our approach to risk management, including provisions for risk governance arrangements; our appetite and limits for risk exposures; policies for the management of various risk types; risk culture standards; and risk reporting. It is under this framework that the key arrangements and standards for risk management and internal control that support Prudential's compliance with statutory and regulatory requirements are defined.

Risk governance

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

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

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

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

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

Principles and objective

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

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

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

Risk objectives

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

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

The Group's risk governance, which supports the Prudential plc Board and its Committees, is based on the principles of the three lines of defence model: risk taking and management, risk control and oversight, and independent assurance.

RISK MANAGEMENT – THE FIRST LINE OF DEFENCE

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

Group Executive Committee (GEC)	*Balance Sheet and Capital Management Committee (BSCMC)*	*Chief Executive's Committee (CEC)*
Purpose: Supports the Group Chief Executive in the executive management of the Group and is comprised of the Chief Executives of each of the Group's major business units, the Chief Financial Officer, the Group Chief Risk Officer as well as a number of functional specialists. Meets: Monthly	Purpose: Supports the Chief Financial Officer in the management of the Group's balance sheet, as well as providing oversight to the activities of Prudential Capital, which undertakes the treasury function for the Group. The BSCMC comprises a number of functional specialists. Meets: Monthly	Purpose: To review items that require investment or place Group value at risk that are going through the Approvals Committee Review process; receive early warning of projects that will be coming through the Approvals Committee Review process before significant costs are incurred and ensure that transactions and major projects taking place in the Group are well supported. Meets: Usually weekly

RISK OVERSIGHT – THE SECOND LINE OF DEFENCE

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

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

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

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

INDEPENDENT ASSURANCE – THE THIRD LINE OF DEFENCE

Group-wide Internal Audit (GwIA)

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

<u>Risk appetite and limits</u>

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

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

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

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

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

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

Capital requirements: the limits aim to ensure that:

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

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

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

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

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

<u>Risk policies</u>
Risk policies set out specific requirements for the management of, and articulate the risk appetite for, key risk types. These are policies for credit, market, insurance, liquidity and operational risks, which are further supported by outsourcing and third party supply, dealing controls, investment, underwriting, internal model, tax, compliance and customer policies. They form part of the Group Governance Manual, which was developed to make a key contribution to the sound system of internal control that we are expected to maintain under the UK Corporate Governance Code and the Hong Kong Code on Corporate Governance Practices. Group Head Office and business units confirm that they have implemented the necessary controls to evidence compliance with the Group Governance Manual.

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

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

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

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

Key risks
Market risk

(i) Investment risk
In Prudential UK investment risk arising on the assets in the with-profits fund impacts the shareholders' interest in future transfers and is driven predominantly by equities in the fund as well as by other investments such as property and bonds. The value of the future transfers is partially protected against equity falls by hedging conducted outside of the fund. The fund's large inherited estate – estimated at £7.4 billion as at 30 June 2015 (31 December 2014: £7.2 billion) – can absorb market fluctuations and protect the fund's solvency. The inherited estate is partially protected against falls in equity markets through an active hedging policy within the fund.

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

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

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

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

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

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

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

(iii) Foreign exchange risk
We principally operate in Asia, the US and the UK. The geographical diversity of our businesses means that we are inevitably subject to the risk of exchange rate fluctuations. Our international operations in the US and Asia, which represent a significant proportion of our operating profit and shareholders' funds, generally write policies and invest in assets denominated in local

currency. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in our consolidated financial statements when results are expressed in UK sterling.

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

Credit risk

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

(i) Debt and loan portfolio

Our UK business is primarily exposed to credit risk in the shareholder-backed portfolio, where fixed income assets represent 37 per cent or £31.1 billion of our exposure. Credit risk arising from £45.7 billion of fixed income assets is largely borne by the with-profits fund, although shareholder support may be required should the with-profits fund become unable to meet its liabilities.

The debt portfolio of our Asia business totalled £24.4 billion at 30 June 2015. Of this, approximately 66 per cent was in unit-linked and with-profits funds with minimal shareholder risk. The remaining 34 per cent is shareholder exposure.

Credit risk arises in the general account of our US business, where £32.1 billion of fixed income assets back shareholder liabilities including those arising from fixed annuities, fixed index annuities, fixed account under variable annuities, institutional products, and life insurance. Included in the portfolio are £2.2 billion of commercial mortgage-backed securities and £1.4 billion of residential mortgage-backed securities, of which £0.7 billion (53 per cent) are issued by US government sponsored agencies.

The shareholder-owned debt and loan portfolio of the Group's asset management operations of £2.8 billion as at 30 June 2015 is principally related to Prudential Capital operations. Prudential Capital generates revenue by providing bridging finance, managing investments and operating a securities lending and cash management business for the Prudential Group and our clients.

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

(ii) Group sovereign debt and bank debt exposure

Sovereign debt[1] represented 14 per cent or £10.6 billion of the debt portfolio backing shareholder business at 30 June 2015 (31 December 2014: 15 per cent or £11.0 billion). 40 per cent of this was rated AAA and 94 per cent investment grade (31 December 2014: 43 per cent AAA, 95 per cent investment grade). At 30 June 2015, the Group's shareholder-backed business's holding in Eurozone sovereign debt[1] was £426 million. 81 per cent of this was AAA rated (31 December 2014: 82 per cent AAA rated). Shareholder exposure to the Eurozone sovereigns of Italy and Spain is £56 million (31 December 2014: £63 million). We do not have any sovereign debt exposure to Greece, Cyprus, Portugal or Ireland.

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

The exposures held by the shareholder-backed business and with-profits funds in sovereign debt and bank debt securities at 30 June 2015 are given in Note C3.3(f) of the Group's IFRS financial statements.

(iii) Counterparty credit risk

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

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

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

Insurance risk

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

We continue to conduct research into longevity risk using both industry data and experience from our substantial annuity portfolio.

The assumptions that we make about future rates of mortality improvement within our UK annuity portfolio are key to our pricing and reserving. Recent changes to UK legislation, removing an individual's requirement to convert a pension fund into an annuity, as well as the treatment of annuities under Solvency II, are also demanding particular scrutiny. We continue to seek opportunities to transfer longevity risk to reinsurers or to the capital markets and have transacted when terms are sufficiently attractive and aligned with our risk management framework.

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

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

Liquidity risk

Our parent company has significant internal sources of liquidity which are sufficient to meet all of its expected requirements for the foreseeable future without having to make use of external funding. In aggregate the Group currently has £2.6 billion of undrawn committed facilities, expiring in 2019 and 2020. In addition, the Group has access to liquidity via the debt capital markets. We also have in place an unlimited commercial paper programme and have maintained a consistent presence as an issuer in this market for the last decade. Liquidity uses and sources have been assessed at the Group and at a business unit level under base case and stressed assumptions. The liquidity resources available and the subsequent Liquidity Coverage Ratio are regularly monitored and we have assessed these to be sufficient.

Operational risk

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

Our IT, compliance and other operational systems and processes incorporate controls that are designed to manage and mitigate the operational risks associated with our activities. Prudential has not identified a material failure or breach in relation to its legacy and other IT systems and processes to date. However, it has been, and likely will continue to be, subject to computer viruses, attempts at unauthorised access and cyber security attacks such as 'denial of service' attacks (which, for example, can cause temporary disruption to websites and networks), phishing and disruptive software campaigns.

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

Global regulatory risk

Global regulatory risk is considered a key risk.

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

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

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

Following adoption of the Omnibus II Directive, Solvency II will be implemented on 1 January 2016, although a number of the detailed rules and guidelines that will supplement the high-level rules and principles of the Solvency II and Omnibus II Directives, remain subject to formal ratification during the second half of 2015.

The effective application of a number of key measures incorporated in the Omnibus II Directive, including the provisions for third-country equivalence, transitional measures, the liability discount rate for UK annuity business and whether restrictions are placed on the economic value of overseas surplus, are subject to regulatory judgement and approval. There is a significant amount of regulatory judgement required in these areas. Therefore there remains a risk that the final outcome of Solvency II could be adverse for us including potentially a significant increase in the capital required to support our business. We are actively participating in shaping the outcome through our involvement in industry bodies and trade associations, including the Pan-European Insurance

Forum, Chief Risk Officer Forum and Chief Financial Officer Forum, together with the Association of British Insurers and Insurance Europe.

We are continuing our preparations to adopt the regime when it comes into force on 1 January 2016, which includes regularly reviewing our range of options to maximise the strategic flexibility of the Group, such as consideration of optimising our domicile as a possible response to an adverse outcome on Solvency II.

Over the coming months we will remain in regular contact with the Prudential Regulation Authority as we continue to engage in the approval process for the internal model. We expect to receive the outcome of the Prudential Regulation Authority's model approval process in early December 2015.

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

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

In July 2013 the Financial Stability Board announced the initial list of nine insurance groups that have been designated as Global Systemically Important Insurers (G-SII). Following another assessment in 2014, the Financial Stability Board confirmed the same nine insurance groups as G-SII on 6 November 2014. This list included Prudential as well as a number of its competitors. Designation as a G-SII has led to additional policy measures being applied to the Group. Based on the policy framework released by the IAIS and subsequent guidance papers these additional policy measures include enhanced group-wide supervision, effective resolution measures of the Group in the event of failure, loss absorption, and higher loss absorption capacity. This enhanced supervision commenced immediately and included the annual submission of a Systemic Risk Management Plan, a Group Recovery Plan and Liquidity Risk Management Plan. Prudential is monitoring the development and potential impact of the policy measures and is continuing to engage with the Prudential Regulation Authority on the implications of the policy measures and Prudential's designation as a G-SII. The G-SII regime also introduces two types of capital requirements; the first, a Basic Capital Requirement (BCR), designed to act as a minimum group capital requirement and the second, a Higher Loss Absorption (HLA) requirement. G-SIIs began privately reporting their BCR to their group-wide supervisors on a confidential basis from 2015. The IAIS is currently consulting on the HLA requirement and this is expected to apply from January 2019 to the insurance groups identified as G-SIIs in November 2017.

ComFrame is also being developed by the IAIS to provide common global requirements for the supervision of insurance groups. The framework is designed to outline a set of common global principles and standards for group supervision and may increase the focus of regulators in some jurisdictions. One of the framework's key components is an Insurance Capital Standard (ICS) which would be expected to form the group solvency capital standard under ComFrame. In December 2014, the IAIS issued a comprehensive consultation paper on ICS and a quantitative field test is being undertaken during 2015. The IAIS has recently announced an extension to the ICS timelines and a version of the ICS is expected to be adopted as part of ComFrame in late 2019.

Risk factors
Our disclosures covering risk factors can be found at the end of this document.

Risk mitigation and hedging

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

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

Capital management

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

Regulatory capital

Prudential is subject to the capital adequacy requirements of the European Union Insurance Groups Directive (IGD) as implemented by the Prudential Regulation Authority in the UK. The IGD capital surplus represents the aggregated surplus capital (on a Prudential Regulation Authority consistent basis) of the Group's regulated subsidiaries less the Group's borrowings. No diversification benefit is recognised. We estimate that our IGD capital surplus is £5.2 billion at 30 June 2015 (before taking into account the 2015 interim dividend), with available capital covering our capital requirements 2.5 times. This compares to a capital surplus of £4.7 billion at the end of 2014 (before taking into account the 2014 final dividend).

The movements in the first half of 2015 mainly comprise:

- Net capital generation (inclusive of market and foreign exchange movements) mainly through operating earnings (in-force releases less investment in new business, net of tax) of £0.8 billion.
- £0.6 billion of subordinated debt issuance and other items.

Offset by:

- Final 2014 dividend of £0.7 billion; and
- External financing costs and other central costs, net of tax, of £0.2 billion

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

Stress testing

As at 30 June 2015, stress testing of our IGD capital position to various events has the following results:

- An instantaneous 20 per cent fall in equity markets from 30 June 2015 levels would increase the IGD surplus by £200 million;
- A 40 per cent fall in equity markets (comprising an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period) would reduce the IGD surplus by £1,050 million;
- A 100 basis points reduction (subject to a floor of zero) in interest rates would reduce the IGD surplus by £500 million; and
- Credit defaults of 10 times the expected level would reduce IGD surplus by £700 million.

The impact of the 100 basis points reduction in interest rates is exacerbated by the current regulatory permitted practice used by Jackson, which values all interest rate swaps at book value rather than fair value for regulatory purposes. At 30 June 2015, removing the permitted practice would have increased reported IGD surplus to £5.4 billion. As at 30 June 2015, it is estimated that a 100 basis point reduction in interest rates (subject to a floor of zero) would have resulted in an IGD surplus of £5.2 billion, excluding the permitted practice.

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

Other Capital Metrics

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

All of our subsidiaries continue to hold strong capital positions on a local regulatory basis. Jackson's Risk-Based Capital ratio level as of 31 December 2014 was 456 per cent after remitting £415 million to the Group in 2014 while supporting its balance sheet growth and maintaining adequate capital. Capital formation in 2015 has been strong, enabling Jackson to remit £403 million to Group while maintaining a robust capital position. The value of the estate of our UK With-Profits fund as at 30 June 2015 is estimated at £7.4 billion. The value of the shareholders' interest in future transfers from the with-profits funds in the UK is estimated at £2.3 billion (31 December 2014: £2.2 billion).

Furthermore, on a statutory (Pillar 1) basis the total credit default reserve for the UK shareholder annuity funds also contributes to protecting our capital position in excess of the IGD surplus. Notwithstanding the absence of defaults in the year, at 30 June 2015 we maintained sizeable credit default reserves at £2.2 billion (31 December 2014: £2.2 billion), representing 39 per cent of the portfolio spread over swaps, compared with 41 per cent at 31 December 2014.

Solvency II

Solvency II is scheduled to come into force on 1 January 2016. In preparation for this, we submitted our Solvency II internal model applications to the Prudential Regulation Authority in June 2015. Further information on the Group's Solvency II position is provided in the Chief Financial Officer's report.

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

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

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

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

Corporate governance

The directors confirm that the Company has complied with all relevant provisions set out in the Hong Kong Code on Corporate Governance Practices (the Code) throughout the accounting period. With respect to Code Provision B.1.2(d) of the HK Code, the responsibilities of the Remuneration Committee do not include making recommendations to the Board on the remuneration of non-executive directors. In line with the principles of the UK Code, fees for Non-executive Directors are determined by the Board.

The directors also confirm that the financial results contained in this document have been reviewed by the Group Audit Committee.

The Company confirms that it has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than required by the Hong Kong listing rules and that the directors of the Company have complied with this code of conduct throughout the period.

IFRS Disclosure and Additional Financial Information
Prudential plc Half Year 2015 results
International Financial Reporting Standards (IFRS) basis results

Notes

Additional Financial Information*

** The additional financial information is not covered by the KPMG independent review opinion*

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International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	2015 £m Half year	2014 £m Half year	2014 £m Full year
Earned premiums, net of reinsurance		**17,884**	16,189	32,033
Investment return		**6,110**	13,379	25,787
Other income		**1,285**	1,059	2,306
Total revenue, net of reinsurance		**25,279**	30,627	60,126
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		**(18,618)**	(25,549)	(50,169)
Acquisition costs and other expenditure	B3	**(4,505)**	(3,336)	(6,752)
Finance costs: interest on core structural borrowings of shareholder-financed operations		**(148)**	(170)	(341)
Disposal of Japan Life business:				
Cumulative exchange loss recycled from other comprehensive income	D1	**(46)**	-	-
Remeasurement adjustments	D1	**-**	(11)	(13)
Total charges, net of reinsurance		**(23,317)**	(29,066)	(57,275)
Share of profits from joint ventures and associates, net of related tax		**122**	147	303
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)**		**2,084**	1,708	3,154
Less tax charge attributable to policyholders' returns		**(202)**	(284)	(540)
Profit before tax attributable to shareholders	B1.1	**1,882**	1,424	2,614
Total tax charge attributable to policyholders and shareholders	B5	**(646)**	(563)	(938)
Adjustment to remove tax charge attributable to policyholders' returns		**202**	284	540
Tax charge attributable to shareholders' returns	B5	**(444)**	(279)	(398)
Profit for the period attributable to equity holders of the Company		**1,438**	1,145	2,216

Earnings per share (in pence)		2015 Half year	2014 Half year	2014 Full year
Based on profit attributable to the equity holders of the Company:	B6			
Basic		**56.3p**	45.0p	86.9p
Diluted		**56.2p**	44.9p	86.8p

Dividends per share (in pence)	Note	2015 Half year	2014 Half year	2014 Full year
Dividends relating to reporting period:	B7			
Interim dividend (2015 and 2014)		**12.31p**	11.19p	11.19p
Final dividend (2014)		**-**	-	25.74p
Total		**12.31p**	11.19p	36.93p
Dividends declared and paid in reporting period:	B7			
Current year interim dividend		**-**	-	11.19p
Final dividend for prior year		**25.74p**	23.84p	23.84p
Total		**25.74p**	23.84p	35.03p

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

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2015 £m Half year	2014 £m Half year	2014 £m Full year
Profit for the period		**1,438**	1,145	2,216
Other comprehensive (loss) income:				
Items that may be reclassified subsequently to profit or loss				
Exchange movements on foreign operations and net investment hedges:				
Exchange movements arising during the period		**(165)**	(115)	215
Cumulative exchange loss of Japan Life business recycled through profit or loss	D1	**46**	-	-
Related tax		**(1)**	(2)	5
		(120)	(117)	220
Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:				
Net unrealised holding (losses) gains arising during the period		**(661)**	1,060	1,039
Deduct net gains included in the income statement on disposal and impairment		**(101)**	(37)	(83)
Total	C3.3(b)	**(762)**	1,023	956
Related change in amortisation of deferred acquisition costs	C5.1(b)	**165**	(212)	(87)
Related tax		**209**	(284)	(304)
		(388)	527	565
Total		**(508)**	410	785
Items that will not be reclassified to profit or loss				
Shareholders' share of actuarial gains and losses on defined benefit pension schemes:				
Gross		**(21)**	12	(12)
Related tax		**4**	(2)	2
		(17)	10	(10)
Other comprehensive (loss) income for the period, net of related tax		**(525)**	420	775
Total comprehensive income for the period attributable to the equity holders of the Company		**913**	1,565	2,991

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Period ended 30 June 2015 £m							
	Note	Share capital note C9	Share premium note C9	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity
Reserves									
Profit for the period		-	-	1,438	-	-	1,438	-	1,438
Other comprehensive loss		-	-	(17)	(120)	(388)	(525)	-	(525)
Total comprehensive income (loss) for the period		-	-	1,421	(120)	(388)	913	-	913
Dividends	B7	-	-	(659)	-	-	(659)	-	(659)
Reserve movements in respect of share-based payments		-	-	66	-	-	66	-	66
Change in non-controlling interests		-	-	-	-	-	-		-
Share capital and share premium									
New share capital subscribed	C9	-	2	-	-	-	2	-	2
Treasury shares									
Movement in own shares in respect of share-based payment plans		-	-	(40)	-	-	(40)	-	(40)
Movement in own shares purchased by funds consolidated under IFRS		-	-	11	-	-	11	-	11
Net increase (decrease) in equity		-	2	799	(120)	(388)	293	-	293
At beginning of period		128	1,908	8,788	31	956	11,811	1	11,812
At end of period		128	1,910	9,587	(89)	568	12,104	1	12,105

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

		Period ended 30 June 2014 £m							
	Note	Share capital note C9	Share premium note C9	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity
Reserves									
Profit for the period		-	-	1,145	-	-	1,145	-	1,145
Other comprehensive income (loss)		-	-	10	(117)	527	420	-	420
Total comprehensive income (loss) for the period		-	-	1,155	(117)	527	1,565	-	1,565
Dividends	B7	-	-	(610)	-	-	(610)	-	(610)
Reserve movements in respect of share-based payments		-	-	52	-	-	52	-	52
Change in non-controlling interests		-	-	-	-	-	-		-
Share capital and share premium									
New share capital subscribed	C9	-	8	-	-	-	8	-	8
Treasury shares									
Movement in own shares in respect of share-based payment plans		-	-	(34)	-	-	(34)	-	(34)
Movement in own shares purchased by funds consolidated under IFRS		-	-	(6)	-	-	(6)	-	(6)
Net increase (decrease) in equity		-	8	557	(117)	527	975	-	975
At beginning of period		128	1,895	7,425	(189)	391	9,650	1	9,651
At end of period		128	1,903	7,982	(306)	918	10,625	1	10,626

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

		Year ended 31 December 2014 £m							
	Note	Share capital note C9	Share premium note C9	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity
Reserves									
Profit for the year		-	-	2,216	-	-	2,216	-	2,216
Other comprehensive (loss) income		-	-	(10)	220	565	775	-	775
Total comprehensive income for the year		-	-	2,206	220	565	2,991	-	2,991
Dividends	B7	-	-	(895)	-	-	(895)	-	(895)
Reserve movements in respect of share-based payments		-	-	106	-	-	106	-	106
Change in non-controlling interests		-	-	-	-	-	-	-	-
Share capital and share premium									
New share capital subscribed	C9	-	13	-	-	-	13	-	13
Treasury shares									
Movement in own shares in respect of share-based payment plans		-	-	(48)	-	-	(48)	-	(48)
Movement in own shares purchased by funds consolidated under IFRS		-	-	(6)	-	-	(6)	-	(6)
Net increase in equity		-	13	1,363	220	565	2,161	-	2,161
At beginning of year		128	1,895	7,425	(189)	391	9,650	1	9,651
At end of year		128	1,908	8,788	31	956	11,811	1	11,812

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		2015 £m	2014 £m	
	Note	**30 Jun**	**30 Jun**	**31 Dec**
Assets				
Intangible assets attributable to shareholders:				
Goodwill	C5.1(a)	**1,461**	1,458	1,463
Deferred acquisition costs and other intangible assets	C5.1(b)	**7,310**	5,944	7,261
Total		**8,771**	7,402	8,724
Intangible assets attributable to with-profits funds:				
Goodwill in respect of acquired subsidiaries for venture fund and other investment purposes		**184**	177	186
Deferred acquisition costs and other intangible assets		**49**	63	61
Total		**233**	240	247
Total intangible assets		**9,004**	7,642	8,971
Other non-investment and non-cash assets:				
Property, plant and equipment	C1.1	**984**	910	978
Reinsurers' share of insurance contract liabilities		**7,259**	6,743	7,167
Deferred tax assets	C7	**2,820**	2,173	2,765
Current tax recoverable		**220**	158	117
Accrued investment income		**2,575**	2,413	2,667
Other debtors		**3,626**	3,643	1,852
Total		**17,484**	16,040	15,546
Investments of long-term business and other operations:				
Investment properties		**13,259**	11,754	12,764
Investment in joint ventures and associates accounted for using the equity method		**962**	911	1,017
Financial investments*:				
Loans	C3.4	**12,578**	12,457	12,841
Equity securities and portfolio holdings in unit trusts		**155,253**	130,566	144,862
Debt securities	C3.3	**142,307**	134,177	145,251
Other investments		**7,713**	5,908	7,623
Deposits		**11,043**	13,057	13,096
Total		**343,115**	308,830	337,454
Assets held for sale	D1	**-**	875	824
Cash and cash equivalents		**8,298**	5,903	6,409
Total assets	C1,C3.1	**377,901**	339,290	369,204

* Included within financial investments are £3,599 million of lent securities as at 30 June 2015 (30 June 2014: £3,953 million; 31 December 2014: £4,578 million).

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	2015 £m	2014 £m	
		30 Jun	**30 Jun**	**31 Dec**
Equity and liabilities				
Equity				
Shareholders' equity		**12,104**	10,625	11,811
Non-controlling interests		**1**	1	1
Total equity		**12,105**	10,626	11,812
Liabilities				
Policyholder liabilities and unallocated surplus of with-profits funds:				
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		**313,620**	283,704	309,539
Unallocated surplus of with-profits-funds		**12,768**	13,044	12,450
Total	C4.1(a)	**326,388**	296,748	321,989
Core structural borrowings of shareholder-financed operations:				
Subordinated debt		**3,897**	3,597	3,320
Other		**983**	970	984
Total	C6.1	**4,880**	4,567	4,304
Other borrowings:				
Operational borrowings attributable to shareholder-financed operations	C6.2(a)	**2,504**	2,243	2,263
Borrowings attributable to with-profits operations	C6.2(b)	**1,089**	864	1,093
Other non-insurance liabilities:				
Obligations under funding, securities lending and sale and repurchase agreements		**3,296**	2,188	2,347
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		**10,007**	5,262	7,357
Deferred tax liabilities	C7	**4,325**	3,855	4,291
Current tax liabilities		**393**	475	617
Accruals and deferred income		**750**	731	947
Other creditors		**5,515**	4,999	4,262
Provisions		**546**	534	724
Derivative liabilities		**1,758**	1,400	2,323
Other liabilities		**4,345**	3,970	4,105
Total		**30,935**	23,414	26,973
Liabilities held for sale	D1	**-**	828	770
Total liabilities	C1,C3.1	**365,796**	328,664	357,392
Total equity and liabilities		**377,901**	339,290	369,204

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2015 £m Half year	2014 £m Half year	2014 £m Full year
Cash flows from operating activities				
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)* note (i)		**2,084**	1,708	3,154
Non-cash movements in operating assets and liabilities reflected in profit before tax note (ii)		**704**	(1,162)	(1,178)
Other items note (iii)		**(389)**	38	(148)
Net cash flows from operating activities		**2,399**	584	1,828
Cash flows from investing activities				
Net cash outflows from purchases and disposals of property, plant and equipment		**(90)**	(50)	(162)
Net cash inflows (outflows) from corporate transactions note (iv)		**34**	(534)	(383)
Net cash flows from investing activities		**(56)**	(584)	(545)
Cash flows from financing activities				
Structural borrowings of the Group:				
Shareholder-financed operations: note (v)	C6.1			
Issue of subordinated debt, net of costs		**590**	-	-
Redemption of subordinated debt		**-**	-	(445)
Interest paid		**(144)**	(169)	(330)
With-profits operations: note (vi)	C6.2			
Interest paid		**(4)**	(4)	(9)
Equity capital:				
Issues of ordinary share capital		**2**	8	13
Dividends paid		**(659)**	(610)	(895)
Net cash flows from financing activities		**(215)**	(775)	(1,666)
Net increase (decrease) in cash and cash equivalents		**2,128**	(775)	(383)
Cash and cash equivalents at beginning of period		**6,409**	6,785	6,785
Effect of exchange rate changes on cash and cash equivalents		**(239)**	(107)	7
Cash and cash equivalents at end of period		**8,298**	5,903	6,409

Notes

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

(ii) The adjusting items to profit before tax included within non-cash movements in operating assets and liabilities reflected in profit before tax are as follows:

	2015 £m Half year	2014 £m Half year	2014 £m Full year
Other non-investment and non-cash assets	**(2,004)**	(2,461)	(1,521)
Investments	**(8,431)**	(15,866)	(30,746)
Policyholder liabilities (including unallocated surplus)	**6,795**	15,110	27,292
Other liabilities (including operational borrowings)	**4,344**	2,055	3,797
Non-cash movements in operating assets and liabilities reflected in profit before tax	**704**	(1,162)	(1,178)

(iii) The adjusting items to profit before tax included within other items are adjustments in respect of non-cash items together with operational interest receipts and payments, dividend receipts and tax paid.

(iv) Net cash flows for corporate transactions are for distribution rights and the acquisition and disposal of businesses.

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

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

International Financial Reporting Standards (IFRS) Basis Results

NOTES

A BACKGROUND

A1 Basis of preparation, audit status and exchange rates

These condensed consolidated interim financial statements for the six months ended 30 June 2015 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). The Group's policy for preparing this interim financial information is to use the accounting policies adopted by the Group in its last consolidated financial statements, as updated by any changes in accounting policies it intends to make in its next consolidated financial statements as a result of new or amended IFRS that are applicable or available for early adoption for the next annual financial statements and other policy improvements. EU-endorsed IFRS may differ from IFRSs issued by the IASB if, at any point in time, new or amended IFRS have not been endorsed by the EU. At 30 June 2015, there were no unendorsed standards effective for the period ended 30 June 2015 affecting the condensed consolidated financial statements of the Group, and there were no differences between IFRS endorsed by the EU and IFRS issued by the IASB in terms of their application to the Group.

The IFRS basis results for the 2015 and 2014 half years are unaudited. The 2014 full year IFRS basis results have been derived from the 2014 statutory accounts. The auditors have reported on the 2014 statutory accounts which have been delivered to the Registrar of Companies. The auditors' 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.

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

	Closing rate at 30 Jun 2015	Average for the 6 months to 30 Jun 2015	Closing rate at 30 Jun 2014	Average for the 6 months to 30 Jun 2014	Closing rate at 31 Dec 2014	Average for 12 months to 31 Dec 2014
Local currency: £						
Hong Kong	**12.19**	**11.81**	13.25	12.95	12.09	12.78
Indonesia	**20,968.02**	**19,760.02**	20,270.27	19,573.46	19,311.31	19,538.56
Malaysia	**5.93**	**5.55**	5.49	5.45	5.45	5.39
Singapore	**2.12**	**2.06**	2.13	2.10	2.07	2.09
India	**100.15**	**95.76**	102.84	101.45	98.42	100.53
Vietnam	**34,345.42**	**32,832.81**	36,471.11	35,266.15	33,348.46	34,924.62
Thailand	**53.12**	**50.21**	55.49	54.34	51.30	53.51
US	**1.57**	**1.52**	1.71	1.67	1.56	1.65

Certain notes to the financial statements present half year 2014 comparative information at Constant Exchange Rates (CER), in addition to the reporting at Actual Exchange Rates (AER) used throughout the condensed consolidated financial statements. AER are actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates at the balance sheet date for the balance sheet. CER results are calculated by translating prior period results using the current period foreign exchange rate ie current period average rates for the income statement and current period closing rates for the balance sheet.

The accounting policies applied by the Group in determining the IFRS basis results in this report are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2014, except for the adoption of the new and amended accounting pronouncements for Group IFRS reporting as described below.

A2 Adoption of new accounting pronouncements in 2015

The Group has adopted the Annual improvements to IFRSs 2010 – 2012 cycle and 2011 – 2013 cycle which were effective in 2015.

Except for a change to the presentation of the Prudential Capital business as a separate reporting segment, as described in the note B1.3, consideration of these improvements has had no impact on the financial statements of the Group.

B EARNINGS PERFORMANCE

B1 Analysis of performance by segment

B1.1 Segment results – profit before tax

For memorandum disclosure purposes, the table below presents the half year 2015 results on both actual exchange rates (AER) and constant exchange rates (CER) bases so as to eliminate the impact of exchange translation.

	Note	2015 £m Half year	2014 £m AER Half year note (v)	2014 £m CER Half year note (v)	% Half year 2015 vs half year 2014 AER note (v)	% Half year 2015 vs half year 2014 CER note (v)	2014 £m Full year
Asia operations							
Insurance operations	B4(a)	**576**	484	498	19%	16%	1,052
Development expenses		**(2)**	(1)	(1)	(100)%	(100)%	(2)
Total Asia insurance operations after development expenses		**574**	483	497	19%	15%	1,050
Eastspring Investments		**58**	42	43	38%	35%	90
Total Asia operations		**632**	525	540	20%	17%	1,140
US operations							
Jackson (US insurance operations)	B4(b)	**834**	686	751	22%	11%	1,431
Broker-dealer and asset management		**12**	(5)	(5)	340%	340%	12
Total US operations		**846**	681	746	24%	13%	1,443
UK operations							
UK insurance operations:	B4(c)						
Long-term business*		**436**	366	366	19%	19%	729
General insurance commission note (i)		**17**	12	12	42%	42%	24
Total UK insurance operations		**453**	378	378	20%	20%	753
M&G		**251**	227	227	11%	11%	446
Prudential Capital		**7**	22	22	(68)%	(68)%	42
Total UK operations		**711**	627	627	13%	13%	1,241
Total segment profit		**2,189**	1,833	1,913	19%	14%	3,824
Other income and expenditure							
Investment return and other income		**11**	3	3	267%	267%	15
Interest payable on core structural borrowings		**(148)**	(170)	(170)	13%	13%	(341)
Corporate expenditure note (ii)		**(146)**	(138)	(138)	(6)%	(6)%	(293)
Total		**(283)**	(305)	(305)	7%	7%	(619)
Solvency II implementation costs		**(17)**	(11)	(11)	(55)%	(55)%	(28)
Restructuring costs note (iii)		**(8)**	(4)	(4)	(100)%	(100)%	(14)
Results of the sold PruHealth and PruProtect businesses*		**-**	8	8	(100)%	(100)%	23
Operating profit based on longer-term investment returns		**1,881**	1,521	1,601	24%	17%	3,186
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	**86**	(45)	(57)	291%	251%	(574)
Gain on sale of PruHealth and PruProtect note (iv)		**-**	-	-	n/a	n/a	86
Amortisation of acquisition accounting adjustments note (vi)		**(39)**	(44)	(48)	11%	19%	(79)
Cumulative exchange loss on the sold Japan Life business recycled from other comprehensive income	D1	**(46)**	-	-	n/a	n/a	-
Costs of domestication of Hong Kong branch note (vii)		**-**	(8)	(8)	100%	100%	(5)
Profit before tax attributable to shareholders		**1,882**	1,424	1,488	32%	26%	2,614

Basic earnings per share (in pence)	Note	2015 Half year	2014 AER Half year note (v)	2014 CER Half year note (v)	% Half year 2015 vs half year 2014 AER note (v)	% Half year 2015 vs half year 2014 CER note (v)	2014 Full year
	B6						
Based on operating profit based on longer-term investment returns		**57.0p**	45.2p	47.4p	26%	20%	96.6p
Based on profit for the period		**56.3p**	45.0p	46.9p	25%	20%	86.9p

* In order to show the UK long-term business on a comparable basis, the half year and full year 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses.

Notes

(i) The Group's UK insurance operations transferred its general insurance business to Churchill in 2002. General insurance commission represents the commission receivable net of expenses for Prudential-branded general insurance products as part of this arrangement which terminates in 2016.

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

(iii) Restructuring costs are incurred in the UK and represent one-off business development expenses.

(iv) In November 2014, PAC completed the sale of its 25 per cent equity stake in PruHealth and PruProtect businesses to Discovery Group Europe Limited for £155 million in cash giving rise to a gain on disposal of £86 million.

(v) For definitions of actual exchange rates (AER) and constant exchange rates (CER) refer to note A1.

(vi) Amortisation of acquisition accounting adjustments principally relate to the acquired REALIC business of Jackson.

(vii) On 1 January 2014, the Hong Kong branch of the Prudential Assurance Company Limited was transferred to separate subsidiaries established in Hong Kong.

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

	2015 £m	2014 £m	
	Half year	**Half year**	**Full year**
Insurance operations:			
Asia note (i)	**(57)**	119	178
US note (ii)	**228**	(226)	(1,103)
UK note (iii)	**(96)**	93	464
Other operations note (iv)	**11**	(31)	(113)
Total	**86**	(45)	(574)

Notes

(i) Asia insurance operations

In Asia, the negative short-term fluctuations of £(57) million (half year 2014: positive £119 million; full year 2014: positive £178 million) primarily reflect net unrealised movements on bond holdings following rises in bond yields across most countries in the region during the period.

(ii) US insurance operations

The short-term fluctuations in investment returns for US insurance operations comprise amounts, net of related amortisation of deferred acquisition costs, in respect of the following items:

	2015 £m	2014 £m	
	Half year	**Half year**	**Full year**
Net equity hedge result note (a)	**214**	(478)	(1,574)
Other than equity-related derivatives note (b)	**(71)**	208	391
Debt securities note (c)	**66**	16	47
Equity-type investments: actual less longer-term return	**7**	21	16
Other items	**12**	7	17
Total	**228**	(226)	(1,103)

The short-term fluctuations in investment returns shown in the table above are stated net of a charge for the related amortisation of deferred acquisition costs of £188 million (half year 2014: credit of £107 million; full year 2014: credit of £653 million). See note C5.1(b).

Notes

(a) Net equity hedge result

This result comprises the net effect of:

- The accounting value movements on the variable annuity guarantee and fixed index annuity embedded option liabilities;
- Fair value movements on free-standing equity derivatives;
- A portion of the fee assessments as well as claim payments, in respect of guarantee liabilities; and
- Related amortisation of DAC.

Movements in the accounting values of the variable annuity guarantee liabilities include those for:

- The Guaranteed Minimum Death Benefit (GMDB) and the "for life" portion of Guaranteed Minimum Withdrawal Benefit (GMWB) guarantees which are valued under the US GAAP insurance measurement basis applied for IFRS in a way that substantially does not recognise the effect of equity market and interest rate changes. These represent the majority of the guarantees offered by Jackson; and
- The "not for life" portion of GMWB embedded derivative liabilities which are required to be fair valued. Fair value movements on these liabilities include the effects of changes to levels of equity markets, implied volatility and interest rates.

The free-standing equity derivatives are held to manage equity exposures of the variable annuity guarantees and fixed index annuity embedded options.

The net equity hedge result therefore includes significant accounting mismatches and other factors that detract from the presentation of an economic result. These other factors include:

- The variable annuity guarantees and fixed index annuity embedded options are only partially fair valued under grandfathered GAAP;
- The interest rate exposure being managed through the other than equity related derivative programme explained in note (b) below; and
- Jackson's management of its economic exposures for a number of other factors that are treated differently in the accounting frameworks such as future fees and assumed volatility levels.

(b) Other than equity-related derivatives

The fluctuations for this item comprise the net effect of:

- Fair value movements on free-standing, other than equity-related derivatives;
- Accounting effects of the Guaranteed Minimum Income Benefit (GMIB) reinsurance; and
- Related amortisation of DAC.

The free-standing, other than equity-related derivatives, are held to manage interest rate exposures and durations within the general account and the variable annuity guarantees and fixed index annuity embedded options described in note (a) above.

The direct Guaranteed Minimum Income Benefit (GMIB) liability is valued using the US GAAP measurement basis applied for IFRS reporting in a way that substantially does not recognise the effects of market movements. Reinsurance arrangements are in place so as to essentially fully insulate Jackson from the GMIB exposure. Notwithstanding that the liability is essentially fully reinsured, as the reinsurance asset is net settled it is deemed a derivative under IAS 39 which requires fair valuation.

The fluctuations for this item therefore include significant accounting mismatches caused by:

- The fair value movements recorded in the income statement on the derivative programme being in respect of the management of interest rate exposures of the variable and fixed index annuity business, as well as the fixed annuity business guarantees and durations within the general account;
- Fair value movements on Jackson's debt securities of the general account which are recorded in other comprehensive income rather than the income statement; and
- The mixed measurement model that applies for the GMIB and its reinsurance.

(c) Short-term fluctuations related to debt securities

	2015 £m	2014 £m	
	Half year	Half year	Full year
Short-term fluctuations relating to debt securities			
Credits (charges) in the period:			
Losses on sales of impaired and deteriorating bonds	**(13)**	(1)	(5)
Bond write downs	**(3)**	(5)	(4)
Recoveries / reversals	**15**	14	19
Total (charges) credits in the period	**(1)**	8	10
Add: Risk margin allowance deducted from operating profit based on longer-term investment returns	**41**	38	78
	40	46	88
Interest-related realised gains:			
Arising in the period	**95**	20	63
Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns	**(61)**	(43)	(87)
	34	(23)	(24)
Related amortisation of deferred acquisition costs	**(8)**	(7)	(17)
Total short-term fluctuations related to debt securities	**66**	16	47

The debt securities of Jackson are held in the general account of the business. Realised gains and losses are recorded in the income statement with normalised returns included in operating profit and variations from year to year are included in the short-term fluctuations category. The risk margin reserve charge for longer-term credit-related losses included in operating profit based on longer-term investment returns of Jackson for half year 2015 is based on an average annual risk margin reserve of 23 basis points (half year 2014: 23 basis points; full year 2014: 24 basis points) on average book values of US$54.3 billion (half year 2014: US$54.7 billion; full year 2014: US$54.5 billion) as shown below:

	Half year 2015				Half year 2014				Full year 2014			
Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	**Average book value**	**RMR**	**Annual expected loss**		**Average book value**	**RMR**	**Annual expected loss**		**Average book value**	**RMR**	**Annual expected loss**	
	US$m	**%**	**US$m**	**£m**	**US$m**	**%**	**US$m**	**£m**	**US$m**	**%**	**US$m**	**£m**
A3 or higher	**28,211**	**0.13**	**(37)**	**(24)**	27,849	0.12	(32)	(19)	27,912	0.12	(34)	(21)
Baa1, 2 or 3	**24,317**	**0.25**	**(60)**	**(40)**	24,982	0.25	(62)	(37)	24,714	0.25	(62)	(38)
Ba1, 2 or 3	**1,333**	**1.18**	**(16)**	**(10)**	1,363	1.25	(17)	(10)	1,390	1.23	(17)	(10)
B1, 2 or 3	**396**	**3.07**	**(12)**	**(8)**	386	3.02	(12)	(7)	385	3.04	(12)	(7)
Below B3	**43**	**3.69**	**(2)**	**(1)**	108	3.71	(4)	(2)	92	3.70	(4)	(2)
Total	**54,300**	**0.23**	**(127)**	**(83)**	54,688	0.23	(127)	(75)	54,493	0.24	(129)	(78)
Related amortisation of deferred acquisition costs (see below)			**24**	**16**			22	13			25	15
Risk margin reserve charge to operating profit for longer-term credit related losses			**(103)**	**(67)**			(105)	(62)			(104)	(63)

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

In addition to the accounting for realised gains and losses described above for Jackson general account debt securities, included within the statement of other comprehensive income is a pre-tax charge for unrealised loss on debt securities classified as available-for-sale net of related amortisation of deferred acquisition costs of £(597) million (half year 2014: net unrealised gains of £811 million; full year 2014: net unrealised gains of £869 million). Temporary market value movements do not reflect defaults or impairments. Additional details of the movement in the value of the Jackson portfolio are included in note C3.3(b).

(iii) UK insurance operations

The negative short-term fluctuations in investment returns for UK insurance operations of £(96) million (half year 2014: positive £93 million; full year 2014 positive £464 million) include net unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business, reflecting a rise in bond yields since the end of 2014.

(iv) Other

The positive short-term fluctuations in investment returns for other operations of £11 million (half year 2014: negative £(31) million; full year 2014 negative £(113) million) include unrealised value movements on investments and foreign exchange items.

(v) Default losses

The Group did not experience any default losses on its shareholder-backed debt securities portfolio in half year 2015 or 2014.

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

Operating segments

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

Insurance operations:	Asset management operations:
– Asia	– Eastspring Investments
– US (Jackson)	– US broker-dealer and asset management (including Curian)
– UK	– M&G
	– Prudential Capital

The Group's operating segments are also its reportable segments for the purposes of internal management reporting. Prior to 2015, the Group incorporated Prudential Capital into the M&G operating segment for the purposes of segment reporting. To better reflect the economic characteristics of the two businesses, the Group has in 2015 made a change to present Prudential Capital as a separate reportable segment rather than aggregating this segment within M&G.

Performance measure

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

- Short-term fluctuations in investment returns;
- Gain on the sale of the Group's stake in the PruHealth and PruProtect businesses in 2014;
- Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012;
- The recycling of the cumulative exchange translation loss on the sold Japan Life business from other comprehensive income to the income statement in 2015. See note D1 for further details; and
- The costs associated with the domestication of the Hong Kong branch which became effective on 1 January 2014.

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

Determination of operating profit based on longer-term investment return for investment and liability movements

(a) General principles

(i) UK style with-profits business

The operating profit based on longer-term returns reflects the statutory transfer gross of attributable tax. Value movements in the underlying assets of the with-profits funds do not affect directly the determination of operating profit.

(ii) Unit linked business

The policyholder unit liabilities are directly reflective of the asset value movements. Accordingly, the operating results based on longer-term investment returns reflect the current period value movements in both the unit liabilities and the backing assets.

(iii) US variable annuity and fixed index annuity business

This business has guarantee liabilities which are measured on a combination of fair value and other, US GAAP derived, principles. These liabilities are subject to an extensive derivative programme to manage equity and, with those of the general account, interest rate exposures. The principles for determination of the operating profit and short-term fluctuations are necessarily bespoke, as discussed in section (c) below.

(iv) Business where policyholder liabilities are sensitive to market conditions

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

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

Examples of where such bifurcation is necessary are in Hong Kong and for UK shareholder-backed annuity business, as explained in sections b(i) and d(i), respectively.

(v) Other shareholder-financed business

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

Except in the case of assets backing liabilities which are directly matched (such as linked business) or closely correlated with value movements (as discussed below) operating profit based on longer-term investment returns for shareholder-financed business is determined on the basis of expected longer-term investment returns.

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

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

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

At 30 June 2015, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £478 million (half year 2014: net gain of £427 million; full year 2014: net gain of £467 million).

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

Derivative value movements
Generally, derivative value movements are excluded from operating results based on longer-term investment returns (unless those derivative value movements broadly offset changes in the accounting value of other assets and liabilities included in operating profit). The principal example of non-equity based derivatives (for example interest rate swaps and swaptions) whose value movements are excluded from operating profit arises in Jackson, as discussed below in section (c).

(b) Asia insurance operations

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

For certain other types of non-participating business, longer-term interest rates are used to determine the movement in policyholder liabilities for determining operating results.

(ii) Other Asia shareholder-financed business
Debt securities
For this business the realised gains and losses are principally interest related. Accordingly, all realised gains and losses to date for these operations are being amortised over the period to the date those securities would otherwise have matured, with no explicit risk margin reserve charge.

Equity-type securities
For Asia insurance operations, investments in equity securities held for non-linked shareholder-financed operations amounted to £831 million as at 30 June 2015 (half year 2014: £664 million; full year 2014: £932 million). The expected long-term rates of return applied in the periods 2015 and 2014 ranged from 2.26 per cent to 13.00 per cent with the rates applied varying by territory. These rates reflect expectations of long-term real government bond returns, equity risk premium and long-term inflation. These rates are broadly stable from period to period but may be different between countries reflecting, for example, differing expectations of inflation in each territory. The assumptions are for returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations.

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

(c) US insurance operations

(i) Separate account business
For such business the policyholder unit liabilities are directly reflective of the asset value movements. Accordingly, the operating results based on longer-term investment returns reflect the current period value movements in unit liabilities and the backing assets.

(ii) US variable and fixed index annuity business

The following value movements for Jackson's variable and fixed index annuity business are excluded from operating profit based on longer-term investment returns. See note B1.2 note (ii):

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

Embedded derivatives for variable annuity guarantee features

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

(iii) Other derivative value movements

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

(iv) Other US shareholder-financed business

Debt securities

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

Equity-type securities

As at 30 June 2015, the equity-type securities for US insurance non-separate account operations amounted to £1,087 million (half year 2014: £1,071 million; full year 2014: £1,094 million). For these operations, the longer-term rates of return for income and capital applied in 2015 and 2014, which reflect the combination of the average risk-free rates over the period and appropriate risk premiums are as follows:

	2015	**2014**	
	Half year	**Half year**	**Full year**
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	**5.7% to 6.4%**	6.5% to 6.7%	6.2% to 6.7%
Other equity-type securities such as investments in limited partnerships and private equity funds	**7.7% to 8.4%**	8.5% to 8.7%	8.2% to 8.7%

(d) UK Insurance operations

(i) Shareholder-backed annuity business

For this business, policyholder liabilities are determined by reference to current interest rates. The value movements of the assets covering liabilities are closely correlated with the related change in liabilities. Accordingly, asset value movements are recorded within the ‘operating results based on longer-term investment returns’. Policyholder liabilities include a margin for credit risk. Variations between actual and best estimate expected impairments are recorded as a component of short-term fluctuations in investment returns.

The operating result based on longer-term investment returns reflects the impact of value movements on policyholder liabilities for annuity business in Prudential Retirement Income Limited (PRIL) and the Prudential Assurance Company Limited (PAC) non-profit sub-fund after adjustments to allocate the following elements of the movement to the category of ‘short-term fluctuations in investment returns’:

- The impact on credit risk provisioning of actual upgrades and downgrades during the period;
- Credit experience compared to assumptions; and

– Short-term value movements on assets backing the capital of the business.

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

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

(e) Fund management and other non-insurance businesses

For these businesses, the particular features applicable for life assurance noted above do not apply. For these businesses it is inappropriate to include returns in the operating result on the basis described above. Instead, it is appropriate to generally include realised gains and losses in the operating result with temporary unrealised gains and losses being included in short-term fluctuations. In some instances, it may also be appropriate to amortise realised gains and losses on derivatives and other financial instruments to operating results over a time period that reflects the underlying economic substance of the arrangements.

B1.4 Additional segmental analysis of revenue

The additional segmental analyses of revenue from external customers excluding investment return and net of outward reinsurance premiums are as follows:

	Half year 2015 £m				
	Asia	US	UK	Intra-group	Total
Revenue from external customers:					
Insurance operations	**5,154**	**8,426**	**4,518**	**-**	**18,098**
Asset management	**179**	**451**	**641**	**(241)**	**1,030**
Unallocated corporate	**-**	**-**	**41**	**-**	**41**
Intra-group revenue eliminated on consolidation	**(94)**	**(45)**	**(102)**	**241**	**-**
Total revenue from external customers	**5,239**	**8,832**	**5,098**	**-**	**19,169**

	Half year 2014 £m				
	Asia	US	UK	Intra-group	Total
Revenue from external customers:					
Insurance operations	4,336	8,321	3,629	-	16,286
Asset management	140	387	612	(194)	945
Unallocated corporate	-	-	17	-	17
Intra-group revenue eliminated on consolidation	(67)	(42)	(85)	194	-
Total revenue from external customers	4,409	8,666	4,173	-	17,248

	Full year 2014 £m				
	Asia	US	UK	Intra-group	Total
Revenue from external customers:					
Insurance operations	9,558	15,387	7,375	-	32,320
Asset management	307	808	1,291	(449)	1,957
Unallocated corporate	-	-	62	-	62
Intra-group revenue eliminated on consolidation	(146)	(84)	(219)	449	-
Total revenue from external customers	9,719	16,111	8,509	-	34,339

Revenue from external customers comprises:

	2015 £m	2014 £m	
	Half year	Half year	Full year
Earned premiums, net of reinsurance	**17,884**	16,189	32,033
Fee income and investment contract business and asset management (presented as 'Other income')	**1,285**	1,059	2,306
Total revenue from external customers	**19,169**	17,248	34,339

In their capacity as fund managers to fellow Prudential Group subsidiaries, M&G, Prudential Capital, Eastspring Investments and the US asset management businesses generate fees for investment management and related services. These services are charged at appropriate arm's length prices, typically priced as a percentage of funds under management. Intra-group fees included within asset management revenue were earned by the following asset management segment:

	2015 £m	2014 £m	
	Half year	Half year	Full year
Intra-group revenue generated by:			
M&G	**93**	85	208
Prudential Capital	**9**	-	11
Eastspring Investments	**94**	67	146
US broker-dealer and asset management (including Curian)	**45**	42	84
Total intra-group fees included within asset management segment	**241**	194	449

Revenue from external customers of Asia, US and UK insurance operations shown above are net of outwards reinsurance premiums of £228 million, £142 million and £152 million respectively (half year 2014: £134 million, £115 million and £103 million respectively; full year 2014: £311 million, £265 million and £223 million respectively).

B2 Profit before tax – asset management operations

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

	2015 £m					2014 £m	
	M&G	Prudential Capital	US	Eastspring Investments	Half year Total	Half year Total	Full year Total
Revenue (excluding NPH broker-dealer fees)	**639**	**35**	**175**	**180**	**1,029**	963	2,008
NPH broker-dealer fees note (i)	**-**	**-**	**272**	**-**	**272**	248	503
Gross revenue	**639**	**35**	**447**	**180**	**1,301**	1,211	2,511
Charges (excluding NPH broker-dealer fees)	**(389)**	**(40)**	**(163)**	**(142)**	**(734)**	(691)	(1,477)
NPH broker-dealer fees note (i)	**-**	**-**	**(272)**	**-**	**(272)**	(248)	(503)
Gross charges	**(389)**	**(40)**	**(435)**	**(142)**	**(1,006)**	(939)	(1,980)
Share of profits from joint ventures and associates, net of related tax	**7**	**-**	**-**	**20**	**27**	20	42
Profit before tax	**257**	**(5)**	**12**	**58**	**322**	292	573
Comprising:							
Operating profit based on longer-term investment returns note (ii)	**251**	**7**	**12**	**58**	**328**	286	590
Short-term fluctuations in investment returns	**6**	**(12)**	**-**	**-**	**(6)**	6	(17)
Profit before tax	**257**	**(5)**	**12**	**58**	**322**	292	573

Notes

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

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

	2015 £m	2014 £m	
	Half year	Half year	Full year
Asset management fee income	**489**	462	953
Other income	**2**	1	1
Staff costs	**(154)**	(160)	(351)
Other costs	**(94)**	(89)	(203)
Underlying profit before performance-related fees	**243**	214	400
Share of associate's results	**7**	6	13
Performance-related fees	**1**	7	33
M&G operating profit based on longer-term investment returns	**251**	227	446

The revenue for M&G of £492 million (half year 2014: £470 million; full year 2014: £987 million), comprises the amounts for asset management fee income, other income and performance-related fees shown above, is different to the amount of £639 million shown in the main table of this note. This is because, the £492 million (half year 2014: £470 million; full year 2014: £987 million) is after deducting commissions which would have been included as charges in the main table. The difference in the presentation of commission is aligned with how management reviews the business.

B3 Acquisition costs and other expenditure

	2015 £m	2014 £m	
	Half year	Half year	Full year
Acquisition costs incurred for insurance policies	**(1,580)**	(1,307)	(2,668)
Acquisition costs deferred less amortisation of acquisition costs	**(15)**	272	916
Administration costs and other expenditure	**(2,314)**	(2,097)	(4,486)
Movements in amounts attributable to external unit holders of consolidated investment funds	**(596)**	(204)	(514)
Total acquisition costs and other expenditure	**(4,505)**	(3,336)	(6,752)

Included in total acquisition costs and other expenditure is depreciation of property, plant and equipment of £(55) million (half year 2014: £(45) million; full year 2014: £(90) million).

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

The following features are of relevance to the determination of the half year 2015 results:

(a) Asia insurance operations
In half year 2015, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net credit of £29 million (half year 2014: £19 million; full year 2014: £49 million) representing a small number of non-recurring items, none of which are individually significant.

(b) US insurance operations
Amortisation of deferred acquisition costs
Jackson applies a mean reversion technique for amortisation of deferred acquisition costs on variable annuity business which dampens the effects of short-term market movements on expected gross profits against which deferred acquisition costs are amortised. To the extent that the mean reversion methodology does not fully dampen the effects of market returns, there is a charge or credit for accelerated or decelerated amortisation. For half year 2015, reflecting the effect of releasing higher 2012 returns in the mean reversion calculation, there was a credit for decelerated amortisation of £20 million (half year 2014: credit for decelerated amortisation of £10 million; full year 2014: charge for accelerated amortisation of £13 million) to the operating profit based on longer-term investment returns. See note C5.1(b) for further details.

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

The weighted components of the bond spread over swap rates for shareholder-backed fixed and linked annuity business for (PRIL), the principal company which writes the UK's shareholder backed business, based on the asset mix at these dates are shown below.

	30 Jun 2015 (bps)			30 Jun 2014 (bps)			31 Dec 2014 (bps)		
	Pillar 1 regulatory basis	Adjustment	IFRS	Pillar 1 regulatory basis	Adjustment	IFRS	Pillar 1 regulatory basis	Adjustment	IFRS
Bond spread over swap rates note (i)	**150**	**-**	**150**	119	-	119	143	-	143
Credit risk allowance:									
Long-term expected defaults note (ii)	**15**	**-**	**15**	14	-	14	14	-	14
Additional provisions note (iii)	**44**	**(13)**	**31**	47	(19)	28	44	(12)	32
Total credit risk allowance	**59**	**(13)**	**46**	61	(19)	42	58	(12)	46
Liquidity premium	**91**	**13**	**104**	58	19	77	85	12	97

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

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

The movements during the first half of 2015 of the average basis points allowance for PRIL on Pillar 1 regulatory and IFRS bases are analysed as follows:

	Pillar 1 Regulatory basis (bps)	IFRS (bps)
Total allowance for credit risk at 31 December 2014	**58**	**46**
Credit rating changes	**1**	**1**
Other effects (including for new business)	**-**	**(1)**
Total allowance for credit risk at 30 June 2015	**59**	**46**

Overall the movement has led to the credit allowance for Pillar 1 purposes to be 39 per cent (half year 2014: 51 per cent; full year 2014: 41 per cent) of the bond spread over swap rates. For IFRS purposes it represents 31 per cent (half year 2014: 35 per cent; full year 2014: 32 per cent) of the bond spread over swap rates.

The reserves for credit risk allowance at 30 June 2015 for the UK shareholder annuity fund were as follows:

	Pillar 1 Regulatory basis Total £bn	**IFRS Total £bn**
PRIL	**2.0**	**1.5**
PAC non-profit sub-fund	**0.2**	**0.2**
Total 30 June 2015	**2.2**	**1.7**
Total 30 June 2014	1.9	1.3
Total 31 December 2014	2.2	1.7

Annuity business: longevity reinsurance transaction

In the first half of 2015, the UK insurance operations result includes a benefit of £61 million arising from a longevity reinsurance transaction entered into in respect of £1.7 billion of annuity liabilities (half year 2014: £nil; full year 2014: a benefit of £30 million in respect of £0.8 billion of annuity liabilities).

B5 Tax charge

(a) Total tax charge by nature of expense

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

	2015 £m			2014 £m	
Tax charge	**Current tax**	**Deferred tax**	**Half year Total**	**Half year Total**	**Full year Total**
UK tax	**(152)**	**(7)**	**(159)**	(262)	(578)
Overseas tax	**(273)**	**(214)**	**(487)**	(301)	(360)
Total tax charge	**(425)**	**(221)**	**(646)**	(563)	(938)

The current tax charge of £425 million includes £16 million (half year 2014: £23 million; full year 2014: £37 million) in respect of the tax charge for the Hong Kong operation. The Hong Kong current tax charge is calculated as 16.5 per cent for all periods on either: (i) 5 per cent of the net insurance premium; or (ii) the estimated assessable profits, depending on the nature of the business written.

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

	2015 £m			2014 £m	
Tax charge	**Current tax**	**Deferred tax**	**Half year Total**	**Half year Total**	**Full year Total**
Tax charge to policyholders' returns	**(142)**	**(60)**	**(202)**	(284)	(540)
Tax charge attributable to shareholders	**(283)**	**(161)**	**(444)**	(279)	(398)
Total tax charge	**(425)**	**(221)**	**(646)**	(563)	(938)

The principal reason for the decrease in the tax charge attributable to policyholders' returns compared to half year 2014 is a decrease in the current tax due to the taxable market value movements on bond assets. An explanation of the tax charge attributable to shareholders is shown in note (b) below.

(b) Reconciliation of effective tax rate

Reconciliation of tax charge on profit attributable to shareholders

	Half year 2015 £m (Except for tax rates)				
	Asia insurance operations	**US insurance operations**	**UK insurance operations**	**Other operations**	**Total**
Operating profit based on longer-term investment returns	**574**	**834**	**453**	**20**	**1,881**
Non-operating profit (loss)	**(107)**	**193**	**(96)**	**11**	**1**
Profit before tax attributable to shareholders	**467**	**1,027**	**357**	**31**	**1,882**
Expected tax rate:*	**26%**	**35%**	**20%**	**19%**	**30%**
Tax charge at the expected tax rate	**121**	**359**	**71**	**6**	**557**
Effects of:					
Adjustment to tax charge in relation to prior years	**5**	**(28)**	**-**	**4**	**(19)**
Movements in provisions for open tax matters	**(9)**	**-**	**-**	**(2)**	**(11)**
Income not taxable or taxable at concessionary rates	**(13)**	**(44)**	**(2)**	**(5)**	**(64)**
Deductions not allowable for tax purposes	**4**	**2**	**2**	**11**	**19**
Effect of different basis of tax in local jurisdictions	**(2)**	**-**	**-**	**-**	**(2)**
Impact of changes in local statutory tax rates	**(5)**	**-**	**-**	**-**	**(5)**
Deferred tax adjustments	**1**	**-**	**(1)**	**(4)**	**(4)**
Effect of results of joint ventures and associates	**(16)**	**-**	**-**	**(6)**	**(22)**
Irrecoverable withholding taxes	**-**	**-**	**-**	**14**	**14**
Other	**2**	**(23)**	**5**	**(3)**	**(19)**
Total actual tax charge	**88**	**266**	**75**	**15**	**444**
Analysed into:					
Tax charge on operating profit based on longer-term investment returns	**91**	**222**	**94**	**19**	**426**
Tax charge (credit) on non-operating profit (loss)	**(3)**	**44**	**(19)**	**(4)**	**18**
Actual tax rate:					
Operating profit based on longer-term investment returns	**16%**	**27%**	**21%**	**95%**	**23%**
Total profit	**19%**	**26%**	**21%**	**48%**	**24%**

	Half year 2014 £m (Except for tax rates)				
	Asia insurance operations*	US insurance operations	UK[†] insurance operations	Other[†] operations	Total
Operating profit (loss) based on longer-term investment returns	483	686	378	(26)	1,521
Non-operating profit (loss)	115	(266)	85	(31)	(97)
Profit (loss) before tax attributable to shareholders	598	420	463	(57)	1,424
Expected tax rate*	22%	35%	22%	21%	26%
Tax charge (credit) at the expected tax rate	130	147	102	(13)	366
Effects of:					
Adjustment to tax charge in relation to prior years	-	-	-	3	3
Movements in provisions for open tax matters	1	-	-	-	1
Income not taxable or taxable at concessionary rates	(40)	(27)	(2)	(4)	(73)
Deductions not allowable for tax purposes	15	-	-	2	17
Impact of changes in local statutory tax rates	-	-	-	-	-
Deferred tax adjustments	1	-	(4)	-	(3)
Effect of results of joint ventures and associates	(19)	-	-	(5)	(24)
Irrecoverable withholding taxes	-	-	-	15	15
Other	(4)	(13)	(2)	(4)	(23)
Total actual tax charge (credit)	84	107	94	(6)	279
Analysed into:					
Tax charge on operating profit (loss) based on longer-term investment returns	82	206	77	4	369
Tax charge (credit) on non-operating profit (loss)	2	(99)	17	(10)	(90)
Actual tax rate:					
Operating profit (loss) based on longer-term investment returns	17%	30%	20%	(15%)	24%
Total profit	14%	25%	20%	11%	20%

	Full year 2014 £m (Except for tax rates)				
	Asia insurance operations	US insurance operations	UK[†] insurance operations	Other[†] operations	Total
Operating profit (loss) based on longer-term investment returns	1,050	1,431	753	(48)	3,186
Non-operating profit (loss)	170	(1,174)	545	(113)	(572)
Profit (loss) before tax attributable to shareholders	1,220	257	1,298	(161)	2,614
Expected tax rate:*	22%	35%	21%	22%	23%
Tax charge (credit) at the expected tax rate	268	90	273	(35)	596
Effects of:					
Adjustment to tax charge in relation to prior years	(2)	(1)	3	(7)	(7)
Movements in provisions for open tax matters	7	-	-	(26)	(19)
Income not taxable or taxable at concessionary rates	(17)	(82)	-	(2)	(101)
Deductions not allowable for tax purposes	13	-	7	9	29
Effect of different basis of tax in local jurisdiction	(44)	-	-	-	(44)
Impact of changes in local statutory tax rates	(1)	-	2	-	1
Deferred tax adjustments	(8)	-	(7)	(11)	(26)
Effect of results of joint ventures and associates	(40)	-	(8)	(10)	(58)
Irrecoverable withholding taxes	-	-	-	27	27
Other	(4)	1	(4)	7	-
Total actual tax charge (credit)	172	8	266	(48)	398
Analysed into:					
Tax charge (credit) on operating profit (loss) based on longer-term investment returns	171	419	163	(29)	724
Tax charge (credit) on non-operating profit (loss)	1	(411)	103	(19)	(326)
Actual tax rate:					
Operating profit (loss) based on longer-term investment returns	16%	29%	22%	61%	23%
Total profit	14%	3%	21%	40%	15%

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

† In order to show the UK insurance business on a comparable basis, the half year and full year 2014 comparatives exclude the contribution from the sold PruHealth and PruProtect businesses from the UK insurance operations and show it in the column for Other operations.

B6 Earnings per share

	Note	Before tax note B1.1 £m	Tax note B5 £m	Net of tax £m	Basic earnings per share pence	Diluted earnings per share pence
		Half year 2015				
Based on operating profit based on longer-term investment returns		**1,881**	**(426)**	**1,455**	**57.0p**	**56.9p**
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	**86**	**(31)**	**55**	**2.1p**	**2.1p**
Cumulative exchange loss on the sold Japan Life business recycled from other comprehensive income	D1	**(46)**	**-**	**(46)**	**(1.8)p**	**(1.8)p**
Amortisation of acquisition accounting adjustments		**(39)**	**13**	**(26)**	**(1.0)p**	**(1.0)p**
Based on profit for the period		**1,882**	**(444)**	**1,438**	**56.3p**	**56.2p**

	Note	Before tax note B1.1 £m	Tax note B5 £m	Net of tax £m	Basic earnings per share pence	Diluted earnings per share pence
		Half year 2014				
Based on operating profit based on longer-term investment returns		1,521	(369)	1,152	45.2p	45.1p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(45)	73	28	1.1p	1.1p
Amortisation of acquisition accounting adjustments		(44)	15	(29)	(1.1)p	(1.1)p
Costs of domestication of Hong Kong branch		(8)	2	(6)	(0.2)p	(0.2)p
Based on profit for the period		1,424	(279)	1,145	45.0p	44.9p

	Note	Before tax note B1.1 £m	Tax note B5 £m	Net of tax £m	Basic earnings per share pence	Diluted earnings per share pence
		Full year 2014				
Based on operating profit based on longer-term investment returns		3,186	(724)	2,462	96.6p	96.5p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(574)	299	(275)	(10.8)p	(10.8)p
Gain on sale of PruHealth and PruProtect		86	-	86	3.4p	3.4p
Amortisation of acquisition accounting adjustments		(79)	26	(53)	(2.1)p	(2.1)p
Costs of domestication of Hong Kong branch		(5)	1	(4)	(0.2)p	(0.2)p
Based on profit for the year		2,614	(398)	2,216	86.9p	86.8p

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

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

	2015 (millions)	2014 (millions)	
	Half year	**Half year**	**Full year**
Weighted average number of shares for calculation of:			
Basic earnings per share	**2,552**	2,547	2,549
Diluted earnings per share	**2,555**	2,551	2,552

B7 Dividends

	Half year 2015		Half year 2014		Full year 2014	
	Pence per share	£m	Pence per share	£m	Pence per share	£m
Dividends relating to reporting period:						
Interim dividend (2015 and 2014)	**12.31p**	**315**	11.19p	287	11.19p	287
Final dividend (2014)	**-**	**-**	-	-	25.74p	658
Total	**12.31p**	**315**	11.19p	287	36.93p	945
Dividends declared and paid in reporting period:						
Current year interim dividend	**-**	**-**	-	-	11.19p	285
Final dividend for prior year	**25.74p**	**659**	23.84p	610	23.84p	610
Total	**25.74p**	**659**	23.84p	610	35.03p	895

Dividend per share

Interim dividends are recorded in the period in which they are paid. Final dividends are recorded in the period in which they are approved by shareholders. The final dividend for the year ended 31 December 2014 of 25.74 pence per ordinary share was paid to eligible shareholders on 21 May 2015 and the 2014 interim dividend of 11.19 pence per ordinary share was paid to eligible shareholders on 25 September 2014.

The 2015 interim dividend of 12.31 pence per ordinary share will be paid on 24 September 2015 in sterling to shareholders on the principal register and the Irish branch register at 6.00pm BST on 21 August 2015 (Record Date), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30pm Hong Kong time on the Record Date (HK Shareholders). Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about 1 October 2015. The interim dividend will be paid on or about 1 October 2015 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte.) Limited (CDP) at 5.00pm Singapore time on the Record Date (SG Shareholders). The dividend payable to the HK Shareholders will be translated using the exchange rate quoted by the WM Company at the close of business on 10 August 2015. The exchange rate at which the dividend payable to the SG Shareholders will be translated into Singapore Dollars, will be determined by CDP.

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

C BALANCE SHEET NOTES

C1 Analysis of Group position by segment and business type

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

C1.1 Group statement of financial position – analysis by segment

		2015 £m								2014 £m	
		Insurance operations									
By operating segment	Note	Asia C2.1	US C2.2	UK C2.3	Total insurance operations	Asset management operations C2.4	Unallocated to a segment (central operations)	Elimination of intra-group debtors and creditors	30 Jun Group Total	30 Jun Group Total	31 Dec Group Total
Assets											
Intangible assets attributable to shareholders:											
Goodwill	C5.1(a)	231	-	-	231	1,230	-	-	1,461	1,458	1,463
Deferred acquisition costs and other intangible assets	C5.1(b)	1,918	5,240	85	7,243	19	48	-	7,310	5,944	7,261
Total		2,149	5,240	85	7,474	1,249	48	-	8,771	7,402	8,724
Intangible assets attributable to with-profits funds:											
Goodwill in respect of acquired subsidiaries for venture fund and other investment purposes		-	-	184	184	-	-	-	184	177	186
Deferred acquisition costs and other intangible assets		44	-	5	49	-	-	-	49	63	61
Total		44	-	189	233	-	-	-	233	240	247
Total		2,193	5,240	274	7,707	1,249	48	-	9,004	7,642	8,971
Deferred tax assets	C7	95	2,389	140	2,624	133	63	-	2,820	2,173	2,765
Other non-investment and non-cash assets [note (i)]		3,367	6,562	8,161	18,090	2,159	5,107	(10,692)	14,664	13,867	12,781
Investments of long-term business and other operations:											
Investment properties		5	19	13,235	13,259	-	-	-	13,259	11,754	12,764
Investments in joint ventures and associates accounted for using the equity method		415	-	433	848	114	-	-	962	911	1,017
Financial investments:											
Loans	C3.4	1,009	6,798	3,845	11,652	926	-	-	12,578	12,457	12,841
Equity securities and portfolio holdings in unit trusts		20,190	86,283	48,662	155,135	89	29	-	155,253	130,566	144,862
Debt securities	C3.3	24,366	32,117	83,876	140,359	1,948	-	-	142,307	134,177	145,251
Other investments		71	1,515	6,006	7,592	118	3	-	7,713	5,908	7,623
Deposits		696	-	10,295	10,991	52	-	-	11,043	13,057	13,096
Total investments		46,752	126,732	166,352	339,836	3,247	32	-	343,115	308,830	337,454
Assets held for sale	D1	-	-	-	-	-	-	-	-	875	824
Cash and cash equivalents		1,672	713	3,673	6,058	1,390	850	-	8,298	5,903	6,409
Total assets	C3.1	54,079	141,636	178,600	374,315	8,178	6,100	(10,692)	377,901	339,290	369,204

By operating segment	Note	2015 £m Insurance operations Asia	US	UK	Total insurance operations	Asset management operations	Unallocated to a segment (central operations)	Elimination of intra-group debtors and creditors	30 Jun Group Total	2014 £m 30 Jun Group Total	31 Dec Group Total
Equity and liabilities											
Equity											
Shareholders' equity		**3,620**	**4,004**	**3,972**	**11,596**	**2,172**	**(1,664)**	**-**	**12,104**	10,625	11,811
Non-controlling interests		**1**	**-**	**-**	**1**	**-**	**-**	**-**	**1**	1	1
Total equity		**3,621**	**4,004**	**3,972**	**11,597**	**2,172**	**(1,664)**	**-**	**12,105**	10,626	11,812
Liabilities											
Policyholder liabilities and unallocated surplus of with-profits funds:											
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		**40,832**	**129,667**	**144,431**	**314,930**	**-**	**-**	**(1,310)**	**313,620**	283,704	309,539
Unallocated surplus of with-profits funds		**2,127**	**-**	**10,641**	**12,768**	**-**	**-**	**-**	**12,768**	13,044	12,450
Total policyholder liabilities and unallocated surplus of with-profits funds	C4	**42,959**	**129,667**	**155,072**	**327,698**	**-**	**-**	**(1,310)**	**326,388**	296,748	321,989
Core structural borrowings of shareholder-financed operations:											
Subordinated debt		**-**	**-**	**-**	**-**	**-**	**3,897**	**-**	**3,897**	3,597	3,320
Other		**-**	**159**	**-**	**159**	**275**	**549**	**-**	**983**	970	984
Total	C6.1	**-**	**159**	**-**	**159**	**275**	**4,446**	**-**	**4,880**	4,567	4,304
Operational borrowings attributable to shareholder-financed operations	C6.2(a)	**-**	**221**	**96**	**317**	**11**	**2,176**	**-**	**2,504**	2,243	2,263
Borrowings attributable to with-profits operations	C6.2(b)	**-**	**-**	**1,089**	**1,089**	**-**	**-**	**-**	**1,089**	864	1,093
Deferred tax liabilities	C7	**760**	**2,309**	**1,226**	**4,295**	**20**	**10**	**-**	**4,325**	3,855	4,291
Other non-insurance liabilities[note (ii)]		**6,739**	**5,276**	**17,145**	**29,160**	**5,700**	**1,132**	**(9,382)**	**26,610**	19,559	22,682
Liabilities held for sale	D1	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	828	770
Total liabilities	C3.1	**50,458**	**137,632**	**174,628**	**362,718**	**6,006**	**7,764**	**(10,692)**	**365,796**	328,664	357,392
Total equity and liabilities		**54,079**	**141,636**	**178,600**	**374,315**	**8,178**	**6,100**	**(10,692)**	**377,901**	339,290	369,204

Notes

(i) The largest component of the other non-investment and non-cash assets of £14,664 million (30 June 2014: £13,867 million; 31 December 2014: £12,781 million) is the reinsurers' share of contract liabilities of £7,259 million (30 June 2014: £6,743 million; 31 December 2014; £7,167 million). As set out in note C2.2 these amounts relate primarily to the reinsurance ceded in respect of the acquired REALIC business by the Group's US insurance operations.

Within other non-investment and non-cash assets are premiums receivable of £884 million (30 June 2014: £317 million; 31 December 2014: £416 million) of which 86 per cent are due within one year. The remaining 14 per cent, due after one year, relates to products where charges are levied against premiums in future years.

Also included within other non-investment and non-cash assets are property, plant and equipment of £984 million (30 June 2014: £910 million; 31 December 2014: £978 million) of which £659 million (30 June 2014: £611 million; 31 December 2014: £660 million) was held by the Group's with-profits operations, primarily by the consolidated subsidiaries for venture funds and other investment purposes of the PAC with-profits fund. The Group made additions to property, plant and equipment of £105 million (30 June 2014: £58 million; 31 December 2014: £172 million).

(ii) Within other non-insurance liabilities are other creditors of £5,515 million (30 June 2014: £4,999 million; 31 December 2014: £4,262 million) of which £5,193 million (30 June 2014: £4,720 million; 31 December 2014: £3,935 million) is due within one year.

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

		2015 £m							2014 £m	
		Policyholder	Shareholder-backed business							
	Note	Participating funds	Unit-linked and variable annuity	Non -linked business	Asset management operations	Unallocated to a segment (central operations)	Elimination of intra-group debtors and creditors	30 Jun Group Total	30 Jun Group Total	31 Dec Group Total
Assets										
Intangible assets attributable to shareholders:										
Goodwill	C5.1(a)	**-**	**-**	**231**	**1,230**	**-**	**-**	**1,461**	1,458	1,463
Deferred acquisition costs and other intangible assets	C5.1(b)	**-**	**-**	**7,243**	**19**	**48**	**-**	**7,310**	5,944	7,261
Total		**-**	**-**	**7,474**	**1,249**	**48**	**-**	**8,771**	7,402	8,724
Intangible assets attributable to with-profits funds:										
In respect of acquired subsidiaries for venture fund and other investment purposes		**184**	**-**	**-**	**-**	**-**	**-**	**184**	177	186
Deferred acquisition costs and other intangible assets		**49**	**-**	**-**	**-**	**-**	**-**	**49**	63	61
Total		**233**	**-**	**-**	**-**	**-**	**-**	**233**	240	247
Total		**233**	**-**	**7,474**	**1,249**	**48**	**-**	**9,004**	7,642	8,971
Deferred tax assets	C7	**80**	**-**	**2,544**	**133**	**63**	**-**	**2,820**	2,173	2,765
Other non-investment and non-cash assets		**3,767**	**657**	**10,933**	**2,159**	**5,107**	**(7,959)**	**14,664**	13,867	12,781
Investments of long-term business and other operations:										
Investment properties		**10,808**	**682**	**1,769**	**-**	**-**	**-**	**13,259**	11,754	12,764
Investments in joint ventures and associates accounted for using the equity method		**433**	**-**	**415**	**114**	**-**	**-**	**962**	911	1,017
Financial investments:										
Loans	C3.4	**2,808**	**-**	**8,844**	**926**	**-**	**-**	**12,578**	12,457	12,841
Equity securities and portfolio holdings in unit trusts		**39,761**	**114,150**	**1,224**	**89**	**29**	**-**	**155,253**	130,566	144,862
Debt securities	C3.3	**58,984**	**9,858**	**71,517**	**1,948**	**-**	**-**	**142,307**	134,177	145,251
Other investments		**5,550**	**75**	**1,967**	**118**	**3**	**-**	**7,713**	5,908	7,623
Deposits		**7,998**	**1,023**	**1,970**	**52**	**-**	**-**	**11,043**	13,057	13,096
Total investments		**126,342**	**125,788**	**87,706**	**3,247**	**32**	**-**	**343,115**	308,830	337,454
Assets held for sale	D1	**-**	**-**	**-**	**-**	**-**	**-**	**-**	875	824
Cash and cash equivalents		**2,710**	**918**	**2,430**	**1,390**	**850**	**-**	**8,298**	5,903	6,409
Total assets	C3.1	**133,132**	**127,363**	**111,087**	**8,178**	**6,100**	**(7,959)**	**377,901**	339,290	369,204
Equity and liabilities										
Equity										
Shareholders' equity		**-**	**-**	**11,596**	**2,172**	**(1,664)**	**-**	**12,104**	10,625	11,811
Non-controlling interests		**-**	**-**	**1**	**-**	**-**	**-**	**1**	1	1
Total equity		**-**	**-**	**11,597**	**2,172**	**(1,664)**	**-**	**12,105**	10,626	11,812
Liabilities										
Policyholder liabilities and unallocated surplus of with-profits funds:										
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		**106,821**	**122,434**	**84,365**	**-**	**-**	**-**	**313,620**	283,704	309,539
Unallocated surplus of with-profits funds		**12,768**	**-**	**-**	**-**	**-**	**-**	**12,768**	13,044	12,450
Total policyholder liabilities and unallocated surplus of with-profits funds	C4	**119,589**	**122,434**	**84,365**	**-**	**-**	**-**	**326,388**	296,748	321,989
Core structural borrowings of shareholder-financed operations:										
Subordinated debt		**-**	**-**	**-**	**-**	**3,897**	**-**	**3,897**	3,597	3,320
Other		**-**	**-**	**159**	**275**	**549**	**-**	**983**	970	984
Total	C6.1	**-**	**-**	**159**	**275**	**4,446**	**-**	**4,880**	4,567	4,304
Operational borrowings attributable to shareholder-financed operations	C6.2(a)	**-**	**4**	**313**	**11**	**2,176**	**-**	**2,504**	2,243	2,263
Borrowings attributable to with-profits operations	C6.2(b)	**1,089**	**-**	**-**	**-**	**-**	**-**	**1,089**	864	1,093
Deferred tax liabilities	C7	**1,347**	**36**	**2,912**	**20**	**10**	**-**	**4,325**	3,855	4,291
Other non-insurance liabilities		**11,107**	**4,889**	**11,741**	**5,700**	**1,132**	**(7,959)**	**26,610**	19,559	22,682
Liabilities held for sale	D1	**-**	**-**	**-**	**-**	**-**	**-**	**-**	828	770
Total liabilities	C3.1	**133,132**	**127,363**	**99,490**	**6,006**	**7,764**	**(7,959)**	**365,796**	328,664	357,392
Total equity and liabilities		**133,132**	**127,363**	**111,087**	**8,178**	**6,100**	**(7,959)**	**377,901**	339,290	369,204

* Participating funds business in the table above is presented after the elimination on consolidation of the balances relating to an intra-group reinsurance contract entered into during the period between the UK with-profits and Asia with-profits operations. In the segmental analysis presented in note C1.1, the balances are presented before elimination in the individual insurance operations segment, with the adjustment presented separately under intra-group eliminations.

C2 Analysis of segment position by business type

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

C2.1 Asia insurance operations

		2015 £m				2014 £m	
	Note	With-profits business note (i)	Unit-linked assets and liabilities	Other business	30 Jun Total	30 Jun Total	31 Dec Total
Assets							
Intangible assets attributable to shareholders:							
Goodwill		**-**	**-**	**231**	**231**	228	233
Deferred acquisition costs and other intangible assets		**-**	**-**	**1,918**	**1,918**	1,767	1,911
Total		**-**	**-**	**2,149**	**2,149**	1,995	2,144
Intangible assets attributable to with-profits funds:							
Deferred acquisition costs and other intangible assets		**44**	**-**	**-**	**44**	58	54
Deferred tax assets		**-**	**-**	**95**	**95**	68	84
Other non-investment and non-cash assets		**1,939**	**217**	**1,211**	**3,367**	2,667	3,111
Investments of long-term business and other operations:							
Investment properties		**-**	**-**	**5**	**5**	1	-
Investments in joint ventures and associates accounted for using the equity method		**-**	**-**	**415**	**415**	303	374
Financial investments:							
Loans	C3.4	**525**	**-**	**484**	**1,009**	916	1,014
Equity securities and portfolio holdings in unit trusts		**7,811**	**11,548**	**831**	**20,190**	16,775	19,200
Debt securities	C3.3	**13,321**	**2,733**	**8,312**	**24,366**	19,958	23,629
Other investments		**43**	**19**	**9**	**71**	49	48
Deposits		**192**	**246**	**258**	**696**	693	769
Total investments		**21,892**	**14,546**	**10,314**	**46,752**	38,695	45,034
Assets held for sale		**-**	**-**	**-**	**-**	875	819
Cash and cash equivalents		**492**	**344**	**836**	**1,672**	1,487	1,684
Total assets		**24,367**	**15,107**	**14,605**	**54,079**	45,845	52,930
Equity and liabilities							
Equity							
Shareholders' equity		**-**	**-**	**3,620**	**3,620**	3,020	3,548
Non-controlling interests		**-**	**-**	**1**	**1**	1	1
Total equity		**-**	**-**	**3,621**	**3,621**	3,021	3,549
Liabilities							
Policyholder liabilities and unallocated surplus of with-profits funds:							
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		**18,356**	**13,845**	**8,631**	**40,832**	35,372	40,068
Unallocated surplus of with-profits funds		**2,127**	**-**	**-**	**2,127**	1,985	2,102
Total	C4.1(b)	**20,483**	**13,845**	**8,631**	**42,959**	37,357	42,170
Deferred tax liabilities		**489**	**36**	**235**	**760**	645	719
Other non-insurance liabilities		**3,395**	**1,226**	**2,118**	**6,739**	3,994	5,722
Liabilities held for sale		**-**	**-**	**-**	**-**	828	770
Total liabilities		**24,367**	**15,107**	**10,984**	**50,458**	42,824	49,381
Total equity and liabilities		**24,367**	**15,107**	**14,605**	**54,079**	45,845	52,930

Note

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

C2.2 US insurance operations

	Note	2015 £m Variable annuity separate account assets and liabilities note (i)	2015 £m Fixed annuity, GIC and other business note (i)	2015 £m 30 Jun Total	2014 £m 30 Jun Total	2014 £m 31 Dec Total
Assets						
Intangible assets attributable to shareholders:						
Deferred acquisition costs and other intangibles		-	**5,240**	**5,240**	4,037	5,197
Total		-	**5,240**	**5,240**	4,037	5,197
Deferred tax assets		-	**2,389**	**2,389**	1,819	2,343
Other non-investment and non-cash assets note (iv)		-	**6,562**	**6,562**	6,440	6,617
Investments of long-term business and other operations:						
Investment properties		-	**19**	**19**	26	28
Financial investments:						
Loans	C3.4	-	**6,798**	**6,798**	6,130	6,719
Equity securities and portfolio holdings in unit trusts note (iii)		**85,946**	**337**	**86,283**	71,775	82,081
Debt securities	C3.3	-	**32,117**	**32,117**	30,586	32,980
Other investments note (ii)		-	**1,515**	**1,515**	1,349	1,670
Total investments		**85,946**	**40,786**	**126,732**	109,866	123,478
Cash and cash equivalents		-	**713**	**713**	677	904
Total assets		**85,946**	**55,690**	**141,636**	122,839	138,539
Equity and liabilities						
Equity						
Shareholders' equity note (v)		-	**4,004**	**4,004**	3,801	4,067
Total equity		-	**4,004**	**4,004**	3,801	4,067
Liabilities						
Policyholder liabilities:						
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		**85,946**	**43,721**	**129,667**	112,009	126,746
Total	C4.1 (c)	**85,946**	**43,721**	**129,667**	112,009	126,746
Core structural borrowings of shareholder-financed operations		-	**159**	**159**	146	160
Operational borrowings attributable to shareholder-financed operations		-	**221**	**221**	222	179
Deferred tax liabilities		-	**2,309**	**2,309**	1,997	2,308
Other non-insurance liabilities		-	**5,276**	**5,276**	4,664	5,079
Total liabilities		**85,946**	**51,686**	**137,632**	119,038	134,472
Total equity and liabilities		**85,946**	**55,690**	**141,636**	122,839	138,539

Notes

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

(ii) Other investments comprise:

	2015 £m 30 Jun	2014 £m 30 Jun	2014 £m 31 Dec
Derivative assets*	**765**	600	916
Partnerships in investment pools and other**	**750**	749	754
	1,515	1,349	1,670

* After taking account of the derivative liabilities of £258 million (30 June 2014: £284 million; 31 December 2014: £251 million), which are included in other non-insurance liabilities, the derivative position for US operations is a net asset of £507 million (30 June 2014: net asset of £316 million; 31 December 2014: net asset of £665 million).

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

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

(iv) Included within other non-investment and non-cash assets of £6,562 million (30 June 2014: £6,440 million; 31 December 2014: £6,617 million) were balances of £5,817 million (30 June 2014: £5,842 million; 31 December 2014: £5,979 million) for reinsurers' share of insurance contract liabilities. Of the £5,817 million as at 30 June 2015, £5,057 million related to the reinsurance ceded in respect of the acquired REALIC business (30 June 2014: £5,179 million; 31 December 2014: £5,174 million). Jackson holds collateral for certain of these reinsurance arrangements with a corresponding funds withheld liability. As of 30 June 2015, the funds withheld liability of £2,204 million (30 June 2014: £2,019 million; 31 December 2014: £2,201 million) was recorded within other non-insurance liabilities.

(v) Changes in shareholders' equity

	2015 £m	2014 £m	
	Half year	Half year	Full year
Operating profit based on longer-term investment returns B1.1	**834**	686	1,431
Short-term fluctuations in investment returns B1.2	**228**	(226)	(1,103)
Amortisation of acquisition accounting adjustments arising on the purchase of REALIC	**(35)**	(40)	(71)
Profit before shareholder tax	**1,027**	420	257
Tax B5	**(266)**	(107)	(8)
Profit for the period	**761**	313	249

Profit for the period (as above)	**761**	313	249
Items recognised in other comprehensive income:			
Exchange movements	**(34)**	(122)	235
Unrealised valuation movements on securities classified as available-for-sale:			
Unrealised holding (losses) gains arising during the period	**(661)**	1,060	1,039
Deduct net gains included in the income statement on disposal and impairment	**(101)**	(37)	(83)
Total unrealised valuation movements	**(762)**	1,023	956
Related amortisation of deferred acquisition costs C5.1(b)	**165**	(212)	(87)
Related tax	**209**	(284)	(304)
Total other comprehensive (loss) income	**(422)**	405	800
Total comprehensive income for the period	**339**	718	1,049
Dividends, interest payments to central companies and other movements	**(402)**	(363)	(428)
Net (decrease) increase in equity	**(63)**	355	621
Shareholders' equity at beginning of period	**4,067**	3,446	3,446
Shareholders' equity at end of period	**4,004**	3,801	4,067

C2.3 UK insurance operations

Of the total investments of £166 billion in UK insurance operations, £104 billion of investments are held by Scottish Amicable Insurance Fund and the PAC with-profits sub-fund. Shareholders are exposed only indirectly to value movements on these assets.

		2015 £m						2014 £m	
				Other funds and subsidiaries					
By operating segment	Note	**Scottish Amicable Insurance Fund** note (ii)	**PAC with-profits sub-fund** note (i)	**Unit-linked assets and liabilities**	**Annuity and other long-term business**	**Total**	**30 Jun Total**	**30 Jun Total**	**31 Dec Total**
Assets									
Intangible assets attributable to shareholders:									
Deferred acquisition costs and other intangible assets		**-**	**-**	**-**	**85**	**85**	**85**	84	86
Total		**-**	**-**	**-**	**85**	**85**	**85**	84	86
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes		**-**	**184**	**-**	**-**	**-**	**184**	177	186
Deferred acquisition costs		**-**	**5**	**-**	**-**	**-**	**5**	5	7
Total		**-**	**189**	**-**	**-**	**-**	**189**	182	193
Total		**-**	**189**	**-**	**85**	**85**	**274**	266	279
Deferred tax assets		**-**	**80**	**-**	**60**	**60**	**140**	132	132
Other non-investment and non-cash assets		**207**	**4,354**	**440**	**3,160**	**3,600**	**8,161**	8,001	6,826
Investments of long-term business and other operations:									
Investment properties		**349**	**10,459**	**682**	**1,745**	**2,427**	**13,235**	11,727	12,736
Investments in joint ventures and associates accounted for using the equity method (principally property funds joint ventures)		**-**	**433**	**-**	**-**	**-**	**433**	513	536
Financial investments:									
Loans	C3.4	**62**	**2,221**	**-**	**1,562**	**1,562**	**3,845**	4,389	4,254
Equity securities and portfolio holdings in unit trusts		**2,697**	**29,253**	**16,656**	**56**	**16,712**	**48,662**	41,916	43,468
Debt securities	C3.3	**2,465**	**43,198**	**7,125**	**31,088**	**38,213**	**83,876**	81,680	86,349
Other investments note (iii)		**261**	**5,246**	**56**	**443**	**499**	**6,006**	4,433	5,782
Deposits		**466**	**7,340**	**777**	**1,712**	**2,489**	**10,295**	12,319	12,253
Total investments		**6,300**	**98,150**	**25,296**	**36,606**	**61,902**	**166,352**	156,977	165,378
Properties held for sale		**-**	**-**	**-**	**-**	**-**	**-**	-	5
Cash and cash equivalents		**221**	**1,997**	**574**	**881**	**1,455**	**3,673**	2,121	2,457
Total assets		**6,728**	**104,770**	**26,310**	**40,792**	**67,102**	**178,600**	167,497	175,077

	Note	2015 £m Scottish Amicable Insurance Fund note (ii)	PAC with-profits sub-fund note (i)	Other funds and subsidiaries: Unit-linked assets and liabilities	Other funds and subsidiaries: Annuity and other long-term business	Other funds and subsidiaries: Total	30 Jun Total	2014 £m 30 Jun Total	31 Dec Total
Equity and liabilities									
Equity									
Shareholders' equity		**-**	**-**	**-**	**3,972**	**3,972**	**3,972**	3,245	3,804
Total equity		**-**	**-**	**-**	**3,972**	**3,972**	**3,972**	3,245	3,804
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		**6,413**	**83,362**	**22,643**	**32,013**	**54,656**	**144,431**	137,619	144,088
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds)		**-**	**10,641**	**-**	**-**	**-**	**10,641**	11,059	10,348
Total	C4.1(d)	**6,413**	**94,003**	**22,643**	**32,013**	**54,656**	**155,072**	148,678	154,436
Operational borrowings attributable to shareholder-financed operations		**-**	**-**	**4**	**92**	**96**	**96**	71	74
Borrowings attributable to with-profits funds		**11**	**1,078**	**-**	**-**	**-**	**1,089**	864	1,093
Deferred tax liabilities		**52**	**806**	**-**	**368**	**368**	**1,226**	1,184	1,228
Other non-insurance liabilities		**252**	**8,883**	**3,663**	**4,347**	**8,010**	**17,145**	13,455	14,442
Total liabilities		**6,728**	**104,770**	**26,310**	**36,820**	**63,130**	**174,628**	164,252	171,273
Total equity and liabilities		**6,728**	**104,770**	**26,310**	**40,792**	**67,102**	**178,600**	167,497	175,077

Notes

(i) The PAC with-profits sub-fund (WPSF) mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). Included in the PAC with-profits fund is £11.3 billion (30 June 2014: £11.2 billion; 31 December 2014: £11.7 billion) of non-profits annuities liabilities. The WPSF's profits are apportioned 90 per cent to its policyholders and 10 per cent to shareholders as surplus for distribution is determined via the annual actuarial valuation. For the purposes of this table and subsequent explanation, references to the WPSF also include, for convenience, the amounts attaching to the Defined Charges Participating Sub-fund which comprises 3.84 per cent of the total assets of the WPSF and includes the with-profits annuity business transferred to Prudential from the Equitable Life Assurance Society on 1 December 2007 (with assets of approximately £1.7 billion). Profits to shareholders on this with-profits annuity business emerge on a 'charges less expenses' basis and policyholders are entitled to 100 per cent of the investment earnings.

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

(iii) Other investments comprise:

	2015 £m 30 Jun	2014 £m 30 Jun	2014 £m 31 Dec
Derivative assets*	**2,555**	1,262	2,344
Partnerships in investment pools and other**	**3,451**	3,171	3,438
	6,006	4,433	5,782

* After including derivative liabilities of £841 million (30 June 2014: £751 million; 31 December 2014: £1,381 million), which are also included in the statement of financial position, the overall derivative position was a net asset of £1,714 million (30 June 2014: net asset of £511 million; 31 December 2014: net asset of £963 million).

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

C2.4 Asset management operations

	Note	2015 £m M&G	Prudential Capital	US	Eastspring Investments	30 Jun Total	2014 £m 30 Jun Total	31 Dec Total
Assets								
Intangible assets:								
Goodwill		**1,153**	**-**	**16**	**61**	**1,230**	1,230	1,230
Deferred acquisition costs and other intangible assets		**15**	**-**	**3**	**1**	**19**	20	21
Total		**1,168**	**-**	**19**	**62**	**1,249**	1,250	1,251
Other non-investment and non-cash assets		**1,345**	**637**	**228**	**82**	**2,292**	1,371	1,605
Investments in joint ventures and associates accounted for using the equity method		**34**	**-**	**-**	**80**	**114**	95	107
Financial investments:								
Loans	C3.4	**-**	**926**	**-**	**-**	**926**	1,022	854
Equity securities and portfolio holdings in unit trusts		**77**	**-**	**-**	**12**	**89**	74	79
Debt securities	C3.3	**-**	**1,945**	**-**	**3**	**1,948**	1,953	2,293
Other investments		**14**	**97**	**7**	**-**	**118**	73	121
Deposits		**-**	**-**	**18**	**34**	**52**	45	74
Total investments		**125**	**2,968**	**25**	**129**	**3,247**	3,262	3,528
Cash and cash equivalents		**418**	**797**	**74**	**101**	**1,390**	751	1,044
Total assets		**3,056**	**4,402**	**346**	**374**	**8,178**	6,634	7,428
Equity and liabilities								
Equity								
Shareholders' equity		**1,698**	**25**	**165**	**284**	**2,172**	2,053	2,077
Total equity		**1,698**	**25**	**165**	**284**	**2,172**	2,053	2,077
Liabilities								
Core structural borrowing of shareholder-financed operations		**-**	**275**	**-**	**-**	**275**	275	275
Operational borrowing attributable to shareholder-financed operations		**11**	**-**	**-**	**-**	**11**	-	6
Intra-group debt represented by operational borrowings at Group level[note (i)]		**-**	**2,176**	**-**	**-**	**2,176**	1,950	2,004
Other non-insurance liabilities[note (ii)]		**1,347**	**1,926**	**181**	**90**	**3,544**	2,356	3,066
Total liabilities		**1,358**	**4,377**	**181**	**90**	**6,006**	4,581	5,351
Total equity and liabilities		**3,056**	**4,402**	**346**	**374**	**8,178**	6,634	7,428

Notes

(i) Intra-group debt represented by operational borrowings at Group level, which are in respect of Prudential Capital's short-term fixed income security programme and comprise:

	2015 £m 30 Jun	2014 £m 30 Jun	31 Dec
Commercial paper	**1,577**	1,650	1,704
Medium Term Notes	**599**	300	300
Total intra-group debt represented by operational borrowings at Group level	**2,176**	1,950	2,004

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

C3 Assets and Liabilities - Classification and Measurement

C3.1 Group assets and liabilities – Classification

The classification of the Group's assets and liabilities, and its corresponding accounting carrying values reflect the requirements of IFRS. For financial investments the basis of valuation reflects the Group's application of IAS 39 'Financial Instruments: Recognition and Measurement' as described further below. Where assets and liabilities have been valued at fair value or measured on a different basis but fair value is disclosed, the Group has followed the principles under IFRS 13 'Fair value measurement'. The basis applied is summarised below:

	30 Jun 2015 £m				
	At fair value		Cost/ amortised cost/ IFRS 4 basis value note (i)	Total carrying value	Fair value, where applicable
	Through profit or loss	Available-for-sale			
Intangible assets attributable to shareholders:					
Goodwill	-	-	1,461	1,461	
Deferred acquisition costs and other intangible assets	-	-	7,310	7,310	
Total	-	-	8,771	8,771	
Intangible assets attributable to with-profits funds:					
In respect of acquired subsidiaries for venture fund and other investment purposes	-	-	184	184	
Deferred acquisition costs and other intangible assets	-	-	49	49	
Total	-	-	233	233	
Total intangible assets	-	-	9,004	9,004	
Other non-investment and non-cash assets:					
Property, plant and equipment	-	-	984	984	
Reinsurers' share of insurance contract liabilities	-	-	7,259	7,259	
Deferred tax assets	-	-	2,820	2,820	
Current tax recoverable	-	-	220	220	
Accrued investment income	-	-	2,575	2,575	2,575
Other debtors	-	-	3,626	3,626	3,626
Total	-	-	17,484	17,484	
Investments of long-term business and other operations: note (ii)					
Investment properties	13,259	-	-	13,259	13,259
Investments accounted for using the equity method		-	962	962	
Loans	2,306	-	10,272	12,578	13,189
Equity securities and portfolio holdings in unit trusts	155,253	-	-	155,253	155,253
Debt securities	110,273	32,034	-	142,307	142,307
Other investments	7,713	-		7,713	7,713
Deposits	-	-	11,043	11,043	11,043
Total investments	288,804	32,034	22,277	343,115	
Assets held for sale		-	-	-	
Cash and cash equivalents	-		8,298	8,298	8,298
Total assets	288,804	32,034	57,063	377,901	
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds:					
Insurance contract liabilities	-	-	254,417	254,417	
Investment contract liabilities with discretionary participation features note (iii)	-	-	39,795	39,795	
Investment contract liabilities without discretionary participation features	16,741	-	2,667	19,408	19,426
Unallocated surplus of with-profits funds	-	-	12,768	12,768	
Total	16,741	-	309,647	326,388	
Core structural borrowings of shareholder-financed operations	-	-	4,880	4,880	5,373
Other borrowings:					
Operational borrowings attributable to shareholder-financed operations	-	-	2,504	2,504	2,504
Borrowings attributable to with-profits operations	-	-	1,089	1,089	1,102
Other non-insurance liabilities:					
Obligations under funding, securities lending and sale and repurchase agreements	-	-	3,296	3,296	3,305
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	10,007	-	-	10,007	10,007
Deferred tax liabilities	-	-	4,325	4,325	
Current tax liabilities	-	-	393	393	
Accruals and deferred income	-	-	750	750	
Other creditors	322	-	5,193	5,515	5,515
Provisions		-	546	546	
Derivative liabilities	1,758	-	-	1,758	1,758
Other liabilities	2,204	-	2,141	4,345	4,345
Total	14,291	-	16,644	30,935	
Liabilities held for sale		-	-	-	
Total liabilities	31,032	-	334,764	365,796	

	30 Jun 2014 £m				
	At fair value		Cost/ amortised cost/ IFRS 4 basis value note (i)	Total carrying value	Fair value, where applicable
	Through profit or loss	Available-for-sale			
Intangible assets attributable to shareholders:					
Goodwill	-	-	1,458	1,458	
Deferred acquisition costs and other intangible assets	-	-	5,944	5,944	
Total	-	-	7,402	7,402	
Intangible assets attributable to with-profits funds:					
In respect of acquired subsidiaries for venture fund and other investment purposes	-	-	177	177	
Deferred acquisition costs and other intangible assets	-	-	63	63	
Total	-	-	240	240	
Total intangible assets	-	-	7,642	7,642	
Other non-investment and non-cash assets:					
Property, plant and equipment	-	-	910	910	
Reinsurers' share of insurance contract liabilities	-	-	6,743	6,743	
Deferred tax assets	-	-	2,173	2,173	
Current tax recoverable	-	-	158	158	
Accrued investment income	-	-	2,413	2,413	2,413
Other debtors	-	-	3,643	3,643	3,643
Total	-	-	16,040	16,040	
Investments of long-term business and other operations: note (ii)					
Investment properties	11,754	-	-	11,754	11,754
Investments accounted for using the equity method	-	-	911	911	
Loans	2,123	-	10,334	12,457	12,987
Equity securities and portfolio holdings in unit trusts	130,566	-	-	130,566	130,566
Debt securities	103,666	30,511	-	134,177	134,177
Other investments	5,908	-	-	5,908	5,908
Deposits	-	-	13,057	13,057	13,057
Total investments	254,017	30,511	24,302	308,830	
Assets held for sale	875	-		875	875
Cash and cash equivalents	-	-	5,903	5,903	5,903
Total assets	254,892	30,511	53,887	339,290	
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds:					
Insurance contract liabilities	-	-	227,779	227,779	
Investment contract liabilities with discretionary participation features note (iii)	-	-	35,636	35,636	
Investment contract liabilities without discretionary participation features	17,840	-	2,449	20,289	20,290
Unallocated surplus of with-profits funds	-	-	13,044	13,044	
Total	17,840	-	278,908	296,748	
Core structural borrowings of shareholder-financed operations	-	-	4,567	4,567	5,056
Other borrowings:					
Operational borrowings attributable to shareholder-financed operations	-	-	2,243	2,243	2,243
Borrowings attributable to with-profits operations	-	-	864	864	879
Other non-insurance liabilities:					
Obligations under funding, securities lending and sale and repurchase agreements	-	-	2,188	2,188	2,200
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	5,262	-	-	5,262	5,262
Deferred tax liabilities	-	-	3,855	3,855	
Current tax liabilities	-	-	475	475	
Accruals and deferred income	-	-	731	731	
Other creditors	279	-	4,720	4,999	4,999
Provisions	-	-	534	534	
Derivative liabilities	1,400	-	-	1,400	1,400
Other liabilities	2,019	-	1,951	3,970	3,970
Total	8,960	-	14,454	23,414	
Liabilities held for sale	828	-	-	828	828
Total liabilities	27,628	-	301,036	328,664	

	31 Dec 2014 £m				
	At fair value		Cost/ amortised cost/ IFRS 4 basis value note (i)	Total carrying value	Fair value, where applicable
	Through profit or loss	Available-for-sale			
Intangible assets attributable to shareholders:					
Goodwill	-	-	1,463	1,463	
Deferred acquisition costs and other intangible assets	-	-	7,261	7,261	
Total	-	-	8,724	8,724	
Intangible assets attributable to with-profits funds:					
In respect of acquired subsidiaries for venture fund and other investment purposes	-	-	186	186	
Deferred acquisition costs and other intangible assets	-	-	61	61	
Total	-	-	247	247	
Total intangible assets	-	-	8,971	8,971	
Other non-investment and non-cash assets:					
Property, plant and equipment	-	-	978	978	
Reinsurers' share of insurance contract liabilities	-	-	7,167	7,167	
Deferred tax assets	-	-	2,765	2,765	
Current tax recoverable	-	-	117	117	
Accrued investment income	-	-	2,667	2,667	2,667
Other debtors	-	-	1,852	1,852	1,852
Total	-	-	15,546	15,546	
Investments of long-term business and other operations: note (ii)					
Investment properties	12,764	-	-	12,764	12,764
Investments accounted for using the equity method	-	-	1,017	1,017	
Loans	2,291	-	10,550	12,841	13,548
Equity securities and portfolio holdings in unit trusts	144,862	-	-	144,862	144,862
Debt securities	112,354	32,897	-	145,251	145,251
Other investments	7,623	-	-	7,623	7,623
Deposits	-	-	13,096	13,096	13,096
Total investments	279,894	32,897	24,663	337,454	
Assets held for sale	824	-	-	824	824
Cash and cash equivalents	-	-	6,409	6,409	6,409
Total assets	280,718	32,897	55,589	369,204	
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds:					
Insurance contract liabilities	-	-	250,038	250,038	
Investment contract liabilities with discretionary participation features note (iii)	-	-	39,277	39,277	
Investment contract liabilities without discretionary participation features	17,554	-	2,670	20,224	20,211
Unallocated surplus of with-profits funds	-	-	12,450	12,450	
Total	17,554	-	304,435	321,989	
Core structural borrowings of shareholder-financed operations	-	-	4,304	4,304	4,925
Other borrowings:					
Operational borrowings attributable to shareholder-financed operations	-	-	2,263	2,263	2,263
Borrowings attributable to with-profits operations	-	-	1,093	1,093	1,108
Other non-insurance liabilities:					
Obligations under funding, securities lending and sale and repurchase agreements	-	-	2,347	2,347	2,361
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	7,357	-	-	7,357	7,357
Deferred tax liabilities	-	-	4,291	4,291	
Current tax liabilities	-	-	617	617	
Accruals and deferred income	-	-	947	947	
Other creditors	327	-	3,935	4,262	4,262
Provisions	-	-	724	724	
Derivative liabilities	2,323	-	-	2,323	2,323
Other liabilities	2,201	-	1,904	4,105	4,105
Total	12,208	-	14,765	26,973	
Liabilities held for sale	770	-	-	770	770
Total liabilities	30,532	-	326,860	357,392	

Notes

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

(ii) Realised gains and losses on the Group's investments for half year 2015 recognised in the income statement amounted to a net gain of £1.8 billion (30 June 2014: £1.8 billion; 31 December 2014: £2.9 billion).

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

C3.2 Group assets and liabilities – Measurement

(a) Determination of fair value

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

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

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

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

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

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

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

(b) Fair value hierarchy of financial instruments measured at fair value on recurring basis

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

	30 Jun 2015 £m			
	Level 1	Level 2	Level 3	
Analysis of financial investments, net of derivative liabilities by business type	**Quoted prices (unadjusted) in active markets**	**Valuation based on significant observable market inputs**	**Valuation based on significant unobservable market inputs**	**Total**
With-profits				
Equity securities and portfolio holdings in unit trusts	**36,488**	**2,650**	**623**	**39,761**
Debt securities	**16,988**	**41,635**	**361**	**58,984**
Other investments (including derivative assets)	**26**	**2,255**	**3,269**	**5,550**
Derivative liabilities	**(29)**	**(565)**	**-**	**(594)**
Total financial investments, net of derivative liabilities	**53,473**	**45,975**	**4,253**	**103,701**
Percentage of total	**52%**	**44%**	**4%**	**100%**
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	**113,797**	**344**	**9**	**114,150**
Debt securities	**4,300**	**5,558**	**-**	**9,858**
Other investments (including derivative assets)	**1**	**70**	**4**	**75**
Derivative liabilities	**-**	**(18)**	**-**	**(18)**
Total financial investments, net of derivative liabilities	**118,098**	**5,954**	**13**	**124,065**
Percentage of total	**95%**	**5%**	**0%**	**100%**
Non-linked shareholder-backed				
Loans	**-**	**267**	**2,039**	**2,306**
Equity securities and portfolio holdings in unit trusts	**1,182**	**125**	**35**	**1,342**
Debt securities	**15,170**	**58,099**	**196**	**73,465**
Other investments (including derivative assets)	**-**	**1,310**	**778**	**2,088**
Derivative liabilities	**-**	**(810)**	**(336)**	**(1,146)**
Total financial investments, net of derivative liabilities	**16,352**	**58,991**	**2,712**	**78,055**
Percentage of total	**21%**	**76%**	**3%**	**100%**
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans*	**-**	**267**	**2,039**	**2,306**
Equity securities and portfolio holdings in unit trusts	**151,467**	**3,119**	**667**	**155,253**
Debt securities	**36,458**	**105,292**	**557**	**142,307**
Other investments (including derivative assets)	**27**	**3,635**	**4,051**	**7,713**
Derivative liabilities	**(29)**	**(1,393)**	**(336)**	**(1,758)**
Total financial investments, net of derivative liabilities	**187,923**	**110,920**	**6,978**	**305,821**
Investment contracts liabilities without discretionary participation features held at fair value	**(22)**	**(16,719)**	**-**	**(16,741)**
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**(8,559)**	**(45)**	**(1,403)**	**(10,007)**
Other financial liabilities held at fair value	**-**	**(322)**	**(2,204)**	**(2,526)**
Total financial instruments at fair value	**179,342**	**93,834**	**3,371**	**276,547**
Percentage of total	**65%**	**34%**	**1%**	**100%**

* Loans in the table above are those classified as fair value through profit and loss in note C3.1.

Analysis of financial investments, net of derivative liabilities by business type	30 Jun 2014 £m Level 1 Quoted prices (unadjusted) in active markets	Level 2 Valuation based on significant observable market inputs	Level 3 Valuation based on significant unobservable market inputs	Total
With-profits				
Equity securities and portfolio holdings in unit trusts	28,796	2,711	597	32,104
Debt securities	15,870	39,756	480	56,106
Other investments (including derivative assets)	64	1,037	3,044	4,145
Derivative liabilities	(45)	(394)	-	(439)
Total financial investments, net of derivative liabilities	44,685	43,110	4,121	91,916
Percentage of total	49%	47%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	97,125	200	38	97,363
Debt securities	3,546	6,313	-	9,859
Other investments (including derivative assets)	5	33	-	38
Derivative liabilities	-	(1)	-	(1)
Total financial investments, net of derivative liabilities	100,676	6,545	38	107,259
Percentage of total	94%	6%	0%	100%
Non-linked shareholder-backed				
Loans	-	259	1,864	2,123
Equity securities and portfolio holdings in unit trusts	986	79	34	1,099
Debt securities	14,271	53,853	88	68,212
Other investments (including derivative assets)	-	959	766	1,725
Derivative liabilities	-	(750)	(210)	(960)
Total financial investments, net of derivative liabilities	15,257	54,400	2,542	72,199
Percentage of total	21%	75%	4%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans*	-	259	1,864	2,123
Equity securities and portfolio holdings in unit trusts	126,907	2,990	669	130,566
Debt securities	33,687	99,922	568	134,177
Other investments (including derivative assets)	69	2,029	3,810	5,908
Derivative liabilities	(45)	(1,145)	(210)	(1,400)
Total financial investments, net of derivative liabilities	160,618	104,055	6,701	271,374
Investment contracts liabilities without discretionary participation features held at fair value	-	(17,840)	-	(17,840)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(3,902)	(134)	(1,226)	(5,262)
Other financial liabilities held at fair value	-	(279)	(2,019)	(2,298)
Total financial instruments at fair value	156,716	85,802	3,456	245,974
Percentage of total	64%	35%	1%	100%

* Loans in the table above are those classified as fair value through profit and loss in note C3.1.

Analysis of financial investments, net of derivative liabilities by business type	31 Dec 2014 £m Level 1 Quoted prices (unadjusted) in active markets	Level 2 Valuation based on significant observable market inputs	Level 3 Valuation based on significant unobservable market inputs	Total
With-profits				
Equity securities and portfolio holdings in unit trusts	31,136	2,832	694	34,662
Debt securities	16,415	42,576	582	59,573
Other investments (including derivative assets)	96	1,997	3,252	5,345
Derivative liabilities	(72)	(1,024)	-	(1,096)
Total financial investments, net of derivative liabilities	47,575	46,381	4,528	98,484
Percentage of total	48%	47%	5%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	108,392	336	21	108,749
Debt securities	4,509	6,375	11	10,895
Other investments (including derivative assets)	4	29	-	33
Derivative liabilities	(10)	(12)	-	(22)
Total financial investments, net of derivative liabilities	112,895	6,728	32	119,655
Percentage of total	94%	6%	0%	100%
Non-linked shareholder-backed				
Loans	-	266	2,025	2,291
Equity securities and portfolio holdings in unit trusts	1,303	116	32	1,451
Debt securities	15,806	58,780	197	74,783
Other investments (including derivative assets)	-	1,469	776	2,245
Derivative liabilities	-	(867)	(338)	(1,205)
Total financial investments, net of derivative liabilities	17,109	59,764	2,692	79,565
Percentage of total	22%	75%	3%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans*	-	266	2,025	2,291
Equity securities and portfolio holdings in unit trusts	140,831	3,284	747	144,862
Debt securities	36,730	107,731	790	145,251
Other investments (including derivative assets)	100	3,495	4,028	7,623
Derivative liabilities	(82)	(1,903)	(338)	(2,323)
Total financial investments, net of derivative liabilities	177,579	112,873	7,252	297,704
Investment contracts liabilities without discretionary participation features held at fair value	-	(17,554)	-	(17,554)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(5,395)	(671)	(1,291)	(7,357)
Other financial liabilities held at fair value	-	(327)	(2,201)	(2,528)
Total financial instruments at fair value	172,184	94,321	3,760	270,265
Percentage of total	64%	35%	1%	100%

* Loans in the table above are those classified as fair value through profit and loss in note C3.1.

In addition to the financial instruments shown above, the assets and liabilities held for sale on the consolidated statement of financial position at 31 December and 30 June 2014 in respect of Japan Life business included net financial instruments balances of £844 million and £917 million respectively, primarily for equity securities and debt securities. Of this amount, £814 million and £888 million had been classified as level 1 and £30 million and £29 million as level 2 respectively.

(c) Valuation approach for level 2 fair valued financial instruments

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

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

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

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

Of the total level 2 debt securities of £105,292 million at 30 June 2015 (30 June 2014: £99,922 million; 31 December 2014: £107,731 million), £10,190 million are valued internally (30 June 2014: £8,813 million; 31 December 2014: £10,093 million). The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

(d) Fair value measurements for level 3 fair valued financial instruments

Reconciliation of movements in level 3 financial instruments measured at fair value

The following table reconciles the value of level 3 fair valued financial instruments at 1 January 2015 to that presented at 30 June 2015.

Total investment return recorded in the income statement represents interest and dividend income, realised gains and losses, unrealised gains and losses on the assets classified at fair value through profit and loss and foreign exchange movements on an individual entity's overseas investments.

Total gains and losses recorded in other comprehensive income includes unrealised gains and losses on debt securities held as available-for-sale within Jackson and foreign exchange movements arising from the retranslation of the Group's overseas subsidiaries and branches.

	£m									
Half year 2015	**At 1 Jan**	**Total gains (losses) in income statement**	**Total gains (losses) recorded in other compre-hensive income**	**Purchases**	**Sales**	**Settled**	**Issued**	**Transfers into level 3**	**Transfers out of Level 3**	**At 30 Jun 2015**
Loans	**2,025**	**72**	**(18)**	**-**	**-**	**(64)**	**24**	**-**	**-**	**2,039**
Equity securities and portfolio holdings in unit trusts	**747**	**45**	**(1)**	**23**	**(148)**	**-**	**-**	**1**	**-**	**667**
Debt securities	**790**	**(66)**	**-**	**33**	**(245)**	**-**	**-**	**46**	**(1)**	**557**
Other investments (including derivative assets)	**4,028**	**114**	**(77)**	**271**	**(285)**	**-**	**-**	**-**	**-**	**4,051**
Derivative liabilities	**(338)**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(336)**
Total financial investments, net of derivative liabilities	**7,252**	**167**	**(96)**	**327**	**(678)**	**(64)**	**24**	**47**	**(1)**	**6,978**
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**(1,291)**	**(32)**	**-**	**(4)**	**22**	**24**	**(122)**	**-**	**-**	**(1,403)**
Other financial liabilities	**(2,201)**	**(85)**	**19**	**-**	**-**	**113**	**(50)**	**-**	**-**	**(2,204)**
Total financial instruments at fair value	**3,760**	**50**	**(77)**	**323**	**(656)**	**73**	**(148)**	**47**	**(1)**	**3,371**

Half year 2014	**At 1 Jan**	**Total gains (losses) in income statement**	**Total gains (losses) recorded in other compre-hensive income**	**Purchases**	**Sales**	**Settled**	**Issued**	**Transfers into level 3**	**Transfers out of Level 3**	**At 30 Jun 2014**
Loans	1,887	64	(60)	-	-	(46)	19	-	-	1,864
Equity securities and portfolio holdings in unit trusts	649	17	(2)	12	(9)	-	-	2	-	669
Debt securities	670	1	(1)	16	(123)	-	-	12	(7)	568
Other investments (including derivative assets)	3,758	158	(61)	209	(253)	-	-	-	(1)	3,810
Derivative liabilities	(201)	(9)	-	-	-	-	-	-	-	(210)
Total financial investments, net of derivative liabilities	6,763	231	(124)	237	(385)	(46)	19	14	(8)	6,701
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,327)	11	1	(2)	2	116	(27)	-	-	(1,226)
Other financial liabilities	(2,051)	(71)	65	-	-	71	(33)	-	-	(2,019)
Total financial instruments at fair value	3,385	171	(58)	235	(383)	141	(41)	14	(8)	3,456

Full year 2014	**At 1 Jan**	**Total gains (losses) in income statement**	**Total gains (losses) recorded in other compre-hensive income**	**Purchases**	**Sales**	**Settled**	**Issued**	**Transfers into level 3**	**Transfers out of Level 3**	**At 31 Dec 2014**
Loans	1,887	1	118	-	-	(175)	194	-	-	2,025
Equity securities and portfolio holdings in unit trusts	649	118	2	26	(50)	-	-	2	-	747
Debt securities	670	271	(7)	49	(169)	-	-	11	(35)	790
Other investments (including derivative assets)	3,758	337	36	371	(474)	-	-	-	-	4,028
Derivative liabilities	(201)	(138)	-	-	-	-	-	-	1	(338)
Total financial investments, net of derivative liabilities	6,763	589	149	446	(693)	(175)	194	13	(34)	7,252
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,327)	(14)	-	(18)	18	123	(73)	-	-	(1,291)
Other financial liabilities	(2,051)	(10)	(129)	-	-	279	(290)	-	-	(2,201)
Total financial instruments at fair value	3,385	565	20	428	(675)	227	(169)	13	(34)	3,760

Of the total net gains and losses in the income statement of £50 million (30 June 2014: £171 million; 31 December 2014: £565 million), £131 million (30 June 2014: £163 million; 31 December 2014: £344 million) relates to net unrealised gains relating to financial instruments still held at the end of the period, which can be analysed as follows:

	2015 £m	2014 £m	
	30 Jun	**30 Jun**	**31 Dec**
Equity securities	**38**	14	70
Debt securities	**(2)**	1	149
Other investments	**125**	153	284
Derivative liabilities	**2**	(9)	(137)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**(32)**	11	(14)
Other financial liabilities	**-**	(7)	(8)
Total	**131**	163	344

Valuation approach for level 3 fair valued financial instruments

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

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

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

At 30 June 2015 the Group held £3,371 million (30 June 2014: £3,456 million; 31 December 2014: £3,760 million), 1 per cent of the total fair valued financial assets net of fair valued financial liabilities (30 June 2014: 1 per cent; 31 December 2014: 1 per cent), within level 3.

Included within these amounts were loans of £2,039 million at 30 June 2015 (30 June 2014: £1,864 million; 31 December 2014: £2,025 million), measured as the loan outstanding balance attached to REALIC and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of £2,204 million at 30 June 2015 (30 June 2014: £2,019 million; 31 December 2014: £2,201 million) was also classified within level 3, accounted for on a fair value basis being equivalent to the carrying value of the underlying assets.

Excluding the loans and funds withheld liability under REALIC's reinsurance arrangements as described above, which amounted to a net liability of £(165) million (30 June 2014: £(155) million; 31 December 2014: £(176) million), the level 3 fair valued financial assets net of financial liabilities were £3,536 million (30 June 2014: £3,611 million; 31 December 2014: £3,936 million). Of this amount, a net liability of £(378) million (30 June 2014: net liability of £(228) million; 31 December 2014: net asset of £11 million) were internally valued, representing 0.1 per cent of the total fair valued financial assets net of financial liabilities (30 June 2014: 0.1 per cent; 31 December 2014: 0.1 per cent). Internal valuations are inherently more subjective than external valuations. Included within these internally valued net liabilities were:

(a) Debt securities of £251 million (30 June 2014: £80 million; 31 December 2014: £298 million), which were either valued on a discounted cash flow method with an internally developed discount rate or on external prices adjusted to reflect the specific known conditions relating to these securities (e.g. distressed securities or securities which were being restructured).
(b) Private equity and venture investments of £715 million (30 June 2014: £897 million; 31 December 2014: £1,002 million) which were valued internally based on management information available for these investments. These investments, in the form of debt and equity securities, were principally held by consolidated investment funds which are managed on behalf of third parties.
(c) Liabilities of £(1,379) million (30 June 2014: £(1,206) million; 31 December 2014: £(1,269) million) for the net asset value attributable to external unit holders respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities are valued by reference to the underlying assets.
(d) Derivative liabilities of £(28) million (30 June 2014: £ nil; 31 December 2014: £(23) million) which are valued internally using standard market practices but are subject to independent assessment against counterparties' valuations.
(e) Other sundry individual financial investments of £63 million (30 June 2014: £1 million; 31 December 2014: £3 million).

Of the internally valued net liability referred to above of £(378) million (30 June 2014: £(228) million; 31 December 2014: net asset of £11 million):

(a) A net liability of £(525) million (30 June 2014: net liability of £(267) million; 31 December 2014: net liability of £(133) million) was held by the Group's participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments.
(b) A net asset of £147 million (30 June 2014: £39 million; 31 December 2014: £144 million) was held to support non-linked shareholder-backed business. If the value of all the level 3 instruments held to support non-linked shareholder-backed business valued internally was varied downwards by 10 per cent, the change in valuation would be £15 million (30 June 2014: £4 million; 31 December 2014: £14 million), which would reduce shareholders' equity by this amount before tax. Of this amount, a decrease of £14 million (30 June 2014: a decrease of £3 million; 31 December 2014: a decrease of £13 million) would pass through the income statement substantially as part of short-term fluctuations in investment returns outside of operating profit and a £1 million decrease (30 June 2014: a decrease of £1 million; 31 December 2014: a decrease of £1 million) would be included as part of other comprehensive income, being unrealised movements on assets classified as available-for-sale.

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

During half year 2015, the transfers between levels within the Group's portfolio were primarily transfers from level 1 to 2 of £662 million and transfers from level 2 to level 1 of £207 million. These transfers which primarily relate to debt securities arose to reflect the change in the observability of the inputs used in valuing these securities.

In addition, the transfers into and out of level 3 in half year 2015 were £47 million and £1 million, respectively. These transfers were primarily between levels 3 and 2 for debt securities.

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

C3.3 Debt securities

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

Debt securities are carried at fair value. The amounts included in the statement of financial position are analysed as follows, with further information relating to the credit quality of the Group's debt securities at 30 June 2015 provided in the notes below.

	2015 £m	2014 £m	
	30 Jun	**30 Jun**	**31 Dec**
Insurance operations:			
Asia [note (a)]	**24,366**	19,958	23,629
US [note (b)]	**32,117**	30,586	32,980
UK [note (c)]	**83,876**	81,680	86,349
Asset management operations[note (d)]	**1,948**	1,953	2,293
Total	**142,307**	134,177	145,251

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

(a) Asia insurance operations

	2015 £m				2014 £m	
	With-profits business	**Unit-linked assets**	**Other business**	**30 Jun Total**	**30 Jun Total**	**31 Dec Total**
S&P – AAA	**824**	**46**	**190**	**1,060**	734	962
S&P – AA+ to AA-	**4,789**	**343**	**979**	**6,111**	5,042	6,332
S&P – A+ to A-	**2,104**	**382**	**1,822**	**4,308**	3,258	3,922
S&P – BBB+ to BBB-	**1,831**	**710**	**1,340**	**3,881**	2,790	3,545
S&P – Other	**643**	**211**	**1,072**	**1,926**	1,463	1,839
	10,191	**1,692**	**5,403**	**17,286**	13,287	16,600
Moody's – Aaa	**824**	**198**	**345**	**1,367**	2,390	1,282
Moody's – Aa1 to Aa3	**78**	**8**	**1,138**	**1,224**	104	1,141
Moody's – A1 to A3	**231**	**81**	**102**	**414**	147	366
Moody's – Baa1 to Baa3	**159**	**270**	**131**	**560**	477	585
Moody's – Other	**67**	**12**	**6**	**85**	74	68
	1,359	**569**	**1,722**	**3,650**	3,192	3,442
Fitch	**493**	**97**	**246**	**836**	584	1,009
Other	**1,278**	**375**	**941**	**2,594**	2,895	2,578
Total debt securities	**13,321**	**2,733**	**8,312**	**24,366**	19,958	23,629

In addition to the debt securities shown above, the assets held for sale on the condensed consolidated statement of financial position at 30 June 2014 and 31 December 2014 in respect of Japan Life business included a debt securities balance of £380 million and £351 million respectively. Of this amount, £351 million at 30 June 2014 and £321 million at 31 December 2014 were rated as AA+ to AA- and £29 million at 30 June 2014 and £30 million at 31 December 2014 were rated A+ to A-.

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

	2015 £m	2014 £m	
	30 Jun	**30 Jun**	**31 Dec**
Government bonds*	**208**	402	174
Corporate bonds*	**578**	532	654
Other	**155**	79	134
	941	1,013	962

* Rated as investment grade by local external ratings agencies.

(b) US insurance operations
(i) Overview

	2015 £m	2014 £m	
	30 Jun	30 Jun	31 Dec
Corporate and government security and commercial loans:			
Government	**3,885**	3,385	3,972
Publicly traded and SEC Rule 144A securities*	**20,511**	19,530	20,745
Non-SEC Rule 144A securities	**3,548**	3,335	3,745
Total	**27,944**	26,250	28,462
Residential mortgage-backed securities (RMBS)	**1,370**	1,584	1,567
Commercial mortgage-backed securities (CMBS)	**2,212**	2,224	2,343
Other debt securities	**591**	528	608
Total US debt securities†	**32,117**	30,586	32,980

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

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

	2015 £m	2014 £m	
	30 Jun	30 Jun	31 Dec
Available-for-sale	**32,034**	30,511	32,897
Fair value through profit and loss:			
Securities held to back liabilities for funds withheld under reinsurance arrangement	**83**	75	83
	32,117	30,586	32,980

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

Under IAS 39, unless categorised as 'held to maturity' or 'loans and receivables' debt securities are required to be fair valued. Where available, quoted market prices are used. However, where securities do not have an externally quoted price based on regular trades or where markets for the securities are no longer active as a result of market conditions, IAS 39 requires that valuation techniques be applied. IFRS 13 requires classification of the fair values applied by the Group into a three level hierarchy. At 30 June 2015, 0.1 per cent of Jackson's debt securities were classified as level 3 (30 June 2014: 0.1 per cent; 31 December 2014: 0.1 per cent) comprising of fair values where there are significant inputs which are not based on observable market data.

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

Movements in unrealised gains and losses

There was a movement in the statement of financial position value for debt securities classified as available-for-sale from a net unrealised gain of £1,840 million to a net unrealised gain of £1,086 million as analysed in the table below. This decrease reflects the effects of higher long-term interest rates.

	30 Jun 2015 £m	Changes in unrealised appreciation	Foreign exchange translation**	31 Dec 2014 £m
		Reflected as part of movement in other comprehensive income		
Assets fair valued at below book value				
Book value*	**10,279**			5,899
Unrealised (loss) gain	**(424)**	**(253)**	**9**	(180)
Fair value (as included in statement of financial position)	**9,855**			5,719
Assets fair valued at or above book value				
Book value*	**20,669**			25,158
Unrealised gain (loss)	**1,510**	**(509)**	**(1)**	2,020
Fair value (as included in statement of financial position)	**22,179**			27,178
Total				
Book value*	**30,948**			31,057
Net unrealised gain (loss)	**1,086**	**(762)**	**8**	1,840
Fair value (as included in statement of financial position)	**32,034**			32,897

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

** Translated at the average rate of US$1.5235: £1.00

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

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

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

	30 Jun 2015 £m		30 Jun 2014 £m		31 Dec 2014 £m	
	Fair value	**Unrealised loss**	**Fair value**	**Unrealised loss**	**Fair value**	**Unrealised loss**
Between 90% and 100%	**8,998**	**(294)**	4,069	(126)	5,429	(124)
Between 80% and 90%	**796**	**(109)**	1,176	(162)	245	(37)
Below 80%:						
Residential mortgage-backed securities - sub-prime	**4**	**(1)**	3	(1)	4	(1)
Commercial mortgage-backed securities	**10**	**(3)**	8	(3)	10	(3)
Other asset-backed securities	**9**	**(6)**	9	(6)	9	(6)
Corporates	**38**	**(11)**	2	(1)	22	(9)
	61	**(21)**	22	(11)	45	(19)
Total	**9,855**	**(424)**	5,267	(299)	5,719	(180)

(b) Unrealised losses by maturity of security

	2015 £m	2014 £m	
	30 Jun	**30 Jun**	**31 Dec**
1 year to 5 years	**(8)**	(2)	(5)
5 years to 10 years	**(139)**	(48)	(90)
More than 10 years	**(245)**	(216)	(54)
Mortgage-backed and other debt securities	**(32)**	(33)	(31)
Total	**(424)**	(299)	(180)

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

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

	30 Jun 2015 £m			30 Jun 2014 £m			31 Dec 2014 £m		
	Non-investment grade	**Investment grade**	**Total**	**Non-investment grade**	**Investment grade**	**Total**	**Non-investment grade**	**Investment grade**	**Total**
Less than 6 months	**(9)**	**(314)**	**(323)**	(1)	(2)	(3)	(18)	(46)	(64)
6 months to 1 year	**(14)**	**(25)**	**(39)**	(1)	(1)	(2)	(1)	(1)	(2)
1 year to 2 years	**(2)**	**(1)**	**(3)**	(2)	(271)	(273)	(6)	(51)	(57)
2 years to 3 years	**(2)**	**(39)**	**(41)**	-	-	-	(1)	(36)	(37)
More than 3 years	**(7)**	**(11)**	**(18)**	(10)	(11)	(21)	(7)	(13)	(20)
Total	**(34)**	**(390)**	**(424)**	(14)	(285)	(299)	(33)	(147)	(180)

The following table shows the age analysis as at 30 June 2015, of the securities whose fair values were below 80 per cent of the book value:

	30 Jun 2015 £m		30 Jun 2014 £m		31 Dec 2014 £m	
Age analysis	**Fair value**	**Unrealised loss**	**Fair value**	**Unrealised loss**	**Fair value**	**Unrealised loss**
Less than 3 months	**35**	**(9)**	-	-	17	(7)
3 months to 6 months	**4**	**(2)**	-	-	3	(1)
More than 6 months	**22**	**(10)**	22	(11)	25	(11)
	61	**(21)**	22	(11)	45	(19)

(iii) Ratings

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

	2015 £m	2014 £m	
	30 Jun	**30 Jun**	**31 Dec**
S&P – AAA	**145**	131	164
S&P – AA+ to AA-	**5,216**	5,352	6,067
S&P – A+ to A-	**8,462**	7,776	8,640
S&P – BBB+ to BBB-	**10,345**	10,065	10,308
S&P – Other	**876**	1,027	1,016
	25,044	24,351	26,195
Moody's – Aaa	**218**	175	84
Moody's – Aa1 to Aa3	**30**	6	29
Moody's – A1 to A3	**35**	86	27
Moody's – Baa1 to Baa3	**72**	85	72
Moody's – Other	**7**	10	8
	362	362	220
Implicit ratings of MBS based on NAIC* valuations (see below)			
NAIC 1	**2,416**	2,558	2,786
NAIC 2	**57**	116	85
NAIC 3-6	**46**	75	58
	2,519	2,749	2,929
Fitch	**300**	161	300
Other **	**3,892**	2,963	3,336
Total debt securities	**32,117**	30,586	32,980

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

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

	2015 £m	2014 £m	
	30 Jun	**30 Jun**	**31 Dec**
NAIC 1	**2,177**	1,140	1,322
NAIC 2	**1,601**	1,756	1,890
NAIC 3-6	**114**	67	124
	3,892	2,963	3,336

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

(c) UK insurance operations

	£m							
			Other funds and subsidiaries			UK insurance operations		
	Scottish Amicable Insurance Fund	PAC with-profits fund	Unit-linked assets	PRIL	Other annuity and long-term business	30 Jun 2015 Total	30 Jun 2014 Total	31 Dec 2014 Total
S&P – AAA	**214**	**4,149**	**1,143**	**3,421**	**375**	**9,302**	8,630	9,376
S&P – AA+ to AA-	**463**	**5,162**	**943**	**3,673**	**445**	**10,686**	10,952	11,249
S&P – A+ to A-	**633**	**9,749**	**1,387**	**6,911**	**748**	**19,428**	20,880	21,491
S&P – BBB+ to BBB-	**570**	**9,444**	**1,753**	**4,558**	**734**	**17,059**	15,652	16,741
S&P – Other	**154**	**2,126**	**233**	**326**	**66**	**2,905**	2,744	2,867
	2,034	**30,630**	**5,459**	**18,889**	**2,368**	**59,380**	58,858	61,724
Moody's – Aaa	**44**	**1,502**	**191**	**386**	**46**	**2,169**	2,145	2,063
Moody's – Aa1 to Aa3	**59**	**2,320**	**1,050**	**2,660**	**500**	**6,589**	7,045	7,129
Moody's – A1 to A3	**50**	**1,015**	**87**	**1,367**	**179**	**2,698**	2,400	2,686
Moody's – Baa1 to Baa3	**29**	**882**	**93**	**312**	**40**	**1,356**	1,443	1,376
Moody's – Other	**4**	**540**	**23**	**82**	**1**	**650**	173	436
	186	**6,259**	**1,444**	**4,807**	**766**	**13,462**	13,206	13,690
Fitch	**14**	**408**	**79**	**222**	**21**	**744**	744	848
Other	**231**	**5,901**	**143**	**3,696**	**319**	**10,290**	8,872	10,087
Total debt securities	**2,465**	**43,198**	**7,125**	**27,614**	**3,474**	**83,876**	81,680	86,349

Where no external ratings are available, internal ratings produced by the Group's asset management operation, which are prepared on the Company's assessment of a comparable basis to external ratings, are used where possible. The £10,290 million total debt securities held at 30 June 2015 (30 June 2014: £8,872 million; 31 December 2014: £10,087 million) which are not externally rated are either internally rated or unrated. These are analysed as follows:

	2015 £m	2014 £m	
	30 Jun	30 Jun	31 Dec
Internal ratings or unrated:			
AAA to A-	**5,306**	4,082	4,917
BBB to B-	**3,592**	3,403	3,755
Below B- or unrated	**1,392**	1,387	1,415
Total	**10,290**	8,872	10,087

The majority of unrated debt security investments were held in SAIF and the PAC with-profits fund and relate to convertible debt and other investments which are not covered by ratings analysts nor have an internal rating attributed to them. Of the £4,015 million for PRIL and other annuity and long-term business investments for non-linked shareholder-backed business which are not externally rated, £1,156 million were internally rated AA+ to AA-, £1,627 million A+ to A-, £1,085 million BBB+ to BBB-, £59 million BB+ to BB- and £88 million were internally rated B+ and below or unrated.

(d) Asset management operations

The debt securities are principally held by Prudential Capital.

	2015 £m	2014 £m	
	30 Jun	30 Jun	31 Dec
AAA to A- by S&P or equivalent ratings	**1,821**	1,604	2,056
Other	**127**	349	237
Total	**1,948**	1,953	2,293

(e) Asset-backed securities

The Group's holdings in asset-backed securities (ABS), which comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralised debt obligations (CDO) funds and other asset-backed securities, at 30 June 2015 is as follows:

	2015 £m	2014 £m	
	30 Jun	30 Jun	31 Dec
Shareholder-backed operations:			
Asia insurance operations note (i)	**115**	108	104
US insurance operations note (ii)	**4,173**	4,336	4,518
UK insurance operations (2015: 30% AAA, 31% AA) note (iii)	**1,938**	1,765	1,864
Asset management operations note (iv)	**712**	873	875
	6,938	7,082	7,361
With-profits operations:			
Asia insurance operations note (i)	**286**	225	228
UK insurance operations (2015: 55% AAA, 20% AA) note (iii)	**5,019**	5,352	5,126
	5,305	5,577	5,354
Total	**12,243**	12,659	12,715

Notes

(i) Asia insurance operations

The Asia insurance operations' exposure to asset-backed securities is primarily held by the with-profits operations. Of the £286 million, 100 per cent (30 June 2014: 98 per cent; 31 December 2014: 99 per cent) are investment graded.

(ii) US insurance operations

US insurance operations' exposure to asset-backed securities at 30 June 2015 comprises:

	2015 £m	2014 £m	
	30 Jun	30 Jun	31 Dec
RMBS			
Sub-prime (2015: 5% AAA, 13% AA, 8% A)	**201**	232	235
Alt-A (2015: 1% AA, 4% A)	**216**	244	244
Prime including agency (2015: 76% AA, 2% A)	**953**	1,108	1,088
CMBS (2015: 51% AAA, 25% AA, 19% A)	**2,212**	2,224	2,343
CDO funds (2015: 24% AAA, 11% A), including £nil exposure to sub-prime	**45**	38	53
Other ABS (2015: 21% AAA, 15% AA, 52% A), including £70 million exposure to sub-prime	**546**	490	555
Total	**4,173**	4,336	4,518

(iii) UK insurance operations

The holdings of the UK shareholder-backed operations include £694 million (30 June 2014: £626 million; 31 December 2014: £597 million) relating to asset-backed securities held in the unit-linked funds. The remaining amount relates to investments held by PRIL with a primary exposure to the UK market.

Of the holdings of the with-profits operations, £1,358 million (30 June 2014: £1,266 million; 31 December 2013: £1,333 million) relates to exposure to the US markets with the remaining exposure being primarily to the UK market.

(iv) Asset management operations

Asset management operations' exposure to asset-backed securities is held by Prudential Capital with no sub-prime exposure. Of the £712 million, 90 per cent (30 June 2014: 86 per cent; 31 December 2014: 89 per cent) are graded AAA.

(f) Group sovereign debt and bank debt exposure

The Group exposures held by the shareholder-backed business and with-profits funds in sovereign debts and bank debt securities at 30 June 2015:

Exposure to sovereign debts

	£m					
	30 Jun 2015		30 Jun 2014		31 Dec 2014	
	Shareholder-backed business	With-profits funds	Shareholder-backed business	With-profits funds	Shareholder-backed business	With-profits funds
Italy	**55**	**60**	58	58	62	61
Spain	**1**	**17**	1	16	1	18
France	**18**	**-**	18	-	20	-
Germany*	**347**	**330**	356	380	388	336
Other Europe (principally Belgium)	**5**	**28**	49	43	5	29
Total Eurozone	**426**	**435**	482	497	476	444
United Kingdom	**3,735**	**1,963**	3,474	2,309	4,104	2,065
United States**	**3,522**	**5,429**	3,125	4,805	3,607	5,771
Other, predominantly Asia	**2,890**	**1,682**	3,289	1,679	2,787	1,714
Total	**10,573**	**9,509**	10,370	9,290	10,974	9,994

* Including bonds guaranteed by the federal government.

** The exposure to the United States sovereign debt comprises holdings of Jackson, the UK and Asia insurance operations.

The table above excludes assets held to cover linked liabilities and those of the consolidated unit trusts and similar funds. In addition, the table above excludes the proportionate share of sovereign debt holdings of the Group's joint venture operations.

Exposure to bank debt securities

	£m								
	Senior debt			Subordinated debt					
Shareholder-backed business	Covered	Senior	Total senior debt	Tier 1	Tier 2	Total subordinated debt	Total 30 Jun 2015	Total 30 Jun 2014	Total 31 Dec 2014
Italy	**-**	**29**	**29**	**-**	**-**	**-**	**29**	31	31
Spain	**132**	**11**	**143**	**-**	**12**	**12**	**155**	151	133
France	**19**	**127**	**146**	**25**	**74**	**99**	**245**	213	249
Germany	**62**	**3**	**65**	**-**	**59**	**59**	**124**	63	111
Netherlands	**-**	**12**	**12**	**71**	**25**	**96**	**108**	136	124
Other Eurozone	**-**	**24**	**24**	**-**	**11**	**11**	**35**	72	53
Total Eurozone	**213**	**206**	**419**	**96**	**181**	**277**	**696**	666	701
United Kingdom	**377**	**167**	**544**	**27**	**560**	**587**	**1,131**	1,335	1,296
United States	**-**	**2,075**	**2,075**	**13**	**335**	**348**	**2,423**	2,279	2,484
Other, predominantly Asia	**19**	**297**	**316**	**47**	**349**	**396**	**712**	724	735
Total	**609**	**2,745**	**3,354**	**183**	**1,425**	**1,608**	**4,962**	5,004	5,216
With-profits funds									
Italy	**5**	**57**	**62**	**-**	**-**	**-**	**62**	74	67
Spain	**161**	**42**	**203**	**-**	**-**	**-**	**203**	202	186
France	**6**	**177**	**183**	**-**	**59**	**59**	**242**	233	206
Germany	**104**	**24**	**128**	**-**	**-**	**-**	**128**	29	128
Netherlands	**-**	**217**	**217**	**-**	**-**	**-**	**217**	223	195
Other Eurozone	**-**	**35**	**35**	**-**	**-**	**-**	**35**	25	24
Total Eurozone	**276**	**552**	**828**	**-**	**59**	**59**	**887**	786	806
United Kingdom	**578**	**490**	**1,068**	**2**	**505**	**507**	**1,575**	1,556	1,561
United States	**-**	**1,646**	**1,646**	**185**	**132**	**317**	**1,963**	1,822	2,064
Other, predominantly Asia	**271**	**835**	**1,106**	**122**	**317**	**439**	**1,545**	1,268	1,396
Total	**1,125**	**3,523**	**4,648**	**309**	**1,013**	**1,322**	**5,970**	5,432	5,827

The table above excludes assets held to cover linked liabilities and those of the consolidated unit trusts and similar funds. In addition, the table above excludes the proportionate share of sovereign debt holdings of the Group's joint venture operations.

C3.4 Loans portfolio

Loans are accounted for at amortised cost net of impairment except for:

- certain mortgage loans which have been designated at fair value through profit and loss of the UK insurance operations as this loan portfolio is managed and evaluated on a fair value basis; and
- certain policy loans of the US insurance operations which are held to back liabilities for funds withheld under reinsurance arrangement and are also accounted on a fair value basis.

The amounts included in the statement of financial position are analysed as follows:

	2015 £m	2014 £m	
	30 Jun	30 Jun	31 Dec
Insurance operations:			
Asia[note (a)]	**1,009**	916	1,014
US[note (b)]	**6,798**	6,130	6,719
UK[note (c)]	**3,845**	4,389	4,254
Asset management operations[note (d)]	**926**	1,022	854
Total	**12,578**	12,457	12,841

(a) Asia insurance operations

The loans of the Group's Asia insurance operations comprise:

	2015 £m	2014 £m	
	30 Jun	30 Jun	31 Dec
Mortgage loans[‡]	**105**	65	88
Policy loans[‡]	**676**	615	672
Other loans[‡‡]	**228**	236	254
Total	**1,009**	916	1,014

‡ The mortgage and policy loans are secured by properties and life insurance policies respectively.

‡‡ The majority of the other loans are commercial loans held by the Malaysia operation and which are all rated as investment grade by two local rating agencies.

(b) US insurance operations

The loans of the Group's US insurance operations comprise:

	30 Jun 2015 £m			30 Jun 2014 £m			31 Dec 2014 £m		
	Loans backing liabilities for funds withheld	Other loans	Total	Loans backing liabilities for funds withheld	Other loans	Total	Loans backing liabilities for funds withheld	Other loans	Total
Mortgage loans†	**-**	**3,933**	**3,933**	-	3,490	3,490	-	3,847	3,847
Policy loans††	**2,039**	**826**	**2,865**	1,864	776	2,640	2,025	847	2,872
Total	**2,039**	**4,759**	**6,798**	1,864	4,266	6,130	2,025	4,694	6,719

† All of the mortgage loans are commercial mortgage loans which are collateralised by properties. The property types are industrial, multi-family residential, suburban office, retail and hotel.

†† The policy loans are secured by individual life insurance policies or annuity policies. Included within the policy loans are those accounted for at fair value through profit and loss to back liabilities for funds withheld under reinsurance. All other policy loans are accounted for at amortised cost, less any impairment.

The US insurance operations' commercial mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the risk of defaults associated with residential sub-prime mortgage loans. The average loan size is £7.7 million (30 June 2014: £6.5 million; 31 December 2014: £7.2 million). The portfolio has a current estimated average loan to value of 57 per cent (30 June 2014: 60 per cent; 31 December 2014: 59 per cent).

At 30 June 2015, Jackson had mortgage loans with a carrying value of £nil (30 June 2014: £34 million; 31 December 2014: £13 million) where the contractual terms of the agreements had been restructured.

(c) UK insurance operations

The loans of the Group's UK insurance operations comprise:

	2015 £m	2014 £m	
	30 Jun	30 Jun	31 Dec
SAIF and PAC WPSF			
Mortgage loans†	**807**	1,391	1,145
Policy loans	**9**	12	10
Other loans‡	**1,467**	1,503	1,510
Total SAIF and PAC WPSF loans	**2,283**	2,906	2,665
Shareholder-backed operations			
Mortgage loans†	**1,558**	1,478	1,585
Other loans	**4**	5	4
Total loans of shareholder-backed operations	**1,562**	1,483	1,589
Total	**3,845**	4,389	4,254

† The mortgage loans are collateralised by properties. By carrying value, 76 per cent of the £1,558 million (30 June 2014: 78 per cent of £1,478 million; 31 December 2014: 74 per cent of £1,585 million) held for shareholder-backed business relates to lifetime (equity release) mortgage business which has an average loan to property value of 30 per cent (30 June 2014: 30 per cent; 31 December 2014: 29 per cent).

‡ Other loans held by the PAC with-profits fund are all commercial loans and comprise mainly syndicated loans.

(d) Asset management operations

The loans of the asset management operations relate to loans and receivables managed by Prudential Capital. These assets are generally secured but most have no external credit ratings. Internal ratings prepared by the Group's asset management operations, as part of the risk management process, are:

	2015 £m	2014 £m	
	30 Jun	30 Jun	31 Dec
Loans and receivables internal ratings:			
AAA	**92**	104	101
AA+ to AA-	**32**	-	-
A+ to A-	**222**	120	161
BBB+ to BBB-	**224**	488	244
BB+ to BB-	**83**	49	49
B and other	**273**	261	299
Total	**926**	1,022	854

C4 Policyholder liabilities and unallocated surplus

The note provides information of policyholder liabilities and unallocated surplus of with-profits funds held on the Group's statement of financial position:

C4.1 Movement of liabilities

C4.1(a) Group overview

(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

	Insurance operations £m			
	Asia	**US**	**UK**	**Total**
Half year 2015 movements	note C4.1(b)	note C4.1(c)	note C4.1(d)	
At 1 January 2015	**45,022**	**126,746**	**154,436**	**326,204**
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	**38,705**	**126,746**	**144,088**	**309,539**
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	**2,102**	**-**	**10,348**	**12,450**
- Group's share of policyholder liabilities of joint ventures‡	**4,215**	**-**	**-**	**4,215**
Net flows:				
Premiums	**3,910**	**8,493**	**4,895**	**17,298**
Surrenders	**(1,437)**	**(3,406)**	**(3,012)**	**(7,855)**
Maturities/Deaths	**(625)**	**(736)**	**(3,248)**	**(4,609)**
Net flows	**1,848**	**4,351**	**(1,365)**	**4,834**
Shareholders' transfers post tax	**(36)**	**-**	**(106)**	**(142)**
Investment-related items and other movements	**837**	**(221)**	**2,316**	**2,932**
Foreign exchange translation differences	**(1,197)**	**(1,209)**	**(209)**	**(2,615)**
As at 30 June 2015	**46,474**	**129,667**	**155,072**	**331,213**
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position§	**39,522**	**129,667**	**144,431**	**313,620**
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	**2,127**	**-**	**10,641**	**12,768**
- Group's share of policyholder liabilities of joint ventures‡	**4,825**	**-**	**-**	**4,825**
Half year 2014 movements				
At 1 January 2014	35,146	107,411	146,616	289,173
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	31,910	107,411	134,632	273,953
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	77	-	11,984	12,061
- Group's share of policyholder liabilities of joint ventures‡	3,159	-	-	3,159
Reallocation of unallocated surplus for the domestication of the Hong Kong branch*	1,690	-	(1,690)	-
Net flows:				
Premiums	3,195	8,435	3,969	15,599
Surrenders	(1,133)	(2,787)	(2,240)	(6,160)
Maturities/Deaths	(548)	(671)	(3,547)	(4,766)
Net flows	1,514	4,977	(1,818)	4,673
Shareholders' transfers post tax	(14)	-	(106)	(120)
Investment-related items and other movements	2,073	3,181	5,907	11,161
Foreign exchange translation differences	(837)	(3,560)	(231)	(4,628)
At 30 June 2014	39,572	112,009	148,678	300,259
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	34,076	112,009	137,619	283,704
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	1,985	-	11,059	13,044
- Group's share of policyholder liabilities of joint ventures‡	3,511	-	-	3,511
Average policyholder liability balances†				
Half year 2015	**43,634**	**128,207**	**144,260**	**316,101**
Half year 2014	36,328	109,710	136,126	282,164

* On 1 January 2014, following consultation with the policyholders of PAC and regulators and court approval, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. From this date the unallocated surplus of the Hong Kong with-profits business is reported within the Asia insurance operations segment.

† Averages have been based on opening and closing balances and adjusted for acquisitions, disposals and corporate transactions in the period and exclude unallocated surplus of with-profits funds.

‡ The Group's investment in joint ventures are accounted for on the equity method in the Group's statement of financial position. The Group's share of the policyholder liabilities as shown above relate to the joint venture life business in China, India and of the Takaful business in Malaysia.

§ The policyholder liabilities of the Asia insurance operations of £39,522 million as shown in the table above is after deducting the intragroup reinsurance liabilities ceded by the UK insurance operations of £1,310 million to the Hong Kong with-profits business. Including this amount total Asia policyholder liabilities are £40,832 million.

The items above represent the amount attributable to changes in policyholder liabilities and unallocated surplus of with-profits funds as a result of each of the components listed. The policyholder liabilities shown include investment contracts without discretionary participation features (as defined in IFRS 4) and their full movement in the period. The items above are shown gross of external reinsurance.

The analysis includes the impact of premiums, claims and investment movements on policyholders' liabilities. The impact does not represent premiums, claims and investment movements as reported in the income statement. For example, the premiums shown above are after any deductions for fees/charges and claims represent the policyholder liabilities provision released rather than the claim amount paid to the policyholder.

(ii) Analysis of movements in policyholder liabilities for shareholder-backed business

	Half year 2015 £m			
	Asia	**US**	**UK**	**Total** note (b)
At 1 January 2015	**26,410**	**126,746**	**55,009**	**208,165**
Net flows:				
Premiums	**2,456**	**8,493**	**2,016**	**12,965**
Surrenders	**(1,317)**	**(3,406)**	**(1,623)**	**(6,346)**
Maturities/Deaths	**(305)**	**(736)**	**(1,249)**	**(2,290)**
Net flows[note]	**834**	**4,351**	**(856)**	**4,329**
Investment-related items and other movements	**860**	**(221)**	**503**	**1,142**
Foreign exchange translation differences	**(803)**	**(1,209)**	**-**	**(2,012)**
At 30 June 2015	**27,301**	**129,667**	**54,656**	**211,624**
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	**22,476**	**129,667**	**54,656**	**206,799**
- Group's share of policyholder liabilities relating to joint ventures	**4,825**	**-**	**-**	**4,825**

	Half year 2014 £m			
	Asia	**US**	**UK**	**Total**
At 1 January 2014	21,931	107,411	50,779	180,121
Net flows:				
Premiums	2,195	8,435	2,094	12,724
Surrenders	(1,028)	(2,787)	(1,033)	(4,848)
Maturities/Deaths	(276)	(671)	(1,201)	(2,148)
Net flows[note]	891	4,977	(140)	5,728
Investment-related items and other movements	1,030	3,181	2,048	6,259
Foreign exchange translation differences	(433)	(3,560)	-	(3,993)
At 30 June 2014	23,419	112,009	52,687	188,115
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	19,908	112,009	52,687	184,604
- Group's share of policyholder liabilities relating to joint ventures	3,511	-	-	3,511

Note

Including net flows of the Group's insurance joint ventures.

C4.1(b) Asia insurance operations

(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of Asia insurance operations from the beginning of the period to 30 June is as follows:

	£m			
Half year 2015 movements	**With-profits business**	**Unit-linked liabilities**	**Other business**	**Total**
At 1 January 2015	**18,612**	**16,209**	**10,201**	**45,022**
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	**16,510**	**13,874**	**8,321**	**38,705**
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	**2,102**	**-**	**-**	**2,102**
- Group's share of policyholder liabilities relating to joint ventures‡	**-**	**2,335**	**1,880**	**4,215**
Premiums:				
New business	**385**	**692**	**474**	**1,551**
In-force	**1,069**	**761**	**529**	**2,359**
	1,454	**1,453**	**1,003**	**3,910**
Surrenders[note (d)]	**(120)**	**(1,158)**	**(159)**	**(1,437)**
Maturities/Deaths	**(320)**	**(44)**	**(261)**	**(625)**
Net flows [note (c)]	**1,014**	**251**	**583**	**1,848**
Shareholders' transfers post tax	**(36)**	**-**	**-**	**(36)**
Investment-related items and other movements [note (e)]	**(23)**	**637**	**223**	**837**
Foreign exchange translation differences [note (a)]	**(394)**	**(623)**	**(180)**	**(1,197)**
At 30 June 2015	**19,173**	**16,474**	**10,827**	**46,474**
Comprising:				
*- Policyholder liabilities on the consolidated statement of financial position**	**17,046**	**13,845**	**8,631**	**39,522**
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	**2,127**	**-**	**-**	**2,127**
- Group's share of policyholder liabilities relating to joint ventures‡	**-**	**2,629**	**2,196**	**4,825**
Half year 2014 movements				
At 1 January 2014	13,215	13,765	8,166	35,146
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	13,138	11,918	6,854	31,910
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	77	-	-	77
- Group's share of policyholder liabilities relating to joint ventures‡	-	1,847	1,312	3,159
Reallocation of unallocated surplus for the domestication of the Hong Kong branch[note (b)]	1,690	-	-	1,690
Premiums:				
New business	138	547	456	1,141
In-force	862	668	524	2,054
	1,000	1,215	980	3,195
Surrenders[note (d)]	(105)	(914)	(114)	(1,133)
Maturities/Deaths	(272)	(29)	(247)	(548)
Net flows [note (c)]	623	272	619	1,514
Shareholders' transfers post tax	(14)	-	-	(14)
Investment-related items and other movements [note (e)]	1,043	798	232	2,073
Foreign exchange translation differences[note (a)]	(404)	(193)	(240)	(837)
At 30 June 2014	16,153	14,642	8,777	39,572
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	14,168	12,638	7,270	34,076
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	1,985	-	-	1,985
- Group's share of policyholder liabilities relating to joint ventures‡	-	2,004	1,507	3,511
Average policyholder liability balances†				
Half year 2015	**16,778**	**16,342**	**10,514**	**43,634**
Half year 2014	13,653	14,204	8,472	36,328

* The policyholder liabilities of the with-profits business of £17,046 million, shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK insurance operations of £1,310 million to the Hong Kong with-profits business. Including this amount the Asia with-profits policyholder liabilities are £18,356 million.

† Averages have been based on opening and closing balances and adjusted for acquisitions, disposals and corporate transactions in the period and exclude unallocated surplus of with-profits funds.

‡ The Group's investment in joint ventures are accounted for on an equity method and the Group's share of the policyholder liabilities as shown above relate to the joint venture life business in China, India and of the Takaful business in Malaysia.

Notes

(a) Movements in the period have been translated at the average exchange rates for the period ended 30 June 2015. The closing balance has been translated at the closing spot rates as at 30 June 2015. Differences upon retranslation are included in foreign exchange translation differences.

(b) On 1 January 2014, following consultation with the policyholders of PAC and regulators and court approval, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. From this date the unallocated surplus of the Hong Kong with-profits business is reported within the Asia insurance operations segment.

(c) Net flows increased by 22 per cent from £1,514 million in half year 2014 to £1,848 million in half year 2015 predominantly reflecting increased flows from new business and continued growth of the in-force book.

(d) Surrenders and maturities/deaths have increased from £1,681 million in the first half of 2014 to £2,062 million in the first half of 2015. This is principally driven by higher maturities in the with-profits business, where higher maturities of a 10-year endowment bond arose in Hong

Kong, and higher surrenders within the shareholder-backed business. The rate of surrenders for shareholder-backed business (expressed as a percentage of opening liabilities) was 5.0 per cent in the first half of 2015 (half year 2014: 4.7 per cent) as policyholders took advantage of equity market gains in the early part of 2015.

(e) Investment-related items and other movements in the first half of 2015 primarily represent gains from equity markets. These gains have been partially offset by losses on bonds held in the with-profits fund in particular, following rises in yields in the period.

C4.1(c) US insurance operations

(i) Analysis of movements in policyholder liabilities

A reconciliation of the total policyholder liabilities of US insurance operations from the beginning of the period to 30 June is as follows:

US insurance operations

	£m		
Half year 2015 movements	**Variable annuity separate account liabilities**	**Fixed annuity, GIC and other business**	**Total**
At 1 January 2015	**81,741**	**45,005**	**126,746**
Premiums	**6,697**	**1,796**	**8,493**
Surrenders	**(2,237)**	**(1,169)**	**(3,406)**
Maturities/Deaths	**(344)**	**(392)**	**(736)**
Net flows note (b)	**4,116**	**235**	**4,351**
Transfers from general to separate account	**560**	**(560)**	**-**
Investment-related items and other movements note (c)	**383**	**(604)**	**(221)**
Foreign exchange translation differences note (a)	**(854)**	**(355)**	**(1,209)**
At 30 June 2015	**85,946**	**43,721**	**129,667**
Half year 2014 movements			
At 1 January 2014	65,681	41,730	107,411
Premiums	6,591	1,844	8,435
Surrenders	(1,720)	(1,067)	(2,787)
Maturities/Deaths	(276)	(395)	(671)
Net flows note (b)	4,595	382	4,977
Transfers from general to separate account	708	(708)	-
Investment-related items and other movements	2,718	463	3,181
Foreign exchange translation differences note (a)	(2,249)	(1,311)	(3,560)
At 30 June 2014	71,453	40,556	112,009
Average policyholder liability balances*			
Half year 2015	**83,844**	**44,363**	**128,207**
Half year 2014	68,567	41,143	109,710

* Averages have been based on opening and closing balances, and adjusted for any acquisitions, disposals and corporate transactions in the period.

Notes

(a) Movements in the period have been translated at an average rate of $1.52/£1.00 (30 June 2014: $1.67/£1.00). The closing balance has been translated at closing rate of $1.57/£1.00 (30 June 2014: $1.71/£1.00). Differences upon retranslation are included in foreign exchange translation differences.

(b) Net flows in the first half of 2015 were £4,351 million compared with £4,977 million in the first half of 2014 with surrenders, deaths and maturities growing broadly in line with the in-force book and premiums remaining in line with prior period given our disciplined approach to writing new business.

(c) Positive investment-related items and other movements in variable annuity separate account liabilities of £383 million for the first six months in 2015 represents positive separate account return mainly following the increase in the US equity market in the period. Fixed annuity, GIC and other business investment and other movements include the interest credited to policyholders in the period. The negative £604 million movement in half year 2015 primarily related to the offsetting effect arising from a decrease in the guarantee reserves following the increase in interest rates in the period.

C4.1(d) UK insurance operations

(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of UK insurance operations from the beginning of the period to 30 June is as follows:

	£m			
		Shareholder-backed funds and subsidiaries		
Half year 2015 movements	**SAIF and PAC with-profits sub-fund**	**Unit-linked liabilities**	**Annuity and other long-term business**	**Total**
At 1 January 2015	**99,427**	**23,300**	**31,709**	**154,436**
Comprising:				
- Policyholder liabilities	**89,079**	**23,300**	**31,709**	**144,088**
- Unallocated surplus of with-profits funds	**10,348**	**-**	**-**	**10,348**
Premiums	**2,879**	**618**	**1,398**	**4,895**
Surrenders	**(1,389)**	**(1,601)**	**(22)**	**(3,012)**
Maturities/Deaths	**(1,999)**	**(329)**	**(920)**	**(3,248)**
Net flows note (b)	**(509)**	**(1,312)**	**456**	**(1,365)**
Shareholders' transfers post tax	**(106)**	**-**	**-**	**(106)**
Switches	**(103)**	**103**	**-**	**-**
Investment-related items and other movements note (c)	**1,916**	**552**	**(152)**	**2,316**
Foreign exchange translation differences	**(209)**	**-**	**-**	**(209)**
At 30 June 2015	**100,416**	**22,643**	**32,013**	**155,072**
Comprising:				
- Policyholder liabilities	**89,775**	**22,643**	**32,013**	**144,431**
- Unallocated surplus of with-profits funds	**10,641**	**-**	**-**	**10,641**
Half year 2014 movements				
At 1 January 2014	95,837	23,652	27,127	146,616
Comprising:				
- Policyholder liabilities	83,853	23,652	27,127	134,632
- Unallocated surplus of with-profits funds	11,984	-	-	11,984
Reallocation of unallocated surplus for the domestication of the Hong Kong branch note (a)	(1,690)	-	-	(1,690)
Premiums	1,875	643	1,451	3,969
Surrenders	(1,207)	(1,010)	(23)	(2,240)
Maturities/Deaths	(2,346)	(314)	(887)	(3,547)
Net flows note (b)	(1,678)	(681)	541	(1,818)
Shareholders' transfers post tax	(106)	-	-	(106)
Switches	(95)	95	-	-
Investment-related items and other movements note (c)	3,954	624	1,329	5,907
Foreign exchange translation differences	(231)	-	-	(231)
At 30 June 2014	95,991	23,690	28,997	148,678
Comprising:				
- Policyholder liabilities	84,932	23,690	28,997	137,619
- Unallocated surplus of with-profits funds	11,059	-	-	11,059
Average policyholder liability balances*				
Half year 2015	**89,427**	**22,972**	**31,861**	**144,260**
Half year 2014	84,393	23,671	28,062	136,126

* Averages have been based on opening and closing balances, and adjusted for any acquisitions, disposals and corporate transactions in the period, and exclude unallocated surplus of with-profits funds.

Notes

(a) On 1 January 2014, following consultation with the policyholders of PAC and regulators and court approval, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. From this date the unallocated surplus of the Hong Kong with-profits business is reported within the Asia insurance operations segment.

(b) Net outflows have improved from £1,818 million in the first half of 2014 to £1,365 million in the same period in 2015 primarily as a result of higher premium flows (up by £926 million to £4,895 million) into single premium bonds and pension products principally in the with-profits fund. This has been offset by higher surrenders in our unit-linked business. The levels of inflows/outflows for unit-linked business remains subject to annual variation as it is driven by corporate pension schemes with transfers in or out from a small number of schemes influencing the level of flows in the period.

(c) Investment-related items and other movements of £2,316 million includes investment return and realised gains attributable to policyholders in the period. Offsetting these positive returns are unrealised losses on bonds within the with-profits funds and unit-linked funds as well as lower annuity liabilities following a rise in long-term bond yields in the first half of 2015.

C5 Intangible assets

C5.1 Intangible assets attributable to shareholders

(a) Goodwill attributable to shareholders

	2015 £m	2014 £m	
	30 Jun	30 Jun	31 Dec
Cost			
At beginning of period	**1,583**	1,581	1,581
Disposal of Japan Life business	**(120)**	-	-
Additional consideration paid on previously acquired business	**2**	-	-
Exchange differences	**(4)**	(3)	2
At end of period	**1,461**	1,578	1,583
Aggregate impairment	**-**	(120)	(120)
Net book amount at end of period	**1,461**	1,458	1,463

Goodwill attributable to shareholders comprises:

	2015 £m	2014 £m	
	30 Jun	30 Jun	31 Dec
M&G	**1,153**	1,153	1,153
Other	**308**	305	310
	1,461	1,458	1,463

Other goodwill represents amounts arising from the purchase of entities by the Asia and the US operations. These goodwill amounts by acquired operations are not individually material.

The aggregate impairment of £120 million at 30 June 2014 and 31 December 2014 related to the goodwill held by the Japan Life business. The half year 2015 analysis shown above reflects the fact that this business was sold in February 2015 (see note D1).

(b) Deferred acquisition costs and other intangible assets attributable to shareholders

The deferred acquisition costs and other intangible assets attributable to shareholders comprise:

	2015 £m	2014 £m	
	30 Jun	30 Jun	31 Dec
Deferred acquisition costs related to insurance contracts as classified under IFRS 4	**5,937**	4,612	5,840
Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	**80**	91	87
	6,017	4,703	5,927
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF)	**51**	62	59
Distribution rights and other intangibles	**1,242**	1,179	1,275
	1,293	1,241	1,334
Total of deferred acquisition costs and other intangible assets	**7,310**	5,944	7,261

	2015 £m						2014 £m	
	Deferred acquisition costs							
	Asia	US	UK	Asset management	PVIF and other intangibles† note	30 Jun Total	30 Jun Total	31 Dec Total
Balance at beginning of period:	**650**	**5,177**	**83**	**17**	**1,334**	**7,261**	5,295	5,295
Additions and acquisition of subsidiaries	**137**	**369**	**5**	**-**	**21**	**532**	1,227	1,768
Amortisation to the income statement:								
Operating profit	**(75)**	**(255)**	**(5)**	**(3)**	**(43)**	**(381)**	(322)	(688)
Non-operating profit	**-**	**(188)**	**-**	**-**	**(4)**	**(192)**	103	645
	(75)	**(443)**	**(5)**	**(3)**	**(47)**	**(573)**	(219)	(43)
Disposals and transfers	**-**	**-**	**-**	**-**	**-**	**-**	-	(6)
Exchange differences and other movements	**(13)**	**(47)**	**-**	**-**	**(15)**	**(75)**	(147)	334
Amortisation of DAC related to net unrealised valuation movements on Jackson's available-for-sale securities recognised within other comprehensive income	**-**	**165**	**-**	**-**	**-**	**165**	(212)	(87)
Balance at end of period	**699**	**5,221**	**83**	**14**	**1,293**	**7,310**	5,944	7,261

† PVIF and other intangibles includes amounts in relation to software rights with additions of £13 million, amortisation of £15 million and exchange losses of £1 million and a balance at 30 June 2015 of £63 million.

Note

PVIF and other intangibles comprise PVIF, distribution rights and other intangibles such as software rights. Distribution rights relate to amounts that have been paid or have become unconditionally due for payment as a result of past events in respect of bancassurance partnership arrangements in Asia. These agreements allow for bank distribution of Prudential's insurance products for a fixed period of time.

US insurance operations

Summary balances

The DAC amount in respect of US insurance operations comprises amounts in respect of:

	2015 £m	2014 £m	
	30 Jun	30 Jun	31 Dec
Variable annuity business	**4,931**	3,930	5,002
Other business	**710**	747	759
Cumulative shadow DAC (for unrealised gains/losses booked in Other Comprehensive Income)*	**(420)**	(656)	(584)
Total DAC for US operations	**5,221**	4,021	5,177

* Consequent upon the negative unrealised valuation movement at half year 2015 of £762 million (30 June 2014: positive unrealised valuation movement of £1,023 million; 31 December 2014: positive unrealised valuation movement of £956 million), there is a gain of £165 million (30 June 2014: a charge of £212 million; 31 December 2014: a charge of £87 million) for altered 'shadow' DAC amortisation booked within other comprehensive income. These adjustments reflect movement from period to period, in the changes to the pattern of reported gross profits that would have happened if the assets reflected in the statement of financial position had been sold, crystallising the unrealised gains and losses, and the proceeds reinvested at the yields currently available in the market. At 30 June 2015, the cumulative shadow DAC balance as shown in the table above was negative £420 million (30 June 2014: negative £656 million; 31 December 2014: negative £584 million).

Overview of the deferral and amortisation of acquisition costs for Jackson

Under IFRS 4, the Group applies 'grandfathered' US GAAP for measuring the insurance assets and liabilities of Jackson. In the case of Jackson term business, acquisition costs are deferred and amortised in line with expected premiums. For annuity and interest-sensitive life business, acquisition costs are deferred and amortised in line with a combination of historical and future expected gross profits on the relevant contracts. For fixed and fixed index annuity and interest-sensitive life business, the key assumption is the long-term spread between the earned rate on investments and the rate credited to policyholders, which is based on an annual spread analysis. Expected gross profits also depend on mortality assumptions, assumed unit costs and terminations other than deaths (including the related charges), all of which are based on a combination of actual experience of Jackson, industry experience and future expectations. A detailed analysis of actual mortality, lapse and expense experience is performed using internally developed experience studies.

Acquisition costs for Jackson's variable annuity products are also amortised in line with the emergence of profits. The measurement of amortisation depends on historical and expected future gross profits which include fees (including those for guaranteed minimum death, income, or withdrawal benefits) as well as components related to mortality, lapse and expense.

<u>Mean reversion technique</u>

For variable annuity products, under US GAAP (as 'grandfathered' under IFRS 4) Jackson applies a mean reversion technique for its amortisation of deferred acquisition costs against projected gross profits. This technique is applied with the objective of adjusting the amortisation of deferred acquisition costs that would otherwise be highly volatile due to fluctuations in the level of future gross profits arising from changes in equity market levels. The mean reversion technique achieves this objective by applying a dynamic adjustment to the assumption for short-term future investment returns. Under the mean reversion technique applied by Jackson, the projected level of return for each of the next five years is adjusted from period to period so that in combination with the actual rates of return for the preceding three years, including the current period, the 7.4 per cent long-term annual return (gross of asset management fees and other charges to policyholders, but net of external fund management fees) is realised on average over the entire eight-year period. Projected returns after the mean reversion period revert back to the 7.4 per cent assumption.

However, to ensure that the methodology does not over anticipate a reversion to the long-term level of returns following adverse markets, the mean reversion technique has a cap and floor feature whereby the projected returns in each of the next five years can be no more than 15 per cent per annum and no less than 0 per cent per annum (both gross of asset management fees and other charges to policyholders, but net of external fund management fees) in each year.

Sensitivity of amortisation charge

The amortisation charge to the income statement is reflected in both operating profit and short-term fluctuations in investment returns. The amortisation charge to the operating profit in a reporting period comprises:

(i) A core amount that reflects a relatively stable proportion of underlying premiums or profit; and

(ii) An element of acceleration or deceleration arising from market movements differing from expectations.

In periods where the cap and floor feature of the mean reversion technique are not relevant, the technique operates to dampen the second element above. Nevertheless, extreme market movements can cause material acceleration or deceleration of amortisation in spite of this dampening effect.

Furthermore, in those periods where the cap or floor is relevant, the mean reversion technique provides no further dampening and additional volatility may result.

In the first half of 2015, the DAC amortisation charge for operating profit was determined after including a credit for decelerated amortisation of £20 million (half year 2014: credit for decelerated amortisation of £10 million; full year 2014: charge for accelerated amortisation of £13 million). The first half of 2015 amount reflects the separate account performance of 2 per cent, which is lower than the assumed level for the year.

As noted above, the application of the mean reversion formula has the effect of dampening the impact of equity market movements on DAC amortisation while the mean reversion assumption lies within the corridor. It would take a significant movement in equity markets for the mean reversion assumption to move outside the corridor. Based on a pro-forma instantaneous movement at 1 July 2015, it would need to be outside the approximate range of negative 40 per cent to positive 30 per cent for this to apply.

C6 Borrowings

C6.1 Core structural borrowings of shareholder-financed operations

	2015 £m	2014 £m	
	30 Jun	30 Jun	31 Dec
Holding company operations:			
Perpetual subordinated capital securities note (i)	**1,775**	2,067	1,789
Subordinated notes note (v)	**2,122**	1,530	1,531
Subordinated debt total	**3,897**	3,597	3,320
Senior debt: note (ii)			
£300m 6.875% Bonds 2023	**300**	300	300
£250m 5.875% Bonds 2029	**249**	249	249
Holding company total	**4,446**	4,146	3,869
Prudential Capital bank loan note (iii)	**275**	275	275
Jackson US$250m 8.15% Surplus Notes 2027	**159**	146	160
Total (per condensed consolidated statement of financial position) note (iv)	**4,880**	4,567	4,304

Notes

(i) The perpetual subordinated capital securities are entirely US$ denominated. The Group has designated all US$2.80 billion (30 Jun 2014: US$3.55 billion; 31 December 2014: US$ 2.80 billion) of its perpetual subordinated debt as a net investment hedge under IAS 39 to hedge the currency risks related to the investment in Jackson.

(ii) The senior debt ranks above subordinated debt in the event of liquidation.

(iii) The Prudential Capital bank loan of £275 million has been made in two tranches: a £160 million loan drawn at a cost of 12 month £LIBOR plus 0.4 per cent maturing on 20 December 2017 and a £115 million loan drawn at a cost of 11 month £LIBOR plus 0.4 per cent also maturing on 20 December 2017.

(iv) The maturity profile, currency and interest rates applicable to all other core structural borrowings of shareholder-financed operations of the Group are as detailed in note C6.1 of the Group's consolidated financial statements for the year ended 31 December 2014.

(v) In June 2015, the Company issued core structural borrowings of £600 million 5.00 per cent Tier 2 subordinated notes due 2055. The proceeds, net of discount adjustment and costs, were £590 million.

C6.2 Other borrowings

(a) Operational borrowings attributable to shareholder-financed operations

	2015 £m	2014 £m	
	30 Jun	30 Jun	31 Dec
Borrowings in respect of short-term fixed income securities programmes note (ii)	**2,176**	1,950	2,004
Non-recourse borrowings of US operations note (iv)	**10**	17	19
Other borrowings note (iii)	**318**	276	240
Total note (i)	**2,504**	2,243	2,263

Notes

(i) In addition to the debt listed above, £200 million Floating Rate Notes were issued by Prudential plc in October 2014 which will mature in October 2015. These Notes have been wholly subscribed by a Group subsidiary and accordingly have been eliminated on consolidation in the Group financial statements. These Notes were originally issued in October 2008 and have been reissued upon their maturity.

(ii) In January 2015, the Company issued £300 million Medium Term Notes which will mature in January 2018. The proceeds, net of costs, were £299 million.

(iii) Other borrowings mainly include senior debt issued through the Federal Home Loan Bank of Indianapolis (FHLB), secured by collateral posted with the FHLB by Jackson.
In addition, other borrowings include amounts whose repayment to the lender is contingent upon future surplus 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.

(iv) In all instances the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of those subsidiaries and funds.

(b) Borrowings attributable to with-profits operations

	2015 £m	2014 £m	
	30 Jun	30 Jun	31 Dec
Non-recourse borrowings of consolidated investment funds*	**911**	667	924
£100m 8.5% undated subordinated guaranteed bonds of Scottish Amicable Finance plc**	**100**	100	100
Other borrowings (predominantly obligations under finance leases)	**78**	97	69
Total	**1,089**	864	1,093

* In all instances the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of those subsidiaries and funds.

** The interests of the holders of the bonds issued by Scottish Amicable Finance plc, a subsidiary of the Scottish Amicable Insurance Fund, are subordinated to the entitlements of the policyholders of that fund.

C7 Deferred tax

The statement of financial position contains the following deferred tax assets and liabilities in relation to:

	Deferred tax assets			Deferred tax liabilities		
	30 Jun 2015 £m	**30 Jun 2014 £m**	**31 Dec 2014 £m**	**30 Jun 2015 £m**	**30 Jun 2014 £m**	**31 Dec 2014 £m**
Unrealised losses or gains on investments	**331**	116	83	**(1,673)**	(1,611)	(1,697)
Balances relating to investment and insurance contracts	**8**	5	4	**(544)**	(469)	(499)
Short-term temporary differences	**2,407**	2,001	2,607	**(2,076)**	(1,748)	(2,065)
Capital allowances	**9**	9	9	**(32)**	(27)	(30)
Unused deferred tax losses	**65**	42	62	**-**	-	-
Total	**2,820**	2,173	2,765	**(4,325)**	(3,855)	(4,291)

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

The taxation regimes applicable across the Group often apply separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. Accordingly, for the 2015 half year results and financial position at 30 June 2015 the possible tax benefit of approximately £106 million (30 June 2014: £123 million; 31 December 2014: £110 million), which may arise from capital losses valued at approximately £0.5 billion (30 June 2014: £0.6 billion; 31 December 2014: £0.5 billion), is sufficiently uncertain that it has not been recognised. In addition, a potential deferred tax asset of £42 million (30 June 2014: £47 million; 31 December 2014: £47 million), which may arise from trading tax losses and other potential temporary differences totalling £0.2 billion (30 June 2014: £0.3 billion; 31 December 2014 £0.2 billion) is sufficiently uncertain that it has not been recognised. Of these, losses of £28 million will expire within the next seven years. Of the remaining losses £1 million will expire within 20 years and the rest have no expiry date.

The table that follows provides a breakdown of the recognised deferred tax assets set out in the table above for both the short-term temporary differences and unused tax losses split by business unit. The table also shows the period of estimated recoverability for each respective business unit. For these and each category of deferred tax asset recognised their recoverability against forecast taxable profits is not significantly impacted by any current proposed changes to future accounting standards.

	Short-term temporary differences		Unused tax losses	
	30 Jun 2015 £m	**Expected period of recoverability**	**30 Jun 2015 £m**	**Expected period of recoverability**
Asia insurance operations	**34**	**1 to 3 years**	**51**	**3 to 5 years**
US insurance operations	**2,066**	**With run-off of in-force book**	**-**	**-**
UK insurance operations	**136**	**1 to 10 years**	**-**	**-**
Other operations	**171**	**1 to 10 years**	**14**	**1 to 3 years**
Total	**2,407**		**65**	

Under IAS 12, 'Income Taxes', deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on the tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting periods.

As part of the Summer Finance Bill 2015, the UK government proposed phased rate changes in the UK corporation tax rate to 19 per cent from 1 April 2017 and a further reduction to 18 per cent from 1 April 2020. As these changes have not been substantively enacted as at 30 June 2015 they have not been reflected in the balances at that date. The changes, once substantively enacted, are expected to have the effect of reducing the UK with-profits and shareholder-backed business element of the overall net deferred tax liabilities by £17 million.

C8 Defined benefit pension schemes

(a) Background and summary economic and IAS 19 financial positions

The Group's businesses operate a number of pension schemes. The specific features of these plans vary in accordance with the regulations of the country in which the employees are located, although they are, in general, funded by the Group and based either on a cash balance formula or on years of service and salary earned in the last year or years of employment. The largest defined benefit scheme is the principal UK scheme, namely the Prudential Staff Pension Scheme (PSPS). PSPS accounts for 84 per cent (30 June 2014: 84 per cent; 31 December 2014: 84 per cent) of the underlying scheme liabilities of the Group's defined benefit schemes.

The Group also operates two smaller UK defined benefit schemes in respect of Scottish Amicable (SASPS) and M&G (M&GGPS). In addition, there are two small defined benefit schemes in Taiwan which have negligible deficits.

Under the IAS 19 'Employee Benefits' valuation basis, the Group applies the principles of IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', whereby a surplus is only recognised to the extent that the Company is able to access the surplus either through an unconditional right of refund to the surplus or through reduced future contributions relating to ongoing service, which have been substantively enacted or contractually agreed. Further, where the Company does not have access to any funds once they are paid into the scheme, the IFRS financial position recorded reflects the higher of any underlying IAS 19 deficit and any obligation for committed deficit funding where applicable.

The Group asset/liability in respect of defined benefit pension schemes is as follows:

	2015 £m					**2014 £m**					**2014 £m**				
	30 Jun					**30 Jun**					**31 Dec**				
	PSPS	**SASPS**	**M&GGPS**	**Other schemes**	**Total**	**PSPS**	**SASPS**	**M&GGPS**	**Other schemes**	**Total**	**PSPS**	**SASPS**	**M&GGPS**	**Other schemes**	**Total**
	note (i)				note (iv)	note (i)				note (iv)	note (i)				note (iv)
Underlying economic surplus (deficit)	**915**	**(140)**	**53**	**(1)**	**827**	745	(104)	51	(1)	691	840	(144)	60	(1)	755
Less: unrecognised surplus note (i)	**(790)**	**-**	**-**	**-**	**(790)**	(623)	-	-	-	(623)	(710)	-	-	-	(710)
Economic surplus (deficit) (including investment in Prudential insurance policies)	**125**	**(140)**	**53**	**(1)**	**37**	122	(104)	51	(1)	68	130	(144)	60	(1)	45
Consolidation adjustment against policyholder liabilities for investment in Prudential insurance policies note (ii)	**-**	**-**	**(85)**	**-**	**(85)**	-	-	(122)	-	(122)	-	-	(132)	-	(132)
IAS 19 pension asset (liability) on the Group statement of financial position note (iii)	**125**	**(140)**	**(32)**	**(1)**	**(48)**	122	(104)	(71)	(1)	(54)	130	(144)	(72)	(1)	(87)

Notes

(i) For PSPS, the Group does not have an unconditional right of refund to any surplus of the scheme. The PSPS IAS 19 pension asset represents the present value of the economic benefit (impact) of the Company from the difference between future ongoing contributions to the scheme and estimated accrued cost of service.

(ii) The underlying position on an economic basis reflects the assets (including investments in Prudential insurance policies that are offset against liabilities to policyholders on the Group consolidation) and the liabilities of the schemes.

(iii) At 30 June 2015, the PSPS pension asset of £125 million (30 June 2014: £122 million; 31 December 2014: £130 million) and the other schemes' pension liabilities of £173 million (30 June 2014: £176 million; 31 December 2014: £217 million) are included within 'Other debtors' and 'Provisions' respectively on the consolidated statement of financial position.

(iv) The amounts for PSPS and SASPS are apportioned between the PAC with-profits fund and the shareholders' fund. The amounts for the M&GGPS and other schemes are wholly attributable to the shareholders' fund. Of the economis surplus of £37 million (30 June 2014: £68 million; 31 December 2014; £45 million), the amounts attributable to the PAC with-profits fund and shareholders fund are as follows:

	30 Jun 2015	**30 Jun 2014**	**31 Dec 2014**
Attributable to:			
PAC with-profits fund	**18**	33	19
Shareholder-backed operations	**19**	35	26
	37	68	45

Triennial actuarial valuations

In respect of PSPS, the contributions into the scheme are payable at the minimum level required under the scheme rules. Excluding expenses, the contributions are payable at approximately £6 million per annum for on-going service of active members of the scheme. No deficit or other funding is required. Deficit funding for PSPS, when applicable, is apportioned in the ratio of 70/30 between the PAC with-profits fund and shareholder-backed operations based on the sourcing of previous contributions. Employer contributions for on-going service of current employees are apportioned in the ratio relevant to current activity.

In respect of the SASPS, it has been agreed with the Trustees that the level of deficit funding be increased from the current level of £13.1 million per annum to £21 million per annum from 1 January 2015 until 31 March 2024, or earlier if the scheme's funding level reaches 100 per cent before this date, to eliminate the actuarial deficit. The deficit funding will be reviewed every three years at subsequent valuations.

In respect of the M&GGPS, deficit funding amounts designed to eliminate the actuarial deficit over a three year period are being made from January 2013 of £18.6 million per annum for the first two years and £9.3 million in the third year.

Defined benefit pension schemes in the UK are generally required to be subject to full actuarial valuations every three years in order to assess the appropriate level of funding for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds.

(b) Assumptions

The actuarial assumptions used in determining benefit obligations and the net periodic benefit costs for the periods ended 30 June 2015, 30 June 2014 and 31 December 2014 were as follows:

	2015 % 30 Jun	2014 % 30 Jun	2014 % 31 Dec
Discount rate*	**3.7**	4.2	3.5
Rate of increase in salaries	**3.2**	3.2	3.0
Rate of inflation**			
Retail prices index (RPI)	**3.2**	3.2	3.0
Consumer prices index (CPI)	**2.2**	2.2	2.0
Rate of increase of pensions in payment for inflation:			
PSPS:			
Guaranteed (maximum 5%)	**2.5**	2.5	2.5
Guaranteed (maximum 2.5%)	**2.5**	2.5	2.5
Discretionary	**2.5**	2.5	2.5
Other schemes	**3.2**	3.2	3.0

* The discount rate has been determined by reference to an 'AA' corporate bond index, adjusted where applicable, to allow for the difference in duration between the index and the pension liabilities.

** The rate of inflation reflects the long-term assumption for the UK RPI or CPI depending on the tranche of the schemes.

The calculations are based on current actuarially calculated mortality estimates with a specific allowance made for future improvements in mortality. The specific allowance made is in line with a custom calibration and was updated in 2014 to reflect the 2012 mortality model from the Continuous Mortality Investigation Bureau of the Institute and Faculty of Actuaries (CMI). The tables used for PSPS immediate annuities in payment for all the periods presented were:

Male: 114.0 per cent PNMA00 with improvements in line with a custom calibration of the CMI's 2012 mortality model, with a long-term mortality improvement rate of 1.75 per cent per annum; and

Female: 108.5 per cent PNFA00 with improvements in line with a custom calibration of the CMI's 2012 mortality model, with a long-term mortality improvement rate of 1.25 per cent per annum.

The most recent full valuations have been updated to 30 June 2015, applying the principles prescribed by IAS 19.

(c) Estimated pension scheme surpluses and deficits

The underlying pension position on an economic basis reflects the assets (including investments in Prudential policies that are offset against liabilities to policyholders on the Group consolidation) and the liabilities of the schemes. The IAS 19 basis excludes the investments in Prudential policies. At 30 June 2015, the investments in Prudential insurance policies comprise £138 million (30 June 2014: £142 million; 31 December 2014: £131 million) for PSPS and £85 million (30 June 2014: £122 million; 31 December 2014: £132 million) for the M&GGPS. In principle, on consolidation the investments are eliminated against policyholder liabilities of UK insurance operations, so that the formal IAS 19 position for the scheme in isolation excludes these items. This treatment applies to the M&GGPS investments. However, as a substantial portion of the Company's interest in the underlying surplus of PSPS is not recognised, the adjustment is not necessary for the PSPS investments.

Movements on the pension scheme deficit determined on the economic basis are as follows, with the effect of the application of IFRIC 14 being shown separately:

	Half year 2015 £m				
	Surplus (deficit) in schemes at 1 Jan 2015	**(Charge) credit to income statement**	**Actuarial gains and losses in other comprehensive income**	**Contributions paid**	**Surplus (deficit) in schemes at 30 Jun 2015**
All schemes					
Underlying position (without the effect of IFRIC 14)					
Surplus	**755**	**41**	**9**	**22**	**827**
Less: amount attributable to PAC with-profits fund	**(525)**	**(35)**	**(14)**	**(8)**	**(582)**
Shareholders' share:					
Gross of tax surplus (deficit)	**230**	**6**	**(5)**	**14**	**245**
Related tax	**(46)**	**(1)**	**1**	**(3)**	**(49)**
Net of shareholders' tax	**184**	**5**	**(4)**	**11**	**196**
Application of IFRIC 14 for the derecognition of PSPS surplus					
Derecognition of surplus	**(710)**	**(13)**	**(67)**	**-**	**(790)**
Less: amount attributable to PAC with-profits fund	**506**	**10**	**48**	**-**	**564**
Shareholders' share:					
Gross of tax surplus (deficit)	**(204)**	**(3)**	**(19)**	**-**	**(226)**
Related tax	**41**	**1**	**4**	**-**	**46**
Net of shareholders' tax	**(163)**	**(2)**	**(15)**	**-**	**(180)**
With the effect of IFRIC 14					
Surplus (deficit)	**45**	**28**	**(58)**	**22**	**37**
Less: amount attributable to PAC with-profits fund	**(19)**	**(25)**	**34**	**(8)**	**(18)**
Shareholders' share:					
Gross of tax surplus (deficit)	**26**	**3**	**(24)**	**14**	**19**
Related tax	**(5)**	**-**	**5**	**(3)**	**(3)**
Net of shareholders' tax	**21**	**3**	**(19)**	**11**	**16**

Underlying investments of the schemes

On the 'economic basis', after including the underlying assets represented by the investments in Prudential insurance policies as scheme assets, the plans' assets at 30 June 2015 comprise the following investments:

	30 Jun 2015				30 Jun 2014				31 Dec 2014			
	PSPS £m	Other schemes £m	Total £m	%	PSPS £m	Other schemes £m	Total £m	%	PSPS £m	Other schemes £m	Total £m	%
Equities												
UK	**132**	**75**	**207**	**3**	132	79	211	3	126	86	212	2
Overseas	**98**	**323**	**421**	**5**	10	312	322	5	143	317	460	6
Bonds:												
Government	**4,984**	**424**	**5,408**	**69**	4,420	339	4,759	67	5,078	440	5,518	68
Corporate	**965**	**140**	**1,105**	**14**	873	114	987	14	931	117	1,048	13
Asset-backed securities	**143**	**16**	**159**	**2**	71	23	94	1	197	26	223	3
Derivatives	**166**	**(8)**	**158**	**2**	127	4	131	2	159	(13)	146	2
Properties	**124**	**58**	**182**	**2**	44	53	97	1	93	57	150	2
Other assets	**208**	**51**	**259**	**3**	516	25	541	7	270	40	310	4
Total value of assets	**6,820**	**1,079**	**7,899**	**100**	6,193	949	7,142	100	6,997	1,070	8,067	100

(d) Sensitivity of the pension scheme liabilities to key variables

The total underlying Group pension scheme liabilities of £7,072 million (30 June 2014: £6,451 million; 31 December 2014: £7,312 million) comprise £5,905 million (30 June 2014: £5,448 million; 31 December 2014: £6,157 million) for PSPS and £1,167 million (30 June 2014: £1,003 million; 31 December 2014: £1,155 million) for the other schemes. The table below shows the sensitivity of the underlying PSPS and the other scheme liabilities at 30 June 2015, 30 June 2014 and 31 December 2014 to changes in discount rate, inflation rates and mortality rates. The sensitivity information below is based on the core scheme liabilities and assumptions at the balance sheet date. The sensitivity is calculated based on a change in one assumption with all other assumptions being held constant. As such, interdependencies between the assumptions are excluded.

The sensitivity of the underlying pension scheme liabilities as shown below does not directly equate to the impact on the profit or loss attributable to shareholders or shareholders' equity due to the effect of the application of IFRIC 14 on PSPS and the allocation of a share of the interest in financial position of the PSPS and SASPS schemes to the PAC with-profits fund as described above.

	Assumption applied			Sensitivity change	Impact of sensitivity on scheme liabilities on IAS 19 basis				
	2015	2014					2015	2014	
	30 Jun	30 Jun	31 Dec	in assumption			30 Jun	30 Jun	31 Dec
Discount rate	3.7%	4.2%	3.5%	Decrease by 0.2%	Increase in scheme liabilities by:				
						PSPS	**3.3%**	3.3%	3.4%
						Other schemes	**5.2%**	5.0%	5.2%
Discount rate	3.7%	4.2%	3.5%	Increase by 0.2%	Decrease in scheme liabilities by:				
						PSPS	**3.2%**	3.1%	3.2%
						Other schemes	**4.8%**	4.7%	4.9%
Rate of inflation	RPI:3.2%	3.2%	3.0%	RPI: Decrease by 0.2%	Decrease in scheme liabilities by:				
	CPI:2.2%	2.2%	2.0%	CPI: Decrease by 0.2% with consequent reduction in salary increases		PSPS	**0.6%**	0.7%	0.6%
						Other schemes	**4.1%**	4.1%	4.2%
Mortality rate				Increase life expectancy by 1 year	Increase in scheme liabilities by:				
						PSPS	**3.2%**	3.0%	3.3%
						Other schemes	**2.8%**	3.0%	3.0%

C9 Share capital, share premium and own shares

	30 Jun 2015			30 Jun 2014			31 Dec 2014		
	Number of ordinary shares	**Share capital £m**	**Share premium £m**	**Number of ordinary shares**	**Share capital £m**	**Share premium £m**	**Number of ordinary shares**	**Share capital £m**	**Share premium £m**
Issued shares of 5p each fully paid:									
At 1 January	**2,567,779,950**	**128**	**1,908**	2,560,381,736	128	1,895	2,560,381,736	128	1,895
Shares issued under share-based schemes	**3,284,119**	**-**	**2**	5,845,737	-	8	7,398,214	-	13
At end of period	**2,571,064,069**	**128**	**1,910**	2,566,227,473	128	1,903	2,567,779,950	128	1,908

Amounts recorded in share capital represent the nominal value of the shares issued. The difference between the proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued is credited to the share premium account.

At 30 June 2015, there were options outstanding under Save As You Earn schemes to subscribe for shares as follows:

	Number of shares to subscribe for	Share price range from	Share price range to	Exercisable by year
30 June 2015	**8,007,928**	**288p**	**1,155p**	**2019**
30 June 2014	7,617,023	288p	901p	2019
31 December 2014	8,624,491	288p	1,155p	2020

Transactions by Prudential plc and its subsidiaries in Prudential plc shares

The Group buys and sells Prudential plc shares ('own shares') either in relation to its employee share schemes or via transactions undertaken by authorised investment funds that the Group is deemed to control. The cost of own shares of £227 million as at 30 June 2015 (30 June 2014: £180 million; 31 December 2014: £195 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans. At 30 June 2015, 10.8 million (30 June 2014: 9.5 million; 31 December 2014: 10.3 million) Prudential plc shares with a market value of £165.0 million (30 June 2014: £127.8 million; 31 December 2014: £153.1 million) were held in such trusts all of which are for employee incentive plans. The maximum number of shares held during the period was 10.8 million which was in May 2015.

The Company purchased the following number of shares in respect of employee incentive plans:

	Number of shares purchased (in millions)	Cost £m
Half year 2015	**5.1**	**86.3**
Half year 2014	6.2	81.9
Full year 2014	7.9	106.7

The Group has consolidated a number of authorised investment funds where it is deemed to control these funds under IFRS. Some of these funds hold shares in Prudential plc. The total number of shares held by these funds at 30 June 2015 was 6.8 million (30 June 2014: 7.5 million; 31 December 2014: 7.5 million) and the cost of acquiring these shares of £59 million (30 June 2014: £67 million; 31 December 2014: £67 million) is included in the cost of own shares. The market value of these shares as at 30 June 2015 was £105 million (30 June 2014: £100 million; 31 December 2014: £112 million). During 2015, these funds made a net reduction of 724,186 Prudential shares (30 June 2014: net additions of 405,978; 31 December 2014: net additions of 405,940) for a net decrease of £8.0 million to book cost (30 June 2014: net increase of £6.5 million; 31 December 2014: net increase of £7.0 million).

All share transactions were made on an exchange other than the Stock Exchange of Hong Kong.

Other than set out above the Group did not purchase, sell or redeem any Prudential plc listed securities during half year 2015 or 2014.

D OTHER NOTES

D1 Sale of 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 transaction was announced on 16 July 2013. Of the agreed US$85 million cash consideration, the Group received US$68 million on completion of the transaction and a further payment of up to US$17 million will be received contingent upon the future performance of the Japan Life business.

The Japan Life business had been classified as held for sale on the statement of financial position of the Group since 2013. The held for sale assets and liabilities of the Japan Life business on the statement of financial position as at 30 June 2014 and 31 December 2014 were as follows:

	2014 £m	
	30 Jun	**31 Dec**
Assets		
Investments	934	898
Other assets	72	45
	1,006	943
Adjustment for remeasurement of the carrying value to fair value less costs to sell	(131)	(124)
Assets held for sale	875	819
Liabilities		
Policyholder liabilities	783	717
Other liabilities	45	53
Liabilities held for sale	828	770
Net assets	47	49

Upon its classification as held for sale in 2013, the IFRS carrying value of the Japan Life business was set to represent the proceeds, net of related expenses. Subsequent remeasurement of the carrying value of the Japan Life business in 2014 resulted in a charge in the income statement of £(11) million in half year 2014 and a charge of £(13) million in full year 2014. These amounts, together with the results of the business including short-term value movements on investments also included in the income statement, netted to an insignificant amount for those periods.

On completion of the sale, the cumulative foreign exchange translation loss of the Japan Life business of £46 million, that had arisen from 2004 (the year of the Group's conversion to IFRS) to disposal was recycled from other comprehensive income through the profit and loss account in half year 2015 as required by IAS 21. This amount is included within 'Cumulative exchange loss on the sold Japan Life business recycled from other comprehensive income' in the supplementary analysis of profit of the Group as shown in note B1.1. The adjustment has no net effect on shareholders' equity.

D2 Contingencies and related obligations

The Group is involved in various litigation and regulatory issues. While the outcome of such matters cannot be predicted with certainty, Prudential believes that the ultimate outcome of such litigation and regulatory issues will not have a material adverse effect on the Group's financial condition, results of operations or cash flows.

There have been no material changes to the Group's contingencies and related obligations in the six month period ended 30 June 2015.

D3 Post balance sheet events

Interim dividend

The 2015 interim dividend approved by the Board of Directors after 30 June 2015 is as described in note B7.

D4 Related party transactions

There were no transactions with related parties during the six months ended 30 June 2015 which have had a material effect on the results or financial position of the Group.

The nature of the related party transactions of the Group has not changed from those described in the Group's consolidated financial statements for the year ended 31 December 2014.

Statement of directors' responsibilities

The directors are responsible for preparing the Half Year Financial Report in accordance with applicable law and regulations.

Accordingly, the directors confirm that to the best of their knowledge:

– the condensed consolidated financial statements have been prepared in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union;
– the Half Year Financial Report includes a fair review of information required by:

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the six months ended 30 June 2015, and their impact on the condensed consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place during the six months ended 30 June 2015 and that have materially affected the financial position or the performance of the Group during the period and changes in the related party transactions described in the Group's consolidated financial statements for the year ended 31 December 2014.

The directors of Prudential plc as at 10 August are as listed in the Group's 2014 Annual Report except for the resignations of Tidjane Thiam and Pierre-Olivier Bouée and the appointment of Tony Wilkey in the first six months of 2015. In addition, as noted in the 2014 Annual Report, Lord Turnbull did not stand for re-election at the 2015 Annual General Meeting in May.

Independent review report to Prudential plc

Introduction
We have been engaged by the company to review the International Financial Reporting Standards (IFRS) basis financial information in the Half Year Financial Report for the six months ended 30 June 2015 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Cash Flows and the related explanatory notes.

We have also been engaged by the company to review the European Embedded Value (EEV) basis supplementary financial information for the six months ended 30 June 2015 which comprises the Post-tax Operating Profit Based on Longer-Term Investment Returns, the Post-tax Summarised Consolidated Income Statement, the Movement in Shareholders' Equity, the Summary Statement of Financial Position and the related explanatory notes and Total Insurance and Investment Products New Business information.

We have read the other information contained in the Half Year Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the IFRS basis financial information or the EEV basis supplementary financial information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA") and also to provide a review conclusion to the company on the EEV basis supplementary financial information. Our review of the IFRS basis financial information has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. Our review of the EEV basis supplementary financial information has been undertaken so that we might state to the company those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities
The Half Year Financial Report, including the IFRS basis financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half Year Financial Report in accordance with the DTR of the UK FCA. The directors have accepted responsibility for preparing the EEV basis supplementary financial information in accordance with the European Embedded Value Principles issued in May 2004 by the European CFO Forum ('the EEV Principles') and for determining the methodology and assumptions used in the application of those principles.

The annual IFRS basis financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union ('EU'). The IFRS basis financial information included in this Half Year Financial Report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

The EEV basis supplementary financial information has been prepared in accordance with the EEV principles using the methodology and assumptions set out in notes 1 and 13 to the EEV basis supplementary financial information. The EEV basis supplementary financial information should be read in conjunction with the IFRS basis financial information.

Our responsibility
Our responsibility is to express to the company a conclusion on the IFRS basis financial information in the Half Year Financial Report and the EEV basis supplementary financial information based on our reviews, as set out in our engagement letter with you dated 18 July 2015.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the IFRS basis financial information in the Half Year Financial Report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Based on our review, nothing has come to our attention that causes us to believe that the EEV basis supplementary financial information for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with the EEV Principles, using the methodology and assumptions set out in notes 1 and 13 to the EEV basis supplementary financial information.

Rees Aronson
For and on behalf of KPMG LLP
Chartered Accountants
London
10 August 2015

Additional Financial Information* (IFRS)

I IFRS profit and loss information

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

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

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

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

iii **With-profits** business represents the gross of tax shareholders' transfer from the with-profits fund for the period.

iv **Insurance margin** primarily represents profits derived from the insurance risks of mortality and morbidity.

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

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

vii **DAC adjustments** comprises DAC amortisation for the period, excluding amounts related to short-term fluctuations in investment returns, net of costs deferred in respect of new business.

Analysis of pre-tax IFRS operating profit by source and margin analysis of Group long-term insurance business
The following analysis expresses certain of the Group's sources of operating profit as a margin of policyholder liabilities or other suitable driver. Details on the calculation of the Group's average policyholder liability balances are given in note (iii) at the end of this section.

	Half year 2015 £m					
	Asia	**US**	**UK** note (v)	**Total**	**Average liability** note (iv)	**Margin bps** note(ii)
Spread income	**65**	**372**	**137**	**574**	**72,890**	**157**
Fee income	**86**	**832**	**33**	**951**	**125,581**	**151**
With-profits	**21**	**-**	**133**	**154**	**106,205**	**29**
Insurance margin	**387**	**383**	**87**	**857**		
Margin on revenues	**832**	**-**	**88**	**920**		
Expenses:						
Acquisition costs note (i)	**(573)**	**(479)**	**(43)**	**(1,095)**	**2,733**	**(40)%**
Administration expenses	**(355)**	**(408)**	**(66)**	**(829)**	**206,167**	**(80)**
DAC adjustments note (vi)	**78**	**114**	**-**	**192**		
Expected return on shareholder assets	**33**	**20**	**67**	**120**		
Long-term business operating profit	**574**	**834**	**436**	**1,844**		

See notes at the end of this section.

	Half year 2014 AER £m					
	Asia	**US**	**UK** note (v)	**Total**	**Average liability** note (iv)	**Margin bps** note (ii)
Spread income	62	364	131	557	64,741	172
Fee income	74	658	32	764	106,052	144
With-profits	15	-	135	150	98,046	31
Insurance margin	314	328	30	672		
Margin on revenues	724	-	84	808		
Expenses:						
Acquisition costs note (i)	(473)	(477)	(50)	(1,000)	2,286	(44)%
Administration expenses	(304)	(333)	(64)	(701)	178,649	(78)
DAC adjustments note (vi)	40	135	(6)	169		
Expected return on shareholder assets	31	11	74	116		
Long-term business operating profit	483	686	366	1,535		

See notes at the end of this section.

* *The additional financial information is not covered by the KPMG independent review opinion.*

	Half year 2014 CER £m note (iii)					
	Asia	**US**	**UK** note (v)	**Total**	**Average liability** note (iv)	**Margin bps** note (ii)
Spread income	65	398	131	594	67,672	176
Fee income	76	721	32	829	112,561	147
With-profits	16	-	135	151	98,560	31
Insurance margin	323	360	30	713		
Margin on revenues	746	-	84	830		
Expenses:						
Acquisition costs[note (i)]	(488)	(523)	(50)	(1,061)	2,415	(44)%
Administration expenses	(316)	(365)	(64)	(745)	188,814	(79)
DAC adjustments[note (vi)]	43	147	(6)	184		
Expected return on shareholder assets	32	13	74	119		
Long-term business operating profit	497	751	366	1,614		

See notes at the end of this section.

Margin analysis of long-term insurance business – Asia

	Asia								
	Half year 2015			**Half year 2014 AER**			**Half year 2014 CER** note (iii)		
	Profit	**Average Liability** note (iv)	**Margin** note (ii)	**Profit**	**Average Liability** note (iv)	**Margin** note (ii)	**Profit**	**Average Liability** note (iv)	**Margin** note (ii)
Long-term business	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	**65**	**10,514**	**124**	62	8,472	146	65	8,785	148
Fee income	**86**	**16,342**	**105**	74	14,204	104	76	14,377	106
With-profits	**21**	**16,778**	**25**	15	13,653	22	16	14,167	23
Insurance margin	**387**			314			323		
Margin on revenues	**832**			724			746		
Expenses:									
Acquisition costs[note (i)]	**(573)**	**1,366**	**(42)%**	(473)	996	(47)%	(488)	1,042	(47)%
Administration expenses	**(355)**	**26,856**	**(264)**	(304)	22,676	(268)	(316)	23,162	(273)
DAC adjustments[note (vi)]	**78**			40			43		
Expected return on shareholder assets	**33**			31			32		
Operating profit	**574**			483			497		

See notes at the end of this section.

Analysis of Asia operating profit drivers

- On a constant exchange rate basis, spread income has remained in line with the prior year. The margin has declined from 148 basis points in half year 2014 to 124 basis points in half year 2015 due to a change in product and country mix, caused in part by the cessation of sales of Universal Life products in Singapore.
- Fee income has increased by 13 per cent at constant exchange rates (AER 16 per cent), broadly in line with the increase in movement in average unit-linked liabilities.
- On a constant exchange rate basis, insurance margin has increased by 20 per cent to £387 million in half year 2015 (AER 23 per cent) primarily reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products.
- Margin on revenue has increased by £86 million on a constant exchange rate basis from £746 million in half year 2014 to £832 million in half year 2015 primarily reflecting higher premium income recognised in the period.
- Acquisition costs have increased by 17 per cent at constant exchange rates (AER 21 per cent) in half year 2015, compared to the 31 per cent increase in APE sales (AER 37 percent increase), resulting in a decrease in the acquisition costs ratio. The analysis above uses shareholder acquisition costs as a proportion of total APE. If with-profits sales were excluded from the denominator the acquisition cost ratio would become 66 per cent (half year 2014: 67 per cent at CER), the small decrease being the result of product and country mix.
- Administration expenses have increased by 12 per cent at constant exchange rates (AER 17 per cent increase) in half year 2015 as the business continues to expand. On constant exchange rates, the administration expense ratio has reduced from 273 basis points in half year 2014 to 264 basis points in half year 2015.

Margin analysis of long-term insurance business – US

	US								
	Half year 2015			**Half year 2014 AER**			**Half year 2014 CER** note (iii)		
	Profit	**Average Liability** note (iv)	**Margin** note (ii)	**Profit**	**Average Liability** note (iv)	**Margin** note (ii)	**Profit**	**Average Liability** note (iv)	**Margin** note (ii)
Long-term business	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	**372**	**30,515**	**244**	364	28,207	258	398	30,825	258
Fee income	**832**	**86,267**	**193**	658	68,177	193	721	74,513	193
Insurance margin	**383**			328			360		
Expenses									
Acquisition costs[note (i)]	**(479)**	**857**	**(56)%**	(477)	871	(55)%	(523)	954	(55)%
Administration expenses	**(408)**	**124,478**	**(66)**	(333)	104,240	(64)	(365)	113,919	(64)
DAC adjustments	**114**			135			147		
Expected return on shareholder assets	**20**			11			13		
Operating profit	**834**			686			751		

See notes at the end of this section.

Analysis of US operating profit drivers:

- Spread income has decreased by 6 per cent at constant exchange rates (AER increased by 2 per cent) to £372 million in the first half of 2015. The reported spread margin decreased to 244 basis points from 258 basis points in the first half of 2014, primarily due to lower investment yields, reflecting the lower interest rate environment. Spread income benefited from swap transactions previously entered into to more closely match the asset and liability duration. Excluding this effect, the spread margin would have been 167 basis points (half year 2014 CER: 188 basis points).
- Fee income has increased by 15 per cent at constant exchange rates (AER 26 per cent) to £832 million during the first half of 2015, primarily due to higher average separate account balances resulting from positive net cash flows from variable annuity business and market appreciation. Fee income margin has remained consistent with the prior year at 193 basis points (half year 2014 CER: 193 basis points).
- Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Insurance margin increased to £383 million in the first half of 2015 compared to £360 million at constant exchange rates at half year 2014, due primarily to higher fee income from variable annuity guarantees following positive net flows in recent periods into variable annuity business with guarantees.
- Acquisition costs, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, have decreased by 8 per cent at constant exchange rates broadly in line with the decline in sales. As a percentage of APE, acquisition costs have remained relatively flat in comparison to the first half of 2014 at 56 per cent.
- Administration expenses increased to £408 million during the first half of 2015, compared to £365 million for the first half of 2014 at a constant exchange rate (AER £333 million), primarily as a result of higher asset-based commissions paid on the larger 2015 separate account balance subject to these trail commissions. These are paid upon policy anniversary dates and are treated as an administration expense in this analysis. Excluding these trail commissions, the resulting administration expense ratio would be slightly lower than in 2014 at 36 basis points (first half of 2014: 37 basis points at CER and AER).
- DAC adjustments decreased to £114 million during the first half of 2015, compared to £147 million at a constant exchange rate (AER £135 million) during the first half of 2014, primarily due to a decline in DAC deferrals due to the reduced sales in 2015.

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

	Half year 2015 £m				Half year 2014 AER £m				Half year 2014 CER £m note (iii)			
		Acquisition costs				Acquisition costs				Acquisition costs		
	Other operating profits	Incurred	Deferred	Total	Other operating profits	Incurred	Deferred	Total	Other operating profits	Incurred	Deferred	Total
Total operating profit before acquisition costs and DAC adjustments	**1,199**			**1,199**	1,028			1,028	1,127			1,127
Less new business strain		**(479)**	**369**	**(110)**		(477)	374	(103)		(523)	409	(114)
Other DAC adjustments - amortisation of previously deferred acquisition costs:												
Normal			**(275)**	**(275)**			(249)	(249)			(273)	(273)
Deceleration			**20**	**20**			10	10			11	11
Total	**1,199**	**(479)**	**114**	**834**	1,028	(477)	135	686	1,127	(523)	147	751

Margin analysis of long-term insurance business – UK

	UK					
	Half year 2015			Half year 2014 note (v)		
	Profit	Average Liability note (iv)	Margin note (ii)	Profit	Average Liability note (iv)	Margin note (ii)
Long-term business	£m	£m	bps	£m	£m	bps
Spread income	**137**	**31,861**	**86**	131	28,062	93
Fee income	**33**	**22,972**	**29**	32	23,671	27
With-profits	**133**	**89,427**	**30**	135	84,393	32
Insurance margin	**87**			30		
Margin on revenues	**88**			84		
Expenses:						
Acquisition costs note (i)	**(43)**	**510**	**(8)%**	(50)	419	(12)%
Administration expenses	**(66)**	**54,833**	**(24)**	(64)	51,733	(25)
DAC adjustments	**-**			(6)		
Expected return on shareholders' assets	**67**			74		
Operating profit	**436**			366		

Analysis of UK operating profit drivers:

– The adverse effect on spread income from lower new retail and bulk annuity sales has been offset by profits from the in-force business, so that overall spread income has increased from £131 million in half year 2014 to £137 million in half year 2015.

– Insurance margin has increased from £30 million in half year 2014 to £87 million in half year 2015 due to a £61 million profit from an outward longevity reassurance transaction entered into in the first half of 2015.

– Margin on revenues represents premium charges for expenses and other sundry net income received by the UK. The half year 2015 margin remained stable at £88 million compared with the £84 million reported for half year 2014.

– Acquisition costs as a percentage of new business sales for half year 2015 decreased to 8 per cent from 12 per cent. The ratio above expresses the percentage of shareholder acquisition costs as a percentage of total APE sales. It is therefore impacted by the level of with-profit sales in the year. Acquisition costs as a percentage of shareholder–backed new business sales and excluding the bulk annuity transactions, were 37 per cent in half year 2015 (half year 2014: 35 per cent).

Notes

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

(ii) Margin represents the operating return earned in the period as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus. The margin is on an annualised basis in which half year profits are annualised by multiplying by two.

(iii) The half year 2014 comparative information has been presented at Actual Exchange Rate (AER) and Constant Exchange Rates (CER) so as to eliminate the impact of exchange translation. CER results are calculated by translating prior period results using the current period foreign exchange rates. All CER profit figures have been translated at current period average rates. For Asia CER average liability calculations the policyholder liabilities have been translated using current period opening and closing exchange rates. For the US CER average liability calculations the policyholder liabilities have been translated at the current period month end closing exchange rates. See also note A1.

(iv) For UK and Asia, opening and closing policyholder liabilities have been used to derive an average balance for the period, as a proxy for average balances throughout the period. The calculation of average liabilities for Jackson is derived from month end balances throughout the period as opposed to opening and closing balances only. Average liabilities for spread income are based on the general account liabilities to which spread income attaches. Average liabilities used to calculate the administration expense margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson. Average liabilities are adjusted for business acquisitions and disposals in the period.

(v) In order to show the UK long-term business on a comparable basis, the half year 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses.
(vi) The DAC adjustment contains £16 million in respect of joint ventures in half year 2015 (half year 2014: £2 million).

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

Operating profit based on longer-term investment returns for Asia operations are analysed below. The table below presents the half year 2014 results on both actual exchange rates (AER) and constant exchange rates (CER) bases so as to eliminate the impact of exchange translation.

	2015 £m	2014 £m		%		2014 £m
	Half year	AER Half year	CER Half year	Half year 2015 vs half year 2014 AER	Half year 2015 vs half year 2014 CER	Full year
Hong Kong	**69**	51	56	35%	23%	109
Indonesia	**167**	139	138	20%	21%	309
Malaysia	**61**	61	59	0%	3%	118
Philippines	**14**	11	12	27%	17%	28
Singapore	**105**	99	101	6%	4%	214
Thailand	**39**	25	27	56%	44%	53
Vietnam	**34**	27	30	26%	13%	72
SE Asia Operations inc. Hong Kong	**489**	413	423	18%	16%	903
China	**12**	8	9	50%	33%	13
India	**22**	24	25	(8)%	(12)%	49
Korea	**19**	17	18	12%	6%	32
Taiwan	**8**	7	7	14%	14%	15
Other	**(3)**	(4)	(4)	25%	25%	(9)
Non-recurrent items[note (ii)]	**29**	19	20	53%	45%	49
Total insurance operations[note (i)]	**576**	484	498	19%	16%	1,052
Development expenses	**(2)**	(1)	(1)	(100)%	(100)%	(2)
Total long-term business operating profit	**574**	483	497	19%	15%	1,050
Eastspring Investments	**58**	42	43	38%	35%	90
Total Asia operations	**632**	525	540	20%	17%	1,140

Notes

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

	2015 £m	2014 £m		
	Half year	AER Half year	CER Half year	Full year
New business strain†	**(33)**	(19)	(20)	(18)
Business in force	**580**	484	498	1,021
Non-recurrent items[note (ii)]	**29**	19	20	49
Total	**576**	484	498	1,052

† The IFRS new business strain corresponds to approximately 2 per cent of new business APE sales for 2014 (half year 2014: approximately 2 per cent; full year 2014: approximately 1 per cent).

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

(ii) Other non-recurrent items of £29 million in 2015 (half year 2014: £19 million; full year 2014: £49 million) represent a small number of items none of which are individually significant that are not anticipated to re-occur in subsequent years.

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

	Half year 2015 £m				
	M&G note (ii)	**Eastspring Investments** note (ii)	**Prudential Capital**	**US**	**Total**
Operating income before performance-related fees	**491**	**149**	**47**	**175**	**862**
Performance-related fees	**1**	**2**	**-**	**-**	**3**
Operating income(net of commission)[note (i)]	**492**	**151**	**47**	**175**	**865**
Operating expense[note (i)]	**(248)**	**(86)**	**(40)**	**(163)**	**(537)**
Share of associate's results	**7**	**-**	**-**	**-**	**7**
Group's share of tax on joint ventures' operating profit	**-**	**(7)**	**-**	**-**	**(7)**
Operating profit based on longer-term investment returns	**251**	**58**	**7**	**12**	**328**
Average funds under management	**£260.1bn**	**£81.6bn**			
Margin based on operating income*	**38bps**	**37bps**			
Cost / income ratio**	**51%**	**58%**			

	Half year 2014 £m				
	M&G note (ii)	**Eastspring Investments** note (ii)	**Prudential Capital**	**US**	**Total**
Operating income before performance-related fees	463	111	64	139	777
Performance-related fees	7	-	-	-	7
Operating income(net of commission)[note (i)]	470	111	64	139	784
Operating expense[note (i)]	(249)	(65)	(42)	(144)	(500)
Share of associate's results	6	-	-	-	6
Group's share of tax on joint ventures' operating profit	-	(4)	-	-	(4)
Operating profit based on longer-term investment returns	227	42	22	(5)	286
Average funds under management	£242.9bn	£62.4bn			
Margin based on operating income*	38bps	36bps			
Cost / income ratio**	54%	59%			

	Full year 2014 £m				
	M&G note (ii)	**Eastspring Investments** note (ii)	**Prudential Capital**	**US**	**Total**
Operating income before performance-related fees	954	240	130	303	1,627
Performance-related fees	33	1	-	-	34
Operating income(net of commission)[note (i)]	987	241	130	303	1,661
Operating expense[note (i)]	(554)	(140)	(88)	(291)	(1,073)
Share of associate's results	13	-	-	-	13
Group's share of tax on joint ventures' operating profit	-	(11)	-	-	(11)
Operating profit based on longer-term investment returns	446	90	42	12	590
Average funds under management	£250.0bn	£68.8bn			
Margin based on operating income*	38bps	35bps			
Cost / income ratio**	58%	59%			

Notes

(i) Operating income and expense includes the Group's share of contribution from joint ventures (but excludes any contribution from associates). In the income statement as shown in note B2 of the IFRS financial statements, the net post-tax income of the joint ventures and associates is shown as a single item.

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

	M&G Operating income before performance related fees					
	Retail £m	**Margin of FUM* bps**	**Institu-tional† £m**	**Margin of FUM* bps**	**Total £m**	**Margin of FUM* bps**
30 Jun 2015	**309**	**86**	**182**	**19**	**491**	**38**
30 Jun 2014	291	86	172	20	463	38
31 Dec 2014	593	84	361	20	954	38

	Eastspring Investments Operating income before performance related fees					
	Retail £m	**Margin of FUM* bps**	**Institu-tional† £m**	**Margin of FUM* bps**	**Total £m**	**Margin of FUM* bps**
30 Jun 2015	**93**	**63**	**56**	**23**	**149**	**37**
30 Jun 2014	65	62	46	22	111	36
31 Dec 2014	139	60	101	22	240	35

* Margin represents operating income before performance related fees as a proportion of the related funds under management (FUM). Half year figures have been annualised by multiplying by two. Monthly closing internal and external funds managed by the respective entity have been used to derive the average. Any funds held by the Group's insurance operations which are managed by third parties outside of the Prudential Group are excluded from these amounts.

** Cost/income ratio represents cost as a percentage of operating income before performance related fees.

† Institutional includes internal funds.

II Other information

II(a) Holding company cash flow

	2015 £m	2014 £m	
	Half year	**Half year**	**Full year**
Net cash remitted by business units:			
UK net remittances to the Group			
UK Life fund paid to the Group	**200**	193	193
Shareholder-backed business:			
Other UK paid to the Group	**31**	53	132
Group invested in UK	**-**	-	-
Total shareholder-backed business	**31**	53	132
Total UK net remittances to the Group	**231**	246	325
US remittances to the Group	**403**	352	415
Asia net remittances to the Group			
Asia paid to the Group:			
Long-term business	**280**	240	453
Other operations	**40**	32	60
	320	272	513
Group invested in Asia:			
Long-term business	**(4)**	(3)	(3)
Other operations (including funding of Regional Head Office costs)	**(58)**	(53)	(110)
	(62)	(56)	(113)
Total Asia net remittances to the Group	**258**	216	400
M&G remittances to the Group	**151**	135	285
Prudential Capital remittances to the Group	**25**	25	57
Net remittances to the Group from Business Units	**1,068**	974	1,482
Net interest paid	**(137)**	(161)	(335)
Tax received	**72**	111	198
Corporate activities	**(93)**	(93)	(193)
Solvency II costs	**(10)**	(12)	(23)
Total central outflows	**(168)**	(155)	(353)
Net operating holding company cash flow before dividend*	**900**	819	1,129
Dividend paid	**(659)**	(610)	(895)
Operating holding company cash flow after dividend*	**241**	209	234
Non-operating net cash flow**	**380**	(520)	(978)
Total holding company cash flow	**621**	(311)	(744)
Cash and short-term investments at beginning of period	**1,480**	2,230	2,230
Foreign exchange movements	**(7)**	(17)	(6)
Cash and short-term investments at end of period	**2,094**	1,902	1,480

***** Including central finance subsidiaries.

** Non-operating net cash flow is principally for corporate transactions for distribution rights and acquired subsidiaries, and issue or repayment of subordinated debt.

II(b) Funds under management

(a) Summary

	2015 £bn	2014 £bn	
	30 Jun	30 Jun	31 Dec
Business area:			
Asia operations	**51.4**	42.1	49.0
US operations	**126.9**	109.9	123.6
UK operations	**169.6**	160.4	169.0
Prudential Group funds under management note (i)	**347.9**	312.4	341.6
External funds note (ii)	**157.0**	144.8	154.3
Total funds under management	**504.9**	457.2	495.9

Notes

(i) Prudential Group funds under management of £347.9 billion (30 June 2014: £312.4 billion; 31 December 2014: £341.6 billion) comprise:

	2015 £bn	2014 £bn	
	30 Jun	30 Jun	31 Dec
Total investments per the consolidated statement of financial position	**343.1**	308.8	337.4
Less: investments in joint ventures and associates accounted for using the equity method	**(1.0)**	(0.9)	(1.0)
Internally managed funds held in joint ventures	**5.4**	4.2	4.9
Investment properties which are held for sale or occupied by the Group (included in other IFRS captions)	**0.4**	0.3	0.3
Prudential Group funds under management	**347.9**	312.4	341.6

(ii) External funds shown above as at 30 June 2015 of £157.0 billion (30 June 2014: £144.8 billion; 31 December 2014: £154.3 billion) comprise £168.9 billion (30 June 2014: £158.1 billion; 31 December 2014: £167.2 billion) of funds managed by M&G and Eastspring Investments as shown in note (b) below less £11.9 billion (30 June 2014: £13.3 billion; 31 December 2014: £12.9 billion) that are classified within Prudential Group's funds.

(b) Investment products – external funds under management

	Half year 2015 £m			Half year 2014 £m			Full year 2014 £m		
	Eastspring Investments note	M&G	Group total note	Eastspring Investments note	M&G	Group total note	Eastspring Investments note	M&G	Group total note
At beginning of period	**30,133**	**137,047**	**167,180**	22,222	125,989	148,211	22,222	125,989	148,211
Market gross inflows	**56,725**	**20,425**	**77,150**	38,934	19,322	58,256	82,440	38,017	120,457
Redemptions	**(51,555)**	**(22,800)**	**(74,355)**	(36,504)	(15,111)	(51,615)	(77,001)	(30,930)	(107,931)
Market exchange translation and other movements	**212**	**(1,272)**	**(1,060)**	726	2,571	3,297	2,472	3,971	6,443
At end of period	**35,515**	**133,400**	**168,915**	25,378	132,771	158,149	30,133	137,047	167,180

Note

The £168.9 billion (30 June 2014: £158.1 billion; 31 December 2014: £167.2 billion) investment products comprise £163.5 billion (30 June 2014: £153.8 billion; 31 December 2014: £162.4 billion) plus Asia Money Market Funds of £5.4 billion (30 June 2014: £4.3 billion; 31 December 2014: £4.8 billion).

(c) M&G and Eastspring Investments - total funds under management

	Eastspring Investments note			M&G		
	2015 £bn	2014 £bn	2014 £bn	2015 £bn	2014 £bn	2014 £bn
	30 Jun	30 Jun	31 Dec	30 Jun	30 Jun	31 Dec
External funds under management	**35.5**	25.4	30.1	**133.4**	132.8	137.0
Internal funds under management	**49.8**	41.4	47.2	**123.1**	120.9	127.0
Total funds under management	**85.3**	66.8	77.3	**256.5**	253.7	264.0

Note

The external funds under management for Eastspring Investments include Asia Money Market Funds at 30 June 2015 of £5.4 billion (30 June 2014: £4.3 billion; 31 December 2014: £4.8 billion).

European Embedded Value (EEV) basis results

Notes on the EEV basis results

Additional Unaudited Financial Information

Description of EEV basis reporting

In broad terms, IFRS profits for long-term business reflect the aggregate of results on a traditional accounting basis. By contrast, embedded value is a way of reporting the value of the life insurance business.

The European Embedded Value principles were published by the CFO Forum of major European insurers in May 2004. The principles provide consistent definitions, a framework for setting actuarial assumptions, and an approach to the underlying methodology and disclosures.

Results prepared under the EEV principles capture the discounted value of future profits expected to arise from the current book of long-term business. The results are prepared by projecting cash flows, by product, using best estimate assumptions for all relevant factors. Furthermore, in determining these expected profits full allowance is made for the risks attached to their emergence and the associated cost of capital, and takes into account recent experience in assessing likely future persistency, mortality, morbidity and expenses. Further details are explained in notes 12 and 13.

European Embedded Value (EEV) basis results

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

Results analysis by business area

	Note	2015 £m Half year	2014 £m Half year note (iii)	2014 £m Full year note (iii)
Asia operations				
New business	3	**664**	494	1,162
Business in force	4	**410**	339	739
Long-term business		**1,074**	833	1,901
Eastspring Investments		**50**	36	78
Development expenses		**(2)**	(1)	(1)
Total		**1,122**	868	1,978
US operations				
New business	3	**371**	376	694
Business in force	4	**441**	401	834
Long-term business		**812**	777	1,528
Broker-dealer and asset management		**8**	(5)	6
Total		**820**	772	1,534
UK operations*				
New business	3	**155**	139	259
Business in force	4	**256**	241	476
Long-term business		**411**	380	735
General insurance commission		**14**	9	19
Total UK insurance operations		**425**	389	754
M&G		**203**	182	353
Prudential Capital		**6**	18	33
Total		**634**	589	1,140
Other income and expenditure note (i)		**(275)**	(280)	(531)
Solvency II and restructuring costs note (ii)		**(23)**	(14)	(36)
Results of the sold PruHealth and PruProtect businesses		**-**	8	11
Operating profit based on longer-term investment returns		**2,278**	1,943	4,096
Analysed as profits (losses) from:				
New business*	3	**1,190**	1,009	2,115
Business in force*	4	**1,107**	981	2,049
Long-term business*		**2,297**	1,990	4,164
Asset management		**267**	231	470
Other results		**(286)**	(278)	(538)
Total		**2,278**	1,943	4,096

* In order to show the UK long-term business on a comparable basis, the half year and full year 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses (see note 14).

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 12(a)(vii)) and an adjustment for the shareholders' share of the pension costs attributable to the with-profits business.

(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 period.

Basic earnings per share (in pence)

	2015 £m Half year	2014 £m Half year	2014 £m Full year
Based on post-tax operating profit including longer-term investment returns	**89.3p**	76.3p	160.7p
Based on post-tax profit	**82.9p**	75.9p	170.4p
Average number of shares (millions)	**2,552**	2,547	2,549

Post-tax summarised consolidated income statement

	Note	2015 £m Half year	2014 £m Half year	2014 £m Full year
Asia operations		**1,122**	868	1,978
US operations		**820**	772	1,534
UK operations*		**634**	589	1,140
Other income and expenditure		**(275)**	(280)	(531)
Solvency II and restructuring costs		**(23)**	(14)	(36)
Results of the sold PruHealth and PruProtect businesses		**-**	8	11
Operating profit based on longer-term investment returns		**2,278**	1,943	4,096
Short-term fluctuations in investment returns	5	**(367)**	432	763
Effect of changes in economic assumptions	6	**80**	(368)	(369)
Mark to market value movements on core borrowings		**124**	(66)	(187)
Gain on sale of PruHealth and PruProtect	14	**-**	-	44
Costs of domestication of Hong Kong branch		**-**	(7)	(4)
Total non-operating (loss) profit		**(163)**	(9)	247
Profit for the period attributable to equity holders of the Company		**2,115**	1,934	4,343

* The presentation of the operating results for UK operations for half year and full year 2014 has been adjusted to show the results of the sold PruHealth and PruProtect businesses separately (see note 14).

Movement in shareholders' equity

	Note	2015 £m Half year	2014 £m Half year	2014 £m Full year
Profit for the period attributable to equity shareholders		**2,115**	1,934	4,343
Items taken directly to equity:				
Exchange movements on foreign operations and net investment hedges		**(554)**	(377)	737
Dividends		**(659)**	(610)	(895)
New share capital subscribed		**2**	8	13
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes		**(20)**	10	(11)
Reserve movements in respect of share-based payments		**66**	52	106
Treasury shares movements		**(29)**	(40)	(54)
Mark to market value movements on Jackson assets backing surplus and required capital		**(8)**	71	77
Net increase in shareholders' equity	9	**913**	1,048	4,316
Shareholders' equity at beginning of period:				
As previously reported	9	**29,161**	24,856	24,856
Effect of the domestication of Hong Kong branch on 1 January 2014*		**-**	(11)	(11)
		29,161	24,845	24,845
Shareholders' equity at end of period	9	**30,074**	25,893	29,161

* On 1 January 2014, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. The overall 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.

	30 Jun 2015 £m			30 Jun 2014 £m			31 Dec 2014 £m		
Comprising:	**Long-term business operations** note 9	**Asset management and other operations**	**Total**	Long-term business operations	Asset management and other operations	Total	Long-term business operations	Asset management and other operations	Total
Asia operations	**12,838**	**284**	**13,122**	10,997	253	11,250	12,545	274	12,819
US operations	**8,457**	**165**	**8,622**	7,155	141	7,296	8,379	157	8,536
UK insurance operations	**8,708**	**33**	**8,741**	7,654	9	7,663	8,433	19	8,452
M&G and Prudential Capital	**-**	**1,723**	**1,723**	-	1,659	1,659	-	1,646	1,646
Other operations	**-**	**(2,134)**	**(2,134)**	-	(1,975)	(1,975)	-	(2,292)	(2,292)
Shareholders' equity at end of period	**30,003**	**71**	**30,074**	25,806	87	25,893	29,357	(196)	29,161
Representing:									
Net assets excluding acquired goodwill and holding company net borrowings	**29,772**	**1,635**	**31,407**	25,578	1,553	27,131	29,124	1,542	30,666
Acquired goodwill	**231**	**1,230**	**1,461**	228	1,230	1,458	233	1,230	1,463
Holding company net borrowings at market value note 7	-	**(2,794)**	**(2,794)**	-	(2,696)	(2,696)		(2,968)	(2,968)
	30,003	**71**	**30,074**	25,806	87	25,893	29,357	(196)	29,161

Summary statement of financial position

	Note	2015 £m	2014 £m	
		30 Jun	30 Jun	31 Dec
Total assets less liabilities, before deduction for insurance funds		**331,233**	300,630	326,633
Less insurance funds:*				
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds		**(319,129)**	(290,005)	(314,822)
Less shareholders' accrued interest in the long-term business	9	**17,970**	15,268	17,350
		(301,159)	(274,737)	(297,472)
Total net assets	9	**30,074**	25,893	29,161
Share capital		**128**	128	128
Share premium		**1,910**	1,903	1,908
IFRS basis shareholders' reserves		**10,066**	8,594	9,775
Total IFRS basis shareholders' equity	9	**12,104**	10,625	11,811
Additional EEV basis retained profit	9	**17,970**	15,268	17,350
Total EEV basis shareholders' equity (excluding non-controlling interests)	9	**30,074**	25,893	29,161

* Including liabilities in respect of insurance products classified as investment contracts under IFRS 4.

Net asset value per share

	30 Jun 2015	30 Jun 2014	31 Dec 2014
Based on EEV basis shareholders' equity of £30,074 million (half year 2014: £25,893 million, full year 2014: £29,161 million) (in pence)	**1,170p**	1,009p	1,136p
Number of issued shares at period end (millions)	**2,571**	2,566	2,568
Annualised return on embedded value*	**16%**	16%	16%

* Annualised return on embedded value is based on EEV post-tax operating profit, as a percentage of opening EEV basis shareholders' equity. Half year profits are annualised by multiplying by two.

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. Where appropriate, the EEV basis results include the effects of adoption of International Financial Reporting Standards (IFRS).

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles. The EEV basis results of half year 2015 and half year 2014 are unaudited. Except for the change in presentation of the operating results for UK operations to show separately the contribution from the sold PruHealth and PruProtect businesses and the presentation of Prudential Capital as a separate segment, the full year 2014 results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2014. The supplement included an unqualified audit report from the auditors.

A detailed description of the EEV methodology and accounting presentation is provided in note 12.

2 Results analysis by business area

The 2014 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The half year 2014 CER comparative results are translated at half year 2015 average exchange rates.

Annual premium and contribution equivalents (APE) note15

	Note	Half year 2015 £m	Half year 2014 £m		% change	
			AER	CER	AER	CER
Asia operations		**1,366**	996	1,042	37%	31%
US operations		**857**	871	954	(2)%	(10)%
UK operations*		**510**	419	419	22%	22%
Total*	3	**2,733**	2,286	2,415	20%	13%

* In order to show the UK long-term business on a comparable basis, the half year 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses (see note 14).

Post-tax operating profit

	Note	Half year 2015 £m	Half year 2014 £m		% change	
			AER	CER	AER	CER
Asia operations						
New business	3	**664**	494	512	34%	30%
Business in force	4	**410**	339	351	21%	17%
Long-term business		**1,074**	833	863	29%	24%
Eastspring investments		**50**	36	37	39%	35%
Development costs		**(2)**	(1)	(1)	(100)%	(100)%
Total		**1,122**	868	899	29%	25%
US operations						
New business	3	**371**	376	412	(1)%	(10)%
Business in force	4	**441**	401	439	10%	0%
Long-term business		**812**	777	851	5%	(5)%
Broker-dealer and asset management		**8**	(5)	(5)	260%	260%
Total		**820**	772	846	6%	(3)%
UK operations*						
New business	3	**155**	139	139	12%	12%
Business in force	4	**256**	241	241	6%	6%
Long-term business		**411**	380	380	8%	8%
General insurance commission		**14**	9	9	56%	56%
Total UK insurance operations		**425**	389	389	9%	9%
M&G		**203**	182	182	12%	12%
Prudential Capital		**6**	18	18	(67)%	(67)%
Total		**634**	589	589	8%	8%
Other income and expenditure		**(275)**	(280)	(280)	2%	2%
Solvency II and restructuring costs		**(23)**	(14)	(14)	(64)%	(64)%
Results of the sold PruHealth and PruProtect businesses		**-**	8	8	(100)%	(100)%
Operating profit based on longer-term investment returns		**2,278**	1,943	2,048	17%	11%
Analysed as profits (losses) from:						
New business*	3	**1,190**	1,009	1,063	18%	12%
Business in force*	4	**1,107**	981	1,031	13%	7%
Total long-term business*		**2,297**	1,990	2,094	15%	10%
Asset management		**267**	231	232	16%	15%
Other results		**(286)**	(278)	(278)	(3)%	(3)%
Operating profit based on longer-term investment returns		**2,278**	1,943	2,048	17%	11%

* In order to show the UK long-term business on a comparable basis, the half year 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses (see note 14).

Post-tax profit

	Note	Half year 2015 £m	Half year 2014 £m		% change	
			AER	CER	AER	CER
Operating profit based on longer-term investment returns		**2,278**	1,943	2,048	17%	11%
Short-term fluctuations in investment returns	5	**(367)**	432	461	(185)%	(180)%
Effect of changes in economic assumptions	6	**80**	(368)	(393)	122%	120%
Other non-operating profit		**124**	(73)	(74)	270%	268%
Total non-operating profit		**(163)**	(9)	(6)	(1711)%	(2617)%
Profit for the period attributable to shareholders		**2,115**	1,934	2,042	9%	4%

Basic earnings per share (in pence)

	Half year 2015 £m	Half year 2014 £m		% change	
		AER	CER	AER	CER
Based on post-tax operating profit including longer-term investment returns	**89.3p**	76.3p	80.4p	17%	11%
Based on post-tax profit	**82.9p**	75.9p	80.2p	9%	3%

3 Analysis of new business contribution

(i) Group Summary

	Half year 2015				
	Annual premium and contribution equivalents (APE) £m	**Present value of new business premiums (PVNBP) £m**	**New business contribution £m**	**New business margin**	
				APE %	**PVNBP %**
	note 15	note 15	note		
Asia operations(note ii)	**1,366**	**7,340**	**664**	**49**	**9.0**
US operations	**857**	**8,574**	**371**	**43**	**4.3**
UK insurance operations	**510**	**4,524**	**155**	**30**	**3.4**
Total	**2,733**	**20,438**	**1,190**	**44**	**5.8**

	Half year 2014				
	Annual premium and contribution equivalents (APE) £m	Present value of new business premiums (PVNBP) £m	New business contribution £m	New business margin*	
				APE %	PVNBP %
	note 15	note 15	note		
Asia operations(note ii)	996	5,378	494	50	9.2
US operations	871	8,703	376	43	4.3
UK insurance operations*	419	3,644	139	33	3.8
Total	2,286	17,725	1,009	44	5.7

	Full year 2014				
	Annual premium and contribution equivalents (APE) £m	Present value of new business premiums (PVNBP) £m	New business contribution £m	New business margin*	
				APE %	PVNBP %
	note 15	note 15			
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*	834	7,305	259	31	3.5
Total	4,627	35,191	2,115	46	6.0

* In order to show the UK long-term business on a comparable basis, the half year and full year 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses (see note 14).

Note
The increase in new business contribution of £181 million from £1,009 million for half year 2014 to £1,190 million for half year 2015 comprises an increase on a CER basis of £127 million and an increase of £54 million for foreign exchange effects. The increase of £127 million on the CER basis comprises a contribution of £145 million for higher sales volumes and the impact of pricing, product and other actions, offset by an adverse £(18) million effect of lower long-term interest rates (generated by the active basis of setting economic assumptions) (analysed as Asia £(7) million, US £(7) million and UK £(4) million).

(ii) Asia operations – new business contribution by territory

	2015 £m	2014 £m		2014 £m
		AER	CER	AER
	Half year	Half year	Half year	Full year
China	**20**	13	14	27
Hong Kong	**322**	152	167	405
India	**9**	5	5	12
Indonesia	**127**	136	135	296
Korea	**4**	8	8	11
Taiwan	**13**	13	14	29
Other	**169**	167	169	382
Total Asia operations	**664**	494	512	1,162

4 Operating profit from business in force

(i) Group Summary

	Half year 2015 £m			
	Asia operations note (ii)	**US operations** note (iii)	**UK insurance operations** note (iv)	**Total** note
Unwind of discount and other expected returns	**411**	**236**	**245**	**892**
Effect of changes in operating assumptions	**1**	**-**	**-**	**1**
Experience variances and other items	**(2)**	**205**	**11**	**214**
Total	**410**	**441**	**256**	**1,107**

	Half year 2014 £m			
	Asia operations note (ii)	US operations note (iii)	UK insurance operations* note (iv)	Total note
Unwind of discount and other expected returns	328	192	229	749
Effect of changes in operating assumptions	9	-	-	9
Experience variances and other items	2	209	12	223
Total	339	401	241	981

	Full year 2014 £m			
	Asia operations note (ii)	US operations note (iii)	UK insurance operations* note (iv)	Total
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

* In order to show the UK long-term business on a comparable basis, the half year and full year 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses (see note 14).

Note

The movement in operating profit from business in force of £126 million from £981 million for half year 2014 to £1,107 million for half year 2015 comprises:

	Half year 2015 £m
Increase in unwind of discount and other expected returns:	
Effect of growth in opening value	**147**
Effect of changes in interest rates	**(31)**
Foreign exchange effects	**27**
	143
Period-on-period change in effects of operating assumptions, experience variances and other items	**(17)**
Net increase in operating profit from business in force	**126**

(ii) Asia operations

	2015 £m	2014 £m	
	Half year	Half year	Full year
Unwind of discount and other expected returns[note (a)]	**411**	328	648
Effect of changes in operating assumptions:			
Mortality and morbidity[note (b)]	**-**	1	27
Persistency and withdrawals[note (c)]	**4**	-	(17)
Expense	**(4)**	1	(5)
Other[note (d)]	**1**	7	47
	1	9	52
Experience variances and other items:			
Mortality and morbidity[note (e)]	**30**	18	23
Persistency and withdrawals[note (f)]	**(31)**	(3)	44
Expense[note (g)]	**(12)**	(19)	(27)
Other	**11**	6	(1)
	(2)	2	39
Total Asia operations	**410**	339	739

Notes

(a) The increase in unwind of discount and other expected returns of £83 million from £328 million for half year 2014 to £411 million for half year 2015 comprises an £86 million effect for the increase in the opening in-force value, a £9 million increase for foreign exchange effects, partially offset by a £(12) million effect of lower interest rates.

(b) The full year 2014 credit of £27 million for mortality and morbidity assumption changes reflected a number of offsetting items, including the effect of reduced projected mortality rates for Hong Kong.

(c) The full year 2014 charge of £(17) million for persistency assumptions mainly reflected increased partial withdrawal assumptions on unit-linked business in Korea.

(d) The full year 2014 credit of £47 million for other assumption changes reflected a number of offsetting items, including the effects of modelling improvements and those arising from asset allocation changes in Hong Kong.

(e) The positive mortality and morbidity experience variance in half year 2015 of £30 million (half year 2014: £18 million; full year 2014: £23 million) mainly reflects better than expected experience in Indonesia and Hong Kong. The experience variance in full year 2014 was partially offset by higher claims in Malaysia on medical reimbursement products.

(f) Persistency and withdrawals experience will fluctuate between periods depending on underlying market performance and other demographic trends. As in previous years, in half year 2015 the persistency variance comprised positive and negative contributions from our various operations, with positive persistency experience on health and protection products which was more than offset by negative experience on unit-linked products. The positive £44 million in full year 2014 principally reflected favourable experience across all product groups in Hong Kong.

(g) The expense experience variance at half year 2015 is negative £(12) million (half year 2014: £(19) million; full year 2014: £(27) million). The variance arises in operations which are currently sub-scale (China, Malaysia Takaful and Taiwan) and from short-term overruns in India.

(iii) US operations

	2015 £m	2014 £m	
	Half year	Half year	Full year
Unwind of discount and other expected returns[note (a)]	**236**	192	382
Effect of changes in operating assumptions:			
Persistency[note (b)]	**-**	-	55
Other[note (c)]	**-**	-	31
	-	-	86
Experience variances and other items:			
Spread experience variance[note (d)]	**70**	108	192
Amortisation of interest-related realised gains and losses[note (e)]	**39**	28	56
Other[note (f)]	**96**	73	118
	205	209	366
Total US operations	**441**	401	834

Notes

(a) The increase in unwind of discount and other expected returns of £44 million from £192 million for half year 2014 to £236 million for half year 2015 comprises a £32 million effect for the underlying growth in the in-force book, an £18 million foreign currency translation effect, partially offset by a £(6) million impact of the 20 basis points reduction in US 10-year Treasury rates.

(b) For full year 2014 the credit of £55 million for persistency assumption changes principally related to revised assumptions for variable annuity business.

(c) The full year 2014 credit of £31 million for the effect of other assumption changes reflected a number of offsetting items including the capitalised effect of changes in projected policyholder variable annuity fees of £46 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 13(ii)). The spread experience variance in half year 2015 is £70 million (half year 2014: £108 million; full year 2014: £192 million), principally reflecting the positive effect of transactions undertaken to more closely match the overall asset and liability duration, and is lower than prior period, driven by the lower interest rate environment.

(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 period when the bonds would have otherwise matured to better reflect the long-term returns included in operating profits.

(f) Other experience variances of £96 million in half year 2015 (half year 2014: £73 million; full year 2014: £118 million) are principally driven by the effect of continued improvements in persistency experience of £68 million (half year 2014: £39 million; full year 2014: £59 million), mainly for variable annuity business and other favourable experience variances.

(iv) UK insurance operations

	2015 £m	2014 £m	
	Half year	Half year *	Full year *
Unwind of discount and other expected returns[note (a)]	**245**	229	410
Other items[note (b)]	**11**	12	66
Total UK insurance operations	**256**	241	476

* In order to show the UK long-term business on a comparable basis, the half year and full year 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses (see note 14).

Notes

(a) The increase in unwind of discount and other expected returns of £16 million from half year 2014 of £229 million to £245 million at half year 2015 comprises an effect of £29 million reflecting the underlying growth in the in-force book, partially offset by a £(13) million negative effect of the 70 basis points reduction in gilt yields.

(b) Other items of £11 million for half year 2015 (half year 2014: £12 million; full year 2014: £66 million) includes a charge of £(46) million in half year 2015 arising from a longevity reinsurance transaction, offset by the positive effects of rebalancing the investment portfolio backing annuity business (see note 12(b)(ii)), and other items.

5 Short-term fluctuations in investment returns

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

(i) Group Summary

	2015 £m	2014 £m	
	Half year	Half year	Full year
Asia[note (ii)]	**(79)**	245	439
US[note (iii)]	**(271)**	95	(166)
UK[note (iv)]	**(32)**	112	583
Other operations[note (v)]	**15**	(20)	(93)
Total	**(367)**	432	763

(ii) Asia operations

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

	2015 £m	2014 £m	
	Half year	Half year	Full year
Hong Kong	**(24)**	121	178
Indonesia	**(27)**	21	35
Singapore	**(46)**	46	92
Taiwan	**(5)**	21	23
Other	**23**	36	111
Total Asia operations	**(79)**	245	439

These fluctuations mainly arise from increases in half year 2015 and decreases in 2014 in long-term interest rates as they affect the value of bonds in the portfolios backing liabilities and related capital. The £23 million credit for other operations in half year 2015 principally arises in China for unrealised gains on equities due to strong market performance in the first half of the year. The £111 million credit in full year 2014 for other operations principally arose in Thailand of £49 million from unrealised gains on bonds.

(iii) US operations

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

	2015 £m	2014 £m	
	Half year	Half year	Full year
Investment return related experience on fixed income securities [note (a)]	**(25)**	(2)	31
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 activity and other items[note (b)]	**(246)**	97	(197)
Total US operations	**(271)**	95	(166)

Notes

(a) The (charge) 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;
- favourable credit experience (versus the longer-term assumption); and
- the impact of changes in the asset portfolio.

(b) This item reflects the net impact of:
- changes 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, and other items.

(iv) UK insurance operations

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

	2015 £m	2014 £m	
	Half year	Half year	Full year
Shareholder-backed annuity[note (a)]	**(90)**	35	310
With-profits, unit-linked and other[note (b)]	**58**	77	273
	(32)	112	583

Notes

(a) Short-term fluctuations in investment returns for shareholder-backed annuity business comprise:
- (losses) gains on surplus assets compared to the expected long-term rate of return reflecting (increases) reductions 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 £58 million fluctuation in half year 2015 for with-profits, unit-linked and other business includes an overall 3 per cent pre-tax return on the with-profits fund (including unallocated surplus), which was marginally higher than the assumed return (half year 2014: total return of 4 per cent compared to assumed rate of 3 per cent), and a beneficial impact of an increase in future unit-linked fee income arising from market movements. For full year 2014 the total return on the with-profits fund was 9.5 per cent compared to an assumed rate of 5 per cent, together with the effect of a partial hedge of future shareholder transfers expected to emerge from the UK's with-profits sub-fund entered into to mitigate the effect of declines in the UK equity market.

(v) Other operations

Short-term fluctuations in investment returns of other operations were £15 million (half year 2014: £(20) million; full year 2014: £(93) million) include 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 period arise as follows:

(i) Group Summary

	2015 £m	2014 £m	
	Half year	Half year	Full year
Asia operations[note (ii)]	**14**	(145)	(269)
US operations[note (iii)]	**36**	(158)	(77)
UK insurance operations[note (iv)]	**30**	(65)	(23)
Total	**80**	(368)	(369)

(ii) Asia operations

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

	2015 £m	2014 £m	
	Half year	Half year	Full year
Hong Kong	**103**	(73)	(121)
Malaysia	**(19)**	(31)	11
Indonesia	**(36)**	12	25
Singapore	**(24)**	(11)	(42)
Taiwan	**2**	(29)	(21)
Other	**(12)**	(13)	(121)
Total Asia operations[note]	**14**	(145)	(269)

Note

The overall positive effect of £14 million in half year 2015 reflects an increase in fund earned rates for participating business in Hong Kong, partially offset by the negative impact of valuing future health and protection profits at higher discount rates in Indonesia, Malaysia and Singapore, both driven by the increase in long-term interest rates. For full year 2014, other operations include a negative effect on non-participating business in Korea of £(38) million and Thailand of £(34) million for a reduction in fund earned rates.

(iii) US operations

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

	2015 £m	2014 £m	
	Half year	Half year	Full year
Variable annuity business	**81**	(229)	(228)
Fixed annuity and other general account business	**(45)**	71	151
Total[note]	**36**	(158)	(77)

Note

These effects principally reflect the movement in 10-year Treasury rates in the reporting period, as shown in note 13(ii). For variable annuity business the net credit (charge) principally reflects the consequent increase (decrease) in the assumed future rate of return on the underlying separate account assets, resulting in higher (lower) projected fee income and a decrease (increase) in projected benefit costs. There is also a partial offset arising from the (increase) decrease in the risk discount rate. For fixed annuity and other general account business the impact reflects the effect on the present value of future projected spread income of applying a (higher) lower discount rate on the opening value of the in-force book.

(iv) UK insurance operations

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

	2015 £m	2014 £m	
	Half year	Half year	Full year
Effect of changes in expected long-term rates of return, risk discount rates and other changes:			
Shareholder-backed annuity business[note (a)]	**(113)**	73	352
With-profits and other business[note (b)]	**143**	(138)	(375)
Total	**30**	(65)	(23)

Notes

(a) For shareholder-backed annuity business the overall negative (2014: positive) effect reflects the effect on the present value of projected spread income arising from the increase (2014: reduction) in the risk discount rates as shown in note 13 (iii).

(b) For with-profits and other business the total credit in half year 2015 of £143 million (half year 2014: £(138) million; full year 2014: £(375) million) includes the net effect of the increase (2014: reduction) in fund earned rates and risk discount rates (as shown in note 13(iii)), arising from the 30 basis points increase in the 15-year government bond rate (half year 2014: 30 basis points decrease; full year 2014: 130 basis points decrease) as well as from changes in the composition of the asset portfolio which took place in the second half of 2014.

7 Net core structural borrowings of shareholder-financed operations

	2015 £m			2014 £m					
	30 Jun			30 Jun			31 Dec		
	IFRS basis	**Mark to market value adjustment**	**EEV basis at market value**	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	**(2,094)**	**-**	**(2,094)**	(1,902)	-	(1,902)	(1,480)	-	(1,480)
Core structural borrowings – central funds	**4,446**	**442**	**4,888**	4,146	452	4,598	3,869	579	4,448
Holding company net borrowings	**2,352**	**442**	**2,794**	2,244	452	2,696	2,389	579	2,968
Core structural borrowings – Prudential Capital	**275**	**-**	**275**	275	-	275	275	-	275
Core structural borrowings – Jackson	**159**	**51**	**210**	146	41	187	160	42	202
Net core structural borrowings of shareholder- financed operations	**2,786**	**493**	**3,279**	2,665	493	3,158	2,824	621	3,445

* Including central finance subsidiaries.

In June 2015, the Company issued core structural borrowings of £600 million 5.00 per cent Tier 2 subordinated notes due 2055. The proceeds, net of discount adjustment and costs, were £590 million.

8 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 half year 2014 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The half year 2014 CER comparative results are translated at half year 2015 average exchange rates.

	Half year 2015 £m	Half year 2014 £m		% change	
		AER	CER	AER	CER
Asia operations					
Underlying free surplus generated from in-force life business	**519**	433	447	20%	16%
Investment in new business notes (ii)(a), (ii)(g)	**(213)**	(167)	(176)	(28)%	(21)%
Long-term business	**306**	266	271	15%	13%
Eastspring Investments note (ii)(b)	**50**	36	37	39%	35%
Total	**356**	302	308	18%	16%
US operations					
Underlying free surplus generated from in-force life business	**700**	634	694	10%	1%
Investment in new business note (ii)(a)	**(164)**	(173)	(189)	5%	13%
Long-term business	**536**	461	505	16%	6%
Broker-dealer and asset management note (ii)(b)	**8**	(5)	(5)	260%	260%
Total	**544**	456	500	19%	9%
UK insurance operations*					
Underlying free surplus generated from in-force life business	**352**	289	289	22%	22%
Investment in new business note (ii)(a)	**(57)**	(36)	(36)	(58)%	(58)%
Long-term business	**295**	253	253	17%	17%
General insurance commission note (ii)(b)	**14**	9	9	56%	56%
Total	**309**	262	262	18%	18%
M&G note (ii)(b)	**203**	182	182	12%	12%
Prudential Capital note (ii)(b)	**6**	18	18	(67)%	(67)%
Results of the sold PruHealth and PruProtect businesses	**-**	(1)	(1)	100%	100%
Underlying free surplus generated	**1,418**	1,219	1,269	16%	12%
Representing:					
Long-term business*:					
Expected in-force cashflows (including expected return on net assets)	**1,418**	1,169	1,226	21%	16%
Effects of changes in operating assumptions, operating experience variances and other operating items	**153**	187	204	(18)%	(25)%
Underlying free surplus generated from in-force life business	**1,571**	1,356	1,430	16%	10%
Investment in new business notes (ii)(a), (ii)(g)	**(434)**	(376)	(401)	(15)%	(8)%
Total long-term business*	**1,137**	980	1,029	16%	10%
Asset management and general insurance commission note (ii)(b)	**281**	240	241	17%	17%
Results of the sold PruHealth and PruProtect businesses	**-**	(1)	(1)	100%	100%
Underlying free surplus generated	**1,418**	1,219	1,269	16%	12%

* In order to show the UK long-term business on a comparable basis, the half year 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses (see note 14).

(ii) Movement in free surplus

Long-term business and asset management operations	Half year 2015 £m Long-term business note 10	Asset management and UK general insurance commission note (b)	Free surplus of long-term business, asset management and UK general insurance commission	Half year 2014 £m Free surplus of long-term business, asset management and UK general insurance commission
Underlying movement*:				
Investment in new business[notes (a), (g)]	**(434)**	**-**	**(434)**	(376)
Business in force:				
Expected in-force cash flows (including expected return on net assets)	**1,418**	**281**	**1,699**	1,409
Effects of changes in operating assumptions, operating experience variances and other operating items	**153**	**-**	**153**	187
Results of the sold PruHealth and PruProtect businesses	**-**	**-**	**-**	(1)
	1,137	**281**	**1,418**	1,219
Disposal of Japan Life business[note (h)]	**23**	**-**	**23**	-
Other non-operating items[note (c)]	**(141)**	**(4)**	**(145)**	(22)
	1,019	**277**	**1,296**	1,197
Net cash flows to parent company[note (d)]	**(910)**	**(158)**	**(1,068)**	(974)
Exchange movements, timing differences and other items[note (e)]	**27**	**(10)**	**17**	(5)
Net movement in free surplus	**136**	**109**	**245**	218
Balance at 1 January:				
As previously reported	**4,193**	**866**	**5,059**	4,003
Effect of domestication of Hong Kong branch on 1 January 2014[note (i)]	**-**	**-**	**-**	(35)
Balance at 30 June[note (g)]	**4,329**	**975**	**5,304**	4,186
Representing:				
Asia operations	**1,382**	**223**	**1,605**	1,387
US operations	**1,333**	**149**	**1,482**	1,163
UK operations	**1,614**	**603**	**2,217**	1,636
	4,329	**975**	**5,304**	4,186
Balance at beginning of period				
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

* In order to show the UK long-term business on a comparable basis, the half year 2014 comparative underlying movement in free surplus excludes the contribution from the sold PruHealth and PruProtect businesses (see note 14).

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:

	Half year 2015 £m Long-term business	Asset management and UK general insurance commission	Total
Exchange movements[note 10]	**(64)**	**(7)**	**(71)**
Mark to market value movements on Jackson assets backing surplus and required capital[note 9]	**(8)**	**-**	**(8)**
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**1**	**(8)**	**(7)**
Other[note (f)]	**98**	**5**	**103**
	27	**(10)**	**17**

(f) Other primarily reflects the effect of timing differences arising on statutory transfers, intra-group loans and contingent loan repayments as shown in note 10(i), 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 Asia life entities is £284 million representing unamortised amounts incurred to secure exclusive distribution rights through bancassurance partners. These amounts exclude £870 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.

(h) The credit of £23 million in free surplus in half year 2015 reflects the release of required capital and transfer of value of in-force business on the completion of the sale of the Japan Life business (see note 14).

(i) On 1 January 2014, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. The half year 2014 EEV basis results included 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 arising from the newly established subsidiaries with an overall effect of £(35) million.

9 Reconciliation of movement in shareholders' equity

	Half year 2015 £m					
	Long-term business operations					
	Asia operations note (i)	US operations	UK insurance operations	Total long-term business operations	Other operations note (i)	Group Total
Operating profit (based on longer-term investment returns)						
Long-term business:						
New business note 3	**664**	**371**	**155**	**1,190**	**-**	**1,190**
Business in force note 4	**410**	**441**	**256**	**1,107**	**-**	**1,107**
	1,074	**812**	**411**	**2,297**	**-**	**2,297**
Asset management	**-**	**-**	**-**	**-**	**267**	**267**
Other results	**(2)**	**-**	**(13)**	**(15)**	**(271)**	**(286)**
Operating profit based on longer-term investment returns	**1,072**	**812**	**398**	**2,282**	**(4)**	**2,278**
Total non-operating (loss) profit	**(65)**	**(245)**	**(2)**	**(312)**	**149**	**(163)**
Profit for the period	**1,007**	**567**	**396**	**1,970**	**145**	**2,115**
Other items taken directly to equity						
Exchange movements on foreign operations and net investment hedges	**(467)**	**(77)**	**-**	**(544)**	**(10)**	**(554)**
Intra-group dividends (including statutory transfers) note (ii)	**(245)**	**(400)**	**(107)**	**(752)**	**752**	**-**
Investment in operations note (iii)	**4**	**-**	**-**	**4**	**(4)**	**-**
External dividends	**-**	**-**	**-**	**-**	**(659)**	**(659)**
Other movements note (iv)	**(4)**	**(4)**	**(14)**	**(22)**	**41**	**19**
Mark to market value movements on Jackson assets backing surplus and required capital	**-**	**(8)**	**-**	**(8)**	**-**	**(8)**
Net increase in shareholders' equity	**295**	**78**	**275**	**648**	**265**	**913**
Shareholders' equity at beginning of period	**12,312**	**8,379**	**8,433**	**29,124**	**37**	**29,161**
Shareholders' equity at end of period note (i)	**12,607**	**8,457**	**8,708**	**29,772**	**302**	**30,074**
Representing:						
Statutory IFRS basis shareholders' equity:						
Net assets	**3,389**	**4,004**	**3,939**	**11,332**	**(689)**	**10,643**
Goodwill	**-**	**-**	**-**	**-**	**1,461**	**1,461**
Total IFRS basis shareholders' equity	**3,389**	**4,004**	**3,939**	**11,332**	**772**	**12,104**
Additional retained profit (loss) on an EEV basis note (v)	**9,218**	**4,453**	**4,769**	**18,440**	**(470)**	**17,970**
EEV basis shareholders' equity	**12,607**	**8,457**	**8,708**	**29,772**	**302**	**30,074**
Balance at 31 December 2014						
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 note (v)	8,997	4,312	4,648	17,957	(607)	17,350
EEV basis shareholders' equity	12,312	8,379	8,433	29,124	37	29,161

Notes

(i) For the purposes of the table above, goodwill of £231 million (half year 2014: £228 million; full year 2014: £233 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 period and amounts accrued in respect of statutory transfers. The amounts included in note 8 for these items are as per the holding company cash flow at transaction rates. The difference primarily relates to timing differences arising on statutory transfers, intra-group loans, and other non-cash items.

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

(iv) Other movements includes a charge of £(20) million (half year 2014: credit of £10 million; full year 2014: charge of £(11) 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 £(442) million (half year 2014: £(452) million; full year 2014: £(579) million), as shown in note 7.

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

	Half year 2015 £m				
	Free surplus note 8	**Required capital**	**Total net worth**	**Value of in-force business** note (iii)	**Total long-term business operations**
Group					
Shareholders' equity at beginning of period	**4,193**	**4,556**	**8,749**	**20,375**	**29,124**
New business contribution note (ii)	**(434)**	**265**	**(169)**	**1,359**	**1,190**
Existing business – transfer to net worth	**1,366**	**(183)**	**1,183**	**(1,183)**	**-**
Expected return on existing business note 4	**52**	**68**	**120**	**772**	**892**
Changes in operating assumptions and experience variances note 4	**168**	**12**	**180**	**35**	**215**
Development expenses, solvency II and restructuring costs	**(15)**	**-**	**(15)**	**-**	**(15)**
Post-tax operating profit based on longer-term investment returns	**1,137**	**162**	**1,299**	**983**	**2,282**
Disposal of Japan Life business note 14	**23**	**(48)**	**(25)**	**25**	**-**
Other non-operating items	**(141)**	**(170)**	**(311)**	**(1)**	**(312)**
Profit from long-term business	**1,019**	**(56)**	**963**	**1,007**	**1,970**
Exchange movements on foreign operations and net investment hedges	**(64)**	**(60)**	**(124)**	**(420)**	**(544)**
Intra-group dividends (including statutory transfers) and investment in operations note (i)	**(789)**	**-**	**(789)**	**41**	**(748)**
Other movements	**(30)**	**-**	**(30)**	**-**	**(30)**
Shareholders' equity at end of period	**4,329**	**4,440**	**8,769**	**21,003**	**29,772**
Representing:					
Asia operations					
Shareholders' equity at beginning of period	**1,347**	**1,327**	**2,674**	**9,638**	**12,312**
New business contribution note (ii)	**(213)**	**71**	**(142)**	**806**	**664**
Existing business – transfer to net worth	**515**	**(36)**	**479**	**(479)**	**-**
Expected return on existing business note 4	**16**	**24**	**40**	**371**	**411**
Changes in operating assumptions and experience variances note 4	**(10)**	**(12)**	**(22)**	**21**	**(1)**
Development expenses	**(2)**	**-**	**(2)**	**-**	**(2)**
Post-tax operating profit based on longer-term investment returns	**306**	**47**	**353**	**719**	**1,072**
Disposal of Japan Life business note 14	**23**	**(48)**	**(25)**	**25**	**-**
Other non-operating items	**4**	**(43)**	**(39)**	**(26)**	**(65)**
Profit from long-term business	**333**	**(44)**	**289**	**718**	**1,007**
Exchange movements on foreign operations and net investment hedges	**(53)**	**(46)**	**(99)**	**(368)**	**(467)**
Intra-group dividends and investment in operations	**(241)**	**-**	**(241)**	**-**	**(241)**
Other movements	**(4)**	**-**	**(4)**	**-**	**(4)**
Shareholders' equity at end of period	**1,382**	**1,237**	**2,619**	**9,988**	**12,607**
US operations					
Shareholders' equity at beginning of period	**1,416**	**1,710**	**3,126**	**5,253**	**8,379**
New business contribution note (ii)	**(164)**	**138**	**(26)**	**397**	**371**
Existing business – transfer to net worth	**556**	**(102)**	**454**	**(454)**	**-**
Expected return on existing business note 4	**21**	**25**	**46**	**190**	**236**
Changes in operating assumptions and experience variances note 4	**123**	**10**	**133**	**72**	**205**
Post-tax operating profit based on longer-term investment returns	**536**	**71**	**607**	**205**	**812**
Other non-operating items	**(196)**	**(82)**	**(278)**	**33**	**(245)**
Profit from long-term business	**340**	**(11)**	**329**	**238**	**567**
Exchange movements on foreign operations and net investment hedges	**(11)**	**(14)**	**(25)**	**(52)**	**(77)**
Intra-group dividends	**(400)**	**-**	**(400)**	**-**	**(400)**
Other movements	**(12)**	**-**	**(12)**	**-**	**(12)**
Shareholders' equity at end of period	**1,333**	**1,685**	**3,018**	**5,439**	**8,457**
UK insurance operations					
Shareholders' equity at beginning of period	**1,430**	**1,519**	**2,949**	**5,484**	**8,433**
New business contribution note (ii)	**(57)**	**56**	**(1)**	**156**	**155**
Existing business – transfer to net worth	**295**	**(45)**	**250**	**(250)**	**-**
Expected return on existing business note 4	**15**	**19**	**34**	**211**	**245**
Changes in operating assumptions and experience variances note 4	**55**	**14**	**69**	**(58)**	**11**
Solvency II and restructuring costs	**(13)**	**-**	**(13)**	**-**	**(13)**
Post-tax operating profit based on longer-term investment returns	**295**	**44**	**339**	**59**	**398**
Other non-operating items	**51**	**(45)**	**6**	**(8)**	**(2)**
Profit from long-term business	**346**	**(1)**	**345**	**51**	**396**
Intra-group dividends (including statutory transfers) note (i)	**(148)**	**-**	**(148)**	**41**	**(107)**
Other movements	**(14)**	**-**	**(14)**	**-**	**(14)**
Shareholders' equity at end of period	**1,614**	**1,518**	**3,132**	**5,576**	**8,708**

Notes

(i) For UK insurance operations, the amounts shown for intra-group dividends (including statutory transfers) in free surplus of £(148) million and in the value of in-force of £41 million include the impact of intragroup contingent loan repayments during the period. 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:

	Half year 2015 £m			
	Asia operations	**US operations**	**UK insurance operations**	**Total long-term business operations**
New business contribution[note 3]	**664**	**371**	**155**	**1,190**
Free surplus invested in new business	**(213)**	**(164)**	**(57)**	**(434)**
New business contribution per £1 million of free surplus invested	**3.1**	**2.3**	**2.7**	**2.7**

	Half year 2014 £m			
	Asia operations	US operations	UK insurance operations*	Total long-term business operations
New business contribution[note 3]	494	376	139	1,009
Free surplus invested in new business	(167)	(173)	(36)	(376)
New business contribution per £1 million of free surplus invested	3.0	2.2	3.9	2.7

	Full year 2014 £m			
	Asia operations	US operations	UK insurance operations*	Total long-term business operations
New business contribution[note 3]	1,162	694	259	2,115
Free surplus invested in new business	(346)	(187)	(65)	(598)
New business contribution per £1 million of free surplus invested	3.4	3.7	4.0	3.5

* In order to show the UK long-term business on a comparable basis, the half year and full year 2014 comparatives exclude the contribution from the sold PruHealth and PruProtect businesses (see note 14).

(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:

	30 Jun 2015 £m			
	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	**10,496**	**6,110**	**5,853**	**22,459**
Cost of capital	**(413)**	**(218)**	**(277)**	**(908)**
Cost of time value of guarantees	**(95)**	**(453)**	**-**	**(548)**
Net value of in-force business	**9,988**	**5,439**	**5,576**	**21,003**

	30 Jun 2014 £m			
	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	8,936	4,960	5,413	19,309
Cost of capital	(404)	(197)	(254)	(855)
Cost of time value of guarantees	(56)	(273)	-	(329)
Net value of in-force business	8,476	4,490	5,159	18,125

	31 Dec 2014 £m			
	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
Cost of capital	(417)	(199)	(272)	(888)
Cost of time value of guarantees	(113)	(462)	-	(575)
Net value of in-force business	9,638	5,253	5,484	20,375

11 Sensitivity of results to alternative assumptions

(a) Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value as at 30 June 2015 (31 December 2014) and the post-tax new business contribution after the effect of required capital for half year 2015 and full year 2014 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);
- 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

	Half year 2015 £m				Full year 2014 £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 [note 3]	**664**	**371**	**155**	**1,190**	1,162	694	259	2,115
Discount rates – 1% increase	**(110)**	**(17)**	**(22)**	**(149)**	(176)	(27)	(38)	(241)
Interest rates – 1% increase	**16**	**25**	**(8)**	**33**	13	61	(15)	59
Interest rates – 1% decrease	**(33)**	**(49)**	**11**	**(71)**	(52)	(101)	19	(134)
Equity/property yields – 1% rise	**32**	**39**	**6**	**77**	46	73	12	131
Long-term expected defaults – 5 bps increase	**-**	**-**	**(6)**	**(6)**	-	-	(10)	(10)
Liquidity premium – 10 bps increase	**-**	**-**	**11**	**11**	-	-	20	20

* In order to show the UK long-term business on a comparable basis, the full year 2014 comparatives exclude the contribution from the sold PruHealth and PruProtect businesses (see note 14).

Embedded value of long-term business operations

	30 Jun 2015 £m				31 Dec 2014 £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
Shareholders' equity [note 9]	**12,607**	**8,457**	**8,708**	**29,772**	12,312	8,379	8,433	29,124
Discount rates – 1% increase	**(1,301)**	**(273)**	**(610)**	**(2,184)**	(1,214)	(268)	(602)	(2,084)
Interest rates – 1% increase	**(447)**	**(218)**	**(390)**	**(1,055)**	(462)	(232)	(362)	(1,056)
Interest rates – 1% decrease	**165**	**50**	**470**	**685**	211	16	452	679
Equity/property yields – 1% rise	**465**	**369**	**273**	**1,107**	435	365	282	1,082
Equity/property market values – 10% fall	**(257)**	**(90)**	**(415)**	**(762)**	(221)	(129)	(380)	(730)
Statutory minimum capital	**124**	**149**	**4**	**277**	129	139	4	272
Long-term expected defaults – 5 bps increase	**-**	**-**	**(141)**	**(141)**	-	-	(139)	(139)
Liquidity premium – 10 bps increase	**-**	**-**	**283**	**283**	-	-	278	278

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) Effect of change in future UK corporation tax rate announced in July 2015

The Finance Bill 2015, which was announced on 8 July 2015, includes reductions in the UK corporate tax rate from 20 per cent to 19 per cent effective 1 April 2017 and from 19 per cent to 18 per cent effective 1 April 2020. The impact of this change has not been factored in the EEV results or shareholders' equity at 30 June 2015. Had the half year 2015 EEV results been prepared on the basis of these new tax rates, the net of tax value of in-force business of UK insurance operations at 30 June 2015 would have been higher by around £55 million.

12 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 12(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 12(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 12(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, mortality and morbidity (as described in note 13). 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 period.

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-period 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 period (to the extent that changes in capital values do not directly match changes in liabilities) are included directly in the profit for the period 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 (depreciation) 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 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 all periods throughout these results, depending on the particular product, jurisdiction where issued, and date of issue. For all periods shown, 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 (half year 2014: 2.8 per cent; full year 2014: 2.7 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 30 June 2015 (30 June 2014: £36 million; 31 December 2014: £50 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 £471 million was held in SAIF at 30 June 2015 (30 June 2014: £421 million; 31 December 2014: £549 million) to honour the guarantees. As described in note 12(a)(i), 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 13(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 period 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 period. 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 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 13(ii). In determining this allowance a number of factors have been considered. These factors, in particular, include:

- 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
- 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:

— 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;
— 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;
— an allowance for a 1-notch downgrade of the asset portfolio subject to credit risk; and
— 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, shown in note 13(iii).

(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 period. Foreign currency assets and liabilities have been translated at period 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 period 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. The sensitivity of the embedded value as at 30 June 2015 to the effect of the future reductions in the UK corporate tax rate announced in July 2015 is shown in note 11(b).

(xi) Inter-company arrangements
The EEV results for covered business incorporate annuities established in the PAC non-profit sub-fund from vesting pension polices 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 period 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 12(b)(ii) below) and incorporate the following:

— new business contribution, as defined in note 12(a)(ii);
— unwind of discount on the value of in-force business and other expected returns, as described in note 12(b)(iii) below;
— the impact of routine changes of estimates relating to non-economic assumptions, as described in note 12(b)(iv) below; and

— non-economic experience variances, as described in note 12(b)(v) below.

In order to show the UK long-term business result on a comparable basis, the presentation of half year and full year 2014 results has been adjusted to show the results of the sold PruHealth and PruProtect businesses separately.

Non-operating results comprise the recurrent items of:

— short-term fluctuations in investment returns;
— the mark to market value movements on core borrowings; and
— the effect of changes in economic assumptions.

In addition, non-operating profit includes:

— the effect on free surplus generated of the disposal of the Japan Life business in 2015;
— the gain on sale of the PruHealth and PruProtect businesses in 2014; and
— the costs associated with the domestication of the Hong Kong branch which became effective on 1 January 2014.

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 12(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 period.

(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 (ie smoothed). In the summary statement of financial position and for total profit reporting, asset values and investment returns are not smoothed. At 30 June 2015 the shareholders' interest in the smoothed surplus assets used for this purpose only, were £104 million (30 June 2014: £123 million; 31 December 2014: £194 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.

13 Assumptions

Principal economic assumptions

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 period.

(i) Asia operations[notes (b), (c)]

	Risk discount rate %					
	New business			In force		
	2015	2014		2015	2014	
	30 Jun	30 Jun	31 Dec	30 Jun	30 Jun	31 Dec
China	**10.2**	10.6	10.2	**10.2**	10.6	10.2
Hong Kong[notes (b), (c)]	**3.9**	4.3	3.7	**3.9**	4.2	3.7
India	**13.0**	13.9	13.0	**13.0**	13.9	13.0
Indonesia	**12.5**	12.2	12.0	**12.5**	12.2	12.0
Korea	**6.4**	6.8	6.7	**5.8**	7.1	6.5
Malaysia[note (c)]	**6.5**	6.6	6.6	**6.6**	6.6	6.6
Philippines	**11.2**	10.8	10.8	**11.2**	10.8	10.8
Singapore[note (c)]	**4.5**	4.3	4.3	**5.3**	5.0	5.0
Taiwan	**4.2**	4.0	4.2	**4.2**	4.0	4.1
Thailand	**9.7**	10.6	9.5	**9.7**	10.6	9.5
Vietnam	**13.6**	15.4	14.0	**13.6**	15.4	14.0
Total weighted risk discount rate[note (a)]	**6.5**	7.4	6.9	**6.6**	7.0	6.6

	10-year government bond yield %			Expected long-term Inflation %		
	2015	2014		2015	2014	
	30 Jun	30 Jun	31 Dec	30 Jun	30 Jun	31 Dec
China	**3.7**	4.1	3.7	**2.5**	2.5	2.5
Hong Kong[notes (b), (c)]	**2.4**	2.6	2.2	**2.3**	2.3	2.3
India	**8.0**	8.9	8.0	**4.0**	4.0	4.0
Indonesia	**8.5**	8.4	7.9	**5.0**	5.0	5.0
Korea	**2.5**	3.2	2.6	**3.0**	3.0	3.0
Malaysia[note (c)]	**4.0**	4.1	4.1	**2.5**	2.5	2.5
Philippines	**4.5**	4.1	4.0	**4.0**	4.0	4.0
Singapore[note (c)]	**2.7**	2.3	2.3	**2.0**	2.0	2.0
Taiwan	**1.5**	1.6	1.6	**1.0**	1.0	1.0
Thailand	**3.0**	3.8	2.7	**3.0**	3.0	3.0
Vietnam	**6.8**	8.7	7.2	**5.5**	5.5	5.5

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) Equity risk premiums in Asia range from 3.5 per cent to 8.7 per cent for all periods throughout the results. The mean equity return assumptions for the most significant equity holdings of the Asia operations were:

	2015 %	2014 %	
	30 Jun	30 Jun	31 Dec
Hong Kong	**6.4**	6.6	6.2
Malaysia	**10.0**	10.1	10.1
Singapore	**8.7**	8.4	8.3

(ii) US operations

	2015 %	2014 %	
	30 Jun	30 Jun	31 Dec
Assumed new business spread margins:*			
Fixed Annuity business:**			
January to June issues	**1.25**	1.5	1.5
July to December issues	**n/a**	n/a	1.5
Fixed Index Annuity business:			
January to June issues	**1.5**	2.0	2.0
July to December issues	**n/a**	n/a	2.0
Institutional business	**0.7**	0.7	0.7
Allowance for long-term defaults included in projected spread note 12 (a)(viii)	**0.24**	0.26	0.25
Risk discount rate:			
Variable annuity:			
Risk discount rate	**7.0**	7.1	6.9
Additional allowance for credit risk included in risk discount rate note 12 (a)(viii)	**0.2**	0.2	0.2
Non-variable annuity:			
Risk discount rate	**4.1**	4.3	3.9
Additional allowance for credit risk included in risk discount rate note 12 (a)(viii)	**1.0**	1.0	1.0
Weighted average total:			
New business	**6.9**	6.9	6.7
In force	**6.4**	6.4	6.2
US 10-year treasury bond rate at end of period	**2.4**	2.6	2.2
Pre-tax expected long-term nominal rate of return for US equities	**6.4**	6.6	6.2
Expected long-term rate of inflation	**2.9**	2.6	2.8
Equity risk premium	**4.0**	4.0	4.0
S&P equity return volatility note 13(v)	**18.0**	19.0	18.0

* 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

	2015 %	2014 %	
	30 Jun	30 Jun	31 Dec
Shareholder-backed annuity business:			
Risk discount rate:note			
New business	**6.4**	6.9	6.5
In force	**7.1**	7.8	6.9
Pre-tax expected long-term nominal rate of return for shareholder-backed annuity business:note			
New business	**3.4**	4.5	4.1
In force	**3.7**	4.1	3.2
Other business:			
Risk discount rate: *			
New business	**5.9**	6.1	5.5
In force	**6.1**	6.5	5.9
Pre-tax expected long-term nominal rates of investment return:			
UK equities	**6.5**	7.2	6.2
Overseas equities	**6.4 to 8.9**	6.6 to 9.1	6.2 to 9.0
Property	**5.3**	5.9	4.9
15-year gilt rate	**2.5**	3.2	2.2
Corporate bonds	**4.1**	4.8	3.8
Expected long-term rate of inflation	**3.3**	3.3	3.0
Equity risk premium	**4.0**	4.0	4.0

* The half year and full year 2014 risk discount rates exclude the sold PruHealth and PruProtect businesses.

Note

For shareholder-backed annuity business, the movements in the pre-tax long-term nominal rates of return and risk discount rates for new and in-force businesses reflect the effect of changes in asset yields. The movements in risk discount rates also reflect changes in the margin for credit risk premium, as explained in note 12(a)(viii).

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 12(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, and the volatility of government bond yields ranges from 0.9 per cent to 2.3 per cent for all periods throughout these results.

(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 (half year 2014: 19 per cent to 32 per cent; full year 2014: 18 per cent to 27 per cent) and the standard deviation of interest rates ranges from 2.2 per cent to 2.5 per cent for all periods throughout these results.

(vi) UK insurance operations

- 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 all periods throughout these results.

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 12(a)(x).

The local standard corporate tax rates applicable for the most significant operations for all periods shown, are as follows:

Standard corporate tax rates	%
Asia operations:	
Hong Kong	16.5 per cent on 5 per cent of premium income
Indonesia	25.0
Malaysia	2014 and 2015: 25.0; From 2016: 24.0
Singapore	17.0
US operations	35.0
UK operations*	20.0

* The sensitivity of the embedded value as at 30 June 2015 to the effect of the future reductions in the UK corporate tax rate announced in July 2015 is shown in note 11(b).

14 Disposal of Japan Life and PruHealth and PruProtect businesses

2015 Sale of Japan Life business
On 5 February 2015, the Group completed the sale of its closed book life insurance business in Japan, PCA Life Insurance Company Limited to SBI Holdings Inc, following regulatory approvals, resulting in a release of free surplus of £23 million in half year 2015.

2014 Sale of PruHealth and PruProtect businesses
The Prudential Assurance Company Limited completed the sale of its 25 per cent equity stake in the PruHealth and PruProtect businesses to Discovery Group Europe Limited on 14 November 2014, which gave rise to a gain on disposal of £44 million for full year 2014.

The contribution to the various EEV key performance measures of these businesses at half year and full year 2014 are provided in section C of the additional unaudited information.

15 Total insurance and investment products new business[note (i)]

	Single			Regular			Annual premium and contribution equivalents (APE) note 12(a)(ii)			Present value of new business premiums (PVNBP) note 12(a)(ii)		
	2015 £m	2014 £m		**2015 £m**	2014 £m		**2015 £m**	2014 £m		**2015 £m**	2014 £m	
	Half year	Half year	Full year	**Half year**	Half year	Full year	**Half year**	Half year	Full year	**Half year**	Half year	Full year
Group insurance operations												
Asia	**1,241**	955	2,272	**1,242**	900	2,010	**1,366**	996	2,237	**7,340**	5,378	12,331
US	**8,574**	8,703	15,555	**-**	-	-	**857**	871	1,556	**8,574**	8,703	15,555
UK[note (viii)]	**4,191**	3,329	6,681	**91**	86	166	**510**	419	834	**4,524**	3,644	7,305
Group total[note (viii)]	**14,006**	12,987	24,508	**1,333**	986	2,176	**2,733**	2,286	4,627	**20,438**	17,725	35,191
Asia insurance operations												
Cambodia	**-**	-	-	**3**	1	3	**3**	1	3	**17**	4	16
Hong Kong	**242**	175	419	**495**	240	603	**519**	258	645	**3,015**	1,530	3,861
Indonesia	**147**	101	280	**168**	174	357	**183**	184	385	**762**	748	1,619
Malaysia	**53**	42	117	**100**	87	189	**105**	91	201	**630**	583	1,284
Philippines	**79**	53	121	**21**	17	39	**29**	22	51	**146**	106	248
Singapore	**276**	264	677	**125**	146	289	**153**	172	357	**1,097**	1,217	2,683
Thailand	**34**	50	92	**45**	37	74	**48**	42	83	**207**	196	392
Vietnam	**3**	1	4	**34**	23	61	**34**	23	61	**140**	91	247
SE Asia operations including Hong Kong	**834**	686	1,710	**991**	725	1,615	**1,074**	793	1,786	**6,014**	4,475	10,350
China[note (ii)]	**259**	117	239	**63**	45	81	**89**	57	105	**487**	280	550
Korea	**102**	97	212	**64**	38	92	**74**	48	113	**398**	260	609
Taiwan	**27**	45	83	**58**	49	116	**61**	54	124	**209**	214	462
India[note (iii)]	**19**	10	28	**66**	43	106	**68**	44	109	**232**	149	360
Total Asia insurance operations	**1,241**	955	2,272	**1,242**	900	2,010	**1,366**	996	2,237	**7,340**	5,378	12,331
US insurance operations												
Variable annuities	**6,065**	6,136	10,899	**-**	-	-	**606**	614	1,090	**6,065**	6,136	10,899
Elite Access (variable annuity)	**1,656**	1,493	3,108	**-**	-	-	**166**	149	311	**1,656**	1,493	3,108
Fixed annuities	**233**	265	527	**-**	-	-	**23**	27	53	**233**	265	527
Fixed index annuities	**210**	182	370	**-**	-	-	**21**	18	37	**210**	182	370
Wholesale	**410**	627	651	**-**	-	-	**41**	63	65	**410**	627	651
Total US insurance operations	**8,574**	8,703	15,555	**-**	-	-	**857**	871	1,556	**8,574**	8,703	15,555
UK and Europe insurance operations[notes *, (iv), (viii)]												
Individual Annuities	**279**	634	1,065	**-**	-	**-**	**28**	63	106	**279**	633	1,065
Bonds	**1,558**	1,298	2,934	**-**	-	-	**156**	130	294	**1,559**	1,299	2,937
Corporate Pensions	**51**	58	92	**71**	73	138	**76**	79	147	**300**	314	592
Individual Pensions	**480**	173	508	**14**	10	22	**62**	27	72	**536**	218	595
Income Drawdown	**386**	118	352	**-**	-	-	**39**	12	35	**386**	118	352
Other Products	**268**	12	20	**6**	3	6	**32**	4	9	**295**	26	54
Total Retail[note (iv)]	**3,022**	2,293	4,971	**91**	86	166	**393**	315	663	**3,355**	2,608	5,595
Wholesale	**1,169**	1,036	1,710	**-**	**-**	-	**117**	104	171	**1,169**	1,036	1,710
Total UK and Europe insurance operations[note (viii)]	**4,191**	3,329	6,681	**91**	86	166	**510**	419	834	**4,524**	3,644	7,305
Group total[note (viii)]	**14,006**	12,987	24,508	**1,333**	986	2,176	**2,733**	2,286	4,627	**20,438**	17,725	35,191

* In order to show the UK long-term business on a comparable basis, the half year and full year 2014 comparatives exclude the contribution from the sold PruHealth and PruProtect businesses (see note 14).

Investment products - funds under management notes (v), (vi), (vii)

	Half year 2015 £m				
	1 Jan 2015	**Market gross inflows**	**Redemptions**	**Market exchange translation and other movements**	**30 Jun 2015**
Eastspring Investments	**25,333**	**11,653**	**(7,092)**	**194**	**30,088**
M&G	**137,047**	**20,425**	**(22,800)**	**(1,272)**	**133,400**
Group total	**162,380**	**32,078**	**(29,892)**	**(1,078)**	**163,488**

	Half year 2014 £m				
	1 Jan 2014	Market gross inflows	Redemptions	Market exchange translation and other movements	30 Jun 2014
Eastspring Investments	17,927	6,869	(4,386)	668	21,078
M&G	125,989	19,322	(15,111)	2,571	132,771
Group total	143,916	26,191	(19,497)	3,239	153,849

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.
The format of the tables shown above 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, ie 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 above 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.

(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.

(iv) With effect from 1 January 2015, APE and new business data for the UK and Europe Insurance Operations are presented using revised product groupings. This aims to reflect the evolving revenue streams and present greater detail for certain elements previously included within 'Other'.

(v) Investment products referred to in the tables for fund under management above are unit trust, 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, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business.

(vi) Investment flows for the half year exclude Eastspring Money Market Funds gross inflows of £45,072 million (half year 2014: £32,065 million) and net inflows of £609 million (half year 2014: net outflows of £52 million).

(vii) New business and market gross inflows and redemptions have been translated at an average exchange rate for the period applicable. Funds under management at points in time are translated at the exchange rate applicable to those dates.

(viii) The 2014 UK and Europe insurance operations comparatives have been adjusted to exclude PruHealth and PruProtect APE sales of £14 million at half year 2014 (£23 million at full year 2014) and new business profit of £6 million at half year 2014 (£11 million at full year 2014), following the disposal of our 25 per cent interest in the businesses in November 2014.

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.

Post-tax New Business Profit has been determined using the European Embedded Value (EEV) methodology set out in our 2015 Interim 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(ix)

(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.

Local currency: £		Half year 2015*	Half year 2014*	Half year 2015 vs half year 2014 appreciation (depreciation) of local currency against GBP*
Hong Kong	Average Rate	11.81	12.95	10%
	Closing Rate	12.19	13.25	9%
Indonesia	Average Rate	19,760.02	19,573.46	(1)%
	Closing Rate	20,968.02	20,270.27	(3)%
Malaysia	Average Rate	5.55	5.45	(2)%
	Closing Rate	5.93	5.49	(7)%
Singapore	Average Rate	2.06	2.10	2%
	Closing Rate	2.12	2.13	1%
India	Average Rate	95.76	101.45	6%
	Closing Rate	100.15	102.84	3%
Vietnam	Average Rate	32,832.81	35,266.15	7%
	Closing Rate	34,345.42	36,471.11	6%
Thailand	Average Rate	50.21	54.34	8%
	Closing Rate	53.12	55.49	4%
US	Average Rate	1.52	1.67	10%
	Closing Rate	1.57	1.71	9%

Local currency: £		Half year 2015*	Full year 2014	Half year 2015 vs full year 2014 appreciation (depreciation) of local currency against GBP
Hong Kong	Average Rate	11.81	12.78	8%
	Closing Rate	12.19	12.09	(1)%
Indonesia	Average Rate	19,760.02	19,538.56	(1)%
	Closing Rate	20,968.02	19,311.31	(8)%
Malaysia	Average Rate	5.55	5.39	(3)%
	Closing Rate	5.93	5.45	(8)%
Singapore	Average Rate	2.06	2.09	1%
	Closing Rate	2.12	2.07	(2)%
India	Average Rate	95.76	100.53	5%
	Closing Rate	100.15	98.42	(2)%
Vietnam	Average Rate	32,832.81	34,924.62	6%
	Closing Rate	34,345.42	33,348.46	(3)%
Thailand	Average Rate	50.21	53.51	7%
	Closing Rate	53.12	51.30	(3)%
US	Average Rate	1.52	1.65	9%
	Closing Rate	1.57	1.56	(1)%

*Average rate is for the 6 month period to 30 June.

(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 2014 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 2014 and 2015.
(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.
(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 £45,072 million (half year 2014: £32,065 million) and net inflows of £609 million (half year 2014 net outflows: £52 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 £5,428 million at 30 June 2015 (30 June 2014: £4,300 million; 31 December 2014: £4,801 million).
(11) With effect from 1 January 2015, APE and new business data for the UK and Europe Insurance Operations are presented using revised product groupings. This aims to reflect the evolving revenue streams and present greater detail for certain elements previously included within “Other”.
(12) The 2014 UK and Europe insurance operations comparatives have been adjusted to exclude PruHealth and PruProtect APE sales of £14 million at half year 2014 (£23 million at full year 2014) and new business profit of £6 million at half year 2014 (£11 million at full year 2014), following the disposal of our 25 per cent interest in the businesses in November 2014.

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

	Single			Regular			Annual Equivalents[2]			PVNBP[2]		
	2015 YTD £m	2014 YTD £m	+/- (%)	2015 YTD £m	2014 YTD £m	+/- (%)	2015 YTD £m	2014 YTD £m	+/- (%)	2015 YTD £m	2014 YTD £m	+/- (%)
Group Insurance Operations												
Asia [1a]	**1,241**	955	30%	**1,242**	900	38%	**1,366**	996	37%	**7,340**	5,378	36%
US[1a]	**8,574**	8,703	(1)%	**-**	-	N/A	**857**	871	(2)%	**8,574**	8,703	(1)%
UK[12]	**4,191**	3,329	26%	**91**	86	6%	**510**	419	22%	**4,524**	3,644	24%
Group Total [12]	**14,006**	12,987	8%	**1,333**	986	35%	**2,733**	2,286	20%	**20,438**	17,725	15%
Asia Insurance Operations[1a]												
Cambodia	**-**	-	N/A	**3**	1	200%	**3**	1	200%	**17**	4	325%
Hong Kong	**242**	175	38%	**495**	240	106%	**519**	258	101%	**3,015**	1,530	97%
Indonesia	**147**	101	46%	**168**	174	(3)%	**183**	184	(1)%	**762**	748	2%
Malaysia	**53**	42	26%	**100**	87	15%	**105**	91	15%	**630**	583	8%
Philippines	**79**	53	49%	**21**	17	24%	**29**	22	32%	**146**	106	38%
Singapore	**276**	264	5%	**125**	146	(14)%	**153**	172	(11)%	**1,097**	1,217	(10)%
Thailand	**34**	50	(32)%	**45**	37	22%	**48**	42	14%	**207**	196	6%
Vietnam	**3**	1	200%	**34**	23	48%	**34**	23	48%	**140**	91	54%
SE Asia Operations inc. Hong Kong	**834**	686	22%	**991**	725	37%	**1,074**	793	35%	**6,014**	4,475	34%
China[6]	**259**	117	121%	**63**	45	40%	**89**	57	56%	**487**	280	74%
Korea	**102**	97	5%	**64**	38	68%	**74**	48	54%	**398**	260	53%
Taiwan	**27**	45	(40)%	**58**	49	18%	**61**	54	13%	**209**	214	(2)%
India[4]	**19**	10	90%	**66**	43	53%	**68**	44	55%	**232**	149	56%
Total Asia Insurance Operations	**1,241**	955	30%	**1,242**	900	38%	**1,366**	996	37%	**7,340**	5,378	36%
US Insurance Operations[1a]												
Variable Annuities	**6,065**	6,136	(1)%	**-**	-	N/A	**606**	614	(1)%	**6,065**	6,136	(1)%
Elite Access (Variable Annuity)	**1,656**	1,493	11%	**-**	-	N/A	**166**	149	11%	**1,656**	1,493	11%
Fixed Annuities	**233**	265	(12)%	**-**	-	N/A	**23**	27	(15)%	**233**	265	(12)%
Fixed Index Annuities	**210**	182	15%	**-**	-	N/A	**21**	18	17%	**210**	182	15%
Wholesale	**410**	627	(35)%	**-**	-	N/A	**41**	63	(35)%	**410**	627	(35)%
Total US Insurance Operations	**8,574**	8,703	(1)%	**-**	-	N/A	**857**	871	(2)%	**8,574**	8,703	(1)%
UK & Europe Insurance Operations[11], [12]												
Individual Annuities	**279**	634	(56)%	**-**	-	N/A	**28**	63	(56)%	**279**	633	(56)%
Bonds	**1,558**	1,298	20%	**-**	-	N/A	**156**	130	20%	**1,559**	1,299	20%
Corporate Pensions	**51**	58	(12)%	**71**	73	(3%)	**76**	79	(4)%	**300**	314	(4)%
Individual Pensions	**480**	173	177%	**14**	10	40%	**62**	27	130%	**536**	218	146%
Income Drawdown	**386**	118	227%	**-**	-	N/A	**39**	12	225%	**386**	118	227%
Other Products	**268**	12	2,133%	**6**	3	100%	**32**	4	700%	**295**	26	1,035%
Total Retail	**3,022**	2,293	32%	**91**	86	6%	**393**	315	25%	**3,355**	2,608	29%
Wholesale	**1,169**	1,036	13%	**-**	-	N/A	**117**	104	13%	**1,169**	1,036	13%
Total UK & Europe Insurance Operations	**4,191**	3,329	26%	**91**	86	6%	**510**	419	22%	**4,524**	3,644	24%
Group Total [12]	**14,006**	12,987	8%	**1,333**	986	35%	**2,733**	2,286	20%	**20,438**	17,725	15%

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 2014.

	Single			Regular			Annual Equivalents(2)			PVNBP(2)		
	2015 YTD £m	2014 YTD £m	+/- (%)	2015 YTD £m	2014 YTD £m	+/- (%)	2015 YTD £m	2014 YTD £m	+/- (%)	2015 YTD £m	2014 YTD £m	+/- (%)
Group Insurance Operations												
Asia (1a) (1b)	**1,241**	1,005	23%	**1,242**	941	32%	**1,366**	1,042	31%	**7,340**	5,627	30%
US(1a) (1b)	**8,574**	9,535	(10)%	**-**	-	N/A	**857**	954	(10)%	**8,574**	9,535	(10)%
UK(12)	**4,191**	3,329	26%	**91**	86	6%	**510**	419	22%	**4,524**	3,644	24%
Group Total (12)	**14,006**	13,869	1%	**1,333**	1,027	30%	**2,733**	2,415	13%	**20,438**	18,806	9%
Asia Insurance Operations(1a) (1b)												
Cambodia	**-**	-	N/A	**3**	1	200%	**3**	1	200%	**17**	5	240%
Hong Kong	**242**	191	27%	**495**	263	88%	**519**	282	84%	**3,015**	1,676	80%
Indonesia	**147**	100	47%	**168**	173	(3)%	**183**	183	0%	**762**	741	3%
Malaysia	**53**	42	26%	**100**	85	18%	**105**	89	18%	**630**	573	10%
Philippines	**79**	58	36%	**21**	18	17%	**29**	24	21%	**146**	116	26%
Singapore	**276**	271	2%	**125**	149	(16)%	**153**	176	(13)%	**1,097**	1,245	(12)%
Thailand	**34**	55	(38)%	**45**	40	13%	**48**	46	4%	**207**	212	(2)%
Vietnam	**3**	1	200%	**34**	25	36%	**34**	25	36%	**140**	98	43%
SE Asia Operations inc. Hong Kong	**834**	718	16%	**991**	754	31%	**1,074**	826	30%	**6,014**	4,666	29%
China(6)	**259**	127	104%	**63**	49	29%	**89**	62	44%	**487**	304	60%
Korea	**102**	101	1%	**64**	40	60%	**74**	50	48%	**398**	272	46%
Taiwan	**27**	48	(44)%	**58**	52	12%	**61**	57	7%	**209**	227	(8)%
India(4)	**19**	11	73%	**66**	46	43%	**68**	47	45%	**232**	158	47%
Total Asia Insurance Operations	**1,241**	1,005	23%	**1,242**	941	32%	**1,366**	1,042	31%	**7,340**	5,627	30%
US Insurance Operations(1a) (1b)												
Variable Annuities	**6,065**	6,723	(10)%	**-**	-	N/A	**606**	672	(10)%	**6,065**	6,723	(10)%
Elite Access (Variable Annuity)	**1,656**	1,636	1%	**-**	-	N/A	**166**	164	1%	**1,656**	1,636	1%
Fixed Annuities	**233**	290	(20)%	**-**	-	N/A	**23**	29	(21)%	**233**	290	(20)%
Fixed Index Annuities	**210**	199	6%	**-**	-	N/A	**21**	20	5%	**210**	199	6%
Wholesale	**410**	687	(40)%	**-**	-	N/A	**41**	69	(41)%	**410**	687	(40)%
Total US Insurance Operations	**8,574**	9,535	(10)%	**-**	-	N/A	**857**	954	(10)%	**8,574**	9,535	(10)%
UK & Europe Insurance Operations(11), (12)												
Individual Annuities	**279**	634	(56)%	**-**	-	N/A	**28**	63	(56)%	**279**	633	(56)%
Bonds	**1,558**	1,298	20%	**-**	-	N/A	**156**	130	20%	**1,559**	1,299	20%
Corporate Pensions	**51**	58	(12)%	**71**	73	(3)%	**76**	79	(4)%	**300**	314	(4)%
Individual Pensions	**480**	173	177%	**14**	10	40%	**62**	27	130%	**536**	218	146%
Income Drawdown	**386**	118	227%	**-**	-	N/A	**39**	12	225%	**386**	118	227%
Other Products	**268**	12	2,133%	**6**	3	100%	**32**	4	700%	**295**	26	1,035%
Total Retail	**3,022**	2,293	32%	**91**	86	6%	**393**	315	25%	**3,355**	2,608	29%
Wholesale	**1,169**	1,036	13%	**-**	-	N/A	**117**	104	13%	**1,169**	1,036	13%
Total UK & Europe Insurance Operations	**4,191**	3,329	26%	**91**	86	6%	**510**	419	22%	**4,524**	3,644	24%
Group Total (12)	**14,006**	13,869	1%	**1,333**	1,027	30%	**2,733**	2,415	13%	**20,438**	18,806	9%

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

	2014				2015	
	Q1	Q2	Q3	Q4	Q1	Q2
	£m	£m	£m	£m	£m	£m
Group Insurance Operations						
Asia [1a]	507	489	548	693	681	**685**
US[1a]	432	439	364	321	400	**457**
UK [12]	230	189	209	206	169	**341**
Group Total [12]	**1,169**	**1,117**	**1,121**	**1,220**	**1,250**	**1,483**
Asia Insurance Operations[1a]						
Cambodia	-	1	1	1	2	**1**
Hong Kong	128	130	166	221	246	**273**
Indonesia	86	98	80	121	93	**90**
Malaysia	43	48	48	62	54	**51**
Philippines	11	11	13	16	14	**15**
Singapore	87	85	86	99	72	**81**
Thailand	25	17	18	23	28	**20**
Vietnam	11	12	16	22	13	**21**
SE Asia Operations inc. Hong Kong	**391**	**402**	**428**	**565**	**522**	**552**
China[6]	38	19	23	25	56	**33**
Korea	26	22	32	33	31	**43**
Taiwan	24	30	34	36	28	**33**
India[4]	28	16	31	34	44	**24**
Total Asia Insurance Operations	**507**	**489**	**548**	**693**	**681**	**685**
US Insurance Operations[1a]						
Variable Annuities	317	297	260	216	272	**334**
Elite Access (Variable Annuity)	69	80	80	82	74	**92**
Fixed Annuities	12	15	14	12	11	**12**
Fixed Index Annuities	8	10	10	9	10	**11**
Wholesale	26	37	-	2	33	**8**
Total US Insurance Operations	**432**	**439**	**364**	**321**	**400**	**457**
UK & Europe Insurance Operations[11], [12]						
Individual Annuities	36	27	23	20	14	**14**
Bonds	63	67	77	87	76	**80**
Corporate Pensions	40	39	38	30	33	**43**
Individual Pensions	12	15	21	24	27	**35**
Income Drawdown	5	7	11	12	14	**25**
Other Products	1	3	2	3	5	**27**
Total Retail	**157**	**158**	**172**	**176**	**169**	**224**
Wholesale	73	31	37	30	-	**117**
Total UK & Europe Insurance Operations	**230**	**189**	**209**	**206**	**169**	**341**
Group Total[12]	**1,169**	**1,117**	**1,121**	**1,220**	**1,250**	**1,483**

Schedule A(iv) – Total Insurance New Business APE – By Quarter (2014 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 2014. Discrete quarters in 2015 are presented on actual exchange rates.

	2014				2015	
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m
Group Insurance Operations						
Asia(1b)	530	512	573	706	681	**685**
US(1b)	470	484	399	329	400	**457**
UK (12)	230	189	209	206	169	**341**
Group Total(12)	**1,230**	**1,185**	**1,181**	**1,241**	**1,250**	**1,483**
Asia Insurance Operations(1b)						
Cambodia	-	1	1	1	2	**1**
Hong Kong	140	142	183	233	246	**273**
Indonesia	85	98	78	119	93	**90**
Malaysia	42	47	46	60	54	**51**
Philippines	12	12	14	17	14	**15**
Singapore	89	87	88	98	72	**81**
Thailand	27	19	18	24	28	**20**
Vietnam	11	14	17	23	13	**21**
SE Asia Operations inc. Hong Kong	**406**	**420**	**445**	**575**	**522**	**552**
China(6)	41	21	25	26	56	**33**
Korea	28	22	34	33	31	**43**
Taiwan	26	31	36	37	28	**33**
India(4)	29	18	33	35	44	**24**
Total Asia Insurance Operations	**530**	**512**	**573**	**706**	**681**	**685**
US Insurance Operations(1b)						
Variable Annuities	344	328	286	221	272	**334**
Elite Access (Variable Annuity)	75	89	87	85	74	**92**
Fixed Annuities	14	15	15	13	11	**12**
Fixed Index Annuities	9	11	11	9	10	**11**
Wholesale	28	41	-	1	33	**8**
Total US Insurance Operations	**470**	**484**	**399**	**329**	**400**	**457**
UK & Europe Insurance Operations(11), (12)						
Individual Annuities	36	27	23	20	14	**14**
Bonds	63	67	77	87	76	**80**
Corporate Pensions	40	39	38	30	33	**43**
Individual Pensions	12	15	21	24	27	**35**
Income Drawdown	5	7	11	12	14	**25**
Other Products	1	3	2	3	5	**27**
Total Retail	**157**	**158**	**172**	**176**	**169**	**224**
Wholesale	73	31	37	30	-	**117**
Total UK & Europe Insurance Operations	**230**	**189**	**209**	**206**	**169**	**341**
Group Total(12)	**1,230**	**1,185**	**1,181**	**1,241**	**1,250**	**1,483**

Schedule A(v) – Total Insurance New Business APE – By Quarter (2015 and 2014 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 2014 and 2015 i.e the average exchange rate for the period ended 30 June 2015 is applied to each discrete quarter for 2014 and 2015.

	2014				2015	
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m
Group Insurance Operations						
Asia(1c)	530	512	573	706	675	**691**
US(1c)	470	484	399	329	397	**460**
UK (12)	230	189	209	206	169	**341**
Group Total(12)	**1,230**	**1,185**	**1,181**	**1,241**	**1,241**	**1,492**
Asia Insurance Operations(1c)						
Cambodia	-	1	1	1	2	**1**
Hong Kong	140	142	183	233	245	**274**
Indonesia	85	98	78	119	91	**92**
Malaysia	42	47	46	60	53	**52**
Philippines	12	12	14	17	13	**16**
Singapore	89	87	88	98	72	**81**
Thailand	27	19	18	24	28	**20**
Vietnam	11	14	17	23	13	**21**
SE Asia Operations inc. Hong Kong	**406**	**420**	**445**	**575**	**517**	**557**
China(6)	41	21	25	26	56	**33**
Korea	28	22	34	33	31	**43**
Taiwan	26	31	36	37	28	**33**
India(4)	29	18	33	35	43	**25**
Total Asia Insurance Operations	**530**	**512**	**573**	**706**	**675**	**691**
US Insurance Operations(1c)						
Variable Annuities	344	328	286	221	270	**336**
Elite Access (Variable Annuity)	75	89	87	85	74	**92**
Fixed Annuities	14	15	15	13	11	**12**
Fixed Index Annuities	9	11	11	9	9	**12**
Wholesale	28	41	-	1	33	**8**
Total US Insurance Operations	**470**	**484**	**399**	**329**	**397**	**460**
UK & Europe Insurance Operations(11), (12)						
Individual Annuities	36	27	23	20	14	**14**
Bonds	63	67	77	87	76	**80**
Corporate Pensions	40	39	38	30	33	**43**
Individual Pensions	12	15	21	24	27	**35**
Income Drawdown	5	7	11	12	14	**25**
Other Products	1	3	2	3	5	**27**
Total Retail	**157**	**158**	**172**	**176**	**169**	**224**
Wholesale	73	31	37	30	-	**117**
Total UK & Europe Insurance Operations	**230**	**189**	**209**	**206**	**169**	**341**
Group Total(12)	**1,230**	**1,185**	**1,181**	**1,241**	**1,241**	**1,492**

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

	2014 Q1 £m	2014 Q2 £m	2014 Q3 £m	2014 Q4 £m	2015 Q1 £m	2015 Q2 £m
Group Investment Operations						
Opening FUM	143,916	147,914	153,849	157,533	162,380	**169,345**
Net Flows:[8]	2,571	4,123	2,893	2,930	2,990	**(804)**
- Gross Inflows	12,146	14,045	12,847	13,670	17,512	**14,566**
- Redemptions	(9,575)	(9,922)	(9,954)	(10,740)	(14,522)	**(15,370)**
Other Movements	1,427	1,812	791	1,917	3,975	**(5,053)**
Total Group Investment Operations[10]	**147,914**	**153,849**	**157,533**	**162,380**	**169,345**	**163,488**
M&G						
Retail						
Opening FUM	67,202	68,981	71,941	73,012	74,289	**75,673**
Net Flows:	1,291	2,493	1,531	1,371	558	**(3,976)**
- Gross Inflows	7,305	7,468	6,801	7,414	8,592	**5,672**
- Redemptions	(6,014)	(4,975)	(5,270)	(6,043)	(8,034)	**(9,648)**
Other Movements	488	467	(460)	(94)	826	**(2,539)**
Closing FUM	**68,981**	**71,941**	**73,012**	**74,289**	**75,673**	**69,158**
Comprising amounts for:						
UK	42,199	42,392	41,756	40,705	41,143	**38,701**
Europe (excluding UK)	25,244	27,927	29,622	31,815	32,675	**28,726**
South Africa	1,538	1,622	1,634	1,769	1,855	**1,731**
	68,981	**71,941**	**73,012**	**74,289**	**75,673**	**69,158**
Institutional[3]						
Opening FUM	58,787	59,736	60,830	61,572	62,758	**63,838**
Net Flows:	152	275	138	(164)	122	**921**
- Gross Inflows	1,655	2,894	2,295	2,185	3,712	**2,449**
- Redemptions	(1,503)	(2,619)	(2,157)	(2,349)	(3,590)	**(1,528)**
Other Movements	797	819	604	1,350	958	**(517)**
Closing FUM	**59,736**	**60,830**	**61,572**	**62,758**	**63,838**	**64,242**
Total M&G Investment Operations	**128,717**	**132,771**	**134,584**	**137,047**	**139,511**	**133,400**
PPM South Africa FUM included in Total M&G	**4,720**	**4,815**	**4,905**	**5,203**	**5,456**	**5,108**
Eastspring - excluding MMF[8]						
Equity/Bond/Other[7]						
Opening FUM	16,109	16,753	18,259	19,893	21,893	**25,687**
Net Flows:	540	1,063	1,127	1,640	2,133	**2,102**
- Gross Inflows	2,546	3,285	3,583	3,760	5,007	**6,082**
- Redemptions	(2,006)	(2,222)	(2,456)	(2,120)	(2,874)	**(3,980)**
Other Movements	104	443	507	360	1,661	**(1,772)**
Closing FUM[5]	**16,753**	**18,259**	**19,893**	**21,893**	**25,687**	**26,017**
Third Party Institutional Mandates						
Opening FUM	1,818	2,444	2,819	3,056	3,440	**4,147**
Net Flows:	588	292	97	83	177	**149**
- Gross Inflows	640	398	168	311	201	**363**
- Redemptions	(52)	(106)	(71)	(228)	(24)	**(214)**
Other Movements	38	83	140	301	530	**(225)**
Closing FUM[5]	**2,444**	**2,819**	**3,056**	**3,440**	**4,147**	**4,071**
Total Eastspring Investment Operations	**19,197**	**21,078**	**22,949**	**25,333**	**29,834**	**30,088**
US						
Curian - FUM[5] [9]	**6,781**	**6,948**	**7,421**	**7,933**	**8,557**	**8,078**

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

	2014				2015	
	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m	Q1 YTD £m	Q2 YTD £m
New Business Profit[1a]						
Total Asia Insurance Operations	243	494	775	1,162	309	**664**
Total US Insurance Operations	195	376	530	694	153	**371**
Total UK & Europe Insurance Operations[12]	88	139	200	259	34	**155**
Group Total [12]	**526**	**1,009**	**1,505**	**2,115**	**496**	**1,190**
Annual Equivalent[1a) (2]						
Total Asia Insurance Operations	507	996	1,544	2,237	681	**1,366**
Total US Insurance Operations	432	871	1,235	1,556	400	**857**
Total UK & Europe Insurance Operations[12]	230	419	628	834	169	**510**
Group Total[12]	**1,169**	**2,286**	**3,407**	**4,627**	**1,250**	**2,733**
New Business Margin (NBP as % of APE)						
Total Asia Insurance Operations	48%	50%	50%	52%	45%	**49%**
Total US Insurance Operations	45%	43%	43%	45%	38%	**43%**
Total UK & Europe Insurance Operations	38%	33%	32%	31%	20%	**30%**
Group Total	**45%**	**44%**	**44%**	**46%**	**40%**	**44%**
PVNBP[1a) (2]						
Total Asia Insurance Operations	2,690	5,378	8,408	12,331	3,643	**7,340**
Total US Insurance Operations	4,323	8,703	12,352	15,555	3,998	**8,574**
Total UK & Europe Insurance Operations[12]	2,024	3,644	5,459	7,305	1,450	**4,524**
Group Total[12]	**9,037**	**17,725**	**26,219**	**35,191**	**9,091**	**20,438**
New Business Margin (NBP as % of PVNBP)						
Total Asia Insurance Operations	9.0%	9.2%	9.2%	9.4%	8.5%	**9.0%**
Total US Insurance Operations	4.5%	4.3%	4.3%	4.5%	3.8%	**4.3%**
Total UK & Europe Insurance Operations	4.3%	3.8%	3.7%	3.5%	2.3%	**3.4%**
Group Total	**5.8%**	**5.7%**	**5.7%**	**6.0%**	**5.5%**	**5.8%**

Schedule A(viii) – Total Insurance New Business Profit (2014 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 2014. The year-to-date amounts for 2015 are presented on actual exchange rates.

	2014				2015	
	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m	Q1 YTD £m	Q2 YTD £m
New Business Profit(1b)						
Total Asia Insurance Operations	251	512	805	1,197	309	**664**
Total US Insurance Operations	212	412	581	750	153	**371**
Total UK & Europe Insurance Operations(12)	88	139	200	259	34	**155**
Group Total(12)	**551**	**1,063**	**1,586**	**2,206**	**496**	**1,190**
Annual Equivalent(1b) (2)						
Total Asia Insurance Operations	530	1,042	1,615	2,321	681	**1,366**
Total US Insurance Operations	470	954	1,353	1,682	400	**857**
Total UK & Europe Insurance Operations(12)	230	419	628	834	169	**510**
Group Total(12)	**1,230**	**2,415**	**3,596**	**4,837**	**1,250**	**2,733**
New Business Margin (NBP as % of APE)						
Total Asia Insurance Operations	47%	49%	50%	52%	45%	**49%**
Total US Insurance Operations	45%	43%	43%	45%	38%	**43%**
Total UK & Europe Insurance Operations	38%	33%	32%	31%	20%	**30%**
Group Total	**45%**	**44%**	**44%**	**46%**	**40%**	**44%**
PVNBP(1b) (2)						
Total Asia Insurance Operations	2,813	5,627	8,791	12,795	3,643	**7,340**
Total US Insurance Operations	4,697	9,535	13,536	16,822	3,998	**8,574**
Total UK & Europe Insurance Operations(12)	2,024	3,644	5,459	7,305	1,450	**4,524**
Group Total(12)	**9,534**	**18,806**	**27,786**	**36,922**	**9,091**	**20,438**
New Business Margin (NBP as % of PVNBP)						
Total Asia Insurance Operations	8.9%	9.1%	9.2%	9.4%	8.5%	**9.0%**
Total US Insurance Operations	4.5%	4.3%	4.3%	4.5%	3.8%	**4.3%**
Total UK & Europe Insurance Operations	4.3%	3.8%	3.7%	3.5%	2.3%	**3.4%**
Group Total	**5.8%**	**5.7%**	**5.7%**	**6.0%**	**5.5%**	**5.8%**

Schedule A(ix) – Total Insurance New Business Profit (2015 and 2014 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 2014 and 2015, i.e the average exchange rates for the period ended 30 June 2015 are applied to each period for 2014 and 2015.

	2014				2015	
	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m	Q1 YTD £m	Q2 YTD £m
Post-tax analysis						
New Business Profit(1c)						
Total Asia Insurance Operations	251	512	805	1,197	306	**664**
Total US Insurance Operations	212	412	581	750	152	**371**
Total UK & Europe Insurance Operations(12)	88	139	200	259	34	**155**
Group Total(12)	**551**	**1,063**	**1,586**	**2,206**	**492**	**1,190**
Annual Equivalent(1c) (2)						
Total Asia Insurance Operations	530	1,042	1,615	2,321	675	**1,366**
Total US Insurance Operations	470	954	1,353	1,682	397	**857**
Total UK & Europe Insurance Operations(12)	230	419	628	834	169	**510**
Group Total(12)	**1,230**	**2,415**	**3,596**	**4,837**	**1,241**	**2,733**
New Business Margin (NBP as % of APE)						
Total Asia Insurance Operations	47%	49%	50%	52%	45%	**49%**
Total US Insurance Operations	45%	43%	43%	45%	38%	**43%**
Total UK & Europe Insurance Operations(12)	38%	33%	32%	31%	20%	**30%**
Group Total(12)	**45%**	**44%**	**44%**	**46%**	**40%**	**44%**
PVNBP(1c) (2)						
Total Asia Insurance Operations	2,813	5,627	8,791	12,795	3,615	**7,340**
Total US Insurance Operations	4,697	9,535	13,536	16,822	3,973	**8,574**
Total UK & Europe Insurance Operations(12)	2,024	3,644	5,459	7,305	1,450	**4,524**
Group Total(12)	**9,534**	**18,806**	**27,786**	**36,922**	**9,038**	**20,438**
New Business Margin (NBP as % of PVNBP)						
Total Asia Insurance Operations	8.9%	9.1%	9.2%	9.4%	8.5%	**9.0%**
Total US Insurance Operations	4.5%	4.3%	4.3%	4.5%	3.8%	**4.3%**
Total UK & Europe Insurance Operations(12)	4.3%	3.8%	3.7%	3.5%	2.3%	**3.4%**
Group Total(12)	**5.8%**	**5.7%**	**5.7%**	**6.0%**	**5.4%**	**5.8%**

B 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 half year 2015 results

	Underlying free surplus generated % note (2)	Pre-tax operating profit % notes (2),(3),(4)	Shareholders' funds % notes (2),(3),(4)
US$ linked[(1)]	**14**	**16**	**14**
Other Asia currencies	**11**	**18**	**18**
Total Asia	**25**	**34**	**32**
UK sterling[(3),(4)]	**37**	**21**	**45**
US$ [(4)]	**38**	**45**	**23**
Total	**100**	**100**	**100**

EEV half year 2015 results

	Post-tax new business profits %	Post-tax operating profit % notes (2),(3),(4)	Shareholders' funds % notes (2),(3),(4)
US$ linked[(1)]	**40**	**34**	**30**
Other Asia currencies	**16**	**15**	**14**
Total Asia	**56**	**49**	**44**
UK sterling[(3),(4)]	**13**	**15**	**34**
US$[(4)]	**31**	**36**	**22**
Total	**100**	**100**	**100**

Notes

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

C 2014 results of the sold PruHealth and PruProtect businesses

The tables below show the 2014 results of the sold PruHealth and PruProtect businesses which are excluded from the operating results for UK operations.

IFRS 2014 results

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

EEV 2014 results

	2014 £m	
	Half year	Full year
Post-tax operating profit		
New business contribution	6	11
In-force profit	2	-
Total operating profit	8	11
Free Surplus 2014 results		
Investment in new business	(6)	(8)
Expected in-force cash flows	5	8
Underlying Free Surplus generated	(1)	-

APE, new business contribution and PVNBP

	2014 £m		
	APE	New business contribution	PVNBP
Full year 2014	23	11	166
Q3 2014	20	9	139
Half year 2014	14	6	97
Q1 2014	7	3	48

Risk Factors

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

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

Risks relating to Prudential's business

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

Prudential's businesses are inherently subject to market fluctuations and general economic conditions. Uncertainty or negative trends in international economic and investment climates could adversely affect Prudential's business and profitability. Since 2008 Prudential has operated against a challenging background of periods of significant volatility in global capital and equity markets, interest rates (which in some jurisdictions have become negative) and liquidity, and widespread economic uncertainty. For example, government interest rates remain at or near historic lows in the US, the UK and some Asian countries in which Prudential operates. These factors have, at times during this period, had a material adverse effect on Prudential's business and profitability.

In the future, the adverse effects of such factors would be felt principally through the following items:

- investment impairments or reduced investment returns, which could reduce Prudential's capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees, or have a negative impact on its assets under management and profit;

- higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses;

- failure of counterparties to transactions with Prudential that could give rise to a negative impact on Prudential's financial position and on the accessibility or recoverability of amounts due or, for derivative transactions, adequate collateral not being in place;

- estimates of the value of financial instruments being difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time); and

- increased illiquidity also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline.

Global financial markets are subject to uncertainty and volatility created by a variety of factors, including concerns over sovereign debt, general slowing in world growth, the timing and speed of normalisation of the monetary policy in the US, the UK and other jurisdictions and socio-political events. Upheavals in the financial markets may affect general levels of economic activity, employment and customer behaviour. For example, insurers may experience an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums. The demand for insurance products may also be adversely affected. In addition, there may be a higher incidence of counterparty failures. If sustained, this environment is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on Prudential's business and its balance sheet and profitability. For example, this could occur if the recoverable value of intangible assets for bancassurance agreements and deferred acquisition costs are reduced. New challenges related to market fluctuations and general economic conditions may continue to emerge.

For some non-unit-linked investment products, in particular those written in some of the Group's Asian operations, it may not be possible to hold assets which will provide cash flows to match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets where regulated surrender values are set with reference to the interest rate environment prevailing at the time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. While this residual asset/liability mismatch risk can be managed, it cannot be eliminated. Where interest rates in these markets remain lower than those used to calculate surrender values over a sustained period, this could have a material adverse effect on Prudential's reported profit.

In the US, fluctuations in prevailing interest rates can affect results from Jackson which has a significant spread-based business, with the majority of its assets invested in fixed income securities. In particular, fixed annuities and stable value products written by Jackson expose Prudential to the risk that changes in interest rates, which are not fully reflected in the interest rates credited to customers, will reduce spread. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. Declines in spread from these products or other spread businesses that Jackson conducts, and increases in surrenders levels arising from interest rate rises, could have a material impact on its businesses or results of operations.

Jackson also writes a significant amount of variable annuities that offer capital or income protection guarantees. The value of these guarantees is affected by market factors (such as interest rates, equity values, bond spreads and realised volatility) and policyholder behaviour. There could be market circumstances where the derivatives that Jackson enters into to hedge its market risks may not fully cover its exposures under the guarantees. The cost of the guarantees that remain unhedged will also affect Prudential's results.

Jackson hedges the guarantees on its variable annuity book on an economic basis (with consideration of the local regulatory position) and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate result on these bases. In particular, for Prudential's Group IFRS reporting, the measurement of the Jackson variable annuity guarantees is typically less sensitive to market movements than for the corresponding hedging derivatives, which are held at market value. However, depending on the level of hedging conducted regarding a particular risk type, certain market movements can drive volatility in the economic or local regulatory results that may be less significant under IFRS reporting.

A significant part of the profit from Prudential's UK insurance operations is related to bonuses for policyholders declared on with-profits products, which are broadly based on historical and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns. This profit could be lower in a sustained low interest rate environment.

Prudential is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio

Prudential is subject to the risk of potential sovereign debt credit deterioration on the amounts of sovereign debt obligations held in its investment portfolio. In recent years, rating agencies have downgraded the sovereign debt of some countries. There is a risk of further downgrades.

Investing in sovereign debt creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of states or monarchs) in the countries in which the issuers are located and the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and Prudential may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject.

Moreover, governments may use a variety of techniques, such as intervention by their central banks or imposition of regulatory controls or taxes, to devalue their currencies' exchange rates, or may adopt monetary and other policies (including to manage their debt burdens) that have a similar effect, all of which could adversely impact the value of an investment in sovereign debt even in the absence of a technical default. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issuers.

In addition, if a sovereign default or other such events described above were to occur, other financial institutions may also suffer losses or experience solvency or other concerns, and Prudential might face additional risks relating to any debt of such financial institutions held in its investment portfolio. There is also risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be affected, as might counter party relationships between financial institutions. If a sovereign were to default on its obligations, or adopt policies that devalue or otherwise alter the currencies in which its obligations are denominated this could have a material adverse effect on Prudential's financial condition and results of operations.

Prudential is subject to the risk of exchange rate fluctuations owing to the geographical diversity of its businesses

Due to the geographical diversity of Prudential's businesses, Prudential is subject to the risk of exchange rate fluctuations. Prudential's operations in the US and Asia, which represent a significant proportion of operating profit based on longer-term investment returns and shareholders' funds, generally write policies and invest in assets denominated in local currencies. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential's consolidated financial statements upon translation of results into pounds sterling. This exposure is not currently separately managed. The currency exposure relating to the translation of reported earnings could impact on financial reporting ratios such as dividend cover, which is calculated as operating profit after tax on an IFRS basis, divided by the current year interim dividend plus the proposed final dividend. The impact of gains or losses on currency translations is recorded as a component of shareholders' funds within other comprehensive income. Consequently, this could impact on Prudential's gearing ratios (defined as debt over debt plus shareholders' funds). The Group's surplus capital position for regulatory reporting purposes may also be affected by fluctuations in exchange rates with possible consequences for the degree of flexibility the Prudential has in managing its business.

Prudential conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates

Changes in government policy, legislation (including tax) or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates, which in some circumstances may be applied retrospectively, may adversely affect Prudential's product range, distribution channels, competitiveness, profitability, capital requirements and, consequently, reported results and financing requirements. Also, regulators in jurisdictions in which Prudential operates may change the level of capital required to be held by individual businesses or could introduce possible changes in the regulatory framework for pension arrangements and policies, the regulation of selling practices and solvency requirements. In addition, there could be changes to the maximum level of non-domestic ownership by foreign companies in certain jurisdictions. Furthermore, as a result of interventions by governments in response to recent financial and global economic conditions, it is widely expected that there will continue to be a substantial increase in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transactions and enhanced supervisory powers.

Current EU directives, including the EU Insurance Groups Directive (IGD) require EU financial services groups to demonstrate net aggregate surplus capital in excess of solvency requirements at the group level in respect of shareholder-owned entities. The test is a continuous requirement, so that Prudential needs to maintain a higher amount of regulatory capital at the group level than otherwise necessary in respect of some of its individual businesses to accommodate, for example, short-term movements in global foreign exchange rates, interest rates, deterioration in credit quality and equity markets. The EU is also developing a new prudential regulatory framework for insurance companies, referred to as 'Solvency II'.

The Solvency II Directive covers valuation, the treatment of insurance groups, the definition of capital and the overall level of capital requirements. A key aspect of Solvency II is that the assessment of risks and capital requirements are intended to be aligned more closely with economic capital methodologies, and may allow Prudential to make use of its internal capital models, if approved by the Prudential Regulation Authority (PRA). The Solvency II Directive was formally approved by the Economic and Financial Affairs Council in November 2009 and the Omnibus II Directive, which amended certain aspects of the Solvency II Directive, was adopted by the Council of the European Union in April 2014. As such, Solvency II is expected to be implemented as of 1 January 2016, although a number of the detailed rules and guidelines that will supplement the high-level rules and principles of the Solvency II and Omnibus II Directives remain subject to formal ratification during the second half of 2015. Further, the effective application of a number of key measures incorporated in the Omnibus II Directive, including the provisions for third-country equivalence, is subject to regulatory judgement and approval. As a result there is a risk that the final outcome of Solvency II could be adverse for Prudential, including potentially a significant increase in the capital required to support its business and that Prudential may be placed at a competitive disadvantage to other European and non-European financial services groups.

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

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

In July 2013 the FSB announced the initial list of nine insurance groups that have been designated as G-SIIs of which Prudential was one. The FSB published the 2014 list of G-SIIs in November 2014 which is identical to the 2013 list of G-SIIs. Designation as a G-SII has led to additional policy measures being applied to the designated group. Based on the policy framework released by the IAIS and subsequent guidance papers these additional policy measures include enhanced group-wide supervision, effective resolution measures of the group in the event of failure, loss absorption, and higher loss absorption capacity. Prudential is monitoring the development and potential impact of the policy measures and is continuing to engage with the PRA on the implications of the policy measures and Prudential's designation as a G-SII. The G-SII regime also introduces two types of capital requirements; the first, a Basic Capital Requirement (BCR), designed to act as a minimum group capital requirement and the second, a Higher Loss Absorption (HLA) requirement. G-SIIs began reporting on their BCR to their group-wide supervisors on a confidential basis from 2015. The IAIS is currently consulting on the HLA requirement and this is expected to apply from January 2019 to the insurance groups identified as G-SIIs in November 2017.

ComFrame is also being developed by the IAIS to provide common global requirements for the supervision of insurance groups. The framework is designed to outline a set of common global principles and standards for group supervision and may increase the focus of regulators in some jurisdictions. One of the framework's key components is an Insurance Capital Standard (ICS) which would be expected to form the group solvency capital standard under ComFrame. The IAIS has recently announced an extension to the ICS timelines and a version of the ICS is expected to be adopted as part of ComFrame in late 2019.

Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise where Prudential, along with other companies, may be required to make such contributions.

The Group's accounts are prepared in accordance with current International Financial Reporting Standards (IFRS) applicable to the insurance industry. The International Accounting Standards Board (IASB) introduced a framework that it described as Phase I, which permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In July 2010, the IASB published its first Exposure Draft for its Phase II on insurance accounting, which would introduce significant changes to the statutory reporting of insurance entities that prepare accounts according to IFRS. A revised Exposure Draft was issued in June 2013. The IASB is currently re-deliberating the Exposure Draft proposals in light of comments by the insurance industry and other respondents. The timing of the final proposals taking effect is uncertain but not expected to be before 2019.

Any changes or modification of IFRS accounting policies may require a change in the future results or a retrospective adjustment of reported results.

The resolution of several issues affecting the financial services industry could have a negative impact on Prudential's reported results or on its relations with current and potential customers

Prudential is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally. These actions could involve a review of types of business sold in the past under acceptable market practices at the time, such as the requirement in the UK to provide redress to certain past purchasers of pension and mortgage endowment policies, changes to the tax regime affecting products, and regulatory reviews on products sold and industry practices, including, in the latter case, lines of business it has closed.

Regulators' interest may include the approach that product providers use to select third party distributors and to monitor the appropriateness of sales made by them. In some cases, product providers can be held responsible for the deficiencies of third-party distributors.

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

In Asia, regulatory regimes are developing at different speeds, driven by a combination of global factors and local considerations. New requirements could be introduced in these and other regulatory regimes that challenge current practices, or could retrospectively be applied to sales made prior to their introduction, which could have a negative impact on Prudential's business or reported results.

Litigation, disputes and regulatory investigations may adversely affect Prudential's profitability and financial condition

Prudential is, and may be in the future, subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of Prudential's businesses and operations that are specific to Prudential, or that are common to companies that operate in Prudential's markets. Legal actions and disputes may arise under contracts, regulations (including tax) or from a course of conduct taken by Prudential, and may be class actions. Although Prudential believes that it has adequately provided in all material aspects for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought, other sanctions that might be applicable and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome could, from time to time, have an adverse effect on Prudential's reputation, results of operations or cash flows.

Prudential's businesses are conducted in highly competitive environments with developing demographic trends and continued profitability depends upon management's ability to respond to these pressures and trends

The markets for financial services in the UK, US and Asia are highly competitive, with several factors affecting Prudential's ability to sell its products and continued profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance, historical bonus levels, developing demographic trends and customer appetite for certain savings products. In some of its markets, Prudential faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates. Further, heightened competition for talented and skilled employees and agents with local experience, particularly in Asia, may limit Prudential's potential to grow its business as quickly as planned.

In Asia, the Group's principal competitors in the region are international financial companies, including global life insurers such as Allianz, AXA, AIA, and Manulife and multinational asset managers such as J.P. Morgan Asset Management, Schroders, HSBC Global Asset Management and Franklin Templeton. In a number of markets, local companies have a very significant market presence.

Within the UK, Prudential's principal competitors include many of the major retail financial services companies and fund management companies including, in particular, Aviva, Legal & General, Lloyds Banking Group, Standard Life, Schroders, Invesco Perpetual and Fidelity.

Jackson's competitors in the US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies such as AIG, AXA Financial Inc., Allianz, Prudential Financial, Lincoln National, MetLife and Aegon.

Prudential believes competition will intensify across all regions in response to consumer demand, technological advances, the impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures.

Downgrades in Prudential's financial strength and credit ratings could significantly impact its competitive position and damage its relationships with creditors or trading counterparties

Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in Prudential's products, and as a result its competitiveness. Downgrades in Prudential's ratings, as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns, could have an adverse effect on its ability to market products; retain current policyholders; and on the Group's financial flexibility. In addition, the interest rates Prudential pays on its borrowings are affected by its credit ratings, which are in place to measure the Group's ability to meet its contractual obligations.

Prudential plc's long-term senior debt is rated as A2 by Moody's, A+ by Standard & Poor's and A by Fitch. These ratings have a stable outlook.

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

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

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

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

In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition.

Adverse experience in the operational risks inherent in Prudential's business could disrupt its business functions and have a negative impact on its results of operations

Operational risks are present in all of Prudential's businesses, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events. Prudential's business is dependent on processing a large number of transactions across numerous and diverse products, and is subject to a number of different legal and regulatory regimes. Further, because of the long-term nature of much of the Group's business, accurate records have to be maintained for significant periods.

These factors, among others, result in significant reliance on and require significant investment in information technology (IT), compliance and other operational systems, personnel and processes. In addition, Prudential outsources several operations, including a significant part of its UK back office and customer-facing functions as well as a number of IT functions, resulting in reliance upon the operational processing performance of its outsourcing partners.

Although Prudential's IT, compliance and other operational systems and processes incorporate controls designed to manage and mitigate the operational risks associated with its activities, there can be no assurance that such controls will always be effective. Due to human error among other reasons, operational incidents do happen periodically and no system or process can entirely prevent them although there have not been any material such events to date. Prudential's legacy and other IT systems and processes, as with operational systems and processes generally, may be susceptible to failure or breaches.

Such events could, among other things, harm Prudential's ability to perform necessary business functions, result in the loss of confidential or proprietary data (exposing it to potential legal claims and regulatory sanctions) and damage its relationships with its business partners and customers. Similarly, any weakness in administration systems (such as those relating to policyholder records or meeting regulatory requirements) or actuarial reserving processes could have a material adverse effect on its results of operations during the effective period.

Attempts by third parties to disrupt Prudential's IT systems could result in loss of trust from Prudential's customers, reputational damage and financial loss

Being part of the financial services sector, Prudential and its business partners are increasingly exposed to the risk that third parties may attempt to disrupt the availability, confidentiality and integrity of its IT systems. This could result in loss of trust from

Prudential's customers, reputational damage and financial loss. The cyber-security threat continues to evolve globally in sophistication and potential significance as Prudential increasingly moves to digitalize its business and provide on-line business operations for its customers. Prudential has not identified a material failure or breach in relation to its legacy and other IT systems and processes to date. However, it has been, and likely will continue to be, subject to computer viruses, attempts at unauthorised access and cyber-security attacks such as 'denial of service' attacks (which, for example, can cause temporary disruption to websites and IT networks), phishing and disruptive software campaigns.

Prudential is continually enhancing its IT environment to remain secure against emerging threats, together with increasing its ability to detect system compromise and recover should such an incident occur. However, there can be no assurance that such events will not take place with adverse consequential effects on Prudential's business and financial position.

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

In common with other life insurers, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity levels and trends, policy surrenders and take-up rates on guarantee features of products, investment performance and impairments, unit cost of administration and new business acquisition expense.

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

A further example is the assumption that Prudential makes about future expected levels of the rates of early termination of products by its customers (persistency). This is particularly relevant to its lines of business other than its UK annuity business, especially Jackson's portfolio of traditional and variable annuities. Prudential's persistency assumptions reflect recent past experience for each relevant line of business. Any expected change in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly different than assumed , the Group's results of operations could be adversely affected. Furthermore, Jackson's variable annuity products are sensitive to other types of policyholder behaviour, such as the take-up of its GMWB product features.

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

As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments

The Group's insurance and investment management operations are generally conducted through direct and indirect subsidiaries.

As a holding company, Prudential's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper.

Certain of the subsidiaries are restricted by applicable insurance, foreign exchange and tax laws, rules and regulations that can limit remittances. In some circumstances, this could limit Prudential's ability to pay dividends to shareholders or to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group.

Prudential operates in a number of markets through joint ventures and other arrangements with third parties (including in China and India), involving certain risks that Prudential does not face with respect to its consolidated subsidiaries

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures (including in China and India). For the Group's joint venture operations, management control is exercised jointly with the venture participants. The level of control exercisable by the Group depends on the terms of the joint venture agreements, in particular, the allocation of control among, and continued co-operation between, the joint venture participants. Prudential may face financial, reputational and other exposure (including regulatory censure) in the event that any of its joint venture partners fails to meet its obligations under the joint venture, encounters financial difficulty, or fails to comply with local or international regulation and standards such as those pertaining to the prevention of financial crime. In addition, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not controlled by Prudential and is dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements, such as through significant deterioration in the reputation, financial position or other circumstances of the third party or material failure in controls (such as those pertaining to the prevention of financial crime) could adversely affect the results of operations of Prudential.

Prudential's Articles of Association contain an exclusive jurisdiction provision

Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings by a shareholder (in its capacity as such) against Prudential and/or its directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service provider. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

Changes in tax legislation may result in adverse tax consequences

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

By order of the Board
Prudential plc
Alan F. Porter
Group Company Secretary

11 August 2015, London

As at the date of this announcement, the Board of Directors of Prudential plc comprises:

Chairman
Paul Victor Falzon Sant Manduca

Executive Directors
Michael Andrew Wells *(Group Chief Executive)*, Nicolaos Andreas Nicandrou ACA,
Jacqueline Hunt, Michael George Alexander McLintock, Barry Lee Stowe and Tony Paul Wilkey

Independent Non-executive Directors
Sir Howard John Davies, Ann Frances Godbehere FCPA FCGA, Alexander Dewar Kerr Johnston CMG FCA,
Kaikhushru Shiavax Nargolwala FCA, Anthony John Liddell Nightingale CMG SBS JP,
The Hon. Philip John Remnant CBE ACA and Alice Davey Schroeder

** For identification purposes*