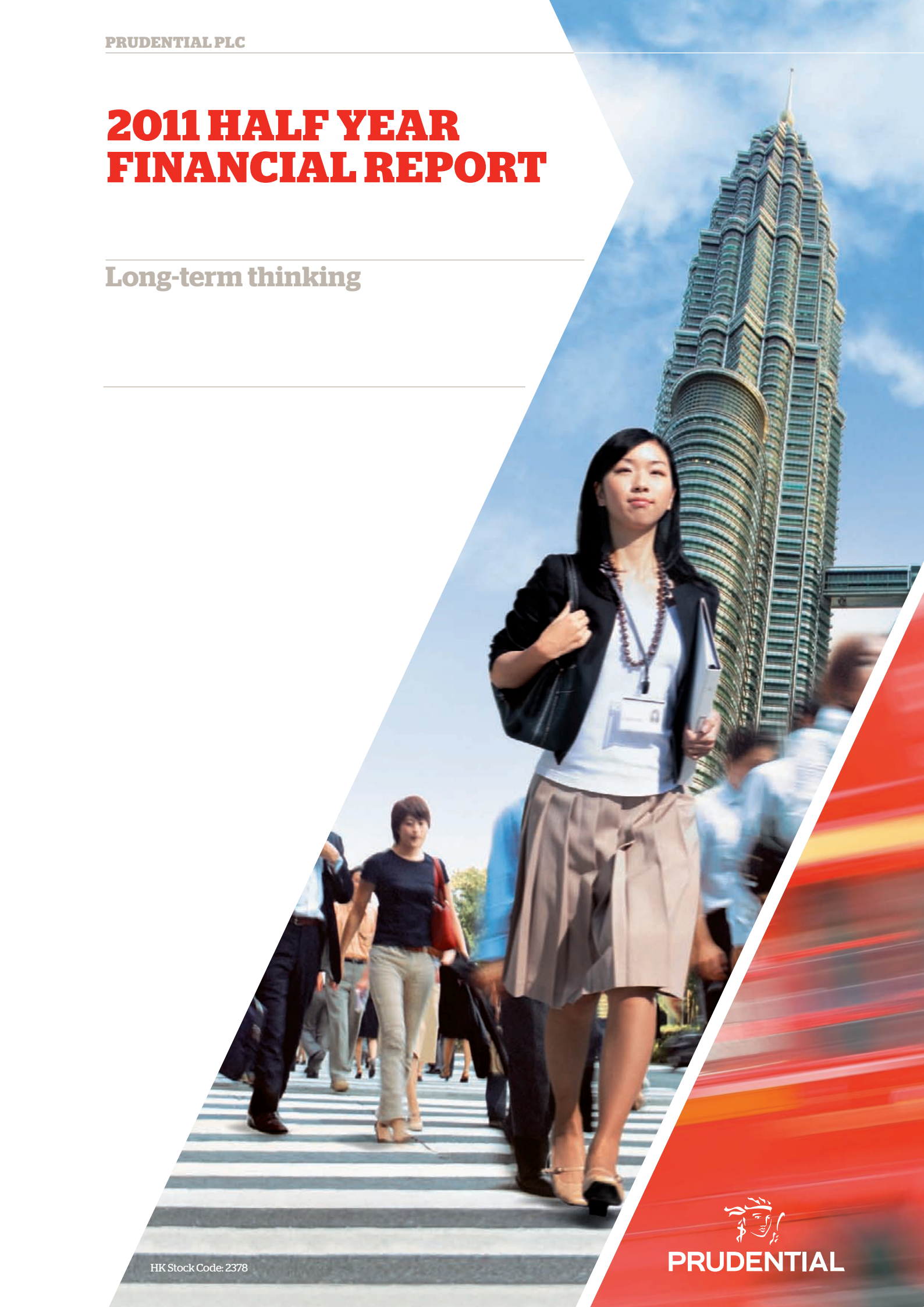


# 2011 HALF YEAR FINANCIAL REPORT

Long-term thinking



Prudential delivered another good performance in the first half of 2011. We continued to grow profitability across our business units, implementing with discipline our strategy of focusing on high growth and high margin markets, and we remain on course to deliver our 2013 profit growth and cash generation objectives.

Against the challenging comparator of 2010, we have increased both our statutory International Financial Reporting Standards (IFRS) and European Embedded Value (EEV) operating profits by more than 20 per cent. These results have been achieved from a position of financial strength; the Group has a resilient balance sheet, with an estimated IGD capital surplus of £4.1 billion at the half year.

Our operating principle of putting value over volume, our focus on execution and the investment options the Group's structure and geographic footprint provides, have allowed us to continue to deliver value to shareholders. We expect to see continued, profitable and cash generative growth in the second half of 2011.

**VIEW OUR REPORT ONLINE**

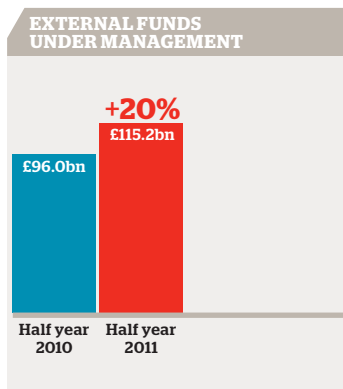
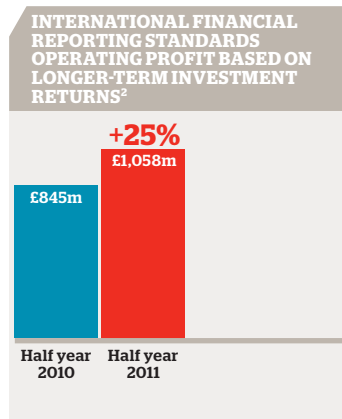
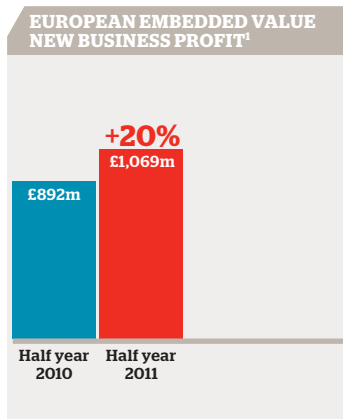
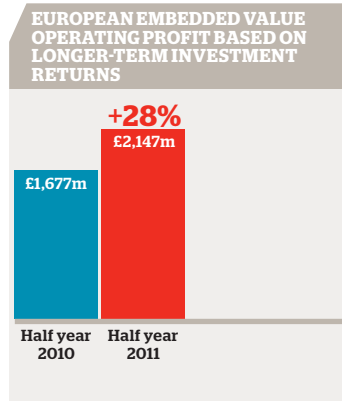
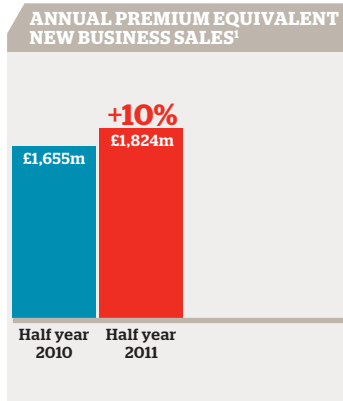
[www.prudential.co.uk](http://www.prudential.co.uk)



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# HIGHLIGHTS

## KEY PERFORMANCE INDICATORS



2010 comparatives are at Actual Exchange Rates (AER).

- 2010 comparative APE new business sales and new business profit exclude the Japanese insurance operations which ceased writing new business from 15 February 2010.
- In the second half of 2010, the Company amended the presentation of IFRS operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations. Accordingly the half year 2010 operating profit has been amended to remove the positive £123 million effect.



OVERVIEW

# GROUP CHIEF EXECUTIVE'S REPORT

**TIDJANE THIAM**  
GROUP CHIEF EXECUTIVE

**"We continue to deliver high returns on capital invested for our shareholders and remain on course to meet the 2013 financial objectives outlined at our investor day in December 2010, which was headlined 'Growth and Cash'."**

**I am pleased to report a strong performance in the first half of 2011. We have continued to grow profitability across our business units, implementing with discipline our strategy of focusing on high growth and high margin markets. EEV new business profit of £1,069 million in the first half is 20 per cent higher than the same period last year (2010: £892 million<sup>1</sup>).**

The Group's strategy continues to deliver higher sales and higher profits while consuming less capital in absolute terms. In the first half of 2011, new business profit increased 20 per cent while investment in new business reduced by 12 per cent compared to the first half of 2010. Since the first half of 2008, new business profit has increased 90 per cent while investment in new business has fallen 12 per cent over the same period.

We continue to deliver high returns on capital invested for our shareholders and remain on course to meet the 2013 financial objectives outlined at our investor day in December 2010, which was headlined 'Growth and Cash'. These objectives – centred on new business profit and IFRS profit growth for Asia, and cash remittances for Asia, the US and the UK – reflect our confidence in the potential of our chosen markets and in our strategy.

## Group performance

APE sales were up 10 per cent in life insurance in the first half of 2011 to £1,824 million (2010: £1,655 million<sup>1</sup>) and new business profit exceeded £1 billion in the first half for the first time. It has increased by 20 per cent to £1,069 million (2010: £892 million<sup>1</sup>) as our new business margins increased to 59 per cent (2010: 54 per cent).

On the statutory IFRS basis, our operating profit before tax from continuing operations increased by 25 per cent in the first half of 2011 to £1,058 million (2010: £845 million). This has also exceeded £1 billion in the first half for the first time. IFRS shareholders' funds increased in the first half of 2011 to £8.5 billion, up six per cent compared to £8.0 billion as at 31 December 2010 and 19 per cent in the same period in 2010 (£7.2 billion).

On the EEV basis, Group operating profit before tax increased by 28 per cent in the first half of 2011 to £2,147 million (2010: £1,677 million).

Our total investment in new business in the first half of 2011 was £297 million (2010: £337 million<sup>1</sup>), a reduction of 12 per cent. Our focus on capital allocation has allowed us to deliver higher profits – new business profit is up 20 per cent with less capital used.

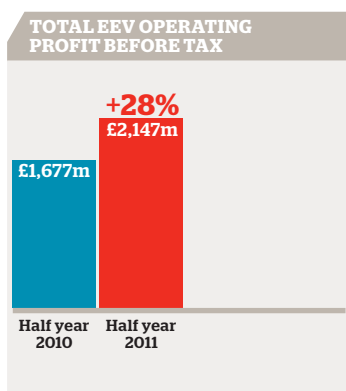
In line with our strategy, asset management's contribution to profits continues to grow, underpinned by strong inflows. In the first half of 2011, it contributed £259 million, up 34 per cent (2010: £194 million). Net inflows in our asset management businesses were £3.3 billion (2010: £4.4 billion). After two years of very high net sales at M&G, as expected, net fund flows have slowed as we had previously indicated.

Since 2008, we have been using free surplus as the primary indicator of our ability to generate cash and capital. In the first half of 2011, free surplus increased seven per cent to £3.6 billion, up from £3.3 billion at the end of 2010 (30 June 2010: £3.2 billion).

As these results show, we have continued to deliver strong growth on our three key metrics of EEV, IFRS and cash simultaneously, which gives us a unique position among insurance companies.

## Note

<sup>1</sup> Excluding Japan which ceased writing new business in 2010.



The Group's strategy continues to deliver higher sales and higher profits while consuming less capital in absolute terms. In the first half of 2011, new business profit increased 20 per cent while investment in new business reduced by 12 per cent compared to the first half of 2010.



## GROUP CHIEF EXECUTIVE'S REPORT

**“In line with our strategy, we have continued to prioritise our investment in the fast growing and highly profitable markets of South-East Asia.”**

**“Strong growth has been achieved while preserving at all times our financial discipline.”**

### Our operating performance by business unit

We have maintained our focus on our customers across all our businesses, marketing a suite of products that deliver good value. We work to design products that meet our customers' needs and are profitable for our shareholders.

#### Prudential Corporation Asia

In line with our strategy, we have continued to prioritise our investment in the fast growing and highly profitable markets of South-East Asia – Indonesia, Malaysia, Vietnam, Philippines, Thailand – and of Hong Kong and Singapore. The positive momentum of 2010 has continued into the first half of this year. The key markets of Indonesia, Singapore, Hong Kong and Malaysia all reported strong double-digit growth in the first half. Indonesia, with more than 100,000 agents, was for the first time our largest business in Asia in terms of sales. Our strategy in the region allows us to grow profitability and generate cash at the same time. Cash remittances to the Group from the region are positive and growing.

As previously highlighted, the market in India has been challenging since Q4 2010. However, we believe that we will begin to see the first signs of improvement by the end of 2011 as we are able to train our extensive agency force to sell a new product suite. We remain confident about the long-term prospects in India.

Overall, we remain on track to meet our 2013 objectives to double our 2009 new business and IFRS profits.

Distribution, as ever, remains critical to our business in Asia; our unique combination of proprietary agency distribution and bank partnerships continues to deliver excellent results. Agency will remain the dominant and most profitable channel in Asia for many years to come. We believe that Prudential's agency distribution platform compares favourably to those of our peer group, whether in terms of scale, training or productivity. In parallel to our agency force, we will continue developing our presence in the bancassurance channel where we have been enjoying growing success in a number of markets, particularly Hong Kong, Indonesia and Singapore. The bancassurance channel now represents 30 per cent of total APE (excluding India) across the region.

#### Jackson

In the US, we have maintained our focus on value over sales volume growth; ensuring sales are delivered at highly profitable margins. We have maintained our pricing discipline and have been consistent in our approach of not chasing market share for its own sake. Strong growth has been achieved while preserving at all times our financial discipline.

We continue to benefit from a competitive environment which favours companies with strong financial ratings and a relatively consistent product set. Jackson has also benefited from its relationships with the independent broker dealer network. Jackson's success has allowed it to make a remittance of £320 million to Group in the first half of 2011. This is the most tangible evidence that the strategy we have been following at Jackson is working well as the progress made has translated into profits and more importantly, over time, into cash.

We had expected that, at this point in the variable annuity cycle, increased competition would progressively dampen our growth and/or reduce the extremely high margins we have been capturing. This has not happened yet. On the contrary, the strength of our competitive position has allowed us to continue to take proactive steps to optimise the balance between growth, capital and profitability at Jackson. We expect the impact of these initiatives to become visible towards the end of 2011.



**“We have continued to balance the writing of new business with the generation of cash and capital.”**

**“Our asset management businesses have increased their contribution to our profits and to our cash generation.”**

**“A strong capital position and balance sheet are at the heart of our strategy and are key buying factors for our customers, who have a long-term relationship with us in all our key markets.”**

### **Prudential UK**

Our business in the UK is focused and streamlined. Therefore, it generates differentiated returns relative to the market. We continue to be a market leader in both individual annuities and with-profits. The strength of the with-profits fund underpins our ongoing ability to deliver strong IFRS profits and cash. We have continued to balance the writing of new business with the generation of cash and capital, successfully delivering attractive returns on capital employed.

Our emphasis on value and returns saw the UK business continue to prioritise the retail market, while very selectively participating in the wholesale market. Wholesale market opportunities have only been pursued when they meet our strict financial criteria and deliver an appropriate return on the capital invested both in terms of quantum but also, and equally important, of payback period.

### **Asset management**

Our asset management businesses have increased their contribution to our profits and to our cash generation, reflecting their high capital efficiency and their 'cash rich' nature. This is in addition to the value they generate for the Group by achieving attractive returns on the funds they manage on behalf of our customers.

M&G continues to focus on achieving superior investment performance over the longer term for its customers. Building on its track record of success in the retail investment market, M&G is expanding in Europe. It has continued to deliver strong sales in the first half of 2011 after two exceptional years. M&G's retail business in the UK has been number one for gross and net retail sales over 10 consecutive quarters. Importantly, we have been able to grow not only assets but also IFRS profits.

In Asia, our asset management business had a strong first half. Funds under management continue to grow, primarily driven by internal funds during the first half. Net inflows remain volatile, in part driven by the tragic events that affected Japan earlier this year. IFRS profit continues to grow strongly.

The priorities for our asset management business in Asia are:

- (i) to develop institutional relationships, securing pan-Asia discretionary mandates;
- (ii) to increase our focus on Japan and China, as the region's largest and fastest growing markets respectively; and, finally,
- (iii) to grow our offshore funds business.

### **Capital and risk management**

A strong capital position and balance sheet are at the heart of our strategy and are key buying factors for our customers, who have a long-term relationship with us in all our key markets. That strength gives confidence to our customers that we will be there to serve them in the long-term, and allows us to grow strongly and write large amounts of new business without putting our customers at risk. Strict and proactive management and allocation of capital remain a core focus for our Group.

Using the regulatory measure of the Insurance Groups Directive (IGD) before allowing for the interim dividend, our Group capital surplus at 30 June 2011 was estimated at £4.1 billion (30 June 2010: £3.4 billion; 31 December 2010: £4.3 billion<sup>1</sup>). The Group's required capital is covered 2.9 times. This ratio means we continue to be very strongly capitalised.

### **Note**

<sup>1</sup> Before allowing for the final dividend.

## GROUP CHIEF EXECUTIVE'S REPORT

### Dividend

In view of the progress that the Group had made in improving IFRS operating profitability and free surplus generation, the Board decided to rebase the 2010 full-year dividend upwards by 4 pence per share, equivalent to an increase of 20 per cent. This increase was reflected in full in the 2010 final dividend. As in previous years the interim dividend has been calculated formulaically as one third of the prior year's full year dividend. Therefore, the Board has approved an interim dividend of 7.95 pence per share, which translates into an increase of 20 per cent. The Group's dividend policy, which is to grow the dividend at a sustainable rate from the new higher base established at year end 2010, remains unchanged.

### Outlook

Our strong first-half performance is evidence that we have continued to optimise the opportunities available to us for profitable growth. Our financial strength and focus on cash and capital underpin our financial performance. We remain on course to deliver our 2013 objectives both in terms of profit growth and cash generation.

There are clear macroeconomic concerns today in the Western world. The issues around sovereign debt, both in the USA and in the Eurozone, as well as the associated fiscal difficulties, mean that we remain cautious about the outlook in these regions. While these issues may have some temporary adverse effects across the globe, we continue to believe that our substantial presence in growing and developing markets across Asia put us in a position to continue to deliver relative outperformance in the medium term.

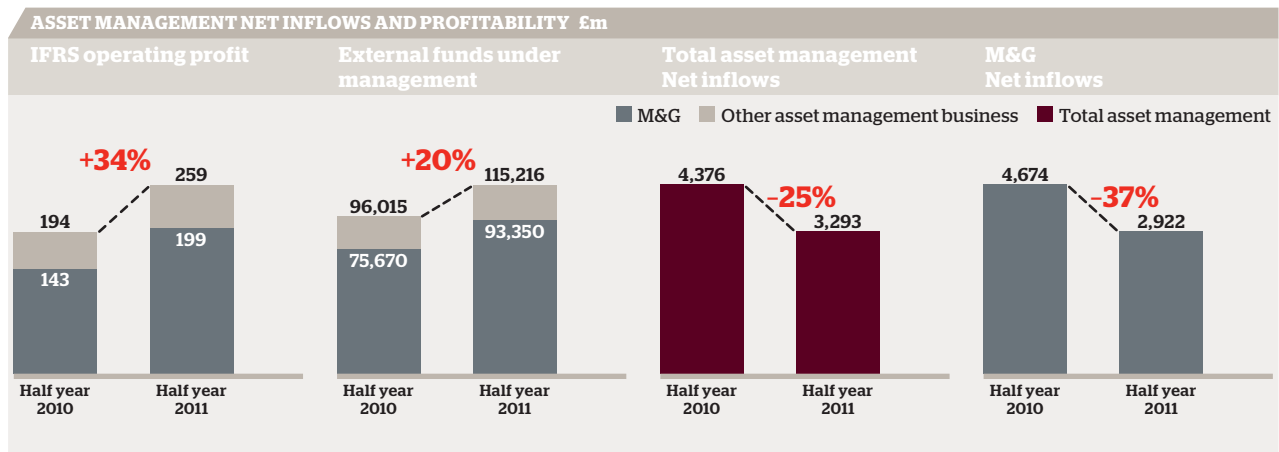
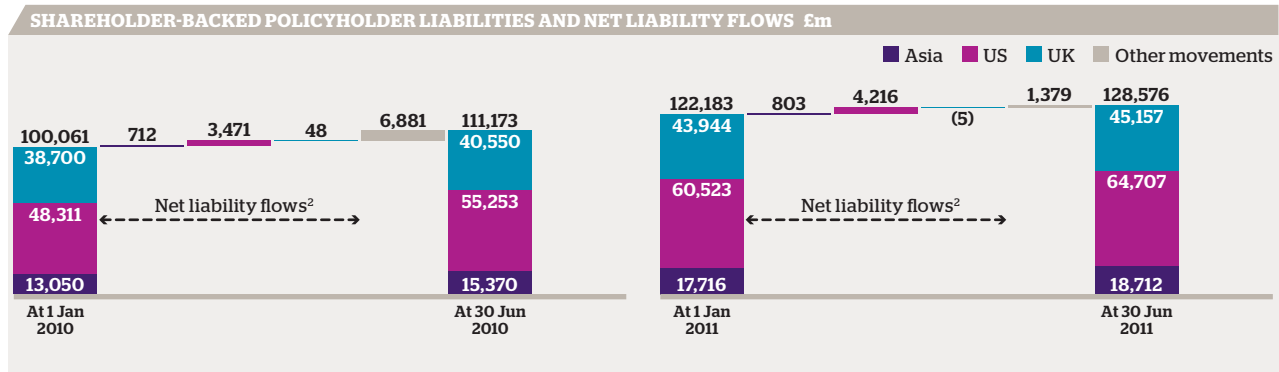
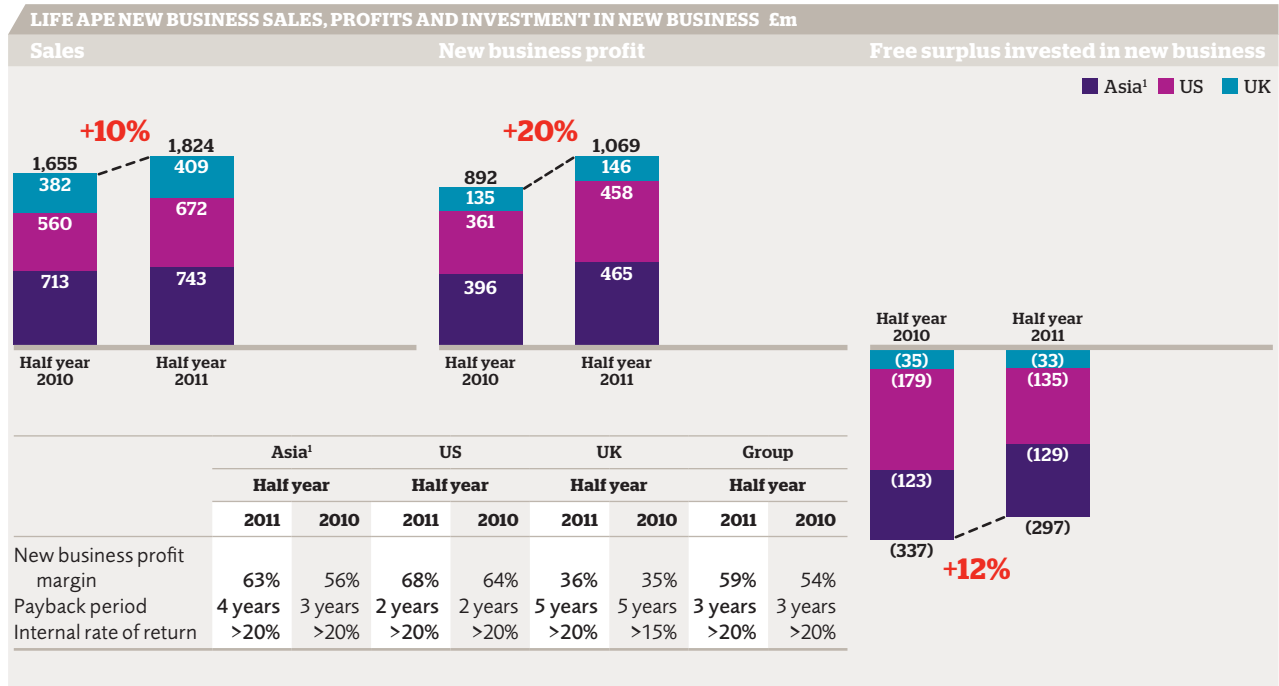
**“Our strong first-half performance is evidence that we have continued to optimise the opportunities available to us for profitable growth.”**

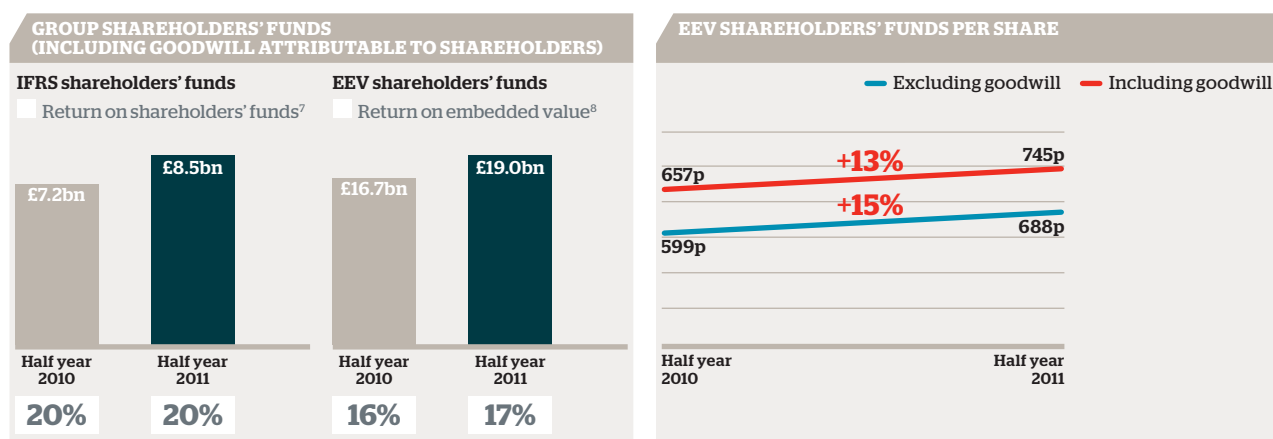
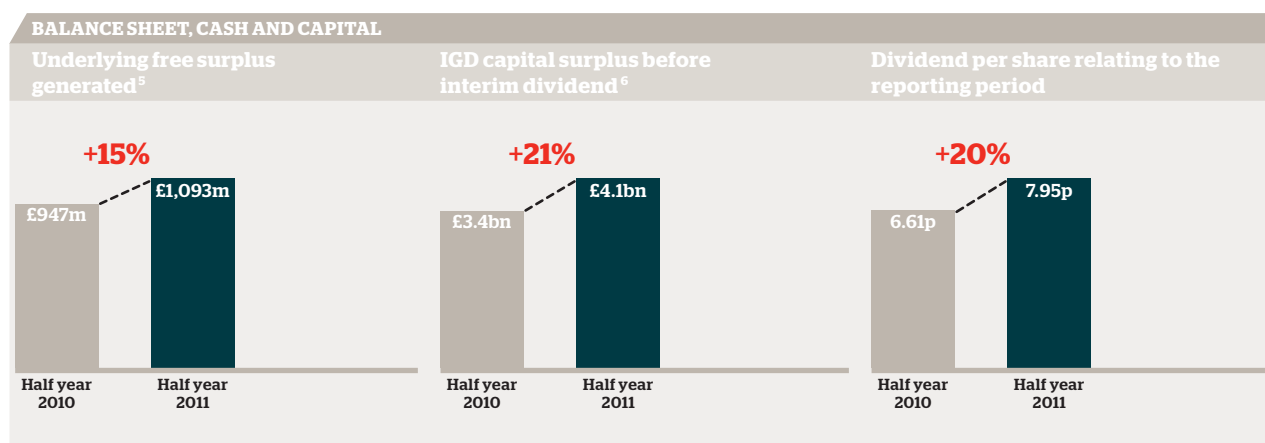
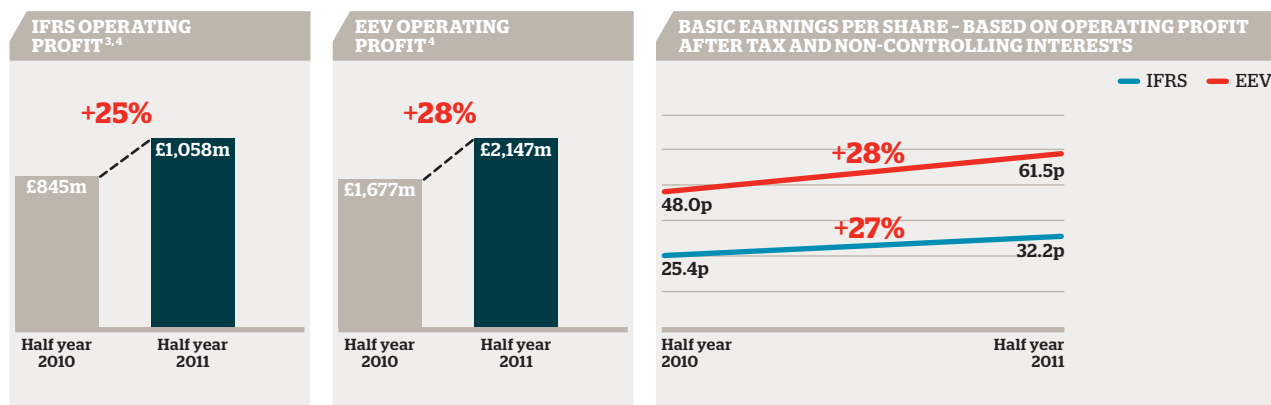


# BUSINESS REVIEW

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# FINANCIAL HIGHLIGHTS





#### Notes

- 1 Asia new business amounts exclude Japan, which ceased writing new business in 2010.
- 2 Defined as movements in shareholder-backed policyholder liabilities arising from premiums, surrenders, maturities and deaths.
- 3 In the second half of 2010, the Company amended the presentation of IFRS operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations. Accordingly, the half year 2010 operating profit has been amended to remove the positive £123 million effect.
- 4 Including Solvency II implementation costs, restructuring costs, Asia development costs, Asia Regional Head Office costs and in 2011 the impact of the RPI to CPI inflation measure change for defined benefit pension schemes.

- 5 Underlying free surplus comprises underlying free surplus generated from inforce business less investment in new business.

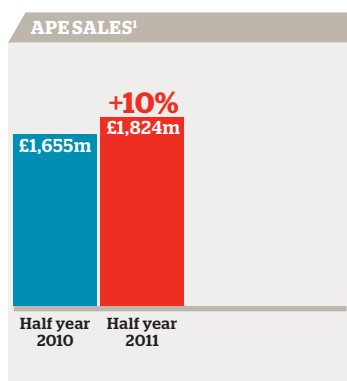
6 Estimated.

- 7 Annualised IFRS operating profit after tax and non-controlling interests as percentage of opening IFRS shareholders' funds. Half year profits are annualised by multiplying by two.

- 8 Annualised EEV operating profit after tax and non-controlling interests as percentage of opening EEV shareholders' funds. Half year profits are annualised by multiplying by two.

# CHIEF FINANCIAL OFFICER'S OVERVIEW

**NIC NICANDROU**  
CHIEF FINANCIAL OFFICER



**£1,069m**  
New business profit

**59%**  
New business margin

Prudential has delivered another strong performance in the first six months of 2011 with excellent contributions from all of our businesses, across all of our key financial metrics. EEV new business profit ('new business profit') was up 20 per cent to £1,069 million (2010: £892 million<sup>1</sup>) and IFRS operating profit based on longer-term investment returns ('IFRS operating profit') increased 25 per cent to £1,058 million (2010: £845 million).

Net underlying free surplus generation in the period also improved by 15 per cent to £1,093 million (2010: £947 million). Prudential's ability to deliver on all of these metrics is testament to the quality of our businesses, our focus on prioritising value over volume and to our proactive management and allocation of capital.

#### Growth and profitability

In life insurance, APE sales in the first half of 2011 were up 10 per cent to £1,824 million (2010: £1,655 million<sup>1</sup>) and new business profit has increased by 20 per cent to £1,069 million (2010: £892 million<sup>1</sup>) as our new business margins reached 59 per cent (2010: 54 per cent<sup>1</sup>).

In the first half of 2011, Asia produced APE sales of £743 million (2010: £713 million<sup>1</sup>) and new business profit of £465 million (2010: £396 million<sup>1</sup>), up four per cent and 17 per cent respectively on the prior period. If we exclude India, a market which is undergoing significant change following regulatory developments in the second half of 2010, then APE sales and new business profit were up 17 per cent and 22 per cent respectively.

Jackson delivered APE sales of £672 million (2010: £560 million) and new business profit of £458 million (2010: £361 million), up 20 per cent and 27 per cent respectively on the prior period. The new business margin in the US increased from 64 per cent to 68 per cent in 2011, with Jackson continuing to capitalise on the weakened competitive environment in the US life insurance market. This margin improvement was driven by our continued focus on variable annuities where APE sales grew by 32 per cent to £589 million (2010: £447 million). Jackson remains a top three player in variable annuities, however, consistent with our value over volume philosophy, we do not target market share or sales volume and will continue to be opportunist in that market, aiming to maximise profits.

#### Note

<sup>1</sup> Excluding Japan which ceased writing new business in 2010.

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Prudential has delivered another strong performance in the first six months of 2011 with excellent contributions from all of our businesses, across all of our key financial metrics.

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## CHIEF FINANCIAL OFFICER'S OVERVIEW

**“In terms of profitability, we have successfully built on our momentum of the last few years and delivered a robust level of growth.”**

In the UK, we delivered total APE sales of £409 million (2010: £382 million) and new business profit of £146 million (2010: £135 million), up seven per cent and eight per cent respectively. We continue to prioritise the retail market while participating selectively in the wholesale market when returns meet our financial criteria. In the first half of 2011, we have written one bulk annuity contract that generated £28 million of APE and £24 million of new business profit. At a retail level, we delivered APE sales of £381 million (2010: £381 million) and new business profit of £123 million (2010: £134 million) at a margin of 32 per cent (2010: 35 per cent). The decline in retail margin is due to lower volumes of high margin individual annuities following the end of a partnership agreement and the effects of the change in the minimum retirement age from 50 to 55 in April 2010, which resulted in a temporary increase in sales last year, producing a particularly high 2010 comparative.

Across our life insurance businesses we grew our shareholder-backed policyholder liabilities by £6.4 billion in the first half of 2011 to £128.6 billion. This increase was driven by £5.0 billion of net inflows with the balance coming from foreign exchange and investment related and other movements.

In asset management, we have delivered £3.3 billion of net inflows over the first half of 2011 (2010: £4.4 billion). At the end of the first half, our total funds under management totalled £349.5 billion, of which £115.2 billion are external assets. M&G is the driver of our inflows in asset management, producing £2.9 billion (2010: £4.7 billion) of net flows in the period (£2.8 billion retail, £0.1 billion institutional), an excellent result. M&G's track record in generating positive net inflows is particularly notable, ranking number 1 in the UK retail market for the last ten consecutive quarters based on data to the end of March 2011<sup>1</sup>. At 30 June 2011 it had external funds under management of £93.4 billion, five per cent higher than at the beginning of the year. External funds comprise £45.6 billion (2010: £33.7 billion) of retail and £47.8 billion (2010: £41.9 billion) of institutional assets. Adding these funds to internal amounts, M&G's total funds under management were £203 billion. Asia asset management reported broadly neutral retail and institutional flows in the first half of 2011 (2010: inflows of £1.3 billion), despite the outflows experienced following the natural disaster in Japan earlier this year. At the end of the first half of 2011, Asia asset management had £52.5 billion of funds under management, of which £21.9 billion are external assets.

In terms of profitability, we have successfully built on our momentum of the last few years and delivered a robust level of growth, with Group IFRS operating profit up 25 per cent to £1,058 million (2010: £845 million) and Group EEV operating profit based on longer-term investment returns ('EEV operating profit') up 28 per cent to £2,147 million (2010: £1,677 million) equivalent to an annualised return on embedded value of 17 per cent (2010: 16 per cent).

In Asia, long-term business IFRS operating profit in the first half of 2011 was up 24 per cent to £326 million (2010: £262 million). This result benefited notably from strong performances in Indonesia, Malaysia and Singapore. The ongoing build-out of distribution across South-East Asia, the success of our health and protection rider strategy, and the underlying strength of the economies in which we operate should drive continuing growth in Asia IFRS operating profit going forward. Asia's long-term EEV operating profit, a measure of the economic value creation in the year, grew by 22 per cent in the first half of 2011 to £774 million (2010: £636 million) further underlining the creation of sustainable value by these operations.

### Note

1 Fundscape Pridham Report



**“Our strategy of deploying our capital to those products and geographies with the most attractive profitability characteristics has, over the past three years, transformed the capital position of our business.”**

In the US, long-term business IFRS operating profit was up 13 per cent in the first half of 2011 to £368 million (2010: £327 million). Jackson's growth in the variable annuity market is a key driver behind this improved profitability as separate account balances at 30 June 2011 of £36 billion (2010: £24 billion) were 50 per cent higher than the equivalent point in 2010 and 15 per cent higher than 31 December 2010 (£31 billion). The majority of asset growth since 31 December has come from £3.9 billion of net inflows in the period (2010: £2.8 billion). Jackson's general account has also contributed to the growth in IFRS profits during the period. The general account closed the period with policyholder liabilities of £29 billion and the average spread margin that we earned on these liabilities increased from 235 bps in half year 2010 to 262 bps in half year 2011. This included a £53 million benefit from transactions undertaken to more closely match the overall asset and liability duration (2010: £44 million). These actions also had the effect of improving the half year 2011 EEV operating profit by 25 per cent to £831 million (2010: £667 million).

In the UK long-term business IFRS operating profit was up by eight per cent from £307 million in half year 2010 to £332 million in half year 2011. This result benefited from an £18 million contribution from a bulk annuity contract. Our UK business continues to focus on the sustained delivery of IFRS profits. The strength of the with-profits fund, which currently has a surplus estate of £6.9 billion, provides a secure platform to support future IFRS profits and cash generation. At 20 per cent, growth in EEV operating earnings to £537 million (2010: £449 million) was in line with our strategy of optimising value from both new and existing business.

In asset management IFRS operating profit was up 34 per cent to £259 million compared to £194 million in half year 2010. M&G (including PruCap) had a strong first half benefiting from high inflows and rising markets, which drove operating profits higher by 39 per cent to £199 million (2010: £143 million). This increase results from the combination of higher revenues with increased operational leverage inherent within the business, which led to a lower cost-income ratio of 55 per cent (2010: 60 per cent). Asia asset management produced IFRS operating profit of £43 million, up 19 per cent on the prior period (2010: £36 million), benefiting from rising markets and disciplined management of costs with a cost-income ratio of 59 per cent (2010: 62 per cent).

### **Capital generation**

Our strategy of deploying our capital to those products and geographies with the most attractive profitability characteristics has, over the past three years, transformed the capital position of our business. Across the Group, we continue to produce very significant amounts of free capital, which we measure as free surplus generated. Our first priority for the use of this capital is reinvestment in new business as we can achieve attractive internal rates of return (IRRs) and rapid paybacks on this investment. However, thanks to the scale and efficiency of our businesses, we have been able to produce significant amounts of free surplus over and above that which we can reinvest in new business. This excess free surplus generation is being used to continue to strengthen our balance sheet at a time when significant uncertainties exist in the world economy and to provide cash returns to our shareholders.

## CHIEF FINANCIAL OFFICER'S OVERVIEW

**“Asia is the priority destination when it comes to reinvesting our capital and Prudential Corporation Asia's (PCA) growth is not constrained by the supply of capital from the Group.”**

In the first half of 2011, we generated £1,390 million of underlying free surplus from our life in-force and asset management businesses, up eight per cent from £1,286 million in the first half of 2010. We reinvested £297 million of the free surplus generated in the period into writing new business. Asia is the priority destination when it comes to reinvesting our capital and Prudential Corporation Asia's (PCA) growth is not constrained by the supply of capital from the Group. In the US, we invest in an opportunistic manner reflecting the market and competitive environment at the time. In the UK, we take a selective approach and focus only on lines of business where we believe we have both the scale and expertise to compete successfully. In asset management, our businesses require minimal capital to fund growth. Thus, the split of the investment in new business in the first half of 2011 was £129 million into Asia, £135 million into the US and £33 million into the UK. The IRRs on this invested capital were more than 20 per cent in Asia, the US and the UK; with payback periods of four years, two years and five years respectively.

Of the remaining free surplus generated after reinvestment in new business, £690 million was remitted from the business units to Group. This cash was used to meet central costs of £106 million, service net interest payments of £135 million and meet dividend payments of £439 million. Furthermore, an aggregate £205 million was paid to the UK tax authorities following the settlement reached in the second half of 2010 and to secure new distribution agreements in Asia.

In January of 2011 we issued US\$550 million Tier 1 subordinated notes raising £340 million net of transaction costs. We anticipate that the proceeds of this capital raising will be used to redeem the €500 million Tier 2 subordinated notes at the first call date in December of this year. Our central cash resources amounted to £1.5 billion at the end of the first half of 2011, comfortably above the £1 billion holding company cash buffer we seek to retain in anticipation of the redemption of the subordinated notes later in the year.

The remaining free surplus generated in the period was retained within our businesses and this will bolster local capital ratios, increasing long-term capital fungibility. The total free surplus balance deployed across our life and asset management operations increased from £3,338 million at the beginning of the period to £3,561 million at the end of the period.

### **'Growth and Cash' financial objectives**

The following discussion contains forward-looking statements that involve inherent risks and uncertainties. Prudential's actual future financial condition or performance or other indicated results may differ materially from those indicated in any such forward-looking statement due to a number of important factors (including those discussed under the heading 'Risk factors' in the 2010 Annual Report). See the discussion under the heading 'Forward-looking statement' at the end of this report.

At our 2010 investor conference entitled 'Growth and Cash' we announced new financial objectives demonstrating our confidence in continued rapid growth in Asia, and increasing levels of cash remittances from all of our businesses. These objectives were defined as follows:

- (i) Asia growth and profitability objectives<sup>1</sup>:
  - To double the 2009 value of IFRS life and asset management pre-tax operating profit in 2013 (2009: £465 million); and
  - To double the 2009 value of new business profits in 2013 (2009: £713 million).
- (ii) Business unit cash remittance objectives<sup>1</sup>:
  - Asia to deliver £300 million of net cash remittance to the Group in 2013 (2009: £40 million);
  - Jackson to deliver £200 million of net cash remittance to the Group in 2013 (2009: £39 million); and
  - UK to deliver £350 million of net cash remittance to the Group in 2013 (2009: £284 million<sup>2</sup>).
- (iii) Cumulative net cash remittances<sup>1</sup>:
  - All business units in aggregate to deliver cumulative net cash remittances of at least £3.8 billion over the period 2010 to end-2013. These net remittances are to be underpinned by a targeted level of cumulative underlying free surplus generation of £6.5 billion over the same period.

### **Notes**

<sup>1</sup> The objectives assume current exchange rates and a normalised economic environment consistent with the economic assumptions made by Prudential in calculating the EEV basis supplementary information for the half-year ended 30 June 2010. They have been prepared using current solvency rules and do not pre-judge the outcome of Solvency II, which remains uncertain.

<sup>2</sup> Representing the underlying remittances excluding the £150 million impact of proactive financing techniques used to bring forward cash emergence of the in-force book during the financial crisis.

## CHIEF FINANCIAL OFFICER'S OVERVIEW

"We believe we are on-track to achieve our growth and cash financial objectives."

As CFO, I would like to update you on our progress towards these objectives based on our results in the first half of 2011. We believe we are on-track to achieve our growth and cash financial objectives.

### Asia profitability objectives

	Actual			Half year 2011 £m	Objective	
	2009 £m	2010 £m	Change %		Change %	2013 £m
<b>VALUE OF NEW BUSINESS</b>						
Full year	713	901	26			1,426
Half year	277	395	43	465	18	
<b>IFRS OPERATING PROFIT*</b>						
Full year	465	604	30			930
Half year	228	295	29	367	24	

### Business Unit net remittance objectives

	Actual			Half year 2011 £m	Objective 2013 £m
	2009 £m	2010 £m	Change %		
Asia		40	233	105	300
Jackson		39	80	320	200
UK†		434	420	265	350
M&G‡		175	202	–	
Full year		688	935		
Half year		375	460	690	

### Objectives for cumulative period 1 January 2010 to 31 December 2013

	Actual	Objective	Percentage achieved
	1 Jan 2010 to 30 Jun 2011 £m	1 Jan 2010 to 31 Dec 2013 £m	At 30 June 2011 %
<b>CUMULATIVE NET CASH REMITTANCES FROM 2010 ONWARDS</b>	1,625	3,800	43
<b>CUMULATIVE UNDERLYING GROUP FREE SURPLUS GENERATION NET OF INVESTMENT IN NEW BUSINESS</b>	2,807	6,500	43

\*Total Asia operating profit from long-term business and asset management after development costs.

†In 2009, the net remittances from the UK include the £150 million in 2009 arising from the pro-active financing techniques used to bring forward cash emergence of the in-force book during the financial crisis. The 2010 net remittances include an amount of £120 million representing the releases of surplus and net financing payments.

‡Including Prudential Capital.

**“The Group has continued to maintain a strong capital position.”**

In the first half of 2011 net remittances from business operations increased to £690 million, including £320 million from Jackson. Following the 2008 crisis, our approach of investing in relatively lower strain, higher return, faster payback business has enabled Jackson to rebuild its capital base, finance growth and now remit more cash. Remittances from the UK life operations continue to be underpinned by the with-profits business but also reflect positive cash-flows from the shareholder-backed business. Asia remittances continue to rise as the business matures and those from our UK asset management operations will be paid in the second half of the year.

Against the cumulative 2010 to 2013 target of £3.8 billion, by mid-2011 a total of £1,625 million has been remitted by business operations. We remain confident of achieving this target. Our confidence is underpinned by the strong net free surplus generation of our businesses which, by mid-2011, had generated a total of £2.8 billion against our 2010 to 2013 cumulative target of £6.5 billion.

#### **Capital position, financing and liquidity**

The Group has continued to maintain a strong capital position. At 30 June 2011, our IGD surplus is estimated at £4.1 billion (2010: £3.4 billion), with coverage a very strong 2.9 times the requirement. All of our subsidiaries maintain strong capital positions at the local regulatory level.

In addition to our strong capital position, on a statutory (Pillar 1) basis the total credit reserve for the UK shareholder annuity funds also contributes to protecting our capital position in excess of the IGD surplus. This credit reserve as at 30 June 2011 was unchanged at £1.8 billion. This represents 44 per cent of the portfolio spread over swaps, compared to 43 per cent at 31 December 2010.

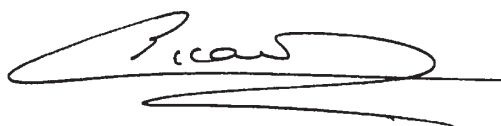
Solvency II, which is expected to be implemented from 1 January 2013, represents a complete overhaul of the capital adequacy regime for European insurers. We are supportive of the risk-based approaches to capital management provided the metrics used are appropriate. Along with our European peers, we do have concerns about the potential volatility which Solvency II could introduce and the degree of prudence built in to the proposed calibrations for the standard formula. We are engaging directly with our peers, politicians and regulators to ensure a fair and reasonable outcome before the regime becomes law.

Our financing and liquidity position has remained strong throughout the period. As mentioned above, the next call on external financing is in December 2011 on the €500 million Tier 2 subordinated notes.

We continue to engage with rating agencies in order to provide insurance financial strength ratings for the Group. Prudential's senior debt is currently rated A+ by Standard & Poor's, A2 by Moody's and A by Fitch.

#### **Embedded value**

EEV shareholders' funds increased by four per cent during the first half of 2011 to £19.0 billion (31 December 2010: £18.2 billion). On a per share basis EEV at the end of 30 June 2011 stood at 745 pence, up from 715 pence at 31 December 2010.



# ASIA

**BARRY STOWE**  
CHIEF EXECUTIVE  
PRUDENTIAL CORPORATION ASIA



**“The industry has continued to grow strongly across the region and within that context, Prudential has maintained its position as a regional leader.”**

### Market overview

The prospects for the life insurance sector in Asia remain very positive as they are supported by strong economic fundamentals, relatively low penetration and the increasing size of the middle class with their growing demand for savings and protection orientated financial products. The industry has continued to grow strongly across the region and within that context, Prudential has maintained its position as a regional leader.

During the first half of 2011 there have been no major changes in the competitive environment. The regulatory environment continues to evolve in ways that we believe are consistent with the sound and sustained development of the industry in the region.

### Business and financial performance

Prudential Asia remains on track to deliver its 2013 targets. Its overarching strategy continues to be the further expansion of its highly productive distribution channels and increased sales of capital efficient, regular premium savings and protection products with specific initiatives tailored to each individual market.

New business APE<sup>1</sup> of £743 million is up four per cent with strong performance across all markets being offset by India where the impacts of the regulatory change in September last year continue to depress the market. Average new business profit margins<sup>1</sup> increased to 63 per cent up from 56 per cent this time last year, principally due to a shift in country mix with lower contributions to total APE from the lower margin markets of India and Taiwan and improvements in product mix offset by operating assumption changes. Consequently new business profits grew at a faster rate than APE and, at £465 million, increased by 17 per cent over 2010.

Excluding India, as the market continues to work through the regulation change, new business APE<sup>1</sup> grew by 17 per cent and the proportion of regular premium within this APE remains high at 91 per cent and the product mix remains broadly in line with prior year with protection accounting for 31 per cent of total APE.

Agency management remains one of Prudential's core competencies. We continue to focus on the selection and training of high-quality, productive sales professionals. Our agency force (excluding India) has grown to 176,000, up from 153,000 last year. Equally important and underscoring our focus on quality is agency activity rates, which improved 10 per cent this half compared to last, and also productivity in terms of APE per agent, higher by eight per cent. As a result of these improvements, overall agency sales increased by 16 per cent in the first half of 2011.

### Note

<sup>1</sup> Excluding Japan which ceased writing new business in 2010.

# £326m

Total IFRS  
operating profit\*



# £465m

New business profit<sup>1</sup>

## FINANCIAL PERFORMANCE

	AER			CER	
	Half year 2011 £m	Half year 2010 £m	Change %	Half year 2010 £m	Change %
APE sales <sup>1</sup>					
Asia (excluding India)	696	594	17	587	19
India	47	119	(61)	114	(59)
Total APE sales	743	713	4	701	6
NBP <sup>1</sup>	465	396	17	393	18
NBP <sup>1</sup> margin (% APE)	63%	56%		56%	
Total EEV operating profit*	774	636	22	631	23
Total IFRS operating profit*	326	262	24	259	26

Prudential also has a very successful track record of delivering profitable growth from a range of distribution partners. New business from the bank channel (excluding India) grew 27 per cent during the first half and now generates 30 per cent of total APE supported by the performance of our existing partners and the success of our new relationship with UOB, particularly in Singapore. This agreement was signed last year, originally covering Singapore, Thailand and Indonesia and was extended in 2011 to cover Malaysia.

Operating EEV profits of £774 million have increased by 22 per cent over prior half year driven by higher new business profits and an increasing unwind from a larger in-force book. In total, adverse experience variances and negative assumption changes of £24 million (2010: £59 million adverse) are substantially lower than prior year. For first half 2011, small adverse persistency and expense variances are largely offset by positive claims experience.

IFRS operating profit of £326 million represents growth of 24 per cent over prior year, reflecting higher in-force profits from our maturing book of business and lower new business strain of four per cent of APE<sup>1</sup> compared to six per cent last year. All operations, aside from Taiwan, made a positive contribution to IFRS profit in the first half.

Shareholder-backed business policyholder liabilities have increased by £1.0 billion to £18.7 billion in the first six months of 2011. Net insurance inflows account for £0.8 billion of this increase with the balance representing market value movements and foreign exchange. As expected, outflows including those from partial withdrawals are at a lower run rate than both the half year and the full year 2010 when expressed as a percentage of opening policyholder liabilities. There have been improvements in both Malaysia and Indonesia where we had experienced increased withdrawals in the second half of last year, as policyholders took the opportunity to realise some profits from the increased value of their unit-linked policies as markets recovered.

Underlying free surplus generation (net of investment in new business) has improved to £187 million compared to £153 million in the same period last year. This improvement reflects both the size and the strong profitability of the in-force book and underpins higher overall net remittances of £105 million, up 57 per cent on the £67 million remitted in the first half of 2010.

\*Operating profit from long-term operations excluding asset management operations, development costs and Asia regional head office costs.

### Note

<sup>1</sup> Excluding Japan which ceased writing new business in 2010.

## ASIA

Looking at individual countries:

### CHINA

	AER			CER	
	Half year 2011 £m	Half year 2010 £m	Change %	Half year 2010 £m	Change %
APE sales	35	27	30	27	30

In **China**, CITIC-Prudential remains one of the leading foreign joint ventures and we continue to pursue our strategy of quality sales and sustainable value creation rather than trying to achieve short-term sales volume growth. Average agency numbers increased by seven per cent relative to the same period last year and APE productivity per agent was also higher by 19 per cent. Sales through our bank partnerships also grew strongly by 29 per cent and account for 50 per cent of APE, broadly in line with prior year.

### HONG KONG

	AER			CER	
	Half year 2011 £m	Half year 2010 £m	Change %	Half year 2010 £m	Change %
APE sales	151	130	16	122	24

Prudential **Hong Kong** continues to deliver excellent new business APE growth with an increase of 16 per cent over prior year. Agency APE increased by 14 per cent reflecting both an increase in average agent numbers (up nine per cent for the first half over prior year) principally through organic growth and average agent productivity (also higher by 11 per cent).

Bancassurance sales through SCB grew at a faster pace than agency at 27 per cent mainly attributed to higher productivity from the in-branch Financial Services Consultants. Bancassurance now accounts for 43 per cent of total sales up from 40 per cent last year.

### INDIA

	AER			CER	
	Half year 2011 £m	Half year 2010 £m	Change %	Half year 2010 £m	Change %
APE sales	47	119	(61)	114	(59)

The **India** market has been through a significant period of change during 2010, particularly with the regulatory driven refocus on savings and protection products, which came into effect on 1 September. In the first half of 2011, the proportion of regular premium linked business has reduced with correspondingly higher proportions of non-par products and single premium linked.



**INDONESIA**

	AER			CER	
	Half year 2011 £m	Half year 2010 £m	Change %	Half year 2010 £m	Change %
APE sales	158	129	22	126	25

Prudential's business in **Indonesia** continues to be a clear market leader. The strong new business APE growth over the first half of 2010 has been driven by expansion of the agency force by 23 per cent to an average of 101,000 for the first half of 2011. Although still small, the volume of new business from the bank channel increased by over 90 per cent and has high potential for the future.

The business mix continues to be predominantly unit-linked regular premium savings with protection business with hospital and surgical riders being the most popular. Sharia linked products remain a significant contributor at 17 per cent of new business mix.

**KOREA**

	AER			CER	
	Half year 2011 £m	Half year 2010 £m	Change %	Half year 2010 £m	Change %
APE sales	55	45	22	44	25

In **Korea** we continue to balance growth and profitability and remain determined not to compete in the low margin, capital-intensive guaranteed return segment of the market. Work undertaken over the past 24 months to refocus the business is now showing good results and our own agency force is generating the majority of new business. Encouragingly new business APE is up 22 per cent over the same period last year.

**MALAYSIA**

	AER			CER	
	Half year 2011 £m	Half year 2010 £m	Change %	Half year 2010 £m	Change %
APE sales	91	77	18	79	15

Prudential **Malaysia** delivered a record year in 2010 and has continued this momentum into 2011 with new business APE higher by 18 per cent. The business remains focused on growing its agency force and average numbers have increased by 11 per cent to 14,000 compared to the same period last year.

While bancassurance remains a relatively small proportion of sales at nine per cent (2010: four per cent), it is growing quickly and is up 160 per cent relative to the same period last year.

# ASIA

## SINGAPORE

	AER			CER	
	Half year 2011 £m	Half year 2010 £m	Change %	Half year 2010 £m	Change %
APE sales	103	75	37	79	30

**Singapore** recorded a very strong first half with new business APE growth of 37 per cent. As a result of actions to boost productivity, agency activity rates increased so that average APE per agent grew by 24 per cent.

The principal driver of growth was the partnership channel where we have a unique cross section of partners enabling us to access a broad customer range. In the first six months of 2011, new business APE from partnerships was 121 per cent higher at £43 million. Of particular note is the ongoing success with UOB which had its highest sales month so far in June. Sales from the larger established partnership with SCB, Maybank and Singpost also grew strongly by 77 per cent, 83 per cent and 24 per cent respectively.

## TAIWAN

	AER			CER	
	Half year 2011 £m	Half year 2010 £m	Change %	Half year 2010 £m	Change %
APE sales	59	70	(16)	72	(18)

Following our exit of the agency channel in 2009, **Taiwan** is now focused on bank distribution with partners E.Sun and SCB. During the first half we have been revamping our product range to improve margins. Although new business volumes declined, our overall EEV new business profit margin increased to 26 per cent compared to 19 per cent for the prior period.

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**OTHERS - PHILIPPINES, THAILAND AND VIETNAM**


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	AER			CER	
	Half year 2011 £m	Half year 2010 £m	Change %	Half year 2010 £m	Change %
APE sales	44	41	7	38	16

In **Vietnam** the depreciation of the local currency relative to sterling has depressed a strong underlying performance where new business APE in local currency is up 27 per cent driven by an increase in agent numbers (35,000) and higher productivity. In **Thailand**, where we remain a small player with market share of two per cent, volumes of new business were 15 per cent lower as we manage the product mix with UOB and also adjust to new regulations for telemarketing. **Philippines** delivered an excellent growth of 40 per cent driven by successes with partnership distribution and increased agency activity and productivity.

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**JAPAN**


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As previously announced, PCA Life Japan ceased writing new business with effect from 15 February 2010. Sales for Japan in 2010 amounted to £7 million.



# UNITED STATES

## MIKE WELLS

PRESIDENT AND CHIEF EXECUTIVE OFFICER  
JACKSON NATIONAL LIFE INSURANCE COMPANY



“Jackson’s strategy continues to focus on balancing value, volume, capital consumption, capital generation and strict pricing discipline for both variable and fixed annuities.”

### Market overview

The United States is the world’s largest retirement savings market. Each year, many of the 78 million baby boomers<sup>1</sup> reach retirement age, triggering a shift from savings accumulation to retirement income generation for more than US\$10 trillion of accumulated wealth over the next decade<sup>2</sup>.

The US equity markets rose during the first quarter of 2011, following the rebound experienced over the last months of 2010, but then declined during the second quarter. At half year, the S&P 500 index was up five per cent and volatility declined slightly from year-end 2010 levels. Rates on 10-year Treasuries rose during the first quarter and then declined during the second quarter, while AA corporate spreads increased from year-end 2010 levels.

We believe the competitive environment continues to provide an advantage to companies with good financial strength ratings and a relatively consistent product set and behaviour. Companies that were hardest hit by the market disruptions over the last few years still have to work hard to regain market share as customers and distributors continue to seek product providers that offer consistency, stability and financial strength. Jackson continues to benefit significantly from this flight to quality and heightened risk aversion.

Thanks to its financial stability and innovative products, Jackson continues to enhance its reputation as a high-quality and reliable business partner, with sales increasing as more advisers have recognised the benefits of working with Jackson. A significant part of Jackson’s growth continues to come from an increase in its distribution penetration with sales through distributors who either did not previously sell Jackson’s products or simply did not sell variable annuities.

Jackson’s strategy continues to focus on balancing value, volume, capital consumption, capital generation and strict pricing discipline for both variable and fixed annuities. Fixed annuity sales have slowed as a result of the current interest rate environment and following capital directed to support higher-margin variable annuity sales.

### Business and financial performance

IFRS pre-tax operating profit was £368 million during the first half of 2011, up 13 per cent over £327 million during the same period in 2010. This increase was primarily driven by higher separate account fee income due to substantial positive net flows over a period of time now and also higher spread income, somewhat offset by related higher DAC amortisation and higher expenses, net of deferrals.

At 30 June 2011, Jackson had £36 billion in separate account assets, averaging £10 billion higher than during the same period of 2010. The increase in separate account assets reflects the impact of net sales and the higher average market levels. This growth resulted in variable annuity separate account fee income of £327 million during the first half of 2011, up 36 per cent over the £240 million achieved during the first half of 2010.

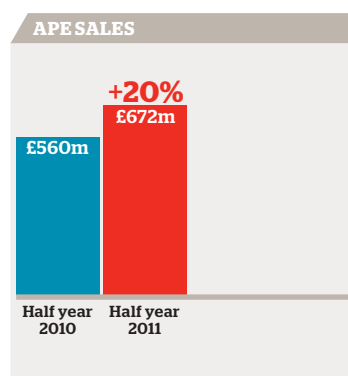
### Notes

1 Source: US Census Bureau

2 Source: McKinsey

# £368m

Total IFRS operating profit\*†



# £458m

New business profit

## FINANCIAL PERFORMANCE

	AER			CER	
	Half year 2011 £m	Half year 2010 £m	Change %	Half year 2010 £m	Change %
APE sales	672	560	20	528	27
NBP	458	361	27	341	34
NBP margin (% APE)	68%	64%		64%	
Total IFRS operating profit*†	368	327	13	308	19
Total EEV operating profit*	831	667	25	630	32

Total spread income, including the expected return on shareholders' assets, was £416 million during the first half of 2011, compared to £402 million during the same period in 2010. This increase was primarily due to the interest rate swap transactions entered into during 2010 to more closely match the overall asset and liability duration, benefiting spread income in the first half of 2011 by £53 million, compared to £44 million for the same period in 2010. In addition, spread income also benefited from decreased crediting rates on fixed annuities.

Acquisition costs have increased in absolute terms compared to half year 2010 due to the significant increase in sales. However, acquisition costs as a percentage of APE is broadly flat at 72 per cent for the first half of 2011.

DAC amortisation of £293 million increased during the first half of 2011, compared to £266 million during the same period in 2010. This increase primarily reflects increased core amortisation associated with higher gross profits, as the acceleration of DAC amortisation was broadly similar between periods, albeit for different reasons.

Administration expenses totalling £195 million during the first half of 2011 compared to £167 million in the same period of 2010, with the increase due primarily to higher asset based commissions paid on the larger 2011 separate account balance. These asset based commissions paid upon policy anniversary dates are treated as an administration expense as opposed to a cost of acquisition.

Jackson continues to actively manage its investment portfolio to mitigate investment risk. Jackson had net realised gains on debt securities of £79 million in the first half of 2011 compared to £8 million in the first half of 2010. Jackson realised gains, including recoveries and reversals, on credit related sales of bonds of £1 million (2010: £97 million net losses). Write downs were £14 million (2010: £64 million). More than offsetting the losses were interest related gains of £92 million (2010: £169 million), primarily due to sales of government and corporate debt. In addition, Jackson had additional write downs of £15 million on commercial mortgage and other loans.

The net unrealised gain position has also improved, from £1,210 million at 31 December 2010 to £1,419 million at 30 June 2011 due primarily to the continued decline in the US Treasury rates. Gross unrealised losses improved from £370 million at 31 December 2010 to £266 million at 30 June 2011.

\*Based on longer-term investment returns and excluding broker-dealer, fund management and Curian.

†In the second half of 2010, the Company amended the presentation of IFRS operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations. Accordingly, the half year 2010 operating profit has been amended to remove the positive £123 million effect.

## UNITED STATES

**“Given the strength of Jackson’s competitive position in the variable annuity markets, we are able to take various product initiatives to optimise the balance between growth, capital and profitability.”**

Jackson delivered strong APE retail sales of £665 million in the first half of 2011, representing a 19 per cent increase over the same period of 2010. With the addition of modest institutional sales in 2011, total APE sales were £672 million. Jackson has achieved these sales levels, while maintaining its pricing discipline, as it continued to write new business at aggregate internal rates of return (IRR) in excess of 20 per cent.

Variable annuity (VA) APE sales of £589 million through 30 June 2011 were 32 per cent higher than the same period in 2010, with second quarter APE sales of £305 million, up seven per cent on the first quarter. This growth reflects customers’ and distributors’ continued flight to quality, the continued improvement in the equity markets, the relative consistency of Jackson’s product offering, continued disruptions among some of our major competitors and increased distribution capacity. Although we do not target volume or market share, these unique market conditions resulted in Jackson ranking third in variable annuity sales with a market share of new business sales of 11.8 per cent in the first quarter of 2011, up from fourth and a market share of 10.0 per cent in the first quarter of 2010<sup>1</sup>.

Given the strength of Jackson’s competitive position in the variable annuity markets, we are able to take various product initiatives to optimise the balance between growth, capital and profitability. These changes which are intended to improve margins and manage risks, are a continuation of Jackson’s product strategy over the past few years and are scheduled to be implemented in the third quarter.

Jackson’s strategy of proactively managing fixed annuity (FA) volumes resulted in APE sales of £23 million, 45 per cent lower than the same period in 2010. Jackson ranked tenth in sales of traditional deferred fixed annuities through the first quarter of 2011, with a market share of 2.1 per cent, compared to ninth with a 2.7 per cent market share in the first quarter of 2010<sup>2</sup>.

Fixed index annuity (FIA) APE sales of £42 million in the first half of 2011 were down 30 per cent from the same period of 2010 as Jackson continued to focus its marketing efforts on higher margin VA products. Jackson ranked eighth in sales of fixed index annuities during the first quarter of 2011, with a market share of 4.6 per cent, down from fourth and a market share of 6.9 per cent in the first quarter of 2010<sup>3</sup>.

Total retail annuity net flows of £4 billion, increased 21 per cent from the same period in 2010, reflecting the impact of increased sales and continued low levels of surrender activity. Jackson was the third largest seller of individual annuities in the first quarter of 2011, with a market share of 8.5 per cent, compared to third and a market share of 7.6 per cent in the first quarter of 2010.

EEV basis new business profit of £458 million, was up 27 per cent on 2010, reflecting a 20 per cent increase in APE sales in addition to higher new business margins. Total new business margin was 68 per cent, compared to 64 per cent achieved in 2010.

### Notes

1 Source: Morningstar Annuity Research Center (‘MARC’)

2 Source: LIMRA

3 Source: AnnuitySpecs

The variable annuity new business margin of 73 per cent in 2011 increased from 71 per cent in 2010, reflecting the benefits of pricing changes implemented in the second half of 2010. The fixed index annuity new business margin decreased from 45 per cent in 2010 to 37 per cent in 2011 due primarily to lower projected reinvestment rates. This same reinvestment rate factor, combined with the effect of slightly lower assumed target spreads and partially offset by a benefit from reductions in credited rate bonuses, caused the fixed annuity new business margin to decrease from 31 per cent to 25 per cent.

Total EEV basis operating profit for the long-term business in 2011 was £831 million, compared to £667 million in 2010. During 2011 and 2010, EEV basis operating profit benefited as a result of the interest rate swap transactions noted earlier.

In 2011, Jackson invested £135 million of free surplus to write £672 million of new business APE (2010: £179 million and £560 million, respectively). The reduction in capital consumption year-on-year was caused predominantly by the differing business mix in 2011, when Jackson wrote a higher proportion of variable annuity business, which consumes lower levels of initial capital, while maintaining a disciplined approach to fixed and fixed index annuity pricing.

At the end of 2010 Jackson's RBC level was 483 per cent. In the first six months of 2011 capital formation has been positive reflecting both the strong operating performance and the modest level of impairments and other market value related gains and losses. As a result of the progress made in successfully rebuilding its capital base, Jackson was able to remit £320 million in the first half of 2011. After this remittance, Jackson's RBC ratio remains at an appropriate level, a testament to the strength of Jackson's balance sheet.

A handwritten signature in black ink, consisting of several fluid, overlapping loops and strokes, positioned centrally below the text.

# UNITED KINGDOM

**ROB DEVEY**  
CHIEF EXECUTIVE  
PRUDENTIAL UK AND EUROPE



**“The business remains focused on balancing the writing of profitable new business with capital preservation to secure sustainable cash generation.”**

## Market overview

The UK has a mature Life & Pensions Market, characterised by an ageing population and a concentration of wealth in the 45 to 74 age group. Prudential UK's longevity experience, multi-asset investment capabilities, strong brand and financial strength mean that it is well positioned to help consumers translate their accumulated wealth into the provision of dependable retirement income. Prudential UK achieves this through its range of market leading with-profits and annuity products and services.

Prudential UK competes selectively in the UK's retirement savings and income market. The business remains focused on balancing the writing of profitable new business with capital preservation to secure sustainable cash generation, which is key for the Group's overall strategy. The UK business continues to succeed in this objective, despite the competitive UK market conditions, by deploying capital to opportunities that play to its core strengths and which generate the best returns.

## Business and financial performance

Total APE sales of £409 million were up seven per cent on the first half of 2010, including a bulk annuity of APE £28 million. The total margin was 36 per cent for the period, one per cent higher than in the first half of 2010.

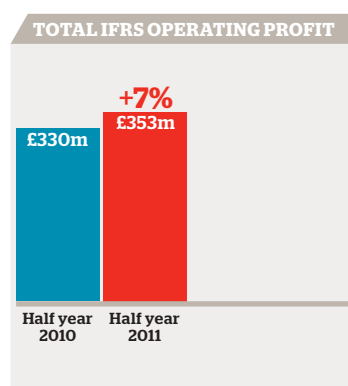
Retail sales of APE £381 million were unchanged from the same period last year, a reflection of Prudential's strategy to allocate capital to opportunities that play to the core strengths of the business rather than pursuing top-line sales growth. In the same period, the Retail new business margin reduced to 32 per cent, three per cent down on the first half of 2010. This was primarily driven by a changing business mix of lower shareholder-backed annuity sales and higher sales of corporate pensions partly offset by the higher margin on non-profit annuity business due to strong investment performance in the first half of the year.

Sales of individual annuities of APE £86 million were 23 per cent lower than for the first half of 2010 as Prudential UK continues to proactively manage the flow of external conventional new business to control capital consumption. Sales of external annuities of APE £30 million were down 38 per cent on the same period last year, mainly due to the end of a partnership agreement in the second half of 2010. Internal vestings sales of APE £56 million, were 13 per cent lower than 2010 which was principally due to the effects of the change in the minimum retirement age from 50 to 55 in April 2010. This resulted in a temporary increase in sales from the 50 to 55 age group immediately prior to the change in 2010 (creating therefore an unusually high comparative for half year 2010) and fewer early retirees in the first half of 2011. The proportion of with-profits annuity sales continues to increase, from 22 per cent in the first half of 2010 to 26 per cent over the same period in 2011.



# £353m

Total IFRS  
operating profit



# £146m

New business profit

## FINANCIAL PERFORMANCE

	AER			CER	
	Half year 2011 £m	Half year 2010 £m	Change %	Half year 2010 £m	Change %
APE sales	409	382	7	382	7
NBP	146	135	8	135	8
NBP margin (% APE)	36%	35%		35%	
Total IFRS operating profit	353	330	7	330	7
Total EEV basis operating profit	558	472	18	472	18

Sales of onshore bonds of APE £84 million were 22 per cent up on the first half of 2010, including with-profits bonds sales of APE £73 million, which increased by 22 per cent. PruFund comprised 72 per cent of with-profits bond sales, driven by customer demand for products offering smoothed investment returns and capital guarantees. Prudential UK launched an enhanced range of guarantee options on its PruFund Growth and PruFund Cautious funds in June 2011.

Unit-linked bond sales of APE £11 million were 29 per cent up on the first half of 2010, helped by the success of PruDynamic, Prudential's risk-graded portfolio funds. Sales into the PruDynamic Funds have totalled over £130 million in 2011, including collectives, and at 30 June 2011 total funds under management were in excess of £280 million.

Corporate pensions sales of APE £147 million were 20 per cent higher than the same period last year. Prudential UK continues to focus on securing new members and incremental business from the substantial number of existing schemes, as well as working with private sector customers to support the transition from defined benefit to defined contribution. Sales to new members of existing private sector corporate pension schemes of APE £65 million, were exceptionally high at 123 per cent up on the first half of 2010 due in part to an existing customer transferring members from their defined benefit scheme to the defined contribution scheme. Prudential UK also continues to write profitable sales through the provision of Additional Voluntary Contribution (AVC) arrangements within the public sector, having secured a further scheme in the first half of 2011, making it the AVC provider for 67 of the 99 public authority schemes in the UK.

Sales of other products of APE £64 million were 18 per cent below the first half of 2010. Individual pensions sales (including income drawdown) of APE £40 million were three per cent below the same period last year. PruHealth's sales of APE £4 million were 28 per cent below the same period last year, reflecting Prudential UK's reduced share, from 50 per cent to 25 per cent, of the expanded business following PruHealth's acquisition of Standard Life Healthcare. PruProtect's sales were up 20 per cent compared with 2010 on a like-for-like basis.

Wholesale APE included £28 million from a bulk annuity buy-in insurance agreement. This transaction generated EEV new business profit of £24 million and IFRS operating profit of £18 million.

## UNITED KINGDOM

EEV new business profit increased by eight per cent to £146 million. This improvement included the impact of the bulk annuity transaction. Retail EEV new business profits at £123 million were eight per cent below 2010 (£134 million), primarily driven by a changing business mix of lower shareholder-backed annuity sales and higher sales of corporate pensions.

IFRS total operating profits were up seven per cent at £353 million, with £154 million from with-profits and the balance from shareholder-backed business. Commission received on Prudential-branded General Insurance products contributed £21 million to IFRS operating profits in 2011, £2 million lower than in the first half of 2010 as the book of business originally transferred to Churchill in 2004 is decreasing as expected.

At half year 2010 we announced that the business had achieved its cost savings target of £195 million per annum. At the end of 2010, the business announced a number of cost saving initiatives to reduce costs by a further £75 million per annum by the end of 2013. The business has made good progress towards this objective and remains on track to deliver these savings by the end of 2013.

EEV total operating profit of £558 million was up 18 per cent, including £46 million from the change in the long-term tax rate assumption from 27 per cent to 26 per cent.

Prudential UK writes with-profits annuity, with-profits bond and with-profits corporate and individual pensions business in its Life Fund, with other products backed by shareholder capital. The weighted average post-tax IRR on the shareholder capital allocated to new business in the UK was in excess of 20 per cent and the undiscounted payback period on that new business was five years.

Underlying free surplus generated from the long-term in-force business in the UK amounted to £339 million (2010: £369 million). Of this total, £33 million (2010: £35 million) was reinvested in writing shareholder-backed business at attractive average IRRs.

During the first half of 2011 Prudential UK remitted cash of £265 million to the Group, comprising £223 million from the annual with-profits transfer to shareholders and £42 million from the shareholder-backed business. The business expects to generate £350 million per annum of sustainable cash remittances by 2013, supported by the strength of the with-profits business and surpluses arising from the large book of shareholder-backed annuities, maintained into the future by the pipeline of maturing individual and corporate pensions.



# ASSET MANAGEMENT

## M&G

**MICHAEL McLINTOCK**  
CHIEF EXECUTIVE  
M&G



**“Our ability to maintain a strong sales performance over the first half of the year, against a backdrop of continued economic uncertainty, demonstrates M&G’s ongoing strength in depth across all the main asset classes and distribution channels.”**

### Market overview

M&G is the UK and European fund manager of the Prudential Group with responsibility for £203 billion of investments as at 30 June 2011 on behalf of both internal and external clients. M&G is an investment-led business whose aim is to generate superior long-term returns for its third party investors and the internal funds of the Prudential Group.

This aim is achieved by creating an environment that is attractive to investment talent. The core focus on long-term investment performance for all clients, combined with a well-diversified business mix and established distribution capabilities, has helped M&G achieve strong net sales performance, growth in funds under management and increased profitability.

In the retail market, M&G’s aim is to operate a single fund range and to diversify the distribution base by accessing a wide variety of channels and geographies. In recent years, this has resulted in significant increased sales of UK-based funds in European and other international markets.

In the institutional marketplace, M&G’s approach centres on leveraging capabilities developed primarily for the Prudential internal funds to create higher margin external business opportunities. This has allowed M&G to offer third-party clients, such as pension funds, an innovative range of specialist fixed income and related strategies, including leveraged finance and infrastructure investment.

### Business and financial performance

After two successive years of extremely high net sales, it is our expectation that net fund flows will revert to somewhat lower levels in 2011. However, it is pleasing to announce that, whilst net sales are indeed lower, they remain strong in aggregate with total net new business of £2.9 billion. Our ability to maintain a strong sales performance over the first half of the year, against a backdrop of continued economic uncertainty, demonstrates M&G’s ongoing strength in depth across all the main asset classes and distribution channels.

# ASSET MANAGEMENT

## M&G

### £203bn

Funds under management

### £199m

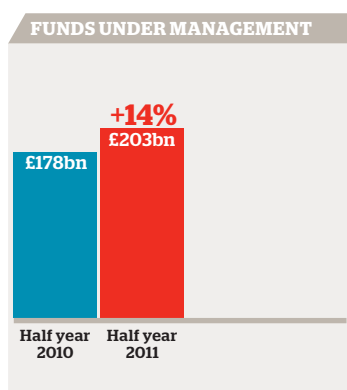
Total IFRS operating profit

#### M&G

	AER			CER	
	Half year 2011 £m	Half year 2010 £m	Change %	Half year 2010 £m	Change %
Gross investment inflows	13,390	13,372	-	13,372	-
Net investment flows					
Retail business	2,796	3,376	(17)	3,376	(17)
Institutional business	126	1,298	(90)	1,298	(90)
Total	2,922	4,674	(37)	4,674	(37)
Revenue	350	298	17	298	17
Other income	1	1	-	1	-
Staff costs	(133)	(122)	9	(122)	9
Other costs	(61)	(58)	5	(58)	5
Underlying profit before performance-related fees	157	119	32	119	32
Performance-related fees	15	3	400	3	400
Operating profit from asset management operations	172	122	41	122	41
Operating profit from Prudential Capital	27	21	29	21	29
Total IFRS operating profit	199	143	39	143	39
Funds under management	203bn	178bn	14	178bn	14

The Retail Business, which is predominantly in the UK and Europe, has achieved net inflows of £2.8 billion, a decrease of 17 per cent compared with the position in 2010. Gross sales are 20 per cent higher at £10.4 billion over the same period. Key to M&G's performance is its ability to benefit from changing investor preferences with a diversified product offering. Fourth quarter retail fund sales in 2010 were concentrated in equity funds with 70 per cent of net flows. However, as levels of risk aversion amongst investors has increased, this trend has reversed over the first half of 2011 with M&G's fixed income fund range accounting for 62 per cent of the net retail flows with the balance spread across equities and property. One of M&G's flagship investment funds, the M&G Optimal Income Fund, has proved especially popular over the first half of the year. Despite a general shift away from equity-based investments, M&G's key equity funds such as M&G Global Basics, M&G Recovery and M&G Global Dividend, have continued to enjoy healthy levels of net inflows.

M&G's Retail business in the UK has been number one for gross and net retail sales over ten consecutive quarters based on data to the end of March 2011<sup>1</sup>. Complementing this domestic success is the improved diversification of distribution across Europe. M&G's European business was responsible for 32 per cent of the net flows achieved with M&G now ranking 7th out of 46 key cross-border fund groups over the year to 31 May 2011<sup>2</sup>. M&G-managed retail funds under management sourced outside of the UK now account for a record £10.1 billion at the end of June 2011, equivalent to 22 per cent of the total retail external funds managed by M&G.



#### Notes

1 Source: Fundscape Pridham Report

2 Source: Lipper FMI SalesWatch

**“M&G continues to provide capital-efficient profits and cash generation for the Prudential Group, as well as strong investment returns on the internally managed funds.”**

Gross first-half inflows of £3.0 billion into M&G's Institutional Business were offset by outflows of £2.9 billion, leading to a total net figure of £126 million. As expected, a number of segregated clients withdrew money from public debt funds due to asset allocation decisions. However, fee rates on some of the inflows are higher than on the outflows. M&G also returned £268 million in capital to investors in mature closed-ended debt structures which had reached their expiry date.

The Institutional Business continues to benefit from its innovative approach to investment. The market-leading M&G UK Companies Financing Fund, which provides financing for UK quoted companies as an alternative to bank lending, has raised commitments of £1.5 billion since its launch in 2009. It has since advanced loans to seven companies for a total of £630 million, including four advances made over the year-to-date.

The Institutional Business also closed its Real Estate Debt Fund to new investors after raising €343 million. The final composition of the seven-year fund includes UK, continental European and US investors. Moreover, in co-operation with M&G's property investment arm, the business invested commitments of £232 million for the M&G Secured Property Income Fund during the half year. The Fund offers investors an alternative means of managing their inflation liabilities. Since its inception in 2007, the Fund has attracted commitments of more than £1 billion in total.

M&G's total funds under management at 30 June 2011 stand at a record level of £203 billion, up 14 per cent on the same point in 2010. External funds under management, also at record levels, are £93.4 billion. This is 23 per cent higher than the end of June 2010 with external funds now representing 46 per cent of M&G's total funds under management.

M&G's IFRS operating profit at the half year rose to £172 million, a record level of interim profits. This is an increase of 41 per cent compared with the 2010 position of £122 million, a year itself of record full year profits. The 2011 result is notable given that the full year profit achieved by the business, as recently as 2009, was £177 million, a year when M&G generated record net investment flows.

Equity market levels have undoubtedly boosted business results, with the FTSE All Share averaging 11 per cent higher over the first half of 2011 compared with the same period in 2010. However, it is also the exceptionally strong net inflows that the business has experienced since the beginning of 2009, particularly from the Retail business, that have contributed to the increased profit levels.

M&G remains focused on cost control with the cost/income ratio<sup>1</sup> at 55 per cent over the half year, an improvement on the 2010 result of 60 per cent. The increased scale of the business due to the strong rise in funds under management has generated operational efficiencies.

M&G continues to provide capital-efficient profits and cash generation for the Prudential Group, as well as strong investment returns on the internally managed funds. M&G remits a substantial proportion of its post-tax profits to the Group, which in 2011 will be paid in the second half of the year.

#### Note

<sup>1</sup> Excluding performance related fees and carried interest on private equity investments.

# ASSET MANAGEMENT

## M&G

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### PRUDENTIAL CAPITAL

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Prudential Capital manages Prudential Group's balance sheet for profit by leveraging Prudential Group's market position. This business has three strategic objectives: to provide professional treasury services to the Prudential Group; to operate a first-class wholesale and capital markets interface; and to realise profitable proprietary opportunities within a tightly controlled risk framework. Prudential Capital generates revenue by providing bridging finance, managing investments and operating a securities lending and cash management business for the Prudential Group and its clients.

The business has consolidated its position in a period of difficult and volatile markets, focusing on liquidity across the Prudential Group, management of one existing asset portfolio and conservative levels of new investment. Development of new product and infrastructure has continued, helping to maintain the dynamism and flexibility necessary to identify and realise opportunities for profit within acceptable risk parameters. Prudential Capital is committed to working closely with other business units across the Prudential Group to exploit opportunities and increase value creation for Prudential as a whole. In particular, Prudential Capital offers to the Prudential Group a holistic view on hedging strategy, liquidity and capital management.

Prudential Capital has a diversified earnings base derived from its portfolio of secured loans, debt investments and the provision of wholesale markets services. Despite the continued difficult market conditions, when compared to the first half of 2010 IFRS operating profits increased by 29 per cent to £27 million.



# ASSET MANAGEMENT ASIA

## £43m

Total IFRS  
operating profit

### ASIA ASSET MANAGEMENT

	AER			CER	
	Half year 2011 £m	Half year 2010 £m	Change %	Half year 2010 £m	Change %
Gross investment inflows (excluding MMF)	4,278	5,276	(19)	5,274	(19)
Net investment (outflows)/inflows (excluding MMF)	(12)	1,327	(101)	1,332	(101)
Money Market Funds net inflows/(outflows) (MMF)	383	(1,625)	124	(1,577)	124
Funds under management	52.5bn	46.1bn	14	47.4bn	11
Total IFRS operating profit	43	36	19	36	19

#### Market overview

Prudential's asset management business in Asia manages investments for UKIO and the Asian life companies and has also successfully leveraged these investment capabilities to build a strategically significant and market leading third party funds management business.

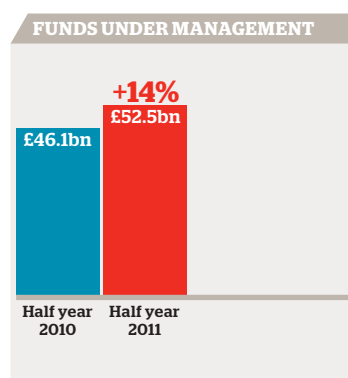
Markets remained challenging in the first half of 2011, with overall net outflows seen in the Asia excluding Japan onshore funds market. Equity markets struggled to gain traction driven by poor investor sentiment in the face of weak macroeconomic signals. Japan was also impacted by the natural disaster which occurred earlier this year. In the fixed income market, rising domestic interest rates to address inflationary pressures resulted in net outflows in large domestic bond fund markets such as India and Korea. Japan saw positive net flows towards high-yield funds. However, these were directed primarily to domestic Japanese fund houses.

#### Business and financial performance

Total funds under management of £52.5 billion were up 14 per cent over the same period last year mainly driven by positive net flows from the Asian Life Business and by market movements. This is important as funds under management are a significant driver of our profitability.

Net flows from third parties were negative £12 million compared to net inflows of £1,327 million during the first half 2010. This is attributed to lower bond fund returns and to Japan, where significant inflows of £728 million resulting from the launch of our Asia Oceania equity fund in 2010 were not repeated in 2011. Clearly the environment in Japan was not conducive to product launches in the first half of 2011. This situation was partially mitigated by net inflows from corporates and institutional clients in Korea, together with new institutional mandates.

IFRS profits of £43 million were up 19 per cent on prior year as a result of higher average funds under management, higher performance related fees and disciplined management of costs. The cost/income ratio<sup>1</sup> was 59 per cent in the first half of the year (2010: 62 per cent).



#### Note

<sup>1</sup> Excluding performance-related fees.

# ASSET MANAGEMENT

## UNITED STATES

### PPM AMERICA

	AER			CER	
	Half year 2011 £m	Half year 2010 £m	Change %	Half year 2010 £m	Change %
Total IFRS operating profit	3	8	(63)	7	(57)

#### Market overview

PPM America (PPMA) manages assets for Prudential's US, UK and Asian affiliates. PPMA also provides other affiliated and unaffiliated institutional clients with investment services including collateralised debt obligations (CDOs), private equity funds, institutional accounts and mutual funds. PPMA's strategy is focused on managing existing assets effectively, maximising the benefits derived from synergies with our international asset management affiliates and leveraging investment management capabilities across the Prudential Group. PPMA also pursues third-party mandates on an opportunistic basis.

#### Business and financial performance

IFRS operating profit in the first half of 2011 was £3 million, compared to £8 million in the same period in 2010.

At 30 June 2011, funds under management of £53 billion were as follows:

	AER							
	Half year 2011				Half year 2010			
	US £bn	UK £bn	Asia £bn	Total £bn	US £bn	UK £bn	Asia £bn	Total £bn
Insurance	31	15	–	46	33	15	–	48
Unitised	1	1	5	7	–	1	4	5
CDOs	–	–	–	–	1	–	–	1
Total funds under management	32	16	5	53	34	16	4	54

### CURIAN

	AER			CER	
	Half year 2011 £m	Half year 2010 £m	Change %	Half year 2010 £m	Change %
Gross investment flows	863	669	29	632	37
Revenue	26	20	30	19	37
Costs	(21)	(18)	17	(18)	17
Total IFRS operating profit	5	2	150	2	150
Total funds under management	4.3bn	2.8bn	54	2.6bn	65

#### Market overview

Curian Capital, Jackson's registered investment advisor, provides innovative fee-based managed accounts and investment products to advisers through a sophisticated technology platform. Curian expands Jackson's access to advisers while also complementing Jackson's core annuity product lines with Curian's retail asset management products.



### Business and financial performance

At 30 June 2011, Curian had total assets under management of £4.3 billion, compared to £3.5 billion at the end of 2010 and £2.8 billion at 30 June 2010. Curian generated record deposits of £863 million through June 2011, up 29 per cent over the same period in 2010. Curian continues to benefit from its prior investment platform expansions and has recently announced a significant expansion of the firm's wholesaling team and new distribution territories.

Curian reported an IFRS basis operating profit of £5 million during the first half of 2011 compared to £2 million in the same period last year.

### US BROKER DEALER

	AER			CER	
	Half year 2011 £m	Half year 2010 £m	Change %	Half year 2010 £m	Change %
<b>NATIONAL PLANNING HOLDINGS, INC.</b>					
Revenue	250	224	12	212	18
Costs	(241)	(219)	10	(207)	16
Total IFRS operating profit	9	5	80	5	80

### Market overview

National Planning Holdings, Inc. (NPH) is Jackson's affiliated independent broker-dealer network. The business is comprised of four broker-dealer firms, including INVEST Financial Corporation, Investment Centers of America, National Planning Corporation and SII Investments.

NPH continues to grow the business and revenue per representative. By utilising high-quality, state-of-the-art technology, we provide NPH's advisers with the tools they need to operate their practices more efficiently. At the same time, through its relationship with NPH, Jackson continues to benefit from an important retail distribution outlet, as well as receive valuable insights into the needs of financial advisers and their clients.

### Business and financial performance

NPH generated revenues of £250 million during the first half of the year, up from £224 million in the same period of 2010, on gross product sales of £4 billion. The network continues to achieve profitable results, with IFRS operating profit through 30 June 2011 of £9 million, an 80 per cent increase from £5 million in the first half of 2010. At 30 June 2011, the NPH network had 3,611 registered advisers, up slightly from 3,461 at year-end 2010.

# RESULTS SUMMARY

## International Financial Reporting Standards (IFRS) Basis Results\*

### Statutory IFRS basis results

	2011	2010	
	Half year	Half year	Full year
Profit after tax attributable to equity holders of the Company	£861m	£442m	£1,431m
Basic earnings per share	34.0p	17.5p	56.7p
Shareholders' equity, excluding non-controlling interests	£8.5bn	£7.2bn	£8.0bn

### Supplementary IFRS basis information

	2011 £m	2010 £m	
	Half year	Half year note i	Full year
<b>OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS*<sup>note i</sup></b>	1,058	845	1,941
Short-term fluctuations in investment returns on shareholder-backed business	113	149	(123)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(7)	(24)	(10)
Costs of terminated AIA transaction	–	(377)	(377)
Gain on dilution of holding in PruHealth	–	–	30
<b>PROFIT FROM CONTINUING OPERATIONS BEFORE TAX ATTRIBUTABLE TO SHAREHOLDERS</b>	1,164	593	1,461
Operating earnings per share* (reflecting operating profit based on longer-term investment returns after related tax and non-controlling interests) <sup>note ii</sup>	32.2p	25.4p	62.0p

## European Embedded Value (EEV) Basis Results\*

	2011 £m	2010 £m	
	Half year	Half year	Full year
Asian operations	815	669	1,518
US operations	848	682	1,480
UK operations:			
UK insurance operations	558	472	982
M&G	199	143	284
Other income and expenditure	(281)	(262)	(494)
RPI to CPI inflation measure change on defined benefit pension schemes	45	–	–
Restructuring and Solvency II implementation costs	(37)	(27)	(74)
<b>OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS*</b>	2,147	1,677	3,696
Short-term fluctuations in investment returns	(111)	(227)	(30)
Mark to market value movements on core borrowings	(74)	(42)	(164)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(8)	(25)	(11)
Effect of changes in economic assumptions	(111)	(52)	(10)
Costs of terminated AIA transaction	–	(377)	(377)
Gain on dilution of holding in PruHealth	–	–	3
<b>PROFIT FROM CONTINUING OPERATIONS BEFORE TAX (INCLUDING ACTUAL INVESTMENT RETURNS)</b>	1,843	954	3,107
Operating earnings per share* (reflecting operating profit based on longer-term investment returns after related tax and non-controlling interests) <sup>note ii</sup>	61.5p	48.0p	106.9p
Shareholders' equity, excluding non-controlling interests	£19.0bn	£16.7bn	£18.2bn

\*See page 41 for notes and basis of preparation.

	2011 Half year	2010	
		Half year	Full year
<b>DIVIDENDS PER SHARE DECLARED AND PAID IN REPORTING PERIOD</b>	17.24p	13.56p	20.17p
<b>DIVIDENDS PER SHARE RELATING TO REPORTING PERIOD</b>	7.95p	6.61p	23.85p
<b>FUNDS UNDER MANAGEMENT</b>	£350bn	£309bn	£340bn
<b>INSURANCE GROUPS DIRECTIVE CAPITAL SURPLUS (AS ADJUSTED)*</b>	£4.1bn	£3.4bn	£4.3bn

#### Notes

- i In the second half of 2010, the Company amended the presentation of IFRS operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations. Accordingly the half year 2010 operating profit has been amended to remove the positive £123 million effect. Further explanation is provided in Note C to the IFRS financial statements.
- ii Operating earnings per share reflects operating profit based on longer-term investment returns after related tax and non-controlling interests but excludes in full year 2010 an exceptional tax credit of £158 million which primarily relates to the impact of a settlement agreed with the UK tax authorities.

#### \*Basis of preparation

##### Results bases

The basis of preparation of the statutory IFRS basis results and supplementary IFRS basis information is consistent with that applied for the full year 2010 results and financial statements.

The 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. Life insurance products are, by their nature, long-term and the profit on this business is generated over a significant number of years. Accounting under IFRS alone does not, in Prudential's opinion, fully reflect the value of future profit streams. Prudential considers that embedded value reporting provides investors with a measure of the future profit streams of the Group's in-force long-term businesses and is a valuable supplement to statutory accounts. There has been no change to the basis of presentation of the EEV results from the 2010 results and financial statements.

##### Exchange translation - Actual Exchange Rate (AER) and Constant Exchange Rate (CER)

The comparative results have been prepared using previously reported exchange rates (AER basis) except where otherwise stated.

##### Operating profit based on longer-term investment returns

Consistent with previous reporting practice, the Group provides supplementary analysis of IFRS profit before tax attributable to shareholders and analyses its EEV basis results, so as to distinguish operating profit based on longer-term investment returns from other elements of total profit. On both the IFRS and EEV bases, operating earnings per share are calculated using operating profits based on longer-term investment returns, after related tax and non-controlling interests.

These profits exclude short-term fluctuations in investment returns and the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes. The operating profit based on longer-term investment returns for 2010 also excludes the costs associated with the terminated AIA transaction and the gain arising upon the dilution of the Group's holding in PruHealth.

In the second half of 2010, the Company amended its presentation of IFRS operating profit for its US insurance operations to exclude the net equity hedge accounting effect relating principally to its variable annuity business and reclassified it as a short-term fluctuation. Half year 2010 comparatives have been amended to exclude a positive £123 million effect from operating profit before tax. This is a presentational change and it has no impact on the IFRS profit before tax or the IFRS shareholders' funds. The change also has no impact on our EEV financial statements.

Under the EEV basis, where additional profit and loss effects arise, operating profit based on longer-term investment returns also excludes the mark to market value movements on core borrowings and the effect of changes in economic assumptions.

After adjusting for related tax and non-controlling interests, the amounts excluded from operating profit based on longer-term investment returns are included in the calculation of basic earnings per share.

##### Insurance Groups Directive capital surplus (as adjusted)

The estimated surpluses shown for half year 2011 and half year 2010 are before allowing for the interim dividends for 2011 and 2010 respectively. The surplus for full year 2010 is before the 2010 final dividend. In addition the estimated surplus for half year 2011 anticipates the intended repayment of the €500 million hybrid debt in December 2011, reducing free surplus by £0.4 billion from that reported at 31 December 2010.

# FINANCIAL REVIEW

## IFRS RESULTS

### IFRS basis operating profit based on longer-term investment returns

	AER			CER	
	Half year 2011 £m	Half year 2010 £m	Change %	Half year 2010 £m	Change %
Insurance business					
Long-term business:					
Asia	326	262	24	259	26
US <sup>note i</sup>	368	327	13	308	19
UK	332	307	8	307	8
Development expenses	(2)	(3)	33	(3)	33
<b>LONG-TERM BUSINESS PROFIT</b>	<b>1,024</b>	<b>893</b>	<b>15</b>	<b>871</b>	<b>18</b>
UK general insurance commission	21	23	(9)	23	(9)
Asset management business:					
M&G	199	143	39	143	39
Asia asset management	43	36	19	36	19
Curian	5	2	150	2	150
US broker-dealer and asset management	12	13	(8)	12	–
	<b>1,304</b>	<b>1,110</b>	<b>17</b>	<b>1,087</b>	<b>20</b>
Other income and expenditure	(253)	(240)	5	(240)	5
RPI to CPI inflation measure change on defined benefit pension schemes <sup>note ii</sup>	42	–	100	–	100
Solvency II implementation costs	(27)	(22)	23	(22)	23
Restructuring costs	(8)	(3)	167	(3)	167
<b>TOTAL IFRS BASIS OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS</b>	<b>1,058</b>	<b>845</b>	<b>25</b>	<b>822</b>	<b>29</b>

#### Notes

- i In the second half of 2010, the Company amended the presentation of IFRS operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations. Accordingly, the half year 2010 operating profit has been amended to remove the positive £123 million effect.
- ii During the first half of 2011, the Group altered its assumptions for future statutory increases to pension payments for its UK defined benefit pension schemes. This reflects the UK Government's decision to change the basis of indexation from RPI to CPI.

In the first six months of 2011, the Group's IFRS operating profit before tax based on longer-term investment returns ('IFRS operating profit') after Solvency II implementation and restructuring costs was £1,058 million, an increase of 25 per cent on the same period of 2010.

In Asia, IFRS operating profit for long-term business increased by 24 per cent from £262 million in the first half of 2010 to £326 million in the corresponding period in 2011. Profits from in-force business grew by 17 per cent between the two periods from £305 million to £357 million, reflecting the continued build-up of the business in the region. New business strain of £31 million (2010: £42 million<sup>1</sup>) was four per cent of APE new business sales (2010: six per cent). This is, in part, due to our continuing discipline of focusing on capital light products but is also driven by the decline in sales from the higher strain businesses of India and Taiwan.

Hong Kong, Indonesia, Singapore and Malaysia, Prudential's largest markets in Asia, continue to see profits grow strongly, with underlying operating profits from long-term business up 29 per cent from £198 million in the first half of 2010 to £255 million for the same period in 2011. Operating profits in Malaysia have improved by 27 per cent from £45 million to £57 million, reflecting the continued growth of the portfolio. The growth in Indonesia operating profits has been particularly strong, up 36 per cent from £70 million to £95 million, reflecting the organic growth of that business over recent years. Singapore's underlying operating profit increased by 29 per cent to £72 million (2010: £56 million) and Hong Kong increased 15 per cent to £31 million (2010: £27 million). Other territories contributed operating profits of £46 million before non-recurring items (2010: £45 million). Eleven out of 12 countries in which we have life operations have made a positive contribution to IFRS profits in the first half of 2011.

The US long-term business operating profit increased by 13 per cent from £327 million in half year 2010 to £368 million in half year 2011, reflecting, in part, strong growth in fee income, up 36 per cent to £327 million. This growth is driven by the continued high sales of variable annuity business together with higher equity markets, both of which have boosted separate account balances. Spread income has also increased, by 10 per cent to £380 million, principally as a result of the interest rate swap transactions entered into during 2010 to more closely match the overall asset and liability duration and lower amounts credited to policyholders on fixed annuities.

These positive contributions to operating profit have been partially offset by increased administration expenses and DAC amortisation of £488 million in half year 2011 (2010: £433 million). Much of this increase is driven by the growth in the business, but it also includes £82 million of accelerated DAC amortisation, which arises as a result of market movements and their interaction with the mean reversion methodology.

In our UK business, total IFRS operating profit was seven per cent ahead of the prior half year at £353 million (2010: £330 million). Long-term business generated £332 million, representing an increase of eight per cent over the half year 2010 result, with the with-profits business contributing £154 million, in line with last year. Profit from UK general insurance commission was lower at £21 million following the expected decline of the in-force policy numbers as the business matures.

M&G's operating profit for half year 2011 was £199 million, an increase of 39 per cent from £143 million in half year 2010. This performance is driven by the strong net inflows received in recent periods, which together with improved equity markets, has seen funds under management grow to £203 billion at 30 June 2011, compared with £178 billion at 30 June 2010.

The Asian asset management operations reported operating profits of £43 million, up by 19 per cent from £36 million in half year 2010. This improvement is driven both by increased operating revenues from higher funds under management and continued cost discipline resulting in an improved cost/income ratio.

The £13 million increase in the charge for other income and expenditure to £253 million primarily reflects an increase in interest payable on core structural borrowings, following additional debt raised in January 2011.

Following the UK Government's decision to change the basis of indexation from RPI to CPI, the Group altered its assumptions for future statutory increases to pension payments for its UK defined benefit pension schemes. This resulted in a one-off credit to operating profit of £42 million in the first half of 2011 and will not recur going forward.

A total of £27 million of Solvency II implementation costs were incurred in the first half of 2011 (2010: £22 million) as we continue to make progress in preparing for this change.

#### Note

<sup>1</sup> Excludes Japan new business strain of £1 million in 2010.

# FINANCIAL REVIEW

## IFRS basis results - Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver

	AER			AER			CER		
	Half year 2011			Half year 2010			Half year 2010		
	Operating profit £m	Average liability £m	Margin note i bps	Operating profit £m	Average liability £m	Margin note i bps	Operating profit £m	Average liability £m	Margin note i bps
Spread income	548	56,815	193	466	53,852	173	447	52,331	171
Fee income	423	68,564	123	321	51,997	123	308	51,338	120
With-profits	171	92,701	37	171	87,291	39	171	87,577	39
Insurance margin	345			316			305		
Margin on revenues	665			619			615		
Expenses:									
Acquisition costs <sup>note ii</sup>	(927)	1,824	(51)%	(823)	1,662	(50)%	(797)	1,619	(49)%
Administration expenses	(497)	125,379	(79)	(453)	105,849	(86)	(443)	103,670	(85)
DAC adjustments	180			155			148		
Expected return on shareholder assets	116			121			117		
Operating profit based on longer-term investment returns	1,024			893			871		

### Notes

- i 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. Opening and closing policyholder liabilities have been used to derive an average balance for the period.
- ii Acquisition cost ratio represents shareholder acquisition costs as a percentage of total APE.

**Spread income** has increased by £82 million to £548 million, an increase of 18 per cent. This increase is attributed to both the six per cent growth in the average liabilities, and the widening of the margin secured, from 173 bps in half year 2010 to 193 bps in half year 2011. Spread income in the US has increased by £36 million, reflecting the effect of transactions in 2010 to more closely match the overall asset and liability duration as well as lower amounts credited to policyholders on fixed annuities. In the UK, spread income has increased by £39 million reflecting the combination of the benefit of the bulk annuity deal written in the period together with the benefit to yields of transactions undertaken in the period to improve the quality of the annuity investment portfolio.

**Fee income** has increased by £102 million to £423 million, principally reflecting improved equity market performance and the net cash inflows in the first half of 2011 of £4.2 billion into separate accounts in Jackson and unit-linked liabilities in Asia.

**Insurance margin** has increased by £29 million to £345 million in half year 2011 driven both by the continuing growth in the in-force book in Asia, which has a relatively high proportion of risk-based products, and improved profitability in the UK's PruProtect and PruHealth businesses.

**Margin on revenues** principally comprises amounts deducted from premiums to cover acquisition costs and administration expenses. The margin has increased from £619 million in 2010 to £665 million, with the growth in Asia of £86 million being offset by a fall in the UK margin. The UK 2010 margin included the one-off benefit of expense assumption changes to annuity reserving.

**Acquisition costs** have increased in absolute terms to £927 million, broadly in line with the increased new business sales. Expressed as a percentage of new business APE, 2011 has seen a marginal increase from 50 per cent in 2010 to 51 per cent in 2011.

**Administration expenses** have also increased to £497 million, reflecting the growth of the business in the period. Overall the margin has improved from 86 bps in 2010 to 79 bps in 2011 as we continue to see the benefits of operational leverage.

**DAC adjustments** represent the net effect of the credit relating to costs deferred in the year offset by a charge reflecting the amortisation in the period of previously deferred costs. There has been a small increase to £180 million in 2011 primarily driven by higher deferrals in the US following the significant growth in new business sales.

### IFRS basis results - Margin analysis of asset management pre-tax IFRS operating profit based on longer-term investment returns by driver

	Half year 2011 £m				
	M&G	Asia	PruCap	US	Total
Operating income*	366	101	55	125	647
Operating profit based on longer-term investment returns	172	43	27	17	259
Average funds under management (FUM)†	£200.5bn	£52.2bn			
Margin based on operating income†	37 bps	39 bps			
Cost/income ratio‡	55%	59%			
	Half year 2010 £m				
	M&G	Asia	PruCap	US	Total
Operating income*	302	92	43	114	551
Operating profit based on longer-term investment returns	122	36	21	15	194
Average funds under management (FUM)†	£176.0bn	£44.2bn			
Margin based on operating income†	34 bps	41 bps			
Cost/income ratio‡	60%	62%			

\* Operating income is net of commissions and includes performance-related fees.

† Margin represents annualised operating income as a proportion of the related funds under management. Half year figures are annualised by multiplying by two. Opening and closing FUM have been used to derive the average.

‡ Cost/income ratio is calculated as cost as a percentage of income excluding performance-related fees, and for M&G carried interest on private equity investments.

M&G increased its asset management fee margin during the period from 34 bps in half year 2010 to 37 bps in 2011. This reflected a shift in funds under management mix towards external business which at 30 June 2011 represented 46 per cent of total funds under management (30 June 2010: 43 per cent). M&G continues to focus on cost control and the efficiencies created as the scale of the business grows. The benefit of this operational leverage is evident in the reduction in the cost/income ratio from 60 per cent in half year 2010 to 55 per cent in the first half of 2011.

In Asia, fund management revenues grew by 10 per cent compared with a growth of 18 per cent in average funds under management. Margins declined by two bps, mainly due to lower retail margins arising from the impact of weakening GBP on funds under management, tighter margins in India and a change in product mix in Japan. Continued focus on costs has seen cost/income ratio decrease by three percentage points to 59 per cent.

PruCap's operating profit increased during 2011, reflecting the ongoing active management of the portfolio in the period.

# FINANCIAL REVIEW

## IFRS basis profit after tax

	AER	
	Half year 2011 £m	Half year 2010 £m
<b>OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS</b>	1,058	845
Short-term fluctuations in investment returns: <sup>1</sup>		
Insurance operations	85	137
Other operations	28	12
	113	149
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(7)	(24)
Costs of terminated AIA transaction	–	(377)
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS ATTRIBUTABLE TO SHAREHOLDERS</b>	1,164	593
Tax charge attributable to shareholders' profit	(301)	(149)
Non-controlling interests	(2)	(2)
<b>PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	861	442

### IFRS basis profit after tax

The total profit before tax from continuing operations attributable to shareholders was £1,164 million in half year 2011, compared with £593 million in 2010. The improvement reflects the increase in operating profit based on longer-term investment returns, and the fact that in 2010 the profit was reduced by the terminated AIA transaction costs of £377 million.

In calculating the IFRS operating profit, we use longer-term investment return assumptions rather than actual investment returns arising in the year. The difference between actual investment returns recorded in the income statement and longer-term returns is shown in the analysis of profits as short-term fluctuations in investment returns.

### IFRS short-term fluctuations in investment returns

Short-term fluctuations in investment returns for our insurance operations comprise positive £14 million for Asia, positive £27 million for US operations and positive £44 million in the UK.

The positive short-term fluctuations of £14 million for our Asian operations includes a £26 million unrealised gain on the Group's 8.66 per cent stake in China Life Insurance Company of Taiwan.

Positive fluctuations of £27 million have arisen in our US operations principally as a result of a high level of realised investment gains in the period, following management's credit risk reduction programme, positive value movements on derivatives held to manage the Group's interest rate exposures and actual returns from limited partnerships exceeding longer-term expectations. Offsetting these amounts was a negative net equity hedge accounting effect (net of related DAC) of £79 million. The rise in the S&P Index in the first half of 2011 resulted in fair value reductions in the free-standing derivatives backing the guarantees embedded in Jackson's variable and fixed index annuity products. As a substantial proportion of these policyholder guarantees are not fair valued for accounting purposes, there is no accounting offset to the value movements of these derivatives.

The positive short-term fluctuations of £44 million for our UK operations principally reflect net investment gains arising in the period on fixed income assets backing the capital of the shareholder-backed annuity business.

Short-term fluctuations for other operations were positive £28 million and mainly represent unrealised appreciation on Prudential Capital's debt securities portfolio.

### Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes

The shareholders' share of actuarial and other gains and losses on defined benefit pension schemes of negative £7 million reflects adverse experience in the period in respect of the Scottish Amicable and M&G schemes, including actual asset returns being lower than the long-term rate assumed.

### Effective tax rates

The effective rate of tax on operating profits based on longer-term investment returns at half year 2011 is 23 per cent (2010: 24 per cent<sup>1</sup>). The primary reason for the decrease in rate compared to half year 2010 is the reduction in the UK tax rate. The effective tax rate of tax on total profits is 26 per cent (2010: 25 per cent).

### Note

<sup>1</sup> In the second half of 2010, the Company amended the presentation of IFRS operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations. Accordingly the half year 2010 operating profit has been amended to remove the positive £123 million effect with a consequential impact on the effective tax rate.



## EEV RESULTS

### EEV basis operating profit based on longer-term investment returns

	AER			CER	
	Half year 2011 £m	Half year 2010 £m	Change %	Half year 2010 £m	Change %
Insurance business					
Asia	774	636	22	631	23
US	831	667	25	630	32
UK	537	449	20	449	20
Development expenses	(2)	(3)	33	(3)	33
<b>LONG-TERM BUSINESS PROFIT</b>	<b>2,140</b>	<b>1,749</b>	<b>22</b>	<b>1,707</b>	<b>25</b>
UK general insurance commission	21	23	(9)	23	(9)
Asset management business:					
M&G	199	143	39	143	39
Asia asset management	43	36	19	36	19
Curian	5	2	150	2	150
US broker-dealer and asset management	12	13	(8)	12	–
	<b>2,420</b>	<b>1,966</b>	<b>23</b>	<b>1,923</b>	<b>26</b>
Other income and expenditure	(281)	(262)	7	(262)	7
RPI to CPI inflation measure change on defined benefit pension schemes <sup>note i</sup>	45	–	100	–	100
Solvency II implementation costs	(28)	(22)	27	(22)	27
Restructuring costs	(9)	(5)	80	(5)	80
<b>TOTAL EEV BASIS OPERATING PROFIT</b>	<b>2,147</b>	<b>1,677</b>	<b>28</b>	<b>1,634</b>	<b>31</b>

#### Note

- i During the first half of 2011, the Group altered its assumptions for future statutory increases to pension payments for its UK defined benefit pension schemes. This reflects the UK Government's decision to change the basis of indexation from RPI to CPI.

In the first six months of 2011, Prudential Group's total EEV basis operating profit based on longer-term investment returns was £2,147 million, an increase of 28 per cent from the same period in 2010.

Long-term business profit generated by the Group increased by 22 per cent to £2,140 million. This profit comprises:

- New business profit of £1,069 million (2010: £892 million<sup>1</sup>);
- In-force profit of £1,073 million (2010: £861 million); and
- Negative £2 million for other items including development expenses (2010: negative £4 million).

New business profit at £1,069 million, was 20 per cent higher than last year, which compares favourably with the equivalent increase in new business APE of 10 per cent. This resulted in a five percentage point increase in the Group new business margin from 54 per cent in half year 2010 to 59 per cent in half year 2011, demonstrating management's continued focus on those products and geographies with the highest return characteristics.

Strong new business margins were recorded across the Group. The margin for the Asian business increased to 63 per cent driven by a shift in country mix and by the ongoing high mix of protection business. The US new business profit margin increased by four percentage points to 68 per cent, due primarily to a greater proportion of sales from the higher margin variable annuity products and the positive effect of pricing changes made in the second half of last year. The UK new business margin was also higher than last year at 36 per cent (2010: 35 per cent), and includes the benefit of the bulk annuity buy-in written in the period as management continues to focus on value enhancing opportunities.

#### Note

- 1 Excluding Japan which ceased writing new business in 2010.

## FINANCIAL REVIEW

### **EEV basis operating profit based on longer-term investment returns > continued**

The contribution to operating profit from in-force business increased by 25 per cent to £1,073 million. This includes a £52 million increase in the unwind of discount and other expected returns from £773 million to £825 million in 2011, principally reflecting the recent growth in the Asian and US businesses. In-force profit in the first half of 2011 also includes the effect of operating assumption changes, experience variances and other items which had an aggregate positive impact of £248 million (2010: positive impact of £88 million). Of this amount, £170 million arises in the US, including £113 million of positive spread and other experience variances.

In Asia, we have seen improvements in the aggregate level of assumption changes and operating variances, where losses reduced from £59 million to £24 million. In the first half of 2011, adverse expense and persistency variances were broadly offset by positive mortality and morbidity amounts. These variances are relatively modest given the size of the business.

In the UK, operating assumption changes, experience variances and other items generated profits of £102 million. This principally reflects the £46 million benefit from the change in the tax rate assumption from 27 per cent to 26 per cent, together with the benefit of transactions undertaken in the period to rebalance the annuity asset portfolio and other sundry profits.

Operating profit from the asset management business and other non-long-term businesses increased to £280 million, up 29 per cent from £217 million in 2010.

Other income and expenditure totalled a net expense of £281 million compared with £262 million in 2010. The £19 million increase principally reflects the higher interest payable on core structural borrowings on the US\$500 million Tier 1 subordinated note issued in January, the proceeds of which are expected to be used to redeem the €500 million Tier 2 notes in December 2011.

## EEV basis profit after tax and non-controlling interests

	AER	
	Half year 2011 £m	Half year 2010 £m
EEV basis operating profit based on longer-term investment returns	2,147	1,677
Short-term fluctuations in investment returns:		
– Insurance operations	(139)	(239)
– Other operations	28	12
	(111)	(227)
Mark to market value movements on core borrowings	(74)	(42)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(8)	(25)
Effect of changes in economic assumptions	(111)	(52)
Costs of terminated AIA transaction	–	(377)
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>1,843</b>	<b>954</b>
Tax charge attributable to shareholders' profit	(572)	(140)
Non-controlling interests	(2)	(2)
<b>PROFIT AFTER NON-CONTROLLING INTERESTS</b>	<b>1,269</b>	<b>812</b>

### EEV basis profit after tax and non-controlling interests

#### Short-term fluctuations in investment returns

EEV operating profit is based on longer-term investment return assumptions rather than actual investment returns achieved. Short-term fluctuations in investment returns represent the difference between the actual investment return and those assumed in arriving at the reported operating profit.

Short-term fluctuations in investment returns for insurance operations of negative £139 million comprise a negative £63 million for Asia, negative £91 million for our US operations and positive £15 million in the UK.

For our Asian business, short-term fluctuations of negative £63 million (2010: negative £21 million) mainly reflect the adverse effect of rising bond yields in Vietnam and lower equity returns in India.

In our US business, short-term fluctuations in investment returns were negative £91 million (2010: negative £140 million), principally reflecting higher hedging costs, partially offset by the actual separate account return in the first half of 2011 of 5.6 per cent exceeding the longer-term expected level of 3.3 per cent.

For our UK business, the short-term fluctuations in investment returns were positive £15 million (2010: negative £78 million), principally arising on assets backing our shareholder-backed annuity business and the actual return on the with-profits fund exceeding the longer-term assumed rate.

#### Mark to market movement on core borrowings

The mark to market movement on core borrowings was a negative £74 million in the first half of 2011.

### Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes

The shareholders' share of actuarial and other gains and losses on defined benefit pension schemes on the EEV basis comprises the IFRS charge attributable to shareholders, and the shareholders' share of movements in the scheme assets and liabilities attributable to the PAC with-profits fund. On the EEV basis there was a charge of £8 million (2010: charge of £25 million) mainly reflecting adverse experience in the period for the Scottish Amicable and M&G schemes.

#### Effect of changes in economic assumptions

The effect of changes in economic assumptions of negative £111 million comprises negative £17 million for Asia, negative £13 million for the US and negative £81 million for the UK.

In our Asian business, economic assumption changes were negative £17 million arising from modest changes in economic factors across the territories in the period.

In our US business, economic assumption changes were modest at negative £13 million, with the fall in the assumed separate account return being partially offset by the beneficial effect of a fall in the risk discount rate following a decrease of 0.1 per cent in the US 10-year Treasury rate during the period.

In our UK business, economic assumption changes were negative £81 million, mainly reflecting the reduction in the additional returns assumed on corporate bonds and overseas equities relative to the risk free rate.

#### Effective tax rates

The effective tax rate at an operating level was 27 per cent (2010: 28 per cent). The effective tax rate at a total profits level was 31 per cent in 2011 (2010: 15 per cent). At a total profit level, 2010 benefited from a reduction in US deferred tax liabilities following changes to variable annuity reserving in accordance with revised statutory guidance. This positive effect was not repeated in 2011.

# FINANCIAL REVIEW

## EARNINGS AND DIVIDEND PER SHARE

### Earnings per share (EPS)

	Half year 2011 pence	Half year 2010 pence
Basic EPS based on operating profit after tax and non-controlling interests		
EEV	61.5	48.0
IFRS <sup>note i</sup>	32.2	25.4
Basic EPS based on total profit after non-controlling interests		
EEV	50.1	32.2
IFRS	34.0	17.5

#### Note

- i In the second half of 2010, the Company amended the presentation of IFRS operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations. Accordingly the half year 2010 operating profit has been amended to remove the positive £123 million effect.

### 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 2010 of 17.24 pence per ordinary share was paid to eligible shareholders on 26 May 2011.

In view of the progress that the Group had made in improving IFRS operating profitability and free surplus generation, the Board decided to rebase the 2010 full-year dividend upwards by 4 pence per share, equivalent to an increase of 20 per cent. This increase was reflected in full in the 2010 final dividend. As in previous years the interim dividend has been calculated formulaically as one third of the prior year's full year dividend. Therefore, the Board has approved an interim dividend of 7.95 pence per share, which translates into an increase of 20 per cent. The Group's dividend policy, which is to grow the dividend at a sustainable rate from the new higher base established at year end 2010, remains unchanged.

The 2011 interim dividend of 7.95 pence per ordinary share will be paid on 22 September 2011 in sterling to shareholders on the principal register and the Irish branch register at 6.00 p.m. BST on Friday, 19 August 2011 (the 'Record Date'), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30 p.m. 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 five days after the payment date of the dividend to shareholders on the principal register. The final dividend will be paid on or about 29 September 2011 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte.) Limited ('CDP') at 5.00 p.m. 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 4 August 2011. The exchange rate at which the dividend payable to the SG Shareholders will be translated into SG\$ will be determined by CDP. The dividend will distribute an estimated £203 million of shareholders' funds.

In line with full year 2010, shareholders on the principal register and Irish branch register will be able to participate in a Dividend Reinvestment Plan (DRIP).

The Board will maintain its focus on delivering a growing dividend at a sustainable rate from the new higher base established at year end 2010, which will continue to be determined after taking into account the Group's financial flexibility and the Board's 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.

**MOVEMENT ON SHAREHOLDERS' FUNDS**

	<b>AER</b>					
	<b>IFRS</b>			<b>EEV</b>		
	Half year 2011 £m	Half year 2010 note e £m	Full year 2010 £m	Half year 2011 £m	Half year 2010 £m	Full year 2010 £m
Operating profit based on longer-term investment returns	1,058	845	1,941	2,147	1,677	3,696
Items excluded from operating profit	106	(252)	(480)	(304)	(723)	(589)
<b>TOTAL PROFIT BEFORE TAX</b>	<b>1,164</b>	<b>593</b>	<b>1,461</b>	<b>1,843</b>	<b>954</b>	<b>3,107</b>
Exceptional tax credit	–	–	158	–	–	158
Tax and non-controlling interests	(303)	(151)	(188)	(574)	(142)	(692)
<b>PROFIT FOR THE PERIOD</b>	<b>861</b>	<b>442</b>	<b>1,431</b>	<b>1,269</b>	<b>812</b>	<b>2,573</b>
Exchange movements, net of related tax	(75)	307	251	(101)	798	693
Unrealised gains and losses on Jackson securities classified as available for sale <sup>note a</sup>	91	419	478	–	–	–
Dividends	(439)	(344)	(511)	(439)	(344)	(511)
New share capital subscribed	15	39	75	15	39	75
Other	17	27	36	42	94	104
<b>NET INCREASE IN SHAREHOLDERS' FUNDS</b>	<b>470</b>	<b>890</b>	<b>1,760</b>	<b>786</b>	<b>1,399</b>	<b>2,934</b>
Shareholders' funds at beginning of period	8,031	6,271	6,271	18,207	15,273	15,273
<b>SHAREHOLDERS' FUNDS AT END OF PERIOD</b>	<b>8,501</b>	<b>7,161</b>	<b>8,031</b>	<b>18,993</b>	<b>16,672</b>	<b>18,207</b>
Comprising						
Long-term business:						
Free surplus <sup>note b</sup>				2,883	2,737	2,748
Required capital				3,307	3,249	3,415
Net worth <sup>note c</sup>				6,190	5,986	6,163
Value of in-force				12,656	11,176	12,051
Total				18,846	17,162	18,214
Other business <sup>note d</sup>				147	(490)	(7)
<b>TOTAL<sup>note f</sup></b>				<b>18,993</b>	<b>16,672</b>	<b>18,207</b>

**Notes**

a Net of related changes to deferred acquisition costs and tax.

b The increase in free surplus of £135 million from 31 December 2010 arises primarily from £823 million being generated by the long-term business, off-set by cash paid to the holding company and other items.

c The increase in net worth in the period principally reflects the free surplus generated in the period, offset by cash paid to the holding company, changes to required capital and other items.

d Shareholders' funds for other than long-term business comprises:

	Half year 2011 £m	Half year 2010 £m	Full year 2010 £m
Asset management operations <sup>note (i)</sup>	1,860	1,711	1,787
Holding company net borrowings	(2,364)	(2,343)	(2,212)
Other, net	651	142	418
<b>TOTAL SHAREHOLDERS' FUNDS FOR OTHER BUSINESS</b>	<b>147</b>	<b>(490)</b>	<b>(7)</b>

(i) Including goodwill of £1,230 million for 30 June 2011, 30 June 2010 and 31 December 2010.

e In the second half of 2010, the Company amended the presentation of IFRS operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations. Accordingly the half year 2010 operating profit has been amended to remove the positive £123 million effect.

f EEV shareholders' funds excluding goodwill attributable to shareholders at 30 June 2011 is £17,524 million (30 June 2010: £15,207 million; 31 December 2010: £16,741 million).

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### IFRS

Statutory IFRS basis shareholders' funds at 30 June 2011 were £8.5 billion. This compares to £8.0 billion at 31 December 2010 and represents an increase of £0.5 billion, equivalent to six per cent.

The movement primarily reflects the profit for the period after tax and non-controlling interests of £861 million and the improvement in the level of net unrealised gains on Jackson's debt securities of £91 million from the position at 31 December 2010, offset by the payment of the 2010 final dividend of £439 million and exchange translation losses of £75 million.

### EEV

On an EEV basis, which recognises the shareholders' interest in long-term business, shareholders' funds at 30 June 2011 were £19 billion, an increase of £0.8 billion from the 31 December 2010 level, equivalent to four per cent. This increased level of shareholders' funds primarily reflects the profit after tax of £1,269 million, offset by the negative effects of exchange movements of £101 million and dividend payments of £439 million.

The shareholders' funds at 30 June 2011 relating to long-term business of £18.8 billion comprise £7.8 billion (up five per cent from year-end 2010) for our Asian long-term business operations, £4.8 billion (consistent with year-end 2010) for our US long-term business operations and £6.2 billion (up four per cent from year-end 2010) for our UK long-term business operations.

At 30 June 2011, the embedded value for our Asian long-term business operations was £7.8 billion, with £6.4 billion (up five per cent from 2010) being in the South East Asia countries of Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam together with Hong Kong. For Prudential's other Asian markets, the embedded value was £1.4 billion in aggregate.

### FREE SURPLUS AND HOLDING COMPANY CASH FLOW

The total movement in free surplus net of tax in the year can be analysed as follows:

	<b>AER</b>		
	Half year 2011 £m	Half year 2010 £m	Full year 2010 £m
<i>Free surplus generation</i>			
Expected in-force cash flows (including expected return on net assets)	1,218	1,115	2,139
Changes in operating assumptions and variances	139	171	220
RPI to CPI inflation measure change on defined benefit pension schemes <sup>note i</sup>	33	–	–
<b>UNDERLYING FREE SURPLUS GENERATED IN THE PERIOD FROM IN-FORCE BUSINESS</b>	<b>1,390</b>	<b>1,286</b>	<b>2,359</b>
Market related items	(44)	52	(94)
Investment in new business (including Japan)	(297)	(339)	(645)
<b>FREE SURPLUS GENERATED IN THE PERIOD FROM RETAINED BUSINESSES</b>	<b>1,049</b>	<b>999</b>	<b>1,620</b>
Net cash remitted by the business units	(690)	(460)	(935)
Other movements and timing differences	(136)	165	122
<b>TOTAL MOVEMENT DURING THE PERIOD</b>	<b>223</b>	<b>704</b>	<b>807</b>
<b>FREE SURPLUS AT 1 JANUARY</b>	<b>3,338</b>	<b>2,531</b>	<b>2,531</b>
<b>FREE SURPLUS AT END OF PERIOD</b>	<b>3,561</b>	<b>3,235</b>	<b>3,338</b>
Comprised of:			
Free surplus relating to long-term insurance business	2,883	2,737	2,748
Free surplus of other insurance business	48	17	33
IFRS net assets of asset management businesses excluding goodwill	630	481	557
Total free surplus	3,561	3,235	3,338

### Note

i During the first half of 2011, the Group altered its assumptions for future statutory increases to pension payments for its UK defined benefit pension schemes. This reflects the UK Government's decision to change the basis of indexation from RPI to CPI.

## Overview

The Group manages its internal cash flow by focusing on the free surplus generated by the life and asset management businesses as defined below and on an annual basis, the percentage of net underlying free surplus that is remitted to the holding company as cash. Remittances are, however, made as and when required by the holding company with excess surplus being left in the businesses. The tables below set out the Group's free surplus generation for 2011 and the holding company cash flow statement for the period.

## Free surplus generation

### Sources and uses of free surplus generation from the Group's insurance and asset management operations

Group free surplus at the end of the period comprises free surplus for the insurance businesses, representing the excess of the net worth over the required capital included in the EEV results, and IFRS net assets for the asset management businesses excluding goodwill. The free surplus generated during the period comprises the movement in this balance excluding foreign exchange, capital movements, and other reserve movements. Specifically, it includes amounts maturing from the in-force operations during the period less the investment in new business, the effect of market movements and other one-off items.

For asset management operations we have defined free surplus generation to be total post-tax IFRS profit for the period. Group free surplus generated also includes the general insurance commission earned during the period and excludes shareholders' other income and expenditure, and centrally arising restructuring and Solvency II implementation costs.

During the first half of 2011, we generated total free surplus from the retained businesses of £1,049 million (2010: £999 million). Underlying free surplus generated from the in-force book in half year 2011 increased by eight per cent to £1,390 million (2010: £1,286 million), as a result of increased expected returns from the growing insurance book and an increase in positive changes in operating assumptions and variances. These variances comprise £139 million for our life business (2010: £171 million) and a £33 million credit arising from a reduction in the liabilities of the Group's defined benefit pension schemes following the UK Government's decision to change the basis of indexation from RPI to CPI. The life business variances comprise negative £29 million in Asia (2010: negative £35 million), positive £60 million in the UK (2010: positive £110 million), and positive £108 million in the US (2010: positive £96 million), principally reflecting favourable spread experience.

Underlying free surplus generated has been used by our life businesses to invest in new business. Despite the strong growth in APE sales, investment in new business<sup>1</sup> has fallen by 12 per cent to £297 million in 2011 as a result of improved capital efficiency. This compares to a 10 per cent increase in sales<sup>1</sup> and a 20 per cent increase in new business profits<sup>1</sup>. The strong improvement in capital efficiency is primarily the result of continuing the active management of the product and geographical mix of the new business sold, in line with the Group's disciplined approach to capital conservation and value optimisation.

Market-related movements of negative £44 million in 2011 (2010: positive £52 million) include negative £71 million from our US business, with higher hedging costs being offset by releases of required capital after a reduction in the required asset risk charges arising from improvements to the quality of the investment portfolio, and negative £5 million in Asia. These amounts have been offset by positive movements in the UK (£27 million) and our asset management businesses (£5 million).

## Note

<sup>1</sup> Excluding Japan which ceased writing new business in 2010. Investment in business in Japan in 2011 was £nil (half year and full year 2010: £2 million).

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## Value created through investment in new business by life operations

	Half year 2011 £m						
	Asian operations			US insurance operations	UK insurance operations	Group total excluding Japan	Group total including Japan
	Excluding Japan	Japan	Total				
Free surplus invested in new business	(129)	–	(129)	(135)	(33)	(297)	(297)
Increase in required capital	49	–	49	123	40	212	212
Net worth invested in new business	(80)	–	(80)	(12)	7	(85)	(85)
Value of in-force created by new business	430	–	430	310	101	841	841
Post-tax new business profit for the period	350	–	350	298	108	756	756
Tax	115	–	115	160	38	313	313
Pre-tax new business profit for the period	465	–	465	458	146	1,069	1,069
New business sales (APE)	743		743	672	409		
New business margins (% APE)	63%		63%	68%	36%		
Internal rate of return*	>20%		>20%	>20%	>20%		

### AER

	Half year 2010 £m						
	Asian operations			US insurance operations	UK insurance operations	Group total excluding Japan	Group total including Japan
	Excluding Japan	Japan	Total				
Free surplus invested in new business	(123)	(2)	(125)	(179)	(35)	(337)	(339)
Increase in required capital	39	–	39	146	38	223	223
Net worth invested in new business	(84)	(2)	(86)	(33)	3	(114)	(116)
Value of in-force created by new business	382	1	383	268	94	744	745
Post-tax new business profit for the period	298	(1)	297	235	97	630	629
Tax	98	–	98	126	38	262	262
Pre-tax new business profit for the period	396	(1)	395	361	135	892	891
New business sales (APE)	713		720	560	382		
New business margins (% APE)	56%		55%	64%	35%		
Internal rate of return*	>20%		>20%	>20%	>15%		

\* The internal rate of return is equivalent to the discount rate at which the present value of the post-tax cash flows expected to be earned over the lifetime of the business written in shareholder-backed life funds is equal to the total invested capital to support the writing of the business. The capital included in the calculation of the IRR is equal to the amount required to pay acquisition costs and set up statutory reserves less premiums received, plus encumbered capital. The impact of the time value of options and guarantees is included in the calculation.



## Value created through investment in new business by life operations > continued

	CER						
	Half year 2010 £m						
	Asian operations			US insurance operations	UK insurance operations	Group total excluding Japan	Group total including Japan
Excluding Japan	Japan	Total					
Free surplus invested in new business	(121)	(2)	(123)	(169)	(35)	(325)	(327)
Increase in required capital	40	–	40	138	38	216	216
Net worth invested in new business	(81)	(2)	(83)	(31)	3	(109)	(111)
Value of in-force created by new business	379	1	380	253	94	726	727
Post-tax new business profit for the period	298	(1)	297	222	97	617	616
Tax	95	–	95	119	38	252	252
Pre-tax new business profit for the period	393	(1)	392	341	135	869	868
New business sales (APE)	701		708	528	382		
New business margins (% APE)	56%		55%	64%	35%		
Internal rate of return*	>20%		>20%	>20%	>15%		

\* The internal rate of return is equivalent to the discount rate at which the present value of the post-tax cash flows expected to be earned over the lifetime of the business written in shareholder-backed life funds is equal to the total invested capital to support the writing of the business. The capital included in the calculation of the IRR is equal to the amount required to pay acquisition costs and set up statutory reserves less premiums received, plus encumbered capital. The impact of the time value of options and guarantees is included in the calculation.

Overall, the Group wrote £1,824 million of sales on an APE basis in the first half of 2011 (2010: £1,655 million<sup>1</sup>) generating a post-tax new business contribution to embedded value of £756 million (2010: £630 million<sup>1</sup>). To support these sales, we invested £297 million of capital (2010: £337 million<sup>1</sup>). By focusing on sales of products and in geographies which are less capital intensive, the Group has increased the amount of post-tax new business profit contribution to embedded value per £1 million of free surplus invested by 32 per cent to £2.5 million (2010: £1.9 million). We estimate the Group's overall internal rate of return for the six months ended 30 June 2011 to be greater than 20 per cent. The amount of capital invested covers both new business strain, including commissions, of £85 million (2010: £114 million<sup>1</sup>) and the required capital of £212 million (2010: £223 million<sup>1</sup>). Management will continue to focus on capital preservation and investment in those areas which add most value to the Group.

In Asia, investment in new business was £129 million, broadly consistent with the £123 million<sup>1</sup> invested in the first half of 2010. This contrasts to a four per cent increase in new business sales (APE) in the period driven by geographic and product mix changes. For each £1 million of free surplus invested we generated £2.7 million of post-tax new business contribution to embedded value (2010: £2.4 million). The average free surplus undiscounted payback period for business written in the six months to 30 June 2011 was four years (2010: three years).

In the US, investment in new business was £135 million, 25 per cent lower than 2010 (£179 million) and contrasts to a 20 per cent increase in APE new business sales. For each £1 million of free surplus invested we generated £2.2 million of post-tax new business contribution to embedded value (2010: £1.3 million). This higher return reflects both a higher proportion of variable annuity business being sold in the periods, with a reduced proportion of more capital intensive fixed annuities, and product changes which have had a beneficial impact of the level of free surplus invested in sales in the period. The average free surplus undiscounted payback period for business written in the six months to 30 June 2011 was two years (2010: two years).

In the UK, investment in new business was lower, at £33 million compared to £35 million in the same period last year. This investment generated APE sales which were seven per cent higher at £409 million in 2011. For each £1 million of free surplus invested we generated £3.3 million of post-tax new business contribution to embedded value (2010: £2.8 million). The small increase reflecting the benefit of the relatively low capital utilisation of both the immediate and the bulk annuity business written in the period. The average free surplus undiscounted payback period for shareholder-backed business written in the six months to 30 June 2011 was five years (2010: five years).

### Note

<sup>1</sup> Excluding Japan which ceased writing new business in 2010.

# FINANCIAL REVIEW

## Holding company cash flow

	Half year 2011 £m	Half year 2010 £m	Full year 2010 £m
<b>NET CASH REMITTED BY BUSINESS UNITS:</b>			
UK Life fund paid to Group	223	202	202
Shareholder-backed business:			
Other UK paid to Group	42	67	275
Group invested in UK	–	(6)	(57)
Total shareholder-backed business	42	61	218
<b>UK NET</b>	265	263	420
US paid to Group	320	–	80
Group invested in US	–	–	–
<b>US NET</b>	320	–	80
Asia paid to Group			
Long-term business	147	99	330
Other operations	20	16	33
Group invested in Asia	167	115	363
Long-term business	(12)	(18)	(63)
Other operations	(50)	(30)	(67)
	(62)	(48)	(130)
<b>ASIA NET</b>	105	67	233
<b>M&amp;G PAID TO GROUP</b>	–	80	150
<b>PRUCAP PAID TO GROUP</b>	–	50	52
<b>NET REMITTANCES TO GROUP FROM BUSINESS UNITS</b>	690	460	935
Net interest paid	(135)	(110)	(231)
Tax received	100	55	185
Corporate activities	(70)	(63)	(146)
Solvency II costs	(36)	–	(34)
<b>TOTAL CENTRAL OUTFLOWS</b>	(141)	(118)	(226)
<b>OPERATING HOLDING COMPANY* CASH FLOW BEFORE DIVIDEND</b>	549	342	709
Dividend paid (net of scrip in respect of 2010)	(439)	(318)	(449)
<b>OPERATING HOLDING COMPANY* CASH FLOW AFTER DIVIDEND</b>	110	24	260
Issue of hybrid debt, net of costs	340	–	–
Costs of terminated AIA transaction	–	(261)	(377)
Bank loan reorganisation	–	–	120
Other cash payments	(205)	(244)	(276)
Total holding company cash flow	245	(481)	(273)
Cash and short-term investments at beginning of period	1,232	1,486	1,486
Foreign exchange movements	(1)	18	19
<b>CASH AND SHORT-TERM INVESTMENTS AT END OF PERIOD</b>	1,476	1,023	1,232

\*Including central finance subsidiaries.

### Holding company cash flow

We continue to manage cash flows across the Group with a view to achieving a balance between ensuring sufficient net remittances from the businesses to cover the progressive dividend (after corporate costs) and maximising value for shareholders through the retention of the free surplus generated at business unit level, so that it can be reinvested in the profitable opportunities available to the Group. On this basis, the holding company cash flow statement at an operating level should ordinarily balance close to zero before exceptional cash flows, but from time to time additional remittances from business operations will be made to provide the Group with greater financial flexibility at the corporate centre.

Operating holding company cash flow for the first half of 2011 before the shareholder dividend was £549 million, £207 million higher than half year 2010. After deducting the higher level of shareholder dividend paid following the upward rebasing at the end of 2010, the operating holding company cash flow was positive £110 million (2010: £24 million).

The holding company received £690 million of net cash remittances from the business units in the first half of 2011, an increase of £230 million from half year 2010.

The UK insurance operations remitted £265 million in the first half of 2011 (2010: £263 million). This included a higher annual with-profits transfer to shareholders of £223 million. A total of £42 million was remitted from the shareholder-backed business, reflecting the surpluses arising from shareholder-backed annuities and the benefits of our cost savings initiatives. The UK remains on track to deliver £350 million of cash to Group by 2013.

Cash received from Jackson was £320 million in half year 2011 (2010: £nil), above the 2013 sustainable remittance target of £200 million. Jackson's full dividend contribution to Group for 2011 has been taken in the first half, with £200 million representing the remittances for the year and a further £120 million representing additional releases of surplus to Group. These additional releases reflect the current strength of Jackson's balance sheet, after its recent strong business and financial performance.

Asia continues to be cash positive, increasing its remittances to Group at the half year stage to £105 million, some £38 million higher than the net £67 million remitted in the same period last year. Asia remains on track to meet its objective of £300 million net remittances in 2013.

The Group's UK asset management operations remit substantially all of their annual post-tax earnings to Group, which in 2011 will be paid in the second half of the year.

Central outflows increased to £141 million in half year 2011 (2010: £118 million). Higher tax receipts in the first half of 2011 were offset by increased net interest payments, following the additional debt raised in 2011, and higher Solvency II implementation spend.

After central costs, there was a net cash inflow before dividend of £549 million in the first half of 2011 compared to £342 million for half year 2010. The dividend paid was £439 million in half year 2011 compared to £318 million (net of scrip of £26 million) in the same period in 2010.

Outside of the normal recurring central cash flow items we incurred £205 million of other cash payments in 2011. These comprise the first instalment to the UK tax authorities following the settlement reached last year on historic tax issues and the prepayment of fees in relation to new distribution agreements in Asia.

The overall holding company cash and short-term investment balances at 30 June 2011 increased by £244 million to £1.5 billion from the £1.2 billion at 31 December 2010. The Company seeks to maintain a central cash balance in excess of £1 billion. The current cash balance is buoyed by the receipt of £340 million proceeds from January's subordinated debt issue. This is expected to be used to repay the €500 million Tier 2 subordinated debt later in the year.

# FINANCIAL REVIEW

## Balance Sheet Summary

	<b>AER</b>		
	Half year 2011 £m	Half year 2010 £m	Full year 2010 £m
Investments	245,282	222,599	239,297
Holding company cash and short-term investments	1,476	1,023	1,232
Other	22,708	19,790	20,277
<b>Total assets</b>	<b>269,466</b>	<b>243,412</b>	<b>260,806</b>
Less: Liabilities			
Policyholder liabilities	221,432	198,913	214,727
Unallocated surplus of with-profits funds	10,872	10,066	10,253
	<b>232,304</b>	<b>208,979</b>	<b>224,980</b>
Less: Shareholders' accrued interest in the long-term business	(10,492)	(9,511)	(10,176)
	<b>221,812</b>	<b>199,468</b>	<b>214,804</b>
Core structural borrowings of shareholders' financed operations (IFRS book value basis)	3,998	3,482	3,676
Other liabilities including non-controlling interest	24,663	23,790	24,119
<b>Total liabilities and non-controlling interest</b>	<b>250,473</b>	<b>226,740</b>	<b>242,599</b>
<b>EEV BASIS NET ASSETS</b>	<b>18,993</b>	<b>16,672</b>	<b>18,207</b>
Share capital and premium	1,998	1,983	1,983
IFRS basis shareholders' reserves	6,503	5,178	6,048
IFRS basis shareholders' equity	8,501	7,161	8,031
Additional EEV basis retained profit	10,492	9,511	10,176
<b>EEV BASIS SHAREHOLDERS' EQUITY (EXCLUDING NON-CONTROLLING INTEREST)</b>	<b>18,993</b>	<b>16,672</b>	<b>18,207</b>

The following sections focus on key areas of interest in the balance sheet.

### Investments

	Half year 2011 £m				Full year 2010 £m
	Participating funds	Unit-linked and variable annuities	Shareholder- backed	Total Group	Total Group
Debt securities	54,149	8,726	54,338	117,213	116,352
Equity	30,009	60,145	883	91,037	86,635
Property investments	8,664	743	1,558	10,965	11,247
Commercial mortgage loans	269	–	4,630	4,899	4,949
Other loans	1,888	–	2,230	4,118	4,312
Deposits	8,125	872	1,861	10,858	9,952
Other investments	4,049	112	2,031	6,192	5,850
<b>Total</b>	<b>107,153</b>	<b>70,598</b>	<b>67,531</b>	<b>245,282</b>	<b>239,297</b>

Total investments held by the Group at 30 June 2011 were £245 billion, of which £107 billion were held by participating funds, £71 billion by unit-linked funds and £67 billion by shareholder-backed operations. Shareholders are not directly exposed to value movements on assets backing participating or unit-linked operations, with sensitivity mainly related to shareholder-backed operations.

Of the £67 billion investments related to shareholder-backed operations, £6 billion was held by Asia long-term business, £31 billion by Jackson and £27 billion by the UK long-term business respectively. In addition, £3 billion is held by our asset management and other operations.

The investments held by the shareholder-backed operations are predominantly debt securities, totalling £54 billion, £5 billion, £25 billion and £22 billion for Asia, the US and the UK long-term businesses respectively, of which 87 per cent, 95 per cent and 98 per cent are rated, either externally or internally, as investment grade.

In addition, £2 billion of debt securities was held by asset management and other operations, substantially all of which was managed by Prudential Capital.

### Policyholder liabilities and unallocated surplus of with-profits funds

	AER				Half year 2010 note i £m
	Half year 2011 £m				
Shareholder-backed business	Asia	US	UK	Total	Total
At 1 January	17,716	60,523	43,944	122,183	100,061
Premiums	1,799	6,805	2,178	10,782	8,979
Surrenders	(904)	(2,153)	(1,085)	(4,142)	(3,208)
Maturities/Deaths	(92)	(436)	(1,098)	(1,626)	(1,540)
<b>NET FLOWS</b>	<b>803</b>	<b>4,216</b>	<b>(5)</b>	<b>5,014</b>	<b>4,231</b>
Investment related items and other movements	185	1,429	1,218	2,832	1,402
Acquisition of UOB Life Assurance Limited	–	–	–	–	464
Foreign exchange translation difference	8	(1,461)	–	(1,453)	5,015
At 30 June	18,712	64,707	45,157	128,576	111,173
<b>WITH-PROFITS FUNDS</b>					
– Policyholder liabilities				92,856	87,740
– Unallocated surplus				10,872	10,066
<b>TOTAL AT 30 JUNE</b>				<b>103,728</b>	<b>97,806</b>
<b>TOTAL POLICYHOLDER LIABILITIES INCLUDING UNALLOCATED SURPLUS AT 30 JUNE</b>				<b>232,304</b>	<b>208,979</b>

#### Note

i At 30 June 2010, £188 million of surrenders and £9 million of maturities relating to Indian unit-linked business, which had previously been netted off investment related items and other movements, have now been presented against the appropriate classifications. This change has no impact on the previously reported full year 2010 equivalent analysis.

### Policyholder liabilities and unallocated surplus of with-profits funds

Policyholder liabilities related to shareholder-backed business grew by £6.4 billion from £122.2 billion at 31 December 2010 to £128.6 billion at 30 June 2011.

The increase reflects positive net flows (premiums less surrenders and maturities/deaths) of £5.0 billion in 2011 (2010: £4.2 billion), driven by strong inflows in the US (£4.2 billion) and Asia (£0.8 billion). Excluding India, net flows in Asia have increased by 22 per cent to £684 million in 2011 (2010: £562 million). In Asia, the rate of surrenders (expressed as a percentage of opening liabilities) was 5.1 per cent in the first half of 2011 compared with 6.2 per cent in the first half and 6.4 per cent in the second half of 2010 respectively. There have been improvements in both Malaysia and Indonesia where we had

experienced increased withdrawals in 2010, as policyholders took the opportunity to capitalise on the increased value of their unit linked policies as stock markets recovered.

Positive investment-related and other items of £2.8 billion (2010: £1.4 billion) also contributed to the growth in Group policyholder liabilities following improvements in the bond and equity markets during the period.

Other movements include foreign exchange movements of negative £1.5 billion (2010: positive £5.0 billion).

During 2011, the unallocated surplus, which represents the excess of assets over policyholder liabilities for the Group's with-profit funds on a statutory basis, increased by 6.0 per cent from £10.3 billion at 31 December 2010 to £10.9 billion at 30 June 2011.

# FINANCIAL REVIEW

## Shareholders' net borrowings and ratings

	AER					
	Half year 2011 £m			Full year 2010 £m		
	IFRS basis	Mark to market value	EEV basis	IFRS basis	Mark to market value	EEV basis
Perpetual subordinated						
Capital securities (Innovative Tier 1)	1,764	73	1,837	1,463	28	1,491
Subordinated notes (Lower Tier 2)	1,280	136	1,416	1,255	117	1,372
	3,044	209	3,253	2,718	145	2,863
Senior debt						
2023	300	37	337	300	33	333
2029	249	1	250	249	(1)	248
Holding company total	3,593	247	3,840	3,267	177	3,444
Prudential Capital	250	–	250	250	–	250
Jackson surplus notes (Lower Tier 2)	155	17	172	159	13	172
Total	3,998	264	4,262	3,676	190	3,866
Less: Holding company cash and short-term investments	(1,476)	–	(1,476)	(1,232)	–	(1,232)
Net core structural borrowings of shareholder-financed operations	2,522	264	2,786	2,444	190	2,634

### Shareholders' net borrowings and ratings

The Group's core structural borrowings at 30 June 2011 totalled £4.0 billion on an IFRS basis, compared with £3.7 billion at 31 December 2010. The increase of £0.3 billion mainly reflects the issue of US\$550 million of subordinated debt in the period.

After adjusting for holding company cash and short-term investments of £1.5 billion, net core structural borrowings at 30 June 2011 were £2.5 billion compared with £2.4 billion at 31 December 2010. The increase of £0.1 billion comprises positive operating cash flows (after payment of the 2010 final dividend) of £0.1 billion offset by exceptional cash payments in the period of £0.2 billion.

In January 2011, the Company issued US\$550 million 7.75 per cent Tier 1 subordinated debt, primarily to retail investors. The proceeds, net of costs, were US\$539 million (£340 million) and are intended to finance the repayment of the €500 million Tier 2 subordinated notes in December 2011.

The Group operates a central treasury function, which has overall responsibility for managing our capital funding programme as well as our central cash and liquidity positions.

In addition to our core structural borrowings set out above, we also have in place an unlimited global commercial paper programme. As at 30 June 2011, we had issued commercial paper under this programme totalling £187 million, US\$3,075 million, €237 million and CHF92 million. The central treasury function also manages our £5,000 million medium-term note (MTN) programme, covering both core and non-core borrowings. During January 2010, we raised non-core borrowings of £250 million from this programme.

In total, at 30 June 2011 the outstanding subordinated debt under the programme was £835 million, US\$1,300 million and €520 million, while the senior debt outstanding was £450 million. In addition, our holding company has access to £2.1 billion of syndicated and bilateral committed revolving credit facilities, provided by 17 major international banks, expiring between 2012 and 2016. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 30 June 2011. The commercial paper programme, the MTN programme and the committed revolving credit facilities are all available for general corporate purposes and to support the liquidity needs of our holding company and are intended to maintain a strong and flexible funding capacity.

We manage the Group's core debt within a target level consistent with our current debt ratings. At 30 June 2011, the gearing ratio (debt, net of cash and short-term investments, as a proportion of EEV shareholders' funds plus net debt) was 11.7 per cent, compared with 11.8 per cent at 31 December 2010. Prudential plc has strong debt ratings from Standard & Poor's, Moody's and Fitch. Prudential'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.

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

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

### Financial position on defined benefit pension schemes

The Group currently operates three defined benefit schemes in the UK, of which by far the largest is the Prudential Staff Pension Scheme (PSPS) and two smaller schemes, Scottish Amicable (SAPS) and M&G.

Defined benefit schemes in the UK are generally required to be subject to a full actuarial valuation every three years, in order to assess the appropriate level of funding for schemes in relation to their commitments. PSPS, SAPS and M&G were last actuarially valued as at 5 April 2008, 31 March 2008 and 31 December 2008, respectively. The valuation of PSPS as at 5 April 2008 demonstrated the scheme to be 106 per cent funded by reference to the Scheme Solvency Target that forms the basis of the scheme's funding objective. No formal deficit plan was required. However, in recognition of the fall in value of the Scheme's investments between 5 April 2008 and the completion of the actuarial valuation in the second quarter of 2009, additional funding akin to deficit funding was agreed by the Trustees. This is subject to reassessment when the next valuation, which is currently in progress, is completed. The total contributions being currently made by the Group into the scheme, representing the annual accrual cost and deficit funding, are £50 million per annum. Deficit funding for PSPS is apportioned in the ratio of 70/30 between the PAC with-profits fund and shareholder-backed operations.

The actuarial valuation of SAPS as at 31 March 2008 demonstrated the scheme to be 91 per cent funded, representing a deficit of £38 million. Based on this valuation and subsequent agreements with the Trustees, £13.1 million per annum of deficit funding is currently being paid into the scheme.

The actuarial valuation of the M&G pension scheme as at 31 December 2008 demonstrated the scheme to be 76 per cent funded, representing a deficit of £51 million. Based on this valuation, deficit funding amounts designed to eliminate the actuarial deficit over a five year period have been agreed with £14.1 million being paid in each of 2010 and 2011 and £9.3 million per annum for the subsequent three years.

The next triennial valuations for PSPS and SAPS as at 5 April 2011 and 31 March 2011, respectively, are currently in progress. The next triennial valuation for the M&G pension scheme is at 31 December 2011.

The valuation basis under IAS 19 for the Group financial statements differs markedly from the full triennial actuarial valuation basis. In particular, reflecting the trust deed provisions over distributions, the underlying surplus net of related tax relief of £749 million for PSPS at 30 June 2011 (31 December 2010: £421 million) is not recognised. As at 30 June 2011, on the Group IFRS statement of financial position, the shareholders' share of the liabilities for these UK schemes amounted to a £48 million liability net of related tax relief (31 December 2010: £83 million).

The total share attributable to the PAC with-profits fund amounted to a liability of £69 million net of related tax relief (31 December 2010: £99 million). The adoption by the Group in half year 2011 of the UK Government's decision to use the Consumer Price Index (CPI) in place of the Retail Price Index (RPI) as the basis for inflationary increases to pensions affected the IAS 19 valuation of certain tranches of the Group's schemes. This resulted in a credit to pre-tax operating profit of £42 million. The impact of this change on the shareholders' share of pension liabilities, net of related tax relief and the total share attributable to the PAC with-profits fund, net of related tax relief, was a reduction of £31 million and £22 million, respectively.

### Financial strength of the UK Long-term Fund

On a realistic valuation basis, with liabilities recorded on a market consistent basis, the free assets were valued at approximately £6.9 billion at 30 June 2011, before a deduction for the risk capital margin. The value of the shareholder's interest in future transfers from the UK with-profits fund is estimated at £2.4 billion. The financial strength of PAC is rated AA by Standard & Poor's, Aa2 by Moody's and AA by Fitch Ratings.

Despite continued volatility in financial markets, Prudential UK's with-profits fund performed relatively strongly achieving a 3.6 per cent pre-tax investment return for policyholder asset shares during the first half of 2011.

### Inherited estate of Prudential Assurance

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

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

# RISK AND CAPITAL MANAGEMENT

**As a provider of financial services, including insurance, the management of risk lies at the heart of our business. As a result, effective risk management capabilities represent a key source of competitive advantage for our Group.**

The Group's risk appetite framework sets out our appetite for risk exposures as well as our approach to risk management and return optimisation. Under this approach, we monitor our risk profile continuously against agreed limits. Our main strategies for managing and mitigating risk include asset liability management, using derivatives to hedge relevant market risks, and implementing reinsurance and corporate insurance programmes.

Our risk exposure and approach to risk management were described in detail in our 2010 year-end report and remain valid.

## 1 Financial risks

### a Market risk

#### i Equity risk

In the UK business, most of our equity exposure is incurred in the with-profits fund, which includes a large inherited estate estimated at £6.9 billion as at 30 June 2011 (30 June 2010: £5.9 billion), which can absorb market fluctuations and protect the fund's solvency. The inherited estate itself is partially protected against falls in equity markets through an active hedging policy.

In Asia, a high proportion of our in-force book is made up of unit-linked products with limited shareholder exposure to equities. We have minimal direct shareholder exposure to Asian equity markets outside our unit-linked holdings.

In the US, where we are a leading provider of variable annuities, there are well-understood risks associated with the guarantees embedded in our products. We provide guaranteed minimum death benefits (GMDB) on all policies in this class, guaranteed minimum withdrawal benefits (GMWB) on 75 per cent of the book, and guaranteed minimum income benefits (GMIB) on only four per cent. To protect the shareholders against the volatility introduced by these embedded options, we use both a comprehensive hedging programme and reinsurance. Due to the inability to reinsure or hedge the GMIB economically, Jackson ceased offering this benefit in 2009.

In our variable annuity sales activities, we focus on meeting the needs of conservative and risk averse customers who are seeking reliable income in retirement, and who display little tendency to arbitrage their guarantees. These customers generally select conservative investment options. We are able to meet the needs of these customers because our unique and market-leading operational platform allows us to tailor more than 3,200 product combinations.

It is our philosophy not to compete on price. Our individual guarantees tend to be more expensive than the market average because we seek to sell at a price sufficient to fund the cost we incur to hedge or reinsure our risks.

We use a macro approach to hedging that covers the entire risk in the US business. Within this macro approach we make use of the natural offsets that exist between the variable annuity guarantees and the fixed index annuity book, and then use a combination of OTC options and futures to hedge the residual risk, allowing for significant market shocks and limiting the amount of capital we are putting at risk. Internal positions are generally netted before any external hedge positions are considered. The hedging programme also covers the fees on variable annuity guarantees.

Jackson hedges the economics of its products rather than the accounting result. This focus means that we sometimes accept a degree of variability in our accounting results in order to ensure we achieve the appropriate economic result. Accordingly, while its hedges are effective on an economic basis, due to different accounting treatment for the hedges and some of the underlying hedged items on an IFRS basis, the reported income effect is more variable.

#### ii Interest rate risk

Interest rate risk arises primarily from Prudential's investments in long-term debt and fixed income securities. Interest rate risk also exists in policies that carry investment guarantees on early surrender or at maturity, where claim values can become higher than the value of backing assets as a result of rises or falls in interest rates.

In the US, there is interest rate risk across the portfolio. The majority of Jackson's fixed annuity and life liabilities allow for an annual reset of the crediting rate, which provides for a greater level of discretion in determining the amount of interest rate risk to assume. The primary concerns with these liabilities relate to potential surrenders when rates increase and, in a low interest environment, the minimum guarantees required by state law. With its large fixed annuity and fixed index annuity books, Jackson has natural offsets for its variable annuity interest-rate related risks. Jackson manages interest rate exposure through a combination of interest rate swaps and interest rate options.

In the UK, the investment policy for the shareholder-backed annuity business is to match the annuity payments with the cash flows from investments. As a result, assets and liabilities are closely matched by duration. The impact on profit of any residual cash flow mismatching can be adversely affected by changes in interest rates; therefore the mismatching position is regularly monitored.

The exposure to interest rate risk arising from Asia is at modest levels.



### iii Foreign exchange risk

Prudential principally operates in the UK, the US, and in 13 countries in Asia. The geographical diversity of our businesses means that we are inevitably subject to the risk of exchange rate fluctuations. Prudential's 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 pounds sterling.

We do not generally seek to hedge foreign currency revenues, as these are substantially retained locally to support the growth of the Group's business and meet local regulatory and market requirements. However, in cases where a surplus arising in an overseas operation supports Group capital or shareholders' interest, this exposure is hedged if it is economically optimal to do so. Currency borrowings, swaps and other derivatives are used to manage exposures.

### b Credit risk

In addition to business unit operational limits on credit risk, we monitor closely our counterparty exposures at Group level, highlighting those that are large or of concern. Where appropriate, we will reduce our exposure, purchase credit protection or make use of collateral arrangements to control our levels of credit risk.

### Debt portfolio

Our debt portfolio on an IFRS basis was £117.2 billion at 30 June 2011. £54.3 billion of these assets backed shareholder business, of which 95 per cent were investment grade, compared to 95 per cent at 30 June 2010. Sovereign debt represented 15 per cent of the debt portfolio backing shareholder business, or £8.4 billion, at 30 June 2011. 69 per cent of this was rated AAA and 93 per cent investment grade. Shareholder-backed sovereign exposures were £1.9 billion to the US, £2.8 billion to the UK, £0.7 billion to Europe and £3.0 billion to the rest of the world, predominately Asia. In terms of exposure to Europe, of which 93 per cent were AAA rated, the exposure in respect of Germany was £616 million, Italy was £52 million and Spain was £1 million whilst there was no sovereign exposure to Greece, Portugal or Ireland.

In terms of shareholder exposures to the bank debt of Portugal, Ireland, Italy, Greece and Spain (PIIGS), we held £341 million at 30 June 2011. The £341 million bank debt exposure was £34 million to Portugal, £15 million to Ireland, £138 million to Italy and £154 million to Spain. The £341 million comprised £46 million senior debt, £30 million Tier 1 debt, £242 million Tier 2 debt and £23 million of covered bonds. There was no exposure to Greece in respect of bank debt.

Of the £54.3 billion of debt securities backing shareholder business, five per cent (£3.0 billion) was in Tier 1 and Tier 2 hybrid bank debt. In addition to the Tier 1 and Tier 2 PIIGS exposures set out above we had £515 million exposure to the US, of which £3 million was Tier 1, £854 million exposure to the UK, of which £112 million was Tier 1, and £1,334 million of other exposures, of which £283 million was Tier 1.

### Asia

Asia's debt portfolio totalled £15.4 billion at 30 June 2011. Of this, approximately 68 per cent was in unit-linked and with-profits funds with minimal shareholders' risk. The remaining 32 per cent is shareholder exposure and is invested predominantly (87 per cent) in investment grade bonds. For Asia, the portfolio has performed very well, and did not experience any default losses in the first half of 2011.

### UK

The UK's debt portfolio on an IFRS basis is £74.8 billion as at 30 June 2011, including £46.7 billion within the UK with-profits fund. Shareholders' risk exposure to the with-profits fund is limited as the solvency is protected by the large inherited estate. Outside the with-profits fund there is £5.7 billion in unit-linked funds where the shareholders' risk is limited, with the remaining £22.4 billion backing the shareholders' annuity business and other non-linked business (of which 80 per cent is rated AAA to A, 18 per cent BBB and two per cent non-investment grade).

### US

The most significant area of exposure to credit risk for the shareholders is Jackson in the US. At 30 June 2011 Jackson's fixed income debt securities portfolio totalling £25.3 billion, comprised £19.7 billion corporate and government debt, £2.5 billion of Residential Mortgage-Backed Securities (RMBS), £2.3 billion of Commercial Mortgage-Backed Securities (CMBS) and £0.8 billion of other instruments.

The US corporate and government debt portfolio of £19.7 billion is comprised of £17.9 billion of corporate debt and £1.8 billion of government debt. Of the £17.9 billion of corporate debt 95 per cent is investment grade. Concentration risk within the corporate debt portfolio is low, with the top ten holdings accounting for approximately eight per cent of the portfolio. Our largest sector exposures in the investment grade corporate debt portfolio are Utilities and Energy each at 15 per cent. We actively manage the portfolio and will sell exposures as events dictate.

Within the RMBS portfolio of £2.5 billion, the agency guaranteed portion is 53 per cent. Another 24 per cent of the portfolio is non-agency prime and Alt-A investments with pre-2006/2007 vintages, where experience has been much more positive than later vintages. Our exposure to the 2006/2007 vintages totals £425 million of which £418 million is invested in the senior part of the capital structure, thereby significantly reducing the risk of defaults and the magnitude of loss if a shortfall does occur. The actual exposure to non-senior 2006/2007 Prime and Alt-A RMBS is only £7 million. The total RMBS portfolio has an average fair value price of 90 cents on the dollar.

The CMBS portfolio of £2.3 billion is performing strongly, with 38 per cent of the portfolio rated AAA and one per cent rated below investment grade. The entire portfolio has an average credit enhancement level of 31 per cent. This level provides significant protection, since it means the bond has to incur a 31 per cent loss, net of recoveries, before we are at risk.

## RISK AND CAPITAL MANAGEMENT

In Jackson, total amounts charged to profits relating to debt securities were £13 million (2010: £161 million). This is net of recoveries/reversals recognised in the year of £3 million (2010: £3 million).

In the first half of 2011, Jackson's total defaults were £nil (2010: £nil). In addition, as part of our active management of the book, we incurred a credit net of recoveries and reversals of £1 million (2010: losses of £97 million) on credit-related sales of impaired bonds.

IFRS write-downs excluding defaults for the first half of the year were £14 million compared to £64 million in the equivalent period in 2010. Of this amount £11 million (2010: £39 million) was in respect of RMBS securities.

The impairment process reflects a rigorous review of every bond and security in our portfolio. Our accounting policy requires us to book full mark to market losses on impaired securities through our income statement. However, we would expect only a proportion of these losses eventually to turn into defaults, and some of the impaired securities to recover in price over time.

### *Unrealised gains and losses on debt securities in the US*

Jackson's net unrealised gains from debt securities has steadily improved from negative £2,897 million at 31 December 2008 to positive £4 million at 31 December 2009 to positive £1,210 million at 31 December 2010 to positive £1,419 million at 30 June 2011. The gross unrealised loss position moved from £370 million at 31 December 2010 to £266 million at 30 June 2011. Gross unrealised losses on securities priced at less than 80 per cent of face value totalled £168 million at 30 June 2011 compared to £224 million at 31 December 2010.

### *Asset management*

The debt portfolio of the Group's asset management operations of £1.7 billion as at 30 June 2011 is principally related to Prudential Capital operations. Of this amount £1.6 billion were rated AAA to A- by S&P or Aaa to A3 by Moody's.

### *Loans*

Of the total Group loans of £9.0 billion at 30 June 2011, £6.8 billion are held by shareholder-backed operations comprised of £4.6 billion commercial mortgage loans and £2.2 billion of other loans.

Of the £6.8 billion held by shareholder-backed operations, the Asian insurance operations held £0.4 billion of other loans, the majority of which are commercial loans held by the Malaysian operation that are rated investment grade by two local rating agencies. The US insurance operations held £4.1 billion of loans, comprising £3.6 billion of commercial mortgage loans, all of which are collateralised by properties, and £0.5 billion of policy loans. The US commercial mortgage loan portfolio does not include any single-family residential mortgage loans and therefore is not exposed to the risk of defaults associated with residential sub-prime mortgage loans. Jackson incurred impairments of £9.6 million on its commercial mortgage book (2010: £1.2 million). The UK insurance operations held £1.0 billion of loans, the majority of which are mortgage loans collateralised by properties.

The balance of the total shareholder loans amounts to £1.3 billion and relates to bridging loan finance managed by Prudential Capital.

### **c 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 trends, persistency, investment performance, unit cost of administration and new business acquisition expenses.

We continue to conduct rigorous research into longevity risk using data from our substantial annuity portfolio. The assumptions that Prudential makes about future expected levels of mortality are particularly relevant in its UK annuity business. The attractiveness of reinsurance is regularly evaluated. It is used as a risk management tool where it is appropriate and attractive to do so.

Prudential's 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 proactively post sale. 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.

### **d Liquidity risk**

The holding company has significant internal sources of liquidity which are sufficient to meet all of our expected requirements for the foreseeable future without having to make use of external funding. In aggregate the Group has £2.1 billion of undrawn committed facilities, expiring between 2012 and 2016. In addition, the Group has access to liquidity via the debt capital markets. For example, Prudential plc issued US\$550 million perpetual subordinated Tier 1 securities in January 2011. Prudential also has in place an unlimited commercial paper programme and has maintained a consistent presence as an issuer in this market for the last 10 years. Liquidity uses and sources have been assessed at a business unit level under base case and stressed assumptions. The liquidity resources available and the subsequent Liquidity Coverage Ratio (LCR) have been assessed to be sufficient under both sets of assumptions.

### **2 Non-financial risk**

Prudential is exposed to operational, business environment and strategic risk in the course of running its businesses.

With regard to operational risk, the Group is dependent on processing a large number of complex transactions across numerous and diverse products, and is subject to a number of different legal and regulatory, including tax, regimes. Prudential also has a significant number of third-party relationships that are important to the distribution and processing of our products, both as market counterparties and as business partners. This results in reliance upon the operational performance of these outsourcing partners.

Prudential's systems and processes incorporate controls that are designed to manage and mitigate the operational risks associated with its activities. The Prudential Group Governance Manual was developed to make a key contribution to the sound system of internal control that the Group is expected to maintain under the UK Corporate Governance Code and the Hong Kong Code on Corporate Governance Practices. Business units confirm that they have implemented the necessary controls to evidence compliance with the Manual.

The Group also has 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 components such as risk and control assessments, internal incidents and external incidents, is reported by the business operations and presented to the Group Operational Risk Committee. This information also supports business decision-making and lessons-learned activities; the ongoing improvement of the control environment; the informing of overall levels of capital held; and determination of the adequacy of Prudential's corporate insurance programme.

With regard to business environment risk, the Group has a wide-ranging programme of active and constructive engagement with governments, policymakers and regulators in our key markets and with relevant international institutions. Such engagement is undertaken both directly and indirectly via trade associations. The Group has procedures in place to monitor and track political and regulatory developments. Where appropriate, we provide submissions and technical input to officials and others, either via submissions to formal consultations or through interactions with officials.

With regard to strategic risk, both business units and the Group Head Office are required to adopt a forward-looking approach to risk management by performing risk assessments as part of the annual strategic planning process. This supports the identification of potential threats and the initiatives needed to address them, as well as competitive opportunities. The impact on the underlying businesses and/or Group-wide risk profile is also considered to ensure that strategic initiatives are within the Group's risk appetite.

### 3 Risk factors and contingencies

Our disclosures covering risk factors can be found at the end of our 2010 Annual Report. Note AB of the IFRS basis condensed consolidated financial statements gives an update on the position for contingencies of the Group since those published in the 2010 Annual Report.

#### Capital management

##### Regulatory capital (IGD)

Prudential is subject to the capital adequacy requirements of the European Union (EU) Insurance Groups Directive (IGD) as implemented by the Financial Services Authority (FSA) in the UK. The IGD capital adequacy requirements involve aggregating surplus capital held in our regulated subsidiaries, from which Group borrowings, except those subordinated debt issues that qualify as capital, are deducted. No credit for the benefit of diversification is permitted under this approach.

Our capital position remains strong. We have continued to place emphasis on maintaining the Group's financial strength through optimising the balance between writing profitable new business, conserving capital and generating cash. We estimate that our IGD capital surplus is £4.1 billion at 30 June 2011 (before taking into account the 2011 interim dividend), covering our capital requirements 2.9 times. This compares to a capital surplus of £4.3 billion at the end of 2010 (before taking into account the 2010 final dividend).

The movements during 2011 mainly comprise:

- Net capital generation mainly through operating earnings (in-force releases less investment in new business) of £0.6 billion;

Offset by:

- Final 2010 dividend of £0.4 billion;
- External financing costs and other central costs, net of tax, of £0.2 billion;
- Net impact of £0.1 billion arising from issuance of the US\$550 million perpetual subordinated Tier 1 securities in January 2011 and recognition of intended repayment of the €500 million subordinated notes in December 2011; and
- Foreign exchange movements of £0.1 billion.

We continue to have further options available to us to manage available and required capital. These could take the form of increasing available capital (for example, through financial reinsurance) or reducing required capital (for example, through the mix and level of new business) and the use of other risk mitigation measures such as hedging and reinsurance.

In addition to our strong capital position, on a statutory (Pillar 1) basis, the total credit reserve for the UK shareholder annuity funds also protects our capital position in excess of the IGD surplus. This credit reserve as at 30 June 2011 was £1.8 billion. This represents 44 per cent of the portfolio spread over swaps, compared to 43 per cent as at 31 December 2010.

#### Stress Testing

As at 30 June 2011, 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 2011 levels would reduce the IGD surplus by £150 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 £700 million;
- A 150 bps reduction (subject to a floor of zero) in interest rates would reduce the IGD surplus by £500 million; and
- Credit defaults of ten times the expected level would reduce IGD surplus by £600 million.

We believe 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.

## RISK AND CAPITAL MANAGEMENT

We also use an economic capital assessment to monitor our capital requirements across the Group, allowing for realistic diversification benefits and continue to maintain a strong position. This assessment provides valuable insights into our risk profile.

### Solvency II

The European Union (EU) is developing a new solvency 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 and is expected to be implemented from 1 January 2013, although discussions are now underway about potentially delaying the implementation for firms until 1 January 2014. 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 (ORSA) 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. Companies may be allowed to make use of internal economic capital models if approved by the local regulator.

The European Commission is in the process of consulting on the detailed rules that complement the high-level principles in the Directive, referred to as 'implementing measures', which are not expected to be finalised before early 2012.

In particular, the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) published a number of consultation papers in 2009 and 2010 covering advice to the European Commission on the implementing measures but there remains significant uncertainty regarding the outcome from this process. Prudential is actively participating in shaping the outcome through our involvement in industry bodies and trade associations, including the Chief Risk Officer and Chief Financial Officer Forums, together with the Association of British Insurers (ABI) and the Comité Européen des Assurances (CEA). In addition, further guidance and technical standards are currently being developed by the European Insurance and Occupational Pensions Authority (EIOPA). These are expected to be subject to a formal consultation and finalised by late 2012.

Many of the issues being actively debated have received considerable focus both within the industry and from national bodies. However, the application of Solvency II to international groups is still unclear and there remains a risk of inconsistent application, which may place Prudential at a competitive disadvantage to other European and non-European financial services groups. There is also a possibility that depending on the outcome reached on a number of key issues, the effect of the measures finally adopted could be adverse for the Group, including potentially a significant increase in capital required to support its business.

Having assessed the high-level requirements of Solvency II, an implementation programme was initiated with dedicated teams to manage the required work across the Group. The activity of the local Solvency II teams is being coordinated centrally to achieve consistency in the understanding and application of the requirements.

Over the coming months we will be progressing our implementation plans further and remaining in regular contact with the FSA as we continue to engage in the 'pre-application' stage of the approval process for the internal model.

### Capital allocation

Prudential's approach to capital allocation takes into account a range of factors, especially risk adjusted returns on capital, the impact of alternative capital measurement bases (accounting, regulatory, economic and ratings agency assessments), tax efficiency, and wider strategic objectives.

We optimise capital allocation across the Group by using a consistent set of capital performance metrics across all business units to ensure meaningful comparison. Capital utilisation, return on capital and new business value creation are measured at a product level. The use of these capital performance metrics is embedded into our decision-making processes for product design and product pricing.

Our capital performance metrics are based on economic capital, which provides a view of our capital requirements across the Group, allowing for realistic diversification benefits. Economic capital also provides valuable insights into our risk profile and is used both for risk measurement and capital management.

### 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 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 limit insurance risk; implementing corporate insurance programmes to limit the impact of operational risks; and revising business plans where appropriate.

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

# INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

## CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	2011 £m	2010 £m	
		Half year	Half year	Full year
Earned premiums, net of reinsurance		12,930	11,256	24,211
Investment return	J	7,750	5,027	21,769
Other income		923	754	1,666
Total revenue, net of reinsurance		21,603	17,037	47,646
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	K	(17,590)	(13,650)	(40,518)
Acquisition costs and other expenditure	I	(2,615)	(2,654)	(4,799)
Finance costs: interest on core structural borrowings of shareholder-financed operations		(140)	(129)	(257)
Total charges, net of reinsurance		(20,345)	(16,433)	(45,574)
Profit before tax ( <i>being tax attributable to shareholders' and policyholders' returns</i> )*		1,258	604	2,072
Tax charge attributable to policyholders' returns		(94)	(11)	(611)
Profit before tax attributable to shareholders	C	1,164	593	1,461
Tax charge	L	(395)	(160)	(636)
Less: tax attributable to policyholders' returns		94	11	611
Tax charge attributable to shareholders' returns†	L	(301)	(149)	(25)
<b>PROFIT FOR THE PERIOD‡</b>		<b>863</b>	<b>444</b>	<b>1,436</b>
Attributable to:				
Equity holders of the Company		861	442	1,431
Non-controlling interests		2	2	5
<b>PROFIT FOR THE PERIOD‡</b>		<b>863</b>	<b>444</b>	<b>1,436</b>
<b>EARNINGS PER SHARE (IN PENCE)</b>				
Based on profit attributable to the equity holders of the Company:‡	M			
Basic		34.0p	17.5p	56.7p
Diluted		33.9p	17.5p	56.6p

\* This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders. The half year 2010 and full year 2010 profit before tax are stated after £377 million of pre-tax costs of the terminated AIA transaction. See note G.

† The full year 2010 tax charge attributable to shareholders' returns included an exceptional tax credit of £158 million which primarily related to the impact of a settlement agreed with the UK tax authorities.

‡ All profit is from continuing operations.

# INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS CONTINUED

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2011 £m	2010 £m	
		Half year	Half year	Full year
<b>PROFIT FOR THE PERIOD</b>		863	444	1,436
Other comprehensive income:				
Exchange movements on foreign operations and net investment hedges:				
Exchange movements arising during the period		(70)	315	217
Related tax		(5)	(8)	34
		(75)	307	251
Available-for-sale securities:				
Unrealised valuation movements on securities of US insurance operations classified as available-for-sale:				
Unrealised holding gains arising during the period		287	1,123	1,170
Deduct net (gains)/add back net losses included in the income statement on disposal and impairment		(50)	21	51
Total	V	237	1,144	1,221
Related change in amortisation of deferred income and acquisition costs		(97)	(510)	(496)
Related tax		(49)	(215)	(247)
		91	419	478
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF RELATED TAX</b>		16	726	729
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		879	1,170	2,165
Attributable to:				
Equity holders of the Company		877	1,168	2,160
Non-controlling interests		2	2	5
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		879	1,170	2,165



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Period ended 30 Jun 2011 £m							
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Shareholders' equity	Non-controlling interests	Total equity
<b>RESERVES</b>								
Total comprehensive income for the period	–	–	861	(75)	91	877	2	879
Dividends	–	–	(439)	–	–	(439)	–	(439)
Reserve movements in respect of share-based payments	–	–	25	–	–	25	–	25
<b>SHARE CAPITAL AND SHARE PREMIUM</b>								
New share capital subscribed	–	15	–	–	–	15	–	15
<b>TREASURY SHARES</b>								
Movement in own shares in respect of share-based payment plans	–	–	(10)	–	–	(10)	–	(10)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	–	–	2	–	–	2	–	2
Net increase/(decrease) in equity	–	15	439	(75)	91	470	2	472
At beginning of period	127	1,856	4,982	454	612	8,031	44	8,075
<b>AT END OF PERIOD</b>	<b>127</b>	<b>1,871</b>	<b>5,421</b>	<b>379</b>	<b>703</b>	<b>8,501</b>	<b>46</b>	<b>8,547</b>

# INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS CONTINUED

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY > CONTINUED

	Period ended 30 Jun 2010 £m							
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Shareholders' equity	Non-controlling interests	Total equity
<b>RESERVES</b>								
Total comprehensive income for the period	–	–	442	307	419	1,168	2	1,170
Dividends	–	–	(344)	–	–	(344)	–	(344)
Reserve movements in respect of share-based payments	–	–	15	–	–	15	–	15
Change in non-controlling interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds	–	–	–	–	–	–	3	3
<b>SHARE CAPITAL AND SHARE PREMIUM</b>								
New share capital subscribed (including shares issued in lieu of cash dividends)	–	39	–	–	–	39	–	39
Reserve movements in respect of shares issued in lieu of cash dividends	–	(26)	26	–	–	–	–	–
<b>TREASURY SHARES</b>								
Movement in own shares in respect of share-based payment plans	–	–	8	–	–	8	–	8
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	–	–	4	–	–	4	–	4
Net increase in equity	–	13	151	307	419	890	5	895
At beginning of period	127	1,843	3,964	203	134	6,271	32	6,303
<b>AT END OF PERIOD</b>	127	1,856	4,115	510	553	7,161	37	7,198

	Year ended 31 Dec 2010 £m							
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Shareholders' equity	Non-controlling interests	Total equity
<b>RESERVES</b>								
Total comprehensive income for the year	–	–	1,431	251	478	2,160	5	2,165
Dividends	–	–	(511)	–	–	(511)	–	(511)
Reserve movements in respect of share-based payments	–	–	37	–	–	37	–	37
Change in non-controlling interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds	–	–	–	–	–	–	7	7
<b>SHARE CAPITAL AND SHARE PREMIUM</b>								
New share capital subscribed (including shares issued in lieu of cash dividends)	–	75	–	–	–	75	–	75
Reserve movements in respect of shares issued in lieu of cash dividends	–	(62)	62	–	–	–	–	–
<b>TREASURY SHARES</b>								
Movement in own shares in respect of share-based payment plans	–	–	(4)	–	–	(4)	–	(4)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	–	–	3	–	–	3	–	3
Net increase in equity	–	13	1,018	251	478	1,760	12	1,772
At beginning of year	127	1,843	3,964	203	134	6,271	32	6,303
<b>AT END OF YEAR</b>	<b>127</b>	<b>1,856</b>	<b>4,982</b>	<b>454</b>	<b>612</b>	<b>8,031</b>	<b>44</b>	<b>8,075</b>

# INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS CONTINUED

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets	Note	2011 £m	2010 £m	
		30 Jun	30 Jun	31 Dec
Intangible assets attributable to shareholders:				
Goodwill	Q	1,469	1,465	1,466
Deferred acquisition costs and other intangible assets	R	4,773	4,028	4,609
Total		6,242	5,493	6,075
Intangible assets attributable to with-profits funds:				
In respect of acquired subsidiaries for venture fund and other investment purposes		169	124	166
Deferred acquisition costs and other intangible assets		93	110	110
Total		262	234	276
Total		6,504	5,727	6,351
Other non-investment and non-cash assets:				
Property, plant and equipment		761	382	612
Reinsurers' share of insurance contract liabilities		1,334	1,369	1,344
Deferred tax assets	L	2,120	2,691	2,188
Current tax recoverable		384	575	555
Accrued investment income		2,460	2,559	2,668
Other debtors		1,638	1,467	903
Total		8,697	9,043	8,270
Investments of long-term business and other operations:				
Investment properties		10,965	11,360	11,247
Investments accounted for using the equity method		71	9	71
Financial investments*:				
Loans	T	9,017	9,587	9,261
Equity securities and portfolio holdings in unit trusts		91,037	71,775	86,635
Debt securities	U	117,213	113,334	116,352
Other investments		6,121	6,768	5,779
Deposits		10,858	9,766	9,952
Total		245,282	222,599	239,297
Properties held for sale		394	3	257
Cash and cash equivalents		8,589	6,040	6,631
<b>TOTAL ASSETS</b>	<b>O</b>	<b>269,466</b>	<b>243,412</b>	<b>260,806</b>

\* Included within financial investments are £8,744 million, £9,774 million and £8,708 million of lent securities as at 30 June 2011, 30 June 2010 and 31 December 2010 respectively.

Equity and liabilities	Note	2011 £m	2010 £m	
		30 Jun	30 Jun	31 Dec
<b>EQUITY</b>				
Shareholders' equity		8,501	7,161	8,031
Non-controlling interests		46	37	44
Total equity		8,547	7,198	8,075
<b>LIABILITIES</b>				
Policyholder liabilities and unallocated surplus of with-profits funds:				
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	Z	221,432	198,913	214,727
Unallocated surplus of with-profits funds	Z	10,872	10,066	10,253
Total		232,304	208,979	224,980
Core structural borrowings of shareholder-financed operations:				
Subordinated debt		3,044	2,767	2,718
Other		954	715	958
Total	W	3,998	3,482	3,676
Other borrowings:				
Operational borrowings attributable to shareholder-financed operations	X	2,912	3,234	3,004
Borrowings attributable to with-profits operations	X	1,440	1,313	1,522
Other non-insurance liabilities:				
Obligations under funding, securities lending and sale and repurchase agreements		4,537	3,222	4,199
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		3,203	2,667	3,372
Deferred tax liabilities	L	4,194	4,115	4,224
Current tax liabilities		876	1,272	831
Accruals and deferred income		585	555	707
Other creditors		2,599	3,246	2,321
Provisions		587	641	729
Derivative liabilities		2,385	2,033	2,037
Other liabilities		1,299	1,455	1,129
Total		20,265	19,206	19,549
Total liabilities		260,919	236,214	252,731
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>O</b>	<b>269,466</b>	<b>243,412</b>	<b>260,806</b>

# INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS CONTINUED

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2011 £m	2010 £m	
		Half year	Half year	Full year
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax ( <i>being tax attributable to shareholders' and policyholders' returns</i> ) <sup>note (i)</sup>		1,258	604	2,072
Changes in operating assets and liabilities <sup>note (ii)</sup>		872	516	(136)
Other items <sup>note (iii)</sup>		75	167	12
Net cash flows from operating activities		2,205	1,287	1,948
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net cash flows from purchases and disposals of property, plant and equipment		(42)	(22)	(89)
Acquisition of subsidiaries, net of cash balance <sup>note (iv)</sup>		(41)	(101)	(145)
Net cash flows from investing activities		(83)	(123)	(234)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Structural borrowings of the Group:				
Shareholder-financed operations: <sup>note (v)</sup>	W			
Issue of subordinated debt, net of costs		340	–	–
Bank loan		–	–	250
Interest paid		(137)	(131)	(251)
With-profits operations: <sup>note (vi)</sup>	X			
Interest paid		(4)	(4)	(9)
Equity capital: <sup>note (vii)</sup>				
Issues of ordinary share capital		15	13	13
Dividends paid		(439)	(318)	(449)
Net cash flows from financing activities		(225)	(440)	(446)
Net increase in cash and cash equivalents		1,897	724	1,268
Cash and cash equivalents at beginning of period		6,631	5,307	5,307
Effect of exchange rate changes on cash and cash equivalents		61	9	56
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>8,589</b>	<b>6,040</b>	<b>6,631</b>

## 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 changes in operating assets and liabilities are as follows:

	<b>2011</b> Half year £m	<b>2010</b> Half year £m	<b>2010</b> Full year £m
Other non-investment and non-cash assets	(872)	(997)	(1,161)
Investments	(6,984)	(5,278)	(24,594)
Policyholder liabilities (including unallocated surplus)	8,530	6,086	24,287
Other liabilities (including operational borrowings)	198	705	1,332
Changes in operating assets and liabilities	<b>872</b>	<b>516</b>	<b>(136)</b>

- (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) The acquisition of subsidiaries in half year 2011 related to the PAC with-profits fund's purchase of two venture investments with an outflow of £41 million.  
 The acquisition of United Overseas Bank Life Assurance Limited (UOB) in 2010 resulted in an outflow of cash from investing activities of £133 million in the 12 months ended 31 December 2010 (30 June 2010: £101 million). The remaining outflow of £12 million in full year 2010 related to the PAC with-profits fund's purchase of Meterserve.
- (v) Structural borrowings of shareholder-financed operations comprise core debt of the parent company, PruCap bank loan and Jackson surplus notes. Core debt excludes 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) 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.
- (vii) Cash movements in respect of equity capital in 2010 exclude scrip dividends. The scrip dividend alternative has been replaced by the Dividend Re-investment Plan (DRIP) from the 2010 final dividend.

# NOTES ON THE IFRS BASIS RESULTS

## A: BASIS OF PREPARATION AND AUDIT STATUS

These condensed consolidated interim financial statements for the six months ended 30 June 2011 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 IFRSs that are applicable or available for early adoption for the next annual financial statements and other policy improvements. EU-endorsed IFRSs may differ from IFRSs issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 30 June 2011, there were no unendorsed standards effective for the period ended 30 June 2011 affecting the condensed consolidated financial statements, and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Group.

The IFRS basis results for the 2011 and 2010 half years are unaudited. The 2010 full year IFRS basis results have been derived from the 2010 statutory accounts. The auditors have reported on the 2010 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 additional information shown in notes I to III is also unaudited.

## B: SIGNIFICANT ACCOUNTING POLICIES

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 2010, except for the adoption of the new accounting pronouncements in 2011 as described below.

### Accounting pronouncements adopted in 2011

The Group has adopted the following accounting pronouncements in 2011 but their adoption has had no material impact on the results and financial position of the Group:

- Improvements to IFRSs (2010), which includes minor changes to six IFRSs;
- Amendments to IAS 24, 'Related party disclosures';
- Amendments to IFRIC 14, 'Prepayment of a minimum funding requirement'; and
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'.

This is not intended to be a complete list of accounting pronouncements effective in 2011 as only those that could have an impact upon the Group's financial statements have been discussed.



**C: SEGMENT DISCLOSURE - INCOME STATEMENT**

	Note	2011 £m	2010 £m	
		Half year	Half year note i	Full year
<b>ASIAN OPERATIONS</b>				
Insurance operations	E(i)	326	262	536
Development expenses		(2)	(3)	(4)
Total Asian insurance operations after development expenses		324	259	532
Asian asset management		43	36	72
Total Asian operations		367	295	604
<b>US OPERATIONS</b>				
Jackson (US insurance operations) <sup>note i</sup>	E(ii)	368	327	833
Broker-dealer and asset management		17	15	22
Total US operations		385	342	855
<b>UK OPERATIONS</b>				
UK insurance operations:				
Long-term business	E(ii)	332	307	673
General insurance commission <sup>note ii</sup>		21	23	46
Total UK insurance operations		353	330	719
M&G		199	143	284
Total UK operations		552	473	1,003
<b>TOTAL SEGMENT PROFIT</b>		<b>1,304</b>	<b>1,110</b>	<b>2,462</b>
<b>OTHER INCOME AND EXPENDITURE</b>				
Investment return and other income		5	5	30
Interest payable on core structural borrowings		(140)	(129)	(257)
Corporate expenditure	I	(116)	(113)	(220)
Charge for share-based payments for Prudential schemes <sup>note iii</sup>		(2)	(3)	(3)
Total		(253)	(240)	(450)
RPI to CPI inflation measure change on defined benefit pension schemes <sup>note iv</sup>		42	-	-
Solvency II implementation costs		(27)	(22)	(45)
Restructuring costs <sup>note v</sup>		(8)	(3)	(26)
Operating profit based on longer-term investment returns <sup>note i</sup>		1,058	845	1,941
Short-term fluctuations in investment returns on shareholder-backed business	F	113	149	(123)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes <sup>note vi</sup>		(7)	(24)	(10)
Costs of terminated AIA transaction	G	-	(377)	(377)
Gain on dilution of holding in PruHealth	H	-	-	30
<b>PROFIT FROM CONTINUING OPERATIONS BEFORE TAX ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>1,164</b>	<b>593</b>	<b>1,461</b>
		<b>2011</b>	<b>2010</b>	
		<b>Half year</b>	<b>Half year</b>	<b>Full year</b>
Basic EPS based on operating profit after tax and non-controlling interests*	M	32.2p	25.4p	62.0p
Basic EPS based on total profit after tax and non-controlling interests	M	34.0p	17.5p	56.7p

\* Excludes exceptional tax in full year 2010 (see note M).

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### C: SEGMENT DISCLOSURE - INCOME STATEMENT > CONTINUED

#### Notes

- i In the second half of 2010, the Company amended the presentation of IFRS operating profit for its US operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations in investment returns. Accordingly, the half year 2010 operating profit has been amended to remove the positive £123 million effect. The effect of this change is explained below.
- ii UK operations transferred its general insurance business to Churchill in 2002. General insurance commission represents the net commission receivable net of expenses for Prudential-branded general insurance products as part of this arrangement.
- iii The charge for share-based payments for Prudential schemes is for the SAYE and Group performance-related schemes.
- iv During the first half of 2011, the Group altered its inflation measure basis for future statutory increases to pension payments for certain tranches of its UK defined benefit pension schemes. This reflects the UK Government's decision to replace the basis of indexation from RPI with CPI. This resulted in a credit to the operating profit before tax of £42 million.
- v Restructuring costs comprise amounts incurred in the UK business defined as covered for EEV reporting purposes.
- vi The shareholders' share of actuarial and other gains and losses on defined benefit pension schemes reflects the aggregate of actual less expected returns on scheme assets, experience gains and losses, the effect of changes in assumptions and altered provisions for deficit funding, where relevant.

#### Determining operating segments and performance measure of operating segments

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

##### Insurance operations

- Asia
- US (Jackson)
- UK

##### Asset management operations

- M&G
- Asian asset management
- US broker-dealer and asset management (including Curian)

Prudential Capital has been incorporated into the M&G operating segment for the purposes of segment reporting.

The performance measure of operating segments utilised by the Company is IFRS operating profit attributable to shareholders based on longer-term investment returns. This measure excludes the recurrent items of short-term fluctuations in investment returns and the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes. In addition, for 2010 this measure excluded costs associated with the terminated AIA transaction and gain arising upon the dilution of the Group's holding in PruHealth. In the second half of 2010 the Company amended the presentation of IFRS operating profit for its US operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations in investment returns. Accordingly, the half year 2010 operating profit has been amended to remove the positive £123 million effect. There is no change to total profit for continuing operations before tax attributable to shareholders arising from this altered treatment. Operating earnings per share is based on operating profit based on longer-term investment returns, after tax and non-controlling interests.

Segment results that are reported to the Group Executive Committee (GEC) 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 Asian Regional Head Office.

For the purposes of measuring operating profit, investment returns on shareholder-financed business are based on the expected longer-term rates of return. This 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 for life businesses exclusive of changes in market conditions. In determining profit on this basis, the following key elements are applied to the results of the Group's shareholder-financed operations.

### a Debt and equity securities

Longer-term investment returns comprise income and longer-term capital returns. For debt securities the longer-term capital returns comprise two elements. These are a risk margin reserve (RMR) based charge for expected defaults, which is determined by reference to the credit quality of the portfolio, and 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. The shareholder-backed operation for which the RMR charge is most significant is Jackson National Life.

Jackson has used the ratings resulting from the regulatory ratings detail issued by the National Association of Insurance Commissioners (NAIC) for mortgage-backed securities (MBS) to determine the average annual RMR. These were developed by external third parties: PIMCO (for RMBS) and from the second half of 2010 BlackRock Solutions (for CMBS), and are considered by management more relevant information for the MBS securities concerned than using ratings by Nationally Recognised Statistical Ratings Organisations (NRSRO). For other securities Jackson uses ratings by NRSRO.

### b US variable and fixed index annuity business

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

- Fair value movements for equity-based derivatives;
- Fair value movements for embedded derivatives for Guaranteed Minimum Withdrawal Benefit (GMWB) 'not for life' and fixed index annuity business, and Guaranteed Minimum Income Benefit (GMIB) reinsurance;
- Movements in accounts carrying value of GMDB and GMWB 'for life' liabilities;
- Fee assessment, and claim payments, in respect of guarantee liabilities; and
- Related changes to amortisation of deferred acquisition costs for each of the above items.

As noted above, the results for the six months ended 30 June 2010 have been amended to adopt this new presentation relating to value movements for Jackson's variable and fixed index annuity business. The new presentation was adopted to remove accounting volatility caused by a mismatch in the accounting treatment of derivative assets versus embedded derivative insurance liabilities, that was not representative of the underlying economic result of Jackson. For previous reporting of the half year 2010 results, all of the above items were included in operating profit based on longer-term investment returns with two exceptions. The exceptions were for the effect of GMIB reinsurance and movements in carrying values of free standing derivatives and embedded derivatives arising from changes in the level of observed implied equity volatility and changes in the discount rate applied from year to year. Previously, for the purposes of determining operating profit based on longer-term investment returns, the charge for these features was determined using historical longer-term equity volatility levels and long-term average AA corporate bond rate curves with the movement relating to the change in difference in longer-term and current rates being included in short-term fluctuations. No changes have been made in respect of these exceptions and both remain in short-term fluctuations in investment returns.

The change to the results for half year 2010 reflects management's IFRS 8 segment measure. Within the supplementary analysis of profit, the change is presentational only. It has no impact on profit before tax or shareholders' equity. The impact of this change to the results for half year 2010 is as follows:

	Half year ended 30 June 2010 £m		
	Previous basis	Change	Revised basis
Operating profit based on longer-term investment returns:			
Jackson	450	(123)	327
Rest of Group	518	–	518
Total	968	(123)	845
Short-term fluctuations in investment returns on shareholder-backed business	26	123	149
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(24)	–	(24)
Costs of terminated AIA transaction	(377)	–	(377)
Profit from continuing operations before tax attributable to shareholders	593	–	593

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### C: SEGMENT DISCLOSURE - INCOME STATEMENT > CONTINUED

#### US operations - Embedded derivatives for variable annuity guarantee features

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

#### c Other derivative value movements

Generally, derivative value movements are excluded from operating results based on longer-term investment returns (unless those derivative value movements broadly offset changes in the accounting value of other assets and liabilities included in operating profit). The principal example of non-equity based derivatives 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) and product liabilities (for which US GAAP accounting as grandfathered under IFRS 4 does not reflect the economic features being hedged).

Value movements for Jackson's equity-based derivatives and variable and fixed index annuity product embedded derivatives were in prior periods included in operating profits based on longer-term investment returns. These value movements, which are variable in nature, have been included in short-term fluctuations and half year 2010 comparatives have been adjusted accordingly.

There are two exceptions to the basis described above in sections (a) to (c) for determining operating results based on longer-term investment returns. These are for:

- Unit-linked and US variable annuity business. For such business the policyholder unit liabilities are directly reflective of the asset value movements. Accordingly all asset value movements are recorded in the operating results based on longer-term investment returns; and
- Assets covering non-participating business liabilities that are interest rate sensitive. For UK annuity 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.

#### d Other liabilities to policyholders and embedded derivatives for product guarantees

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

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

Examples where such bifurcation is necessary are:

##### i Asia

#### Vietnamese participating business

For the participating business in Vietnam the liabilities include policyholders' interest in investment appreciation and other surplus. Bonuses paid in a reporting period and accrued policyholders' interest in investment appreciation and other surpluses primarily reflect the level of realised investment gains above contract specific hurdle levels. For this business, operating profit based on longer-term investment returns includes the aggregate of longer-term returns on the relevant investments, a credit or charge equal to movements on the liability for the policyholders' interest in realised investment gains (net of any recovery of prior deficits on the participating pool), less amortisation over five years of current and prior movements on such credits or charges.

The overall purpose of these adjustments is to ensure that investment returns included in operating results equal longer-term returns but that in any one reporting period movements on liabilities to policyholders caused by investment returns are substantially matched in the presentation of the supplementary analysis of profit before tax attributable to policyholders.

#### Non-participating business

Bifurcation for the effect of determining the movement in the carrying value of liabilities to be included in operating results based on longer-term investment returns, and the residual element for the effect of using year end rates is included in short-term fluctuations and in the income statement.

### Guaranteed Minimum Death Benefit (GMDB) product features

For unhedged GMDB liabilities accounted for under IFRS using 'grandfathered' US GAAP, such as in the Japanese business, the change in carrying value is determined under FASB ASC subtopic 944-80, Financial Services – Insurance – Separate Accounts (formerly SOP 03-1), which partially reflects changes in market conditions. Under the company's segmental basis of reporting the operating profit reflects the change in liability based on longer-term market conditions with the difference between the charge to the operating result and the movement reflected in the total result included in short-term fluctuations in investment returns.

### ii UK shareholder-backed annuity business

With one exception, the operating result based on longer-term investment returns reflects the impact of all value movements on policyholder liabilities for annuity business in PRIL and the PAC non-profit sub-fund.

The exception is for the impact on credit risk provisioning of actual downgrades during the period. As this feature arises due to short-term market conditions, the effect of downgrades, if any, in a particular period, on the overall provisions for credit risk is included in the category of short-term fluctuations in investment returns.

The effects of other changes to credit risk provisioning are included in the operating result, as is the net effect of changes to the valuation rate of interest due to portfolio rebalancing to align more closely with management benchmark.

### e Fund management and other non-insurance businesses

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

### 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 2011 £m				
	Asia	US	UK	Intragroup	Total
Revenue from external customers:					
Insurance operations	3,568	6,664	2,872	(10)	13,094
Asset management	129	332	448	(152)	757
Unallocated corporate	–	–	2	–	2
Intragroup revenue eliminated on consolidation	(41)	(35)	(86)	162	–
Total revenue from external customers	3,656	6,961	3,236	–	13,853
	Half year 2010 £m				
	Asia	US	UK	Intragroup	Total
Revenue from external customers:					
Insurance operations	3,009	5,676	2,733	(6)	11,412
Asset management	120	295	322	(146)	591
Unallocated corporate	–	–	7	–	7
Intragroup revenue eliminated on consolidation	(36)	(32)	(84)	152	–
Total revenue from external customers	3,093	5,939	2,978	–	12,010

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### C: SEGMENT DISCLOSURE - INCOME STATEMENT > CONTINUED

	Full year 2010 £m				
	Asia	US	UK	Intragroup	Total
Revenue from external customers:					
Insurance operations	6,373	11,710	6,476	(10)	24,549
Asset management	248	597	768	(314)	1,299
Unallocated corporate	–	–	29	–	29
Intragroup revenue eliminated on consolidation	(77)	(72)	(175)	324	–
Total revenue from external customers	6,544	12,235	7,098	–	25,877

Revenue from external customers is made up of the following:

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Earned premiums, net of reinsurance	12,930	11,256	24,211
Fee income from investment contract business and asset management (presented as 'Other income')	923	754	1,666
Total revenue from external customers	13,853	12,010	25,877

In their capacity as fund managers to fellow Prudential Group subsidiaries, M&G and the Asian and 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. Intragroup fees included within asset management revenue were earned by the following asset management segment:

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Intragroup revenue generated by:			
M&G	76	78	165
Asia	41	36	77
US broker-dealer and asset management (including Curian)	35	32	72
Total intragroup fees included within asset management segment	152	146	314

In 2011, the remaining £10 million (half year 2010: £6 million; full year 2010: £10 million) of intragroup revenue was recognised by UK insurance operations. These services are typically charged as a percentage of funds under management.

Revenue from external customers of Asian, US and UK insurance operations shown above are net of outwards reinsurance premiums of £79 million, £37 million, and £62 million respectively (half year 2010: £73 million, £42 million and £62 million respectively; full year 2010: £146 million, £83 million and £128 million respectively).

## D: PROFIT BEFORE TAX - ASSET MANAGEMENT OPERATIONS

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

	2011 £m				2010 £m	
	M&G	US	Asia note v	Half year	Half year	Full year
Revenue, (excluding revenue of consolidated investment funds and NPH broker-dealer fees)	546	125	131	802	573	1,423
Revenue of consolidated investment funds <sup>note i</sup>	18	–	–	18	26	11
NPH broker-dealer fees <sup>note ii</sup>	–	207	–	207	185	369
Gross revenue	564	332	131	1,027	784	1,803
Charges, (excluding charges of consolidated investment funds and NPH broker-dealer fees)	(338)	(108)	(88)	(534)	(383)	(1,003)
Charges of consolidated investment funds <sup>note i</sup>	(18)	–	–	(18)	(26)	(11)
NPH broker-dealer fees <sup>note ii</sup>	–	(207)	–	(207)	(185)	(369)
Gross charges	(356)	(315)	(88)	(759)	(594)	(1,383)
<b>PROFIT BEFORE TAX</b>	<b>208</b>	<b>17</b>	<b>43</b>	<b>268</b>	<b>190</b>	<b>420</b>
Comprising:						
Operating profit based on longer-term investment returns <sup>note iii</sup>	199	17	43	259	194	378
Short-term fluctuations in investment returns <sup>note iv</sup>	13	–	–	13	12	47
Shareholder's share of actuarial gains and losses on defined benefit pension schemes	(4)	–	–	(4)	(16)	(5)
<b>PROFIT BEFORE TAX</b>	<b>208</b>	<b>17</b>	<b>43</b>	<b>268</b>	<b>190</b>	<b>420</b>

### Notes

- i The investment funds are managed on behalf of third-parties and are consolidated under IFRS in recognition of the control arrangements for the funds. The gains (losses) in respect of the investment funds are non-recourse to M&G and the Group and are added back through charges and consequently there is no impact on the profit before tax.
- ii NPH broker-dealer fees represents commissions received, which are then paid on to the writing broker on sales of investment products.
- iii M&G operating profit based on longer-term investment returns:

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Asset management fee income	350	298	612
Other income	1	1	3
Staff costs	(133)	(122)	(263)
Other costs	(61)	(58)	(123)
Underlying profit before performance-related fees	157	119	229
Performance-related fees	15	3	17
Operating profit from asset management operations	172	122	246
Operating profit from Prudential Capital	27	21	38
Total M&G operating profit based on longer-term investment returns	199	143	284

The difference between the fees and other income shown above in respect of asset management operations, and the revenue figure for M&G shown (excluding consolidated investment funds) in the main table primarily relates to total revenue of Prudential Capital (including short-term fluctuations) of £71 million (half year 2010: £55 million; full year 2010: £136 million) and commissions which have been netted off in arriving at the fee income of £350 million (half year 2010: £298 million; full year 2010: £612 million) in the table above. The difference in the presentation of commission is aligned with how management reviews the business.

- iv Short-term fluctuations in investment returns for M&G are primarily in respect of unrealised value movements on Prudential Capital's bond portfolio.
- v Included within Asian asset management revenue and charges are £30 million of commissions (half year 2010: £29 million; full year 2010: £60 million).

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### E: KEY ASSUMPTIONS, ESTIMATES AND BASES USED TO MEASURE INSURANCE ASSETS AND LIABILITIES

#### i Asian insurance operations

In half year 2011, IFRS operating profit based on longer-term investment returns for Asian insurance operations included a net £25 million credit arising from a small number of items that are not anticipated to reoccur in future periods.

In 2010, one-off changes were made in the first six months to reserving assumptions which resulted in a release from liabilities of £19 million.

#### ii US insurance operations

##### Accelerated amortisation of deferred acquisition costs

Jackson National Life has consistently applied its basis of amortising deferred acquisition costs. The basis involves a mean reversion technique for dampening 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 2011 there was a charge for accelerated amortisation of £82 million (half year 2010: £67 million; full year 2010: £11 million). Further details are explained in note R.

#### iii 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. Since mid-2007 there has been a significant increase in the actual and perceived credit risk associated with corporate bonds as reflected in the significant widening that has occurred in corporate bond spreads. Although bond spreads over swap rates have narrowed from their peak in March 2009, they are still high compared with the levels seen in the years immediately preceding the start of the dislocated markets in 2007. The allowance that should therefore be made for credit risk remains a particular area of judgement.

The additional yield received on corporate bonds relative to swaps can be broken into the following constituent parts:

- the expected level of future defaults;
- the credit risk premium that is required to compensate for the potential volatility in default levels;
- the liquidity premium that is required to compensate for the lower liquidity of corporate bonds relative to swaps; and
- the mark to market risk premium that is required to compensate for the potential volatility in corporate bond spreads (and hence market values) at the time of sale.

The sum of (c) and (d) is often referred to as 'liquidity premium'.

The allowance for credit risk is calculated as the long-term expected defaults and a long-term credit risk premium. This long-term credit risk is supplemented by a short-term allowance to allow for the concern that credit ratings applied by the rating agencies may be downgraded and defaults in the short-term might be higher than the long-term assumptions.

The weighted components of the bond spread over swap rates for shareholder-backed fixed and linked annuity business for PRIL at 30 June 2011, 30 June 2010 and 31 December 2010, based on the asset mix at the relevant balance sheet date are shown below.

	30 June 2011 bps		
	Pillar 1 regulatory basis	Adjustment from regulatory to IFRS basis	IFRS
Bond spread over swap rates <sup>note i</sup>	151	–	151
Credit risk allowance:			
Long-term expected defaults <sup>note ii</sup>	16	–	16
Long-term credit risk premium <sup>note iii</sup>	10	–	10
Short-term allowance for credit risk <sup>note iv</sup>	41	(25)	16
Total credit risk allowance	67	(25)	42
Liquidity premium	84	25	109



	30 Jun 2010 bps		
	Pillar 1 regulatory basis	Adjustment from regulatory to IFRS basis	IFRS
Bond spread over swap rates <sup>note i</sup>	173	–	173
Credit risk allowance:			
Long-term expected defaults <sup>note ii</sup>	17	–	17
Long-term credit risk premium <sup>note iii</sup>	11	–	11
Short-term allowance for credit risk <sup>note iv</sup>	39	(25)	14
Total credit risk allowance	67	(25)	42
Liquidity premium	106	25	131
	31 Dec 2010 bps		
	Pillar 1 regulatory basis	Adjustment from regulatory to IFRS basis	IFRS
Bond spread over swap rates <sup>note i</sup>	160	–	160
Credit risk allowance:			
Long-term expected defaults <sup>note ii</sup>	16	–	16
Long-term credit risk premium <sup>note iii</sup>	10	–	10
Short-term allowance for credit risk <sup>note iv</sup>	42	(26)	16
Total credit risk allowance	68	(26)	42
Liquidity premium	92	26	118

#### Notes

- i Bond spread over swap rates reflect market observed data.
- ii For the valuations prior to 31 December 2010, long-term expected defaults were derived by applying Moody's data from 1970 to 2004 uplifted by between 100 per cent (B) and 200 per cent (AAA) according to credit rating on the annuity asset portfolio. The credit rating assigned to each asset held was based on external credit rating and for this purpose the credit rating assigned to each asset held was the lowest credit rating published by Moody's, Standard and Poor's and Fitch.  
From the 31 December 2010 valuation onwards, long-term expected defaults are derived by applying Moody's data from 1970 to 2009 and the definition of the credit rating used has been revised from the lowest credit rating to the second highest credit rating published by Moody's, Standard and Poor's and Fitch.
- iii For the valuations prior to 31 December 2010, the long-term credit risk premium provides compensation against the risk of potential volatility in the level of defaults and is derived by applying the 95th percentile from Moody's data from 1970 to 2004 to the annuity asset portfolio. From the 31 December 2010 valuation onwards, the long-term credit risk premium is derived from Moody's data from 1970 to 2009.  
The combined effect of this change and the changes described in (ii) above as at 31 December 2010 was neutral on the long-term credit risk allowance for PRIL.
- iv The movements in the short-term allowance for credit risk assumed in the Pillar 1 solvency valuations reflected events in the period, namely the impact of credit migration, the decision not to release favourable default experience, new business and asset trading amongst other items. This is demonstrated by the analyses below.  
The very prudent Pillar 1 regulatory basis reflects the overriding objective of ensuring 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'. IFRS default assumptions are therefore set between the EEV and Pillar I assumptions.

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### E: KEY ASSUMPTIONS, ESTIMATES AND BASES USED TO MEASURE INSURANCE ASSETS AND LIABILITIES > CONTINUED

#### Movement in the credit risk allowance for PRIL in the six months ended 30 June 2011

The movement in the first half of 2011 of the average basis points allowance for PRIL on IFRS basis is as follows:

	IFRS bps		
	Long term	Short term	Total
Total allowance for credit risk at 31 December 2010	26	16	42
Credit downgrades	1	(1)	–
Retention of surplus from favourable default experience	–	1	1
Asset trading	(1)	(1)	(2)
New business	–	–	–
Other	–	1	1
<b>TOTAL ALLOWANCE FOR CREDIT RISK AT 30 JUNE 2011</b>	<b>26</b>	<b>16</b>	<b>42</b>

The reserves for credit risk allowance at 30 June 2011 for the UK shareholder annuity fund were as follows:

	Pillar 1 Regulatory basis £bn			IFRS £bn		
	Long term	Short term	Total	Long term	Short term	Total
PRIL	0.6	1.0	1.6	0.6	0.4	1.0
PAC non-profit sub-fund	0.1	0.1	0.2	0.1	0.0	0.1
Total	0.7	1.1	1.8	0.7	0.4	1.1

#### Mortality and other assumption changes

##### Half year 2011 and half year 2010

There were no changes in mortality and other assumptions that had a material impact on the half year 2011 and half year 2010 results of the UK Insurance operations.

##### Full year 2010

Prior to 31 December 2010, Prudential's annuity business liabilities were determined using the Continuous Mortality Investigation ('CMI') medium cohort projections with a floor. In November 2009 a new mortality projection model was released by the CMI.

The new model was applied in determining the 31 December 2010 valuation results with calibration to reflect an appropriate view of future mortality improvement. In recognition of the trend in assumed mortality improvements the Company had in previous years included margins in its annuity liabilities. In determining the results for the year ended 31 December 2010 the appropriate level of these margins was reassessed.

The net effect of applying the new model, releases of margins, and changes to other related mortality assumption for shareholder-backed business was a credit of £8 million in the full year 2010 results. With a £38 million benefit from altered expense assumptions the overall credit for shareholder-backed business in full year 2010 was £46 million.

**F: SHORT-TERM FLUCTUATIONS IN INVESTMENT RETURNS ON SHAREHOLDER-BACKED BUSINESS**

	2011 £m	2010 £m	
	Half year	Half year*	Full year
Insurance operations:			
Asia <sup>note ii</sup>	14	41	114
US <sup>note iii</sup>	27	3	(378)
UK <sup>note iv</sup>	44	93	116
Other operations:			
Other <sup>note v</sup>	28	12	25
<b>TOTAL</b> <sup>note i</sup>	<b>113</b>	<b>149</b>	<b>(123)</b>

**Notes****i General overview of defaults**

The Group did not experience any defaults on its shareholder-backed debt securities portfolio in half year 2011 (2010: none).

**ii Asian insurance operations**

The fluctuations for Asian insurance operations of positive £14 million in half year 2011 (half year 2010: £41 million; full year 2010: £114 million) include a £26 million unrealised gain (half year 2010: £4 million; full year 2010: £30 million) on the Group's 8.66 per cent stake in China Life Insurance Company of Taiwan.

**iii US insurance operations**

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

	2011 Half year £m	2010 Half year* £m	2010 Full year £m
Short-term fluctuations relating to debt securities:			
Charges in the period <sup>note a</sup>			
Defaults	–	–	–
Losses on sales of impaired and deteriorating bonds	(2)	(100)	(99)
Bond write downs	(14)	(64)	(124)
Recoveries/reversals	3	3	10
Total charges in the period <sup>note a</sup>	(13)	(161)	(213)
Less: Risk margin charge included in operating profit based on longer-term investment returns <sup>note b</sup>	35	36	73
	22	(125)	(140)
Interest related realised gains (losses):			
Arising in the period	92	169	224
Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns	(43)	(47)	(82)
	49	122	142
Related change to amortisation of deferred acquisition costs	(11)	(2)	(3)
Total short-term fluctuations related to debt securities	60	(5)	(1)
Derivatives (other than equity related): market value movement (net of related change to amortisation of deferred acquisition costs) <sup>note c</sup>	25	111	(15)
Net equity hedge results (net of related change to amortisation of deferred acquisition costs) <sup>note d</sup>	(79)	(115)	(365)
Equity type investments: actual less longer-term return (net of related change to amortisation of deferred acquisition costs) <sup>note e</sup>	27	1	3
Other items (net of related change to amortisation of deferred acquisition costs)	(6)	11	–
Total	27	3	(378)

\* In the second half of 2010, the Company amended the presentation of IFRS operating profit for its US operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations in investment returns. Accordingly, the half year 2010 operating profit has been amended to remove the positive £123 million effect. Note C explains the effect of the change.

# NOTES ON THE IFRS BASIS RESULTS CONTINUED

## F: SHORT-TERM FLUCTUATIONS IN INVESTMENT RETURNS ON SHAREHOLDER-BACKED BUSINESS > CONTINUED

### Notes

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

	Defaults £m	Bond write downs £m	Losses on sale of impaired and deterior- ating bonds £m	Recoveries/ reversals £m	2011 Total Half year £m	2010 Total Half year £m	2010 Total Full year £m
Residential mortgage-backed securities:							
Prime (including agency)	–	10	–	–	10	42	56
Alt-A	–	1	–	–	1	46	54
Sub-prime	–	–	–	–	–	5	13
Total residential mortgage-backed securities	–	11	–	–	11	93	123
Corporate debt securities	–	–	2	–	2	38	37
Other	–	3	–	(3)	–	30	53
Total	–	14	2	(3)	13	161	213

b The risk margin reserve (RMR) charge for longer-term credit-related losses included in operating profit based on longer-term investment returns for 2011 is based on an average annual RMR of 25 basis points (half year 2010: 25 basis points; full year 2010: 26 basis points) on average book values of US\$44.5 billion (half year 2010: US\$ 43.7 billion; full year 2010: US\$ 44.2 billion) as shown below:

Moody's rating category (or equivalent under NAIC ratings of MBS)	Half year 2011			
	Average book value US\$m	RMR %	Annual expected loss	
			US\$m	£m
A3 or higher	21,283	0.08	(16)	(10)
Baa1, 2 or 3	20,729	0.27	(55)	(34)
Ba1, 2 or 3	1,826	1.02	(19)	(12)
B1, 2 or 3	425	3.01	(13)	(8)
Below B3	221	3.87	(9)	(6)
Total	44,484	0.25	(112)	(70)
Related change to amortisation of deferred acquisition costs (see below)			27	17
Risk margin reserve charge to operating profit for longer-term credit related losses			(85)	(53)
Moody's rating category (or equivalent under NAIC ratings of MBS)	Half year 2010			
	Average book value US\$m	RMR %	Annual expected loss	
			US\$m	£m
A3 or higher	20,142	0.06	(11)	(7)
Baa1, 2 or 3	20,747	0.25	(51)	(33)
Ba1, 2 or 3	2,016	1.04	(21)	(14)
B1, 2 or 3	505	2.97	(15)	(10)
Below B3	339	3.87	(13)	(8)
Total	43,749	0.25	(111)	(72)
Related change to amortisation of deferred acquisition costs (see below)			28	18
Risk margin reserve charge to operating profit for longer-term credit related losses			(83)	(54)

Moody's rating category (or equivalent under NAIC ratings of MBS)	Full year 2010			
	Average book value US\$m	RMR %	Annual expected loss	
			US\$m	£m
A3 or higher	20,622	0.06	(12)	(8)
Baa1, 2 or 3	20,785	0.26	(53)	(34)
Ba1, 2 or 3	1,935	1.04	(20)	(13)
B1, 2 or 3	500	2.99	(15)	(10)
Below B3	321	3.88	(13)	(8)
Total	44,163	0.26	(113)	(73)
Related change to amortisation of deferred acquisition costs (see below)			28	18
Risk margin reserve charge to operating profit for longer-term credit related losses			(85)	(55)

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 changes to amortisation of deferred acquisition costs.

- c The gain of £25 million (half year 2010: gain of £111 million; full year 2010: loss of £15 million) is for the value movement of non-equity freestanding derivatives held to manage the fixed annuity and other general account business. Under IAS 39, unless hedge accounting is applied value movements on derivatives are recognised in the income statement.

For the derivatives programme attaching to the fixed annuity and other general account business, the Group has continued its approach of not seeking to apply hedge accounting under IAS 39. This decision reflects the inherent constraints of IAS 39 for hedge accounting investments and life assurance assets and liabilities under 'grandfathered' US GAAP under IFRS 4.

- d The amount of £(79) million (half year 2010: £(115) million; full year 2010: £(365) million) relates to the net equity hedge accounting effect of the equity-based derivatives and associated guarantee liabilities of Jackson's variable and fixed index annuity business. The details of the value movements excluded from operating profit based on longer-term investment returns are as described in note C.
- e The longer-term rates of return for equity-type investments are currently based on spreads over 10 year US treasury rates of 400 to 600 basis points. The longer-term rates of return for equity-type investments ranged from 7.1 per cent to 7.5 per cent at 30 June 2011, 7.0 per cent to 9.9 per cent at 30 June 2010 and 6.5 per cent to 7.9 per cent at 31 December 2010 depending on the type of investments.

In addition to the items discussed above, for US insurance operations, included within the statement of comprehensive income is an increase in net unrealised gains on debt securities classified as available-for-sale of £237 million (half year 2010: £1,144 million; full year 2010: £1,221 million). Temporary market value movements do not reflect defaults or impairments. Additional details on the movement in the value of the Jackson portfolio are included in note V.

- iv UK insurance operations

The short-term fluctuations gain for UK insurance operations of £44 million (half year 2010: £93 million; full year 2010: £116 million) reflected principally asset value movements for shareholder-backed annuity business.

- v Other

Short-term fluctuations of other operations arise from:

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Unrealised value movements on swaps held centrally to manage Group assets and liabilities	20	–	(25)
Unrealised value movements on Prudential Capital bond portfolio	16	12	48
Unrealised value movements on investments held by other operations	(8)	–	2
	28	12	25

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### G: COSTS OF TERMINATED AIA TRANSACTION IN 2010

The following costs were incurred in the first six months of 2010 in relation to the proposed, and subsequently terminated, transaction to purchase AIA Group Limited and related rights issue.

	2010 £m
ALG termination break fee	153
Underwriting fees	58
Costs associated with foreign exchange hedging	100
Adviser fees and other	66
<b>TOTAL COSTS BEFORE TAX</b>	<b>377</b>
Associated tax relief	(93)
Total costs after tax	284

Of the £377 million total costs before tax, the £100 million associated with foreign exchange hedging has been recorded within 'Investment return' and the other £277 million has been recorded as 'Other expenditure' within 'Acquisition costs and other expenditure' in the condensed consolidated income statement.

### H: CHANGE TO THE GROUP'S HOLDING IN PRUHEALTH IN 2010

On 1 August 2010, Discovery Holdings of South Africa, the Group's joint venture partner in its investment in PruHealth, completed the acquisition of the entire share capital of Standard Life Healthcare, a wholly-owned subsidiary of the Standard Life Group, for £138 million. Discovery funded the purchase of the Standard Life Healthcare transaction, and contributed Standard Life Healthcare to PruHealth as a capital investment on completion. As a result of the transaction, Discovery increased their shareholding in PruHealth from the previous level of 50 per cent to 75 per cent, and Prudential's shareholding was reduced from 50 per cent of the previous joint venture structure to 25 per cent of the new structure with the much enlarged business.

As a result of this dilution in holding and the consequential loss of control, PruHealth was reclassified from a joint venture to an associate and the entity is no longer proportionally consolidated from the date of the transaction. In accordance with IAS 31 'Interests in joint ventures' a gain of £30 million was recognised in 2010 upon the dilution, representing the difference between the fair value of the enlarged 25 per cent investment still held and the book value of the original 50 per cent investment holding.

## I: ACQUISITION COSTS AND OTHER EXPENDITURE

	2011 £m	2010 £m	
	Half year	Half year	Full year
Acquisition costs incurred	1,106	971	2,024
Acquisition costs deferred less amortisation of acquisition costs	(268)	(170)	(918)
Administration costs and other expenditure	1,764	1,839	3,496
Movements in amounts attributable to external unit holders	13	14	197
<b>TOTAL ACQUISITION COSTS AND OTHER EXPENDITURE</b>	<b>2,615</b>	<b>2,654</b>	<b>4,799</b>

The acquisition costs as shown on the table above relate to policy acquisition costs. Acquisition costs from business combinations are included within other expenditure.

The total amounts for acquisition costs and other expenditure shown above includes Corporate Expenditure shown in note C (Segment disclosure – income statement). The charge for Corporate Expenditure comprises:

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Group head office:			
Regular and project costs	74	72	147
Provision for property leases and other non-recurrent items	12	14	25
	<b>86</b>	<b>86</b>	<b>172</b>
Asia regional office:			
Gross costs	48	39	90
Recharges to Asia operations	(18)	(12)	(42)
	<b>30</b>	<b>27</b>	<b>48</b>
Total	<b>116</b>	<b>113</b>	<b>220</b>

Included within total acquisition costs and other expenditure is depreciation of £45 million (half year 2010: £41 million; full year 2010: £70 million).

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### J: ALLOCATION OF INVESTMENT RETURN BETWEEN POLICYHOLDERS AND SHAREHOLDERS

Investment return is attributable to policyholders and shareholders. A key feature of the accounting policies under IFRS is that the investment return included in the income statement relates to all investment assets of the Group, irrespective of whether the return is attributable to shareholders, to policyholders or to the unallocated surplus of with-profits funds, the latter two of which have no net impact on shareholders' profit. The table below provides a breakdown of the investment return for each regional operation attributable to each type of business.

	2011 £m		2010 £m	
	Half year	Half year	Half year	Full year
<b>ASIAN OPERATIONS</b>				
Policyholders' returns				
Assets backing unit-linked liabilities	208	(4)		1,279
With-profits business	404	34		1,039
	612	30		2,318
Shareholders' returns	178	209		429
Total	790	239		2,747
<b>US OPERATIONS</b>				
Policyholders' returns				
Assets held to back (separate account) unit-linked liabilities	1,530	(981)		3,520
Shareholders' returns				
Realised gains and losses (including impairment losses on available-for-sale bonds)	81	14		21
Value movements on derivative hedging programme for general account business	93	149		20
Interest/dividend income and value movements on other financial instruments for which fair value movements are booked in the income statement	570	787		1,016
	744	950		1,057
Total	2,274	(31)		4,577
<b>UK OPERATIONS</b>				
Policyholders' returns				
Scottish Amicable Insurance Fund (SAIF)	303	304		1,075
Assets held to back unit-linked liabilities	657	423		2,119
With-profits fund (excluding SAIF)	2,808	2,576		8,815
	3,768	3,303		12,009
Shareholders' returns				
Prudential Retirement Income Limited (PRIL)	555	1,150		1,717
Other business	342	463		834
	897	1,613		2,551
Total	4,665	4,916		14,560
<b>UNALLOCATED CORPORATE</b>				
Shareholders' returns	21	(97)		(115)
<b>GROUP TOTAL</b>				
Policyholders' returns	5,910	2,352		17,847
Shareholders' returns	1,840	2,675		3,922
Total	7,750	5,027		21,769



The returns as shown in the table on the previous page are delineated between those returns allocated to policyholders and those allocated to shareholders. In making this distinction, returns allocated to policyholders are those from investments in which shareholders have no direct economic interest, namely:

- Unit-linked business in the UK, Asia and SAIF in the UK, for which the investment return is wholly attributable to policyholders;
- Separate account business of US operations, the investment return of which is also wholly attributable to policyholders; and
- With-profits business (excluding SAIF) in the UK and Asia (in which the shareholders' economic interest, and the basis of recognising IFRS basis profits, is restricted to a share of the actuarially determined surplus for distribution (in the UK ten per cent)). Except for this surplus the investment return of the with-profits funds is attributable to policyholders (through the asset-share liabilities) or the unallocated surplus, which is accounted for as a liability under IFRS 4.

The investment return related to the types of business above does not impact shareholders' profits directly. However, there is an indirect impact, for example, investment-related fees or the effect of investment return on the shareholders' share of the cost of bonuses of with-profits funds.

Investment returns for unit-linked and similar products have reciprocal impact on benefits and claims, with a decrease in market returns on the attached pool of assets affecting policyholder benefits on these products. Similarly for with-profits funds there is a close correlation between increases or decreases in investment returns and the level of combined charge for policyholder benefits and movement on unallocated surplus that arises from such returns.

#### Shareholder returns

For shareholder-backed non-participating business of the UK (comprising PRIL and other non-linked non-participating business) and of the Asian operations, the investment return is not directly attributable to policyholders and therefore, does impact shareholders' profit directly. However, it should be noted that for UK shareholder-backed annuity business, principally PRIL, where the durations of asset and liability cash flows are closely matched, the discount rate applied to measure liabilities to policyholders (under 'grandfathered' UK GAAP and under IFRS 4) reflects movements in asset yields (after allowances for the future defaults) of the backing portfolios. Therefore, the net impact on the shareholders' profits of the investment return of the assets backing liabilities of the UK shareholder-backed annuity business is after taking into account the consequential effect on the movement in policyholder liabilities.

The shareholder investment return for US operations also includes the fair value movement of the derivatives and the movement on the related liabilities of the variable annuity guarantees under Jackson's dynamic hedging programme. Changes in shareholder investment returns for US operations reflect primarily movements in the investment income, movements in the value of the derivative instruments held to manage the general account assets and liability portfolio, and realised gains and losses. However, separately, reflecting Jackson's types of business, an allocation is made to policyholders through the application of crediting rates.

The majority of the investments held to back the US non-participating business are debt securities for which the available-for-sale designation is applied for IFRS basis reporting. Under this designation the return included in the income statement reflects the aggregate of investment income and realised gains and losses (including impairment losses). However, movements in unrealised appreciation or depreciation are recognised in other comprehensive income. The return on these assets is attributable to shareholders.

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### K: BENEFITS AND CLAIMS AND MOVEMENTS IN UNALLOCATED SURPLUS OF WITH-PROFITS FUNDS, NET OF REINSURANCE

Benefits and claims represent payments, including final bonuses, to policyholders in respect of maturities, surrenders and deaths plus the change in technical provisions (which primarily represents the movement in amounts owed to policyholders). Benefits and claims are amounts attributable to policyholders. The movement in unallocated surplus of with-profits funds represents the transfer to (from) the unallocated surplus each year through a (charge) credit to the income statement of the annual excess (shortfall) of income over expenditure of the with-profits funds, after declaration and attribution of the cost of bonuses to policyholders and shareholders.

Benefits and claims and movements in unallocated surplus of with-profits funds net of reinsurance can be further analysed as follows:

	Half year 2011 £m			
	Asia	US	UK	Total
Claims incurred	(1,460)	(2,647)	(4,838)	(8,945)
Increase in policyholder liabilities	(1,827)	(5,465)	(713)	(8,005)
Movement in unallocated surplus of with-profits funds	52	–	(692)	(640)
	(3,235)	(8,112)	(6,243)	(17,590)

	Half year 2010 £m			
	Asia	US	UK	Total
Claims incurred	(1,202)	(2,296)	(5,000)	(8,498)
Increase in policyholder liabilities	(876)	(2,556)	(1,860)	(5,292)
Movement in unallocated surplus of with-profits funds	(92)	–	232	140
	(2,170)	(4,852)	(6,628)	(13,650)

	Full year 2010 £m			
	Asia	US	UK	Total
Claims incurred	(2,595)	(4,348)	(9,941)	(16,884)
Increase in policyholder liabilities	(3,824)	(11,075)	(8,490)	(23,389)
Movement in unallocated surplus of with-profits funds	(315)	–	70	(245)
	(6,734)	(15,423)	(18,361)	(40,518)

**L: TAX****i Tax charge**

The total tax charge comprises:

<b>TAX CHARGE</b>	<b>2011</b> £m	<b>2010</b> £m	
	<b>Half year</b>	<b>Half year</b>	<b>Full year</b>
UK tax	(85)	6	(313)
Overseas tax	(310)	(166)	(323)
<b>TOTAL TAX CHARGE*</b>	<b>(395)</b>	<b>(160)</b>	<b>(636)</b>

An analysis of the total tax expense attributable to continuing operations recognised in the income statement by nature of expense is as follows:

	<b>2011</b> <b>Half year</b> £m	<b>2010</b> <b>Half year</b> £m	<b>2010</b> <b>Full year</b> £m
Current tax	(440)	(157)	(91)
Deferred tax	45	(3)	(545)
Total tax charge*	(395)	(160)	(636)

\* The full year 2010 tax charge attributable to shareholders' returns included an exceptional tax credit of £158 million which primarily related to the impact of a settlement agreed with the UK tax authorities.

The current tax charge of £395 million includes £8 million for 2011 (half year 2010: charge of £5 million; full year 2010: charge of £13 million) in respect of the tax charge for Hong Kong. The Hong Kong current tax charge is calculated as 16.5 per cent for all periods on either (i) five 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. The tax charge attributable to shareholders of £301 million for half year 2011 (half year 2010: £149 million; full year 2010: £25 million) comprises:

<b>TAX CHARGE ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>2011</b> <b>Half year</b> £m	<b>2010</b> <b>Half year</b> £m	<b>2010</b> <b>Full year</b> £m
UK tax	(80)	10	187
Overseas tax	(221)	(159)	(212)
<b>TOTAL TAX CHARGE</b>	<b>(301)</b>	<b>(149)</b>	<b>(25)</b>

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### L: TAX > CONTINUED

#### ii Deferred tax

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

	30 June 2011 £m		30 June 2010 £m		31 December 2010 £m	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Unrealised gains and losses on investments	319	(1,654)	982	(2,041)	449	(1,678)
Balances relating to investment and insurance contracts	17	(1,003)	16	(848)	11	(1,057)
Short-term timing differences	1,374	(1,524)	1,414	(1,216)	1,152	(1,477)
Capital allowances	18	(13)	17	(10)	16	(12)
Unused tax losses	392	–	262	–	560	–
Total	2,120	(4,194)	2,691	(4,115)	2,188	(4,224)

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 2011 half year results and financial position at 30 June 2011, the possible tax benefit of approximately £106 million (30 June 2010: £267 million; 31 December 2010: £143 million), which may arise from capital losses valued at approximately £0.5 billion (30 June 2010: £1.2 billion; 31 December 2010: £0.5 billion), is sufficiently uncertain that it has not been recognised. In addition, a potential deferred tax asset of £241 million (30 June 2010: £361 million; 31 December 2010: £298 million), which may arise from tax losses and other potential temporary differences totalling £1.0 billion (30 June 2010: £1.4 billion; 31 December 2010: £1.2 billion) is sufficiently uncertain that it has not been recognised. Forecasts as to when these tax losses and other temporary differences are likely to be utilised indicate that they may not be utilised in the short term.

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 Finance (No.2) Act 2010, the UK government enacted a tax rate change to 27 per cent which was due to be effective from 1 April 2011. However in March 2011, the government announced a revised tax rate change to 26 per cent which was effective from 1 April 2011 after being substantively enacted on 29 March 2011. Additionally, the reduction in the UK corporation tax rate to 25 per cent from 1 April 2012 was substantively enacted on 5 July 2011 in the 2011 Finance Bill, however this has no effect on half year 2011 financial results.

The subsequent revised rate changes proposed to 23 per cent are expected to have the effect of reducing the UK with-profits and shareholder-backed business elements of the net deferred tax balances at 30 June 2011 by £57 million.

### iii Reconciliation of tax charge on profit attributable to shareholders for continuing operations

	Half year 2011 £m (except for tax rates)				
	Asian insurance operations	US insurance operations	UK insurance operations	Other operations	Total
Profit before tax attributable to shareholders:					
Operating profit based on longer-term investment returns <sup>note iii</sup>	324	368	353	13	1,058
Short-term fluctuations in investment returns	14	27	44	28	113
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	(2)	(5)	(7)
<b>Total</b>	<b>338</b>	<b>395</b>	<b>395</b>	<b>36</b>	<b>1,164</b>
Expected tax rate: <sup>note i</sup>					
Operating profit based on longer-term investment returns <sup>note iii</sup>	24%	35%	26.5%	26.5%	29%
Short-term fluctuations in investment returns	22%	35%	26.5%	26.5%	27%
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	26.5%	26.5%	26.5%
Expected tax (charge) credit based on expected tax rates:					
Operating profit based on longer-term investment returns <sup>note iii</sup>	(78)	(129)	(94)	(3)	(304)
Short-term fluctuations in investment returns	(3)	(9)	(12)	(7)	(31)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	1	1	2
<b>Total</b>	<b>(81)</b>	<b>(138)</b>	<b>(105)</b>	<b>(9)</b>	<b>(333)</b>
Variance from expected tax charge: <sup>note ii</sup>					
Operating profit based on longer-term investment returns <sup>note iii</sup>	39	19	5	1	64
Short-term fluctuations in investment returns	(33)	–	1	–	(32)
<b>Total</b>	<b>6</b>	<b>19</b>	<b>6</b>	<b>1</b>	<b>32</b>
Actual tax (charge) credit:					
Operating profit based on longer-term investment returns <sup>note iii</sup>	(39)	(110)	(89)	(2)	(240)
Short-term fluctuations in investment returns	(36)	(9)	(11)	(7)	(63)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	1	1	2
<b>Total</b>	<b>(75)</b>	<b>(119)</b>	<b>(99)</b>	<b>(8)</b>	<b>(301)</b>
Actual tax rate:					
Operating profit based on longer-term investment returns	12%	30%	25%	15%	23%
Total profit	22%	30%	25%	22%	26%

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### L: TAX > CONTINUED

	Half year 2010* £m (except for tax rates)				
	Asian insurance operations	US insurance operations	UK insurance operations	Other operations	Total
Profit (loss) before tax attributable to shareholders:					
Operating profit based on longer-term investment returns <sup>note iii</sup>	259	327	330	(71)	845
Short-term fluctuations in investment returns	41	3	93	12	149
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	(8)	(16)	(24)
Costs of terminated AIA transaction	–	–	–	(377)	(377)
<b>Total</b>	<b>300</b>	<b>330</b>	<b>415</b>	<b>(452)</b>	<b>593</b>
Expected tax rate: <sup>note i</sup>					
Operating profit based on longer-term investment returns <sup>note iii</sup>	26%	35%	28%	28%	31%
Short-term fluctuations in investment returns	26%	35%	28%	28%	28%
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	28%	28%	25%
Costs of terminated AIA transaction	–	–	–	28%	28%
Expected tax (charge) credit based on expected tax rates:					
Operating profit based on longer-term investment returns <sup>note iii</sup>	(67)	(115)	(92)	20	(254)
Short-term fluctuations in investment returns	(11)	(1)	(26)	(3)	(41)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	2	4	6
Costs of terminated AIA transaction	–	–	–	106	106
<b>Total</b>	<b>(78)</b>	<b>(116)</b>	<b>(116)</b>	<b>127</b>	<b>(183)</b>
Variance from expected tax charge: <sup>note ii</sup>					
Operating profit based on longer-term investment returns <sup>note iii</sup>	28	27	(3)	–	52
Short-term fluctuations in investment returns	5	(5)	(1)	(4)	(5)
Costs of terminated AIA transaction	–	–	–	(13)	(13)
<b>Total</b>	<b>33</b>	<b>22</b>	<b>(4)</b>	<b>(17)</b>	<b>34</b>
Actual tax (charge) credit:					
Operating profit based on longer-term investment returns <sup>note iii</sup>	(39)	(88)	(95)	20	(202)
Short-term fluctuations in investment returns	(6)	(6)	(27)	(7)	(46)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	2	4	6
Costs of terminated AIA transaction	–	–	–	93	93
<b>Total</b>	<b>(45)</b>	<b>(94)</b>	<b>(120)</b>	<b>110</b>	<b>(149)</b>
Actual tax rate:					
Operating profit based on longer-term investment returns	15%	27%	29%	28%	24%
Total profit	15%	29%	29%	24%	25%

\* In the second half of 2010, the Company amended the presentation of IFRS operating profit for its US operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations in investment returns. Accordingly, the half year 2010 operating profit has been amended to remove the positive £123 million effect. Note C explains the effect of the change.

	Full year 2010 £m (except for tax rates)				Total
	Asian insurance operations	US insurance operations	UK insurance operations	Other operations	
Profit (loss) before tax attributable to shareholders:					
Operating profit based on longer-term investment returns <sup>noteiii</sup>	532	833	719	(143)	1,941
Short-term fluctuations in investment returns	114	(378)	116	25	(123)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	(5)	(5)	(10)
Costs of terminated AIA transaction	–	–	–	(377)	(377)
Gain on dilution of holding in PruHealth	–	–	30	–	30
<b>Total</b>	<b>646</b>	<b>455</b>	<b>860</b>	<b>(500)</b>	<b>1,461</b>
Expected tax rate: <sup>notei</sup>					
Operating profit based on longer-term investment returns <sup>noteiii</sup>	22%	35%	28%	28%	29%
Short-term fluctuations in investment returns	25%	35%	28%	28%	52%
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	28%	28%	20%
Costs of terminated AIA transaction	–	–	–	28%	28%
Gain on dilution of holding in PruHealth	–	–	28%	–	28%
Expected tax (charge) credit based on expected tax rates:					
Operating profit based on longer-term investment returns <sup>noteiii</sup>	(117)	(292)	(201)	40	(570)
Short-term fluctuations in investment returns	(29)	132	(32)	(7)	64
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	1	1	2
Costs of terminated AIA transaction	–	–	–	106	106
Gain on dilution of holding in PruHealth	–	–	(8)	–	(8)
<b>Total</b>	<b>(146)</b>	<b>(160)</b>	<b>(240)</b>	<b>140</b>	<b>(406)</b>
Variance from expected tax charge: <sup>noteii</sup>					
Operating profit based on longer-term investment returns <sup>noteiii</sup>	59	43	18	237	357
Short-term fluctuations in investment returns	21	–	–	7	28
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	–	1	1
Costs of terminated AIA transaction	–	–	–	(13)	(13)
Gain on dilution of holding in PruHealth	–	–	8	–	8
<b>Total</b>	<b>80</b>	<b>43</b>	<b>26</b>	<b>232</b>	<b>381</b>
Actual tax (charge) credit:					
Operating profit based on longer-term investment returns, excluding exceptional tax credit <sup>noteiii</sup>	(58)	(249)	(183)	119	(371)
Exceptional tax credit*	–	–	–	158	158
Operating profit based on longer-term investment returns <sup>noteiii</sup>	(58)	(249)	(183)	277	(213)
Short-term fluctuations in investment returns	(8)	132	(32)	–	92
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	1	2	3
Costs of terminated AIA transaction	–	–	–	93	93
Gain on dilution of holding in PruHealth	–	–	–	–	–
<b>Total</b>	<b>(66)</b>	<b>(117)</b>	<b>(214)</b>	<b>372</b>	<b>(25)</b>
Actual tax rate:					
Operating profit based on longer-term investment returns	11%	30%	25%	194%	11%
Total profit	10%	26%	25%	74%	2%
Actual tax rate (excluding exceptional tax credit*):					
Operating profit based on longer-term investment returns	11%	30%	25%	83%	19%
Total profit	10%	26%	25%	43%	13%

\* The tax charge attributable to shareholders' return includes an exceptional tax credit of £158 million which primarily relates to the impact of settlement agreed with the UK tax authorities.

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### L: TAX > CONTINUED

#### Notes

- i Expected tax rates for profit (loss) attributable to shareholders:
- The expected tax rates shown in the table on the previous page reflect the corporation tax rates generally applied to taxable profits of the relevant country jurisdictions.
  - For Asian 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 operations, which are taxed at a variety of rates. The rates will fluctuate from year to year dependent on the mix of profits.
- ii For 2011 and 2010, the principal variances arise from a number of factors, including:
- a Asian long-term operations  
For 2011 and 2010, profits in certain countries which are not taxable along with utilising brought forward tax losses on which no deferred tax assets were previously recognised partly offset by the inability to fully recognise deferred tax assets on losses being carried forward.
  - b Jackson  
For half year 2011, and 2010, the benefit of a deduction from taxable income of a proportion of dividends received attributable to the variable annuity business.
  - c UK insurance operations  
For half year 2011, the effect of the reduction in UK corporation tax rate on deferred tax liabilities and the different tax bases of UK life business, partially offset by routine revisions to prior period tax returns. For half year and full year 2010, routine revisions to prior period tax returns and different tax bases of UK life business.
  - d Other operations  
For half year 2011, the effect of the reduction in UK corporation tax rate on deferred tax assets, partially offset by revisions to prior period. For full year 2010, an exceptional tax credit which primarily relates to the impact of the settlement agreed with the UK tax authorities and the ability to recognise a deferred tax credit on various tax losses which we were previously unable to recognise, partly offset by the inability to fully recognise a tax credit in respect of non deductible capital costs incurred in relation to the terminated AIA transaction. For half year 2010, the inability to fully recognise a tax credit in respect of non-deductible capital costs incurred in relation to the terminated AIA transaction.
- iii Operating profit based on longer-term investment returns is net of attributable restructuring costs and development expenses. Related tax charges are determined on the basis of current taxation legislation.

### M: SUPPLEMENTARY ANALYSIS OF EARNINGS PER SHARE

	Half year 2011					
	Before tax note C £m	Tax note L £m	Non- controlling interests £m	Net of tax and non- controlling interests £m	Basic earnings per share Pence	Diluted earnings per share Pence
Based on operating profit based on longer-term investment returns	1,058	(240)	(2)	816	32.2p	32.1p
Short-term fluctuations in investment returns on shareholder-backed business	113	(63)	–	50	2.0p	2.0p
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(7)	2	–	(5)	(0.2)p	(0.2)p
Based on profit for the period from continuing operations	1,164	(301)	(2)	861	34.0p	33.9p



	Half year 2010 <sup>i</sup>					
	Before tax note C £m	Tax note L £m	Non- controlling interests £m	Net of tax and non- controlling interests £m	Basic earnings per share Pence	Diluted earnings per share Pence
Based on operating profit based on longer-term investment returns	845	(202)	(2)	641	25.4p	25.4p
Short-term fluctuations in investment returns on shareholder-backed business	149	(46)	–	103	4.1p	4.1p
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(24)	6	–	(18)	(0.7)p	(0.7)p
Costs of terminated AIA transaction	(377)	93	–	(284)	(11.3)p	(11.3)p
Based on profit for the period from continuing operations	593	(149)	(2)	442	17.5p	17.5p

#### Note

i In the second half of 2010, the Company amended the presentation of IFRS operating profit for its US operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations in investment returns. Accordingly, the half year 2010 operating profit has been amended to remove the positive £123 million effect. Note C explains the effect of the change.

	Full year 2010					
	Before tax note C £m	Tax note L £m	Non- controlling interests £m	Net of tax and non- controlling interests £m	Basic earnings per share Pence	Diluted earnings per share Pence
Based on operating profit based on longer-term investment returns, excluding exceptional tax credit	1,941	(371)	(5)	1,565	62.0p	61.9p
Exceptional tax credit*	–	158	–	158	6.3p	6.3p
Based on operating profit based on longer-term investment returns	1,941	(213)	(5)	1,723	68.3p	68.2p
Short-term fluctuations in investment returns on shareholder-backed business	(123)	92	–	(31)	(1.2)p	(1.2)p
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(10)	3	–	(7)	(0.3)p	(0.3)p
Costs of terminated AIA transaction	(377)	93	–	(284)	(11.3)p	(11.3)p
Gain on dilution of holding in PruHealth	30	–	–	30	1.2p	1.2p
Based on profit for the year from continuing operations including exceptional tax credit	1,461	(25)	(5)	1,431	56.7p	56.6p

\* The tax charge attributable to shareholders' returns in full year 2010 included an exceptional tax credit of £158 million which primarily related to the impact of a settlement agreed with the UK tax authorities.

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:

	30 Jun 2011 (in millions)	30 Jun 2010 (in millions)	31 Dec 2010 (in millions)
Weighted average number of shares for calculation of:			
Basic earnings per share	2,533	2,520	2,524
Diluted earnings per share	2,539	2,524	2,529

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### N: DIVIDENDS

DIVIDENDS PER SHARE (IN PENCE)	2011	2010	
	Half year	Half year	Full year
Dividends relating to reporting period:			
Interim dividend (2011 and 2010)	7.95p	6.61p	6.61p
Final dividend (2010)	–	–	17.24p
Total	7.95p	6.61p	23.85p
Dividends declared and paid in reporting period:			
Current year interim dividend	–	–	6.61p
Final/second interim dividend for prior year	17.24p	13.56p	13.56p
Total	17.24p	13.56p	20.17p

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 2010 of 17.24 pence per ordinary share was paid to eligible shareholders on 26 May 2011.

The 2011 interim dividend of 7.95 pence per ordinary share will be paid on 22 September 2011 in sterling to shareholders on the principal register and the Irish branch register at 6.00pm BST on Friday, 19 August 2011 (the '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 five days after the payment date of the dividend to shareholders on the principal register. The final dividend will be paid on or about 29 September 2011 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 4 August 2011. The exchange rate at which the dividend payable to the SG Shareholders will be translated into SG\$ will be determined by CDP. The dividend will distribute an estimated £203 million of shareholders' funds.

In line with full year 2010, shareholders on the principal register and Irish branch register will be able to participate in a Dividend Reinvestment Plan (DRIP).

## O: GROUP STATEMENT OF FINANCIAL POSITION ANALYSIS

### i Group statement of financial position analysis

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

BY OPERATING SEGMENT	2011 £m							2010 £m		
	Insurance operations			Total insurance operations	Asset management operations	Unallocated to a segment (central operations)	Intra-group eliminations	30 Jun Group total	30 Jun Group total	31 Dec Group total
	UK	US	Asia							
<b>ASSETS</b>										
Intangible assets attributable to shareholders:										
Goodwill <sup>a</sup>	–	–	239	239	1,230	–	–	1,469	1,465	1,466
Deferred acquisition costs and other intangible assets <sup>b</sup>	117	3,639	1,008	4,764	9	–	–	4,773	4,028	4,609
Total	117	3,639	1,247	5,003	1,239	–	–	6,242	5,493	6,075
Intangible assets attributable to with-profits funds:										
In respect of acquired subsidiaries for venture fund and other investment purposes	169	–	–	169	–	–	–	169	124	166
Deferred acquisition costs and other intangible assets	11	–	82	93	–	–	–	93	110	110
Total	180	–	82	262	–	–	–	262	234	276
Total	297	3,639	1,329	5,265	1,239	–	–	6,504	5,727	6,351
Deferred tax assets <sup>c</sup>	198	1,346	94	1,638	113	369	–	2,120	2,691	2,188
Other non-investment and non-cash assets <sup>note i</sup>	3,950	1,168	924	6,042	1,060	4,433	(4,958)	6,577	6,352	6,082
Investments of long-term business and other operations:										
Investment properties	10,930	25	10	10,965	–	–	–	10,965	11,360	11,247
Investments accounted for using the equity method	69	–	2	71	–	–	–	71	9	71
Financial investments:										
Loans <sup>t</sup>	2,401	4,062	1,283	7,746	1,271	–	–	9,017	9,587	9,261
Equity securities and portfolio holdings in unit trusts	40,470	36,263	14,159	90,892	145	–	–	91,037	71,775	86,635
Debt securities <sup>u</sup>	74,818	25,286	15,357	115,461	1,752	–	–	117,213	113,334	116,352
Other investments	4,046	1,352	504	5,902	49	170	–	6,121	6,768	5,779
Deposits	9,759	182	827	10,768	90	–	–	10,858	9,766	9,952
Total investments	142,493	67,170	32,142	241,805	3,307	170	–	245,282	222,599	239,297
Properties held for sale	391	3	–	394	–	–	–	394	3	257
Cash and cash equivalents	3,815	214	2,075	6,104	2,179	306	–	8,589	6,040	6,631
<b>TOTAL ASSETS</b>	<b>151,144</b>	<b>73,540</b>	<b>36,564</b>	<b>261,248</b>	<b>7,898</b>	<b>5,278</b>	<b>(4,958)</b>	<b>269,466</b>	<b>243,412</b>	<b>260,806</b>

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### O: GROUP STATEMENT OF FINANCIAL POSITION ANALYSIS > CONTINUED

BY OPERATING SEGMENT	2011 £m								2010 £m	
	Insurance operations			Total insurance operations	Asset management operations	Unallocated to a segment (central operations)	Intra-group eliminations	30 Jun Group total	30 Jun Group total	31 Dec Group total
	UK	US	Asia							
<b>EQUITY AND LIABILITIES</b>										
<i>Equity</i>										
Shareholders' equity	2,342	3,764	2,269	8,375	1,860	(1,734)	–	8,501	7,161	8,031
Non-controlling interests	38	–	5	43	3	–	–	46	37	44
Total equity	2,380	3,764	2,274	8,418	1,863	(1,734)	–	8,547	7,198	8,075
<i>Liabilities</i>										
Policyholder liabilities and unallocated surplus of with-profits funds:										
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) <sup>z</sup>	126,544	64,707	30,181	221,432	–	–	–	221,432	198,913	214,727
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds) <sup>z</sup>	10,811	–	61	10,872	–	–	–	10,872	10,066	10,253
Total policyholder liabilities and unallocated surplus of with-profits funds	137,355	64,707	30,242	232,304	–	–	–	232,304	208,979	224,980
Core structural borrowings of shareholder-financed operations:										
Subordinated debt	–	–	–	–	–	3,044	–	3,044	2,767	2,718
Other	–	155	–	155	250	549	–	954	715	958
Total <sup>w</sup>	–	155	–	155	250	3,593	–	3,998	3,482	3,676
Operational borrowings attributable to shareholder-financed operations <sup>x</sup>	102	34	139	275	4	2,633	–	2,912	3,234	3,004
Borrowings attributable to with-profits operations <sup>x</sup>	1,440	–	–	1,440	–	–	–	1,440	1,313	1,522
Deferred tax liabilities <sup>l</sup>	1,626	1,805	525	3,956	5	233	–	4,194	4,115	4,224
Other non-insurance liabilities <sup>note ii</sup>	8,241	3,075	3,384	14,700	5,776	553	(4,958)	16,071	15,091	15,325
Total liabilities	148,764	69,776	34,290	252,830	6,035	7,012	(4,958)	269,919	236,214	252,731
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>151,144</b>	<b>73,540</b>	<b>36,564</b>	<b>261,248</b>	<b>7,898</b>	<b>5,278</b>	<b>(4,958)</b>	<b>269,466</b>	<b>243,412</b>	<b>260,806</b>

#### Notes

- i Within other non-investment and non-cash assets are premiums receivable of £290 million (30 June 2010: £260 million; 31 December 2010: £196 million) which are all due within one year except for a small number of products where charges are levied against premiums in future years.
- ii Within other non-insurance liabilities are other creditors of £2,599 million (30 June 2010: £3,246 million; 31 December 2010: £2,321 million) which are due within one year.

## ii Group statement of financial position - additional analysis by business type

	2011 £m						2010 £m		
	Participating funds	Shareholder-backed business				Unallocated to a segment (central operations)	Intra-group eliminations	30 Jun Group total	30 Jun Group total
Unit-linked and variable annuity		Non-linked business	Asset management operations						
<b>ASSETS</b>									
Intangible assets attributable to shareholders:									
Goodwill <sup>Q</sup>	-	-	239	1,230	-	-	1,469	1,465	1,466
Deferred acquisition costs and other intangible assets <sup>R</sup>	-	-	4,764	9	-	-	4,773	4,028	4,609
Total	-	-	5,003	1,239	-	-	6,242	5,493	6,075
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes	169	-	-	-	-	-	169	124	166
Deferred acquisition costs and other intangible assets	93	-	-	-	-	-	93	110	110
Total	262	-	-	-	-	-	262	234	276
Total	262	-	5,003	1,239	-	-	6,504	5,727	6,351
Deferred tax assets <sup>L</sup>	104	-	1,534	113	369	-	2,120	2,691	2,188
Other non-investment and non-cash assets	2,598	741	2,703	1,060	4,433	(4,958)	6,577	6,352	6,082
Investments of long-term business and other operations:									
Investment properties	8,664	743	1,558	-	-	-	10,965	11,360	11,247
Investments accounted for using the equity method	-	-	71	-	-	-	71	9	71
Financial investments:									
Loans <sup>T</sup>	2,157	-	5,589	1,271	-	-	9,017	9,587	9,261
Equity securities and portfolio holdings in unit trusts	30,009	60,145	738	145	-	-	91,037	71,775	86,635
Debt securities <sup>U</sup>	54,149	8,726	52,586	1,752	-	-	117,213	113,334	116,352
Other investments	4,049	112	1,741	49	170	-	6,121	6,768	5,779
Deposits	8,125	872	1,771	90	-	-	10,858	9,766	9,952
Total investments	107,153	70,598	64,054	3,307	170	-	245,282	222,599	239,297
Properties held for sale	391	-	3	-	-	-	394	3	257
Cash and cash equivalents	2,959	1,523	1,622	2,179	306	-	8,589	6,040	6,631
<b>TOTAL ASSETS</b>	<b>113,467</b>	<b>72,862</b>	<b>74,919</b>	<b>7,898</b>	<b>5,278</b>	<b>(4,958)</b>	<b>269,466</b>	<b>243,412</b>	<b>260,806</b>

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### O: GROUP STATEMENT OF FINANCIAL POSITION ANALYSIS > CONTINUED

	2011 £m							2010 £m	
	Shareholder-backed business							30 Jun Group total	31 Dec Group total
	Participa- ting funds	Unit- linked and variable annuity	Non- linked business	Asset manage- ment opera- tions	Unallo- cated to a segment (central opera- tions)	Intra- group elimina- tions	30 Jun Group total		
<b>EQUITY AND LIABILITIES</b>									
<i>Equity</i>									
Shareholders' equity	–	–	8,375	1,860	(1,734)	–	8,501	7,161	8,031
Non-controlling interests	38	–	5	3	–	–	46	37	44
Total equity	38	–	8,380	1,863	(1,734)	–	8,547	7,198	8,075
<i>Liabilities</i>									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) <sup>z</sup>	92,856	71,531	57,045	–	–	–	221,432	198,913	214,727
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds) <sup>z</sup>	10,872	–	–	–	–	–	10,872	10,066	10,253
Total policyholder liabilities and unallocated surplus of with-profits funds	103,728	71,531	57,045	–	–	–	232,304	208,979	224,980
Core structural borrowings of shareholder-financed operations: <sup>w</sup>									
Subordinated debt	–	–	–	–	3,044	–	3,044	2,767	2,718
Other	–	–	155	250	549	–	954	715	958
Total	–	–	155	250	3,593	–	3,998	3,482	3,676
Operational borrowings attributable to shareholder-financed operations <sup>x</sup>	–	–	275	4	2,633	–	2,912	3,234	3,004
Borrowings attributable to with-profits operations <sup>x</sup>	1,440	–	–	–	–	–	1,440	1,313	1,522
Deferred tax liabilities	1,534	27	2,395	5	233	–	4,194	4,115	4,224
Other non-insurance liabilities	6,727	1,304	6,669	5,776	553	(4,958)	16,071	15,091	15,325
Total liabilities	113,429	72,862	66,539	6,035	7,012	(4,958)	260,919	236,214	252,731
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>113,467</b>	<b>72,862</b>	<b>74,919</b>	<b>7,898</b>	<b>5,278</b>	<b>(4,958)</b>	<b>269,466</b>	<b>243,412</b>	<b>260,806</b>

## P: STATEMENT OF FINANCIAL POSITION

### i UK insurance operations

#### Overview

In order to reflect the different types of UK business and fund structure, the statement of financial position of the UK insurance operations analyses assets and liabilities between those of the Scottish Amicable Insurance Fund (SAIF), the PAC with-profits sub-fund (WPSF), unit-linked assets and liabilities and annuity (principally PRIL) and other long-term business.

£94.6 billion of the £142.5 billion of investments are held by SAIF and the PAC WPSF. Shareholders are exposed only indirectly to value movements on these assets.

BY OPERATING SEGMENT	30 Jun 2011								30 Jun 2010	31 Dec 2010	
	PAC with-profits sub-fund note i				Other funds and subsidiaries				Total £m	Total £m	Total £m
	Scottish Amicable Insurance Fund note ii £m	Excluding Prudential Annuities Limited £m	Prudential Annuities Limited note iii £m	PAC with-profits sub-fund Total note iv £m	Unit-linked assets and liabilities £m	Annuity and other long-term business £m	Other funds and subsidiaries Total £m				
<b>ASSETS</b>											
Intangible assets attributable to shareholders:											
Deferred acquisition costs and other intangible assets	-	-	-	-	-	117	117	117	128	118	
Total	-	-	-	-	-	117	117	117	128	118	
Intangible assets attributable to with-profits funds:											
In respect of acquired subsidiaries for venture fund and other investment purposes	-	169	-	169	-	-	-	169	124	166	
Deferred acquisition costs	-	11	-	11	-	-	-	11	8	13	
Total	-	180	-	180	-	-	-	180	132	179	
Total	-	180	-	180	-	117	117	297	260	297	
Deferred tax assets	1	96	7	103	-	94	94	198	253	214	
Other non-investment and non-cash assets	402	1,670	253	1,923	632	993	1,625	3,950	4,690	4,633	
Investments of long-term business and other operations:											
Investment properties	633	7,295	736	8,031	743	1,523	2,266	10,930	11,322	11,212	
Investments accounted for using the equity method	-	-	-	-	-	69	69	69	4	69	
Financial investments:											
Loans <sup>T</sup>	156	1,034	132	1,166	-	1,079	1,079	2,401	2,214	2,302	
Equity securities and portfolio holdings in unit trusts	2,851	23,105	190	23,295	14,293	31	14,324	40,470	34,668	40,519	
Debt securities <sup>U</sup>	4,655	29,231	12,794	42,025	5,713	22,425	28,138	74,818	72,072	74,304	
Other investments <sup>note v</sup>	241	3,273	182	3,455	90	260	350	4,046	4,323	3,998	
Deposits	989	6,704	432	7,136	379	1,255	1,634	9,759	8,401	9,022	
Total investments	9,525	70,642	14,466	85,108	21,218	26,642	47,860	142,493	133,004	141,426	
Properties held for sale	-	391	-	391	-	-	-	391	-	254	
Cash and cash equivalents	156	1,931	154	2,085	1,069	505	1,574	3,815	3,128	2,839	
<b>TOTAL ASSETS</b>	<b>10,084</b>	<b>74,910</b>	<b>14,880</b>	<b>89,790</b>	<b>22,919</b>	<b>28,351</b>	<b>51,270</b>	<b>151,144</b>	<b>141,335</b>	<b>149,663</b>	

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### P: STATEMENT OF FINANCIAL POSITION > CONTINUED

	30 Jun 2011								30 Jun 2010	31 Dec 2010	
	PAC with-profits sub-fund note i				Other funds and subsidiaries				Total £m	Total £m	Total £m
	Scottish Amicable Insurance Fund note ii £m	Excluding Prudential Annuities Limited £m	Prudential Annuities Limited note iii £m	PAC with-profits sub-fund Total note iv £m	Unit-linked assets and liabilities £m	Annuity and other long-term business £m	Other funds and subsidiaries Total £m				
<b>EQUITY AND LIABILITIES</b>											
<i>Equity</i>											
Shareholders' equity	–	–	–	–	–	2,342	2,342	2,342	1,937	2,148	
Non-controlling interests	–	38	–	38	–	–	–	38	32	35	
Total equity	–	38	–	38	–	2,342	2,342	2,380	1,969	2,183	
<i>Liabilities</i>											
Policyholder liabilities and unallocated surplus of with-profits funds:											
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) <sup>z</sup>	9,406	59,832	12,149	71,981	22,304	22,853	45,157	126,544	118,180	125,530	
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds) <sup>z and note vi</sup>	–	8,899	1,912	10,811	–	–	–	10,811	10,014	10,187	
Total	9,406	68,731	14,061	82,792	22,304	22,853	45,157	137,355	128,194	135,717	
Operational borrowings attributable to shareholder-financed operations	–	–	–	–	–	102	102	102	159	162	
Borrowings attributable to with-profits funds	124	1,316	–	1,316	–	–	–	1,440	1,313	1,522	
Deferred tax liabilities	61	894	211	1,105	–	460	460	1,626	1,283	1,738	
Other non-insurance liabilities	493	3,931	608	4,539	615	2,594	3,209	8,241	8,417	8,341	
Total liabilities	10,084	74,872	14,880	89,752	22,919	26,009	48,928	148,764	139,366	147,480	
<b>TOTAL EQUITY AND LIABILITIES</b>	10,084	74,910	14,880	89,790	22,919	28,351	51,270	151,144	141,335	149,663	

#### Notes

- i 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 3.5 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 SAIF is a separate sub-fund within the PAC long-term business fund.
- iii Wholly-owned subsidiary of the PAC WPSF that writes annuity business.
- iv Excluding policyholder liabilities of the Hong Kong branch of PAC.



## v Other investments comprise:

	<b>2011</b> <b>30 Jun</b> £m	<b>2010</b> <b>30 Jun</b> £m	<b>2010</b> <b>31 Dec</b> £m
Derivative assets*	841	1,370	926
Partnerships in investment pools and other†	3,205	2,953	3,072
	<b>4,046</b>	<b>4,323</b>	<b>3,998</b>

\* In the UK, Prudential uses derivatives to reduce equity and credit risk, interest rate and currency exposures, and to facilitate efficient portfolio management. After derivative liabilities of £909 million (30 June 2010: £868 million; 31 December 2010: £792 million), which are also included in the statement of financial position, the overall derivative position was a net liability of £68 million (30 June 2010: net asset of £502 million; 31 December 2010: net asset of £134 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.

## vi Unallocated surplus of with-profits funds

Prudential's long-term business written in the UK comprises predominantly life insurance policies under which the policyholders are entitled to participate in the returns of the funds supporting these policies. Business similar to this type is also written in certain of the Group's Asian operations, subject to local market and regulatory conditions. Such policies are called with-profits policies. Prudential maintains with-profits funds within the Group's long-term business funds, which segregate the assets and liabilities and accumulate the returns related to that with-profits business. The amounts accumulated in these with-profits funds are available to provide for future policyholder benefit provisions and for bonuses to be distributed to with-profits policyholders. The bonuses, both annual and final, reflect the right of the with-profits policyholders to participate in the financial performance of the with-profits funds. Shareholders' profits with respect to bonuses declared on with-profits business correspond to the shareholders' share of the cost of bonuses as declared by the Board of Directors. The shareholders' share currently represents one-ninth of the cost of bonuses declared for with-profits policies.

The unallocated surplus represents the excess of assets over policyholder liabilities for the Group's with-profits funds. As allowed under IFRS 4, the Group has opted to continue to record unallocated surplus of with-profits funds wholly as a liability. The annual excess (shortfall) of income over expenditure of the with-profits funds, after declaration and attribution of the cost of bonuses to policyholders and shareholders, is transferred to (from) the unallocated surplus each year through a (charge) credit to the income statement. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders. The balance of the unallocated surplus is determined after full provision for deferred tax on unrealised appreciation of investments.

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### P: STATEMENT OF FINANCIAL POSITION > CONTINUED

#### ii US insurance operations

	30 Jun 2011			30 Jun 2010	31 Dec 2010
	Variable annuity separate account assets and liabilities note i £m	Fixed annuity, GIC and other business note i £m	Total £m	Total £m	Total £m
<b>ASSETS</b>					
Intangible assets attributable to shareholders:					
Deferred acquisition costs	–	3,639	3,639	2,950	3,543
Total	–	3,639	3,639	2,950	3,543
Deferred tax assets	–	1,346	1,346	1,828	1,391
Other non-investment and non-cash assets	–	1,168	1,168	1,409	1,241
Investments of long-term business and other operations:					
Investment properties	–	25	25	27	26
Financial investments:					
Loans <sup>T</sup>	–	4,062	4,062	4,537	4,201
Equity securities and portfolio holdings in unit trusts <sup>note iv</sup>	36,005	258	36,263	24,629	31,501
Debt securities <sup>U,V</sup>	–	25,286	25,286	27,371	26,366
Other investments <sup>note ii</sup>	–	1,352	1,352	1,684	1,199
Deposits	–	182	182	359	212
Total investments	36,005	31,165	67,170	58,607	63,505
Properties held for sale	–	3	3	3	3
Cash and cash equivalents	–	214	214	153	232
<b>TOTAL ASSETS</b>	<b>36,005</b>	<b>37,535</b>	<b>73,540</b>	<b>64,950</b>	<b>69,915</b>
<b>EQUITY AND LIABILITIES</b>					
<i>Equity</i>					
Shareholders' equity <sup>note iii</sup>	–	3,764	3,764	3,905	3,815
Total equity	–	3,764	3,764	3,905	3,815
<i>Liabilities</i>					
Policyholder liabilities:					
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) <sup>2</sup>	36,005	28,702	64,707	55,253	60,523
Total	36,005	28,702	64,707	55,253	60,523
Core structural borrowings of shareholder- financed operations	–	155	155	166	159
Operational borrowings attributable to shareholder- financed operations	–	34	34	171	90
Deferred tax liabilities	–	1,805	1,805	2,254	1,776
Other non-insurance liabilities	–	3,075	3,075	3,201	3,552
Total liabilities	36,005	33,771	69,776	61,045	66,100
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>36,005</b>	<b>37,535</b>	<b>73,540</b>	<b>64,950</b>	<b>69,915</b>

## Notes

- i Assets and liabilities attaching to variable annuity business that are not held in the separate account are shown within other business.  
 ii Other investments comprise:

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
Derivative assets*	749	1,162	645
Partnerships in investment pools and other†	603	522	554
	1,352	1,684	1,199

\* In the US, Prudential uses derivatives to reduce interest rate risk, to facilitate efficient portfolio management to match liabilities under annuity policies, and for certain equity-based product management activities. After taking account of the derivative liability of £718 million (30 June 2010: £618 million; 31 December 2010: £799 million), which is also included in the statement of financial position, the derivative position for US operations is a net asset of £31 million (30 June 2010: net asset of £544 million; 31 December 2010: net liability of £154 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 Changes in shareholders' equity

	2011 30 Jun £m	2010* 30 Jun £m	2010 31 Dec £m
Operating profits based on longer-term investment returns <sup>c</sup>	368	327	833
Short-term fluctuations in investment returns <sup>f</sup>	27	3	(378)
Profit before shareholder tax	395	330	455
Tax <sup>l</sup>	(119)	(94)	(117)
Profit for the period	276	236	338
	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
Profit for the period (as above)	276	236	338
Items recognised in other comprehensive income:			
Exchange movements	(92)	252	85
Unrealised valuation movements on securities classified as available-for-sale:			
Unrealised holding gains arising during the period	287	1,123	1,170
Deduct net (gains)/add back net losses included in income statement	(50)	21	51
Total unrealised valuation movements	237	1,144	1,221
Related change in amortisation of deferred income and acquisition costs <sup>R</sup>	(97)	(510)	(496)
Related tax	(49)	(215)	(247)
Total other comprehensive (loss) income	(1)	671	563
Total comprehensive income for the period	275	907	901
Dividends, interest payments to central companies and other movements	(326)	(13)	(97)
Net (decrease) increase in equity	(51)	894	804
Shareholders' equity at beginning of period	3,815	3,011	3,011
Shareholders' equity at end of period	3,764	3,905	3,815

\* In the second half of 2010, the Company amended the presentation of IFRS operating profit for its US operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations in investment returns. Accordingly, the half year 2010 operating profit has been amended to remove the positive £123 million effect. Note C explains the effect of this change.

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

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### P: STATEMENT OF FINANCIAL POSITION > CONTINUED

#### iii Asian insurance operations

	30 Jun 2011				30 Jun 2010	31 Dec 2010
	With- profits business note i £m	Unit- linked assets and liabilities £m	Other £m	Total £m	Total £m	Total £m
<b>ASSETS</b>						
Intangible assets attributable to shareholders:						
Goodwill	–	–	239	239	235	236
Deferred acquisition costs and other intangible assets	–	–	1,008	1,008	942	939
Total	–	–	1,247	1,247	1,177	1,175
Intangible assets attributable to with-profits funds:						
Deferred acquisition costs and other intangible assets	82	–	–	82	102	97
Deferred tax assets	–	–	94	94	96	98
Other non-investment and non-cash assets	273	109	542	924	992	811
Investments of long-term business and other operations:						
Investment properties	–	–	10	10	11	9
Investments accounted for using the equity method	–	–	2	2	5	2
Financial investments:						
Loans <sup>T</sup>	835	–	448	1,283	1,383	1,340
Equity securities and portfolio holdings in unit trusts	3,863	9,847	449	14,159	12,323	14,464
Debt securities <sup>U</sup>	7,469	3,013	4,875	15,357	12,425	14,108
Other investments	353	22	129	504	427	382
Deposits	–	493	334	827	952	638
Total investments	12,520	13,375	6,247	32,142	27,526	30,943
Cash and cash equivalents	718	454	903	2,075	1,010	1,601
<b>TOTAL ASSETS</b>	<b>13,593</b>	<b>13,938</b>	<b>9,033</b>	<b>36,564</b>	<b>30,903</b>	<b>34,725</b>
<b>EQUITY AND LIABILITIES</b>						
<i>Equity</i>						
Shareholders' equity	–	–	2,269	2,269	1,992	2,149
Non-controlling interests	–	–	5	5	2	5
Total equity	–	–	2,274	2,274	1,994	2,154
<i>Liabilities</i>						
Policyholder liabilities and unallocated surplus of with-profits funds:						
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) <sup>Z</sup>	11,469	13,222	5,490	30,181	25,480	28,674
Unallocated surplus of with-profits funds <sup>Z</sup>	61	–	–	61	52	66
Total	11,530	13,222	5,490	30,242	25,532	28,740
Operational borrowings attributable to shareholders-financed operations	–	–	139	139	195	189
Deferred tax liabilities	368	27	130	525	425	495
Other non-insurance liabilities	1,695	689	1,000	3,384	2,757	3,147
Total liabilities	13,593	13,938	6,759	34,290	28,909	32,571
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>13,593</b>	<b>13,938</b>	<b>9,033</b>	<b>36,564</b>	<b>30,903</b>	<b>34,725</b>

#### 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 with-profits operations. Assets and liabilities of other participating business are included in the column for 'Other business'.

## iv Asset management operations

	30 Jun 2011				30 Jun 2010	31 Dec 2010
	M&G note i £m	US £m	Asia £m	Total £m	Total £m	Total £m
<b>ASSETS</b>						
Intangible assets:						
Goodwill	1,153	16	61	1,230	1,230	1,230
Deferred acquisition costs	9	–	–	9	8	9
Total	1,162	16	61	1,239	1,238	1,239
Other non-investment and non-cash assets	858	177	138	1,173	1,017	1,122
Financial investments:						
Loans <sup>T</sup>	1,271	–	–	1,271	1,453	1,418
Equity securities and portfolio holdings in unit trusts	134	–	11	145	155	151
Debt securities <sup>U</sup>	1,739	–	13	1,752	1,466	1,574
Other investments	43	1	5	49	195	59
Deposits	42	8	40	90	54	80
Total financial investments	3,229	9	69	3,307	3,323	3,282
Cash and cash equivalents	2,014	39	126	2,179	1,076	1,436
<b>TOTAL ASSETS</b>	<b>7,263</b>	<b>241</b>	<b>394</b>	<b>7,898</b>	<b>6,654</b>	<b>7,079</b>
<b>EQUITY AND LIABILITIES</b>						
<i>Equity</i>						
Shareholders' equity	1,463	124	273	1,860	1,711	1,787
Non-controlling interests	3	–	–	3	3	4
Total equity	1,466	124	273	1,863	1,714	1,791
<i>Liabilities</i>						
Core structural borrowing of shareholder-financed operations	250	–	–	250	–	250
Intra-group debt represented by operational borrowings at Group level <sup>note ii</sup>	2,633	–	–	2,633	2,564	2,560
Net asset value attributable to external holders of consolidated unit trusts and similar funds <sup>note iii</sup>	516	–	–	516	398	458
Other non-insurance liabilities <sup>note iv</sup>	2,398	117	121	2,636	1,978	2,020
Total liabilities	5,797	117	121	6,035	4,940	5,288
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>7,263</b>	<b>241</b>	<b>394</b>	<b>7,898</b>	<b>6,654</b>	<b>7,079</b>

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### P: STATEMENT OF FINANCIAL POSITION > CONTINUED

#### Notes

- i M&G includes those assets and liabilities in respect of Prudential Capital.  
 ii Intra-group debt represented by operational borrowings at Group level  
 Operational borrowings for M&G are in respect of Prudential Capital's short-term fixed income security programme and comprise:

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
Commercial paper	2,384	2,312	2,311
Medium-term notes	249	252	249
Total intra-group debt represented by operational borrowings at Group level	2,633	2,564	2,560

#### iii Consolidated investment funds

The M&G statement of financial position shown above includes investment funds which are managed on behalf of third parties. In respect of these funds, the statement of financial position includes the following, which are non-recourse to M&G and the Group:

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
Cash and cash equivalents	357	247	304
Other investments	193	164	167
Other net assets and liabilities	(34)	(13)	(13)
Net asset value attributable to external unit holders	(516)	(398)	(458)
Shareholders' equity	-	-	-

- iv Other non-insurance liabilities consists primarily of intra-group balances, derivative liabilities and other creditors.

### Q: GOODWILL ATTRIBUTABLE TO SHAREHOLDERS

	2011 £m	2010 £m	
	30 Jun	30 Jun	31 Dec
<b>COST</b>			
At beginning of period	1,586	1,430	1,430
Acquisition of UOB Life Assurance Limited in Singapore*	-	145	141
Exchange differences	3	10	15
At end of period	1,589	1,585	1,586
Aggregate impairment	(120)	(120)	(120)
<b>NET BOOK AMOUNT AT END OF PERIOD</b>	<b>1,469</b>	<b>1,465</b>	<b>1,466</b>

\* Goodwill was finalised in the second half of 2010.

## R: DEFERRED ACQUISITION COSTS AND OTHER INTANGIBLE ASSETS ATTRIBUTABLE TO SHAREHOLDERS

Significant costs are incurred in connection with acquiring new insurance business. Except for acquisition costs of with-profits contracts of the UK regulated with-profits funds, which are accounted for under the realistic FSA regime, these costs, which vary with, and are primarily related to, the production of new business, are capitalised and amortised against margins in future revenues on the related insurance policies. The recoverability of the asset is measured and the asset is deemed impaired if the projected future margins are less than the carrying value of the asset. To the extent that the future margins differ from those anticipated, then an adjustment to the carrying value of the deferred acquisition cost asset will be necessary.

The deferral and amortisation of acquisition costs is of most relevance to the Group's results for shareholder-financed long-term business of Jackson and Asian operations. The majority of the UK shareholder-backed business is individual and group annuity business where the incidence of acquisition costs is negligible.

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

	2011 £m		2010 £m	
	30 Jun	30 Jun	30 Jun	31 Dec
Deferred acquisition costs (DAC) relating to insurance and investment management contracts	4,504	3,847		4,426
Present value of acquired in-force business and distribution rights	269	181		183
	4,773	4,028		4,609

	Deferred acquisition costs						Total 30 Jun 2011 £m	Total 30 Jun 2010 £m	Total 31 Dec 2010 £m
	UK £m	US <sup>(i)</sup> £m	Asia £m	Asset management £m	Other intangibles £m				
<b>BALANCE AT BEGINNING OF PERIOD</b>	116	3,543	758	9	183	4,609	4,049	4,049	
Additions/reclassifications	9	485	121	1	92	708	605	1,135	
Acquisition of UOB Life Assurance Ltd in 2010	–	–	–	–	–	–	–	12	
Amortisation to the income statement:									
Operating profit	(10)	(293)	(132)	(1)	(7)	(443)	(393)	(579)	
Amortisation related to short-term fluctuations in investment returns	–	88	–	–	–	88	8	358	
Exchange differences	(10)	(205)	(132)	(1)	(7)	(355)	(385)	(221)	
Change in shadow DAC related to movement in unrealised appreciation of Jackson's securities classified as available-for-sale	–	(87)	(6)	–	1	(92)	269	137	
Dilution of holding in PruHealth in 2010	–	–	–	–	–	–	–	(7)	
<b>BALANCE AT END OF PERIOD</b>	115	3,639	741	9	269	4,773	4,028	4,609	

### Note

i The DAC amount in respect of US insurance operations includes:

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
Variable annuity business	3,092	2,384	2,834
Other business	1,152	1,118	1,229
Cumulative shadow DAC	(605)	(552)	(520)
Total DAC for US operations	3,639	2,950	3,543

### 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 indexed 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.

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### R: DEFERRED ACQUISITION COSTS AND OTHER INTANGIBLE ASSETS ATTRIBUTABLE TO SHAREHOLDERS > CONTINUED

As with fixed and indexed annuity and interest-sensitive life business, acquisition costs for Jackson's variable annuity products are amortised in line with the emergence of profits. The measurement of the amortisation in part reflects current period fees (including those for guaranteed minimum death, income, or withdrawal benefits) earned on assets covering liabilities to policyholders, and the historical and expected level of future gross profits which depends on the assumed level of future fees, as well as components related to mortality, lapse, and expense.

#### **Mean reversion technique**

Under US GAAP (as grandfathered under IFRS 4) the projected gross profits, against which acquisition costs are amortised, reflect an assumed long-term level of equity return which, for Jackson, is 8.4 per cent after deduction of net external fund management fees. This is applied to the period end level of separate account assets after application of a mean reversion technique that removes a portion of the effect of levels of short-term variability in current market 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 two years and the current year, the 8.4 per cent annual return is realised on average over the entire eight year period. Projected returns after the mean reversion period revert back to the 8.4 per cent assumption.

However, to ensure that the methodology does not over anticipate a reversion to trend 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) in each year. The capping feature was relevant in late 2008, 2009 and 2010 due to the very sharp market falls in 2008.

#### **Sensitivity of amortisation charge**

The amortisation charge to the income statement is reflected in 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 profits; 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.

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

In 2008, the application of the mean reversion technique benefitted the results by £110 million. In 2009 and 2010, whilst the cap was in effect, any accelerated or decelerated amortisation reflected the difference between market returns for the period and the assumed level of 15 per cent.

#### **Half year 2011**

In half year 2011, the DAC amortisation charge included in operating profit includes £82 million of accelerated amortisation. This amount reflects the combined effect of:

- i market returns in the period being lower than those assumed for the period; and
- ii the reduction in the previously assumed future rates of return for the upcoming five years from 15 per cent, to a level nearer the middle of the corridor (of 0 per cent and 15 per cent), so that in combination with the historical returns, the eight-year average in the mean reversion calculation is the 8.4 per cent long-term assumption.

The reduction in assumed future rates reflects in large part the elimination, from the calculation in 2011, of the 2008 negative returns. Setting aside other complications and the growth in the book, the 2011 accelerated amortisation can be broadly equated as 'paying back' the benefit enjoyed in 2008.

#### **Full year 2011**

Consistent with the features noted for the half year 2011 level of accelerated amortisation, the charge for full year 2011 will be sensitive to the combined effect of:

- i the separate account performance in the period as it compares with the assumed level for the second half of the year; and
- ii the consequential effect of adjustments to the projected rates of return for the future five years under the mean reversion methodology as they are updated from those applying at 30 June 2011.

On the assumption that market returns for 2011 are within the range of negative 15 per cent to positive 15 per cent, the estimated DAC acceleration for full year 2011 is estimated to be £240 million to £150 million.



### S: VALUATION BASES FOR GROUP ASSETS

The accounting carrying values of the Group's assets 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. The basis applied for the assets section of the statement of financial position at 30 June 2011 is summarised below:

	30 Jun 2011 £m			30 Jun 2010 £m			31 Dec 2010 £m		
	At fair value	Cost/Amortised cost note ii	Total	At fair value	Cost/Amortised cost note ii	Total	At fair value	Cost/Amortised cost note ii	Total
Intangible assets attributable to shareholders:									
Goodwill <sup>a</sup>	–	1,469	1,469	–	1,465	1,465	–	1,466	1,466
Deferred acquisition costs and other intangible assets <sup>b</sup>	–	4,773	4,773	–	4,028	4,028	–	4,609	4,609
Total	–	6,242	6,242	–	5,493	5,493	–	6,075	6,075
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes	–	169	169	–	124	124	–	166	166
Deferred acquisition costs and other intangible assets	–	93	93	–	110	110	–	110	110
Total	–	262	262	–	234	234	–	276	276
Total	–	6,504	6,504	–	5,727	5,727	–	6,351	6,351
Other non-investment and non-cash assets:									
Property, plant and equipment	–	761	761	–	382	382	–	612	612
Reinsurers' share of insurance contract liabilities	–	1,334	1,334	–	1,369	1,369	–	1,344	1,344
Deferred tax assets <sup>c</sup>	–	2,120	2,120	–	2,691	2,691	–	2,188	2,188
Current tax recoverable	–	384	384	–	575	575	–	555	555
Accrued investment income	–	2,460	2,460	–	2,559	2,559	–	2,668	2,668
Other debtors	–	1,638	1,638	–	1,467	1,467	–	903	903
Total	–	8,697	8,697	–	9,043	9,043	–	8,270	8,270
Investments of long-term business and other operations: <sup>note iv</sup>									
Investment properties	10,965	–	10,965	11,360	–	11,360	11,247	–	11,247
Investments accounted for using the equity method	–	71	71	–	9	9	–	71	71
Loans <sup>note iii and T</sup>	245	8,772	9,017	251	9,336	9,587	227	9,034	9,261
Equity securities and portfolio holdings in unit trusts <sup>note iii</sup>	91,037	–	91,037	71,775	–	71,775	86,635	–	86,635
Debt securities <sup>note iii and U</sup>	117,213	–	117,213	113,334	–	113,334	116,352	–	116,352
Other investments <sup>note iii</sup>	6,121	–	6,121	6,768	–	6,768	5,779	–	5,779
Deposits <sup>note i</sup>	–	10,858	10,858	–	9,766	9,766	–	9,952	9,952
Total	225,581	19,701	245,282	203,488	19,111	222,599	220,240	19,057	239,297
Properties held for sale	394	–	394	3	–	3	257	–	257
Cash and cash equivalents <sup>note i</sup>	–	8,589	8,589	–	6,040	6,040	–	6,631	6,631
<b>TOTAL ASSETS</b>	<b>225,975</b>	<b>43,491</b>	<b>269,466</b>	<b>203,491</b>	<b>39,921</b>	<b>243,412</b>	<b>220,497</b>	<b>40,309</b>	<b>260,806</b>
Percentage of Group total assets	84%	16%	100%	84%	16%	100%	85%	15%	100%

# NOTES ON THE IFRS BASIS RESULTS CONTINUED

## S: VALUATION BASES FOR GROUP ASSETS > CONTINUED

### Notes

- i The Group has classified deposits and cash and cash equivalents as loans and receivables under IAS 39. These are carried at amortised cost in the statement of financial position. There is no difference between their carrying values and fair values. Including these amounts as being at their fair values, the percentage of the Group's total assets held on the statement of financial position which were at fair value at 30 June 2011 was 91 per cent (30 June 2010: 90 per cent; 31 December 2010: 91 per cent).
- ii 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.
- iii These assets comprise financial instruments requiring fair value valuation under IAS 39 with a value of £214.6 billion (30 June 2010: £192.1 billion; 31 December 2010: £209.0 billion).
- iv Realised gains and losses on the Group's investments for half year 2011 amounted to a net gain of £2.5 billion (half year 2010: £0.1 billion; full year £3.1 billion).

### Determination of fair value

The fair values of the financial 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. 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 judgements 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.

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.

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. In accordance with the Group's risk management framework, all internally generated valuations are subject to assessment against external counterparties' valuations.

For investment contracts in the US with fixed and guaranteed terms the fair value is determined based on the present value of future cash flows discounted at current interest rates.

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

### Level 1, 2 and 3 fair value measurement hierarchy of Group financial instruments

The table below includes financial instruments carried at fair value analysed by level of the IFRS 7 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. The classification criteria and its application to Prudential is consistent with that set out in the full year 2010 Annual Report and is summarised below.

The classification criteria and its application to Prudential can be summarised as follows:

#### Level 1 - quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 1 includes financial instruments where there is clear evidence that the valuation is based on a traded price in an active market (e.g. exchange listed equities, mutual funds with quoted prices and exchange traded derivatives).

#### Level 2 - inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 2 includes investments where a direct link to an actively traded price is not readily apparent, but which are valued using inputs which are largely observable. 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.

Of the total level 2 debt securities of £89,051 million at 30 June 2011 (30 June 2010: £87,440 million; 31 December 2010: £89,948 million), £6,644 million are valued internally (30 June 2010: £6,862 million; 31 December 2010: £6,638 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 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.

#### Level 3 - significant inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Level 3 includes investments which are internally valued or subject to a significant number of unobservable assumptions (e.g. private equity funds and certain derivatives which are bespoke or long-dated).

Of the £699 million level 3 fair valued financial investments, net of derivative liabilities at 30 June 2011 (30 June 2010: £892 million; 31 December 2010: £866 million), which support non-linked shareholder-backed business (representing 1.2 per cent of the total fair valued financial investments net of derivative liabilities backing this business (30 June 2010: 1.6 per cent; 31 December 2010: 1.6 per cent)), £745 million of net assets are externally valued and £(46) million of net liabilities are internally valued (30 June 2010: net assets of £817 million and £75 million; 31 December 2010: net assets of £728 million and £138 million respectively). Internal valuations, which represent (0.1) per cent of the total fair valued financial investments net of derivative liabilities supporting non-linked shareholder-backed business at 30 June 2011 (30 June 2010: 0.1 per cent; 31 December 2010: 0.2 per cent), are inherently more subjective than external valuations.

#### Transfers between levels

During half year 2011, transfers from level 1 to 2 within the Group's portfolio amounted to £64 million. Transfers from level 2 to level 3 amounted to £38 million and transfers from level 3 to level 2 amounted to £105 million. These transfers which relate to equity securities and debt securities arose to reflect the change in the observability of the inputs used in valuing these securities.

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### S: VALUATION BASES FOR GROUP ASSETS > CONTINUED

	30 Jun 2011 £m			
	Level 1	Level 2	Level 3	Total
<b>ANALYSIS OF FINANCIAL INVESTMENTS, NET OF DERIVATIVE LIABILITIES BY BUSINESS TYPE</b>				
<b>WITH-PROFITS</b>				
Equity securities and portfolio holdings in unit trusts	28,379	1,269	361	30,009
Debt securities	12,673	40,755	721	54,149
Other investments (including derivative assets)	133	1,228	2,688	4,049
Derivative liabilities	(40)	(895)	(47)	(982)
Total financial investments, net of derivative liabilities	41,145	42,357	3,723	87,225
Percentage of total	47%	49%	4%	100%
<b>UNIT-LINKED AND VARIABLE ANNUITY SEPARATE ACCOUNT</b>				
Equity securities and portfolio holdings in unit trusts	60,132	13	–	60,145
Debt securities	4,148	4,577	1	8,726
Other investments (including derivative assets)	16	96	–	112
Total financial investments, net of derivative liabilities	64,296	4,686	1	68,983
Percentage of total	93%	7%	0%	100%
<b>NON-LINKED SHAREHOLDER-BACKED</b>				
Loans	–	245	–	245
Equity securities and portfolio holdings in unit trusts	755	23	105	883
Debt securities	10,385	43,719	234	54,338
Other investments (including derivative assets)	52	1,298	610	1,960
Derivative liabilities	(36)	(1,117)	(250)	(1,403)
Total financial investments, net of derivative liabilities	11,156	44,168	699	56,023
Percentage of total	20%	79%	1%	100%
<b>GROUP TOTAL ANALYSIS, INCLUDING OTHER FINANCIAL LIABILITIES HELD AT FAIR VALUE</b>				
<b>GROUP TOTAL</b>				
Loans	–	245	–	245
Equity securities and portfolio holdings in unit trusts	89,266	1,305	466	91,037
Debt securities	27,206	89,051	956	117,213
Other investments (including derivative assets)	201	2,622	3,298	6,121
Derivative liabilities	(76)	(2,012)	(297)	(2,385)
Total financial investments, net of derivative liabilities	116,597	91,211	4,423	212,231
Borrowings attributable to the with-profits fund held at fair value	–	(71)	–	(71)
Investment contracts liabilities without discretionary participation features held at fair value	–	(14,708)	–	(14,708)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,773)	(980)	(450)	(3,203)
Total	114,824	75,452	3,973	194,249
Percentage of total	59%	39%	2%	100%

	30 Jun 2010 £m			Total
	Level 1	Level 2	Level 3	
<b>ANALYSIS OF FINANCIAL INVESTMENTS, NET OF DERIVATIVE LIABILITIES BY BUSINESS TYPE</b>				
<b>WITH-PROFITS</b>				
Equity securities and portfolio holdings in unit trusts	25,655	988	476	27,119
Debt securities	10,975	39,707	1,206	51,888
Other investments (including derivative assets)	64	1,679	2,410	4,153
Derivative liabilities	(136)	(589)	(27)	(752)
Total financial investments, net of derivative liabilities	36,558	41,785	4,065	82,408
Percentage of total	44%	51%	5%	100%
<b>UNIT-LINKED AND VARIABLE ANNUITY SEPARATE ACCOUNT</b>				
Equity securities and portfolio holdings in unit trusts	43,810	65	–	43,875
Debt securities	3,617	4,683	25	8,325
Other investments (including derivative assets)	21	69	–	90
Total financial investments, net of derivative liabilities	47,448	4,817	25	52,290
Percentage of total	91%	9%	0%	100%
<b>NON-LINKED SHAREHOLDER-BACKED</b>				
Loans	–	251	–	251
Equity securities and portfolio holdings in unit trusts	543	41	197	781
Debt securities	9,754	43,050	317	53,121
Other investments (including derivative assets)	203	1,747	575	2,525
Derivative liabilities	(6)	(1,078)	(197)	(1,281)
Total financial investments, net of derivative liabilities	10,494	44,011	892	55,397
Percentage of total	19%	79%	2%	100%
<b>GROUP TOTAL ANALYSIS, INCLUDING OTHER FINANCIAL LIABILITIES HELD AT FAIR VALUE</b>				
<b>GROUP TOTAL</b>				
Loans	–	251	–	251
Equity securities and portfolio holdings in unit trusts	70,008	1,094	673	71,775
Debt securities	24,346	87,440	1,548	113,334
Other investments (including derivative assets)	288	3,495	2,985	6,768
Derivative liabilities	(142)	(1,667)	(224)	(2,033)
Total financial investments, net of derivative liabilities	94,500	90,613	4,982	190,095
Borrowings attributable to the with-profits fund held at fair value	–	(88)	–	(88)
Investment contracts liabilities without discretionary participation features held at fair value	–	(13,863)	–	(13,863)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,665)	(590)	(412)	(2,667)
Other liabilities	–	(252)	–	(252)
Total	92,835	75,820	4,570	173,225
Percentage of total	53%	44%	3%	100%

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### S: VALUATION BASES FOR GROUP ASSETS > CONTINUED

	31 Dec 2010 £m			
	Level 1	Level 2	Level 3	Total
<b>ANALYSIS OF FINANCIAL INVESTMENTS, NET OF DERIVATIVE LIABILITIES BY BUSINESS TYPE</b>				
<b>WITH-PROFITS</b>				
Equity securities and portfolio holdings in unit trusts	29,675	1,281	415	31,371
Debt securities	11,114	41,375	772	53,261
Other investments (including derivative assets)	137	1,207	2,543	3,887
Derivative liabilities	(56)	(626)	(25)	(707)
Total financial investments, net of derivative liabilities	40,870	43,237	3,705	87,812
Percentage of total	47%	49%	4%	100%
<b>UNIT-LINKED AND VARIABLE ANNUITY SEPARATE ACCOUNT</b>				
Equity securities and portfolio holdings in unit trusts	54,272	2	–	54,274
Debt securities	3,784	5,268	2	9,054
Other investments (including derivative assets)	43	88	–	131
Total financial investments, net of derivative liabilities	58,099	5,358	2	63,459
Percentage of total	92%	8%	0%	100%
<b>NON-LINKED SHAREHOLDER-BACKED</b>				
Loans	–	227	–	227
Equity securities and portfolio holdings in unit trusts	808	21	161	990
Debt securities	10,389	43,305	343	54,037
Other investments (including derivative assets)	52	1,146	563	1,761
Derivative liabilities	(80)	(1,049)	(201)	(1,330)
Total financial investments, net of derivative liabilities	11,169	43,650	866	55,685
Percentage of total	20%	78%	2%	100%
<b>GROUP TOTAL ANALYSIS, INCLUDING OTHER FINANCIAL LIABILITIES HELD AT FAIR VALUE</b>				
<b>GROUP TOTAL</b>				
Loans	–	227	–	227
Equity securities and portfolio holdings in unit trusts	84,755	1,304	576	86,635
Debt securities	25,287	89,948	1,117	116,352
Other investments (including derivative assets)	232	2,441	3,106	5,779
Derivative liabilities	(136)	(1,675)	(226)	(2,037)
Total financial investments, net of derivative liabilities	110,138	92,245	4,573	206,956
Borrowings attributable to the with-profits fund held at fair value	–	(82)	–	(82)
Investment contracts liabilities without discretionary participation features held at fair value	–	(15,822)	–	(15,822)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(2,099)	(894)	(379)	(3,372)
Total	108,039	75,447	4,194	187,680
Percentage of total	58%	40%	2%	100%

**T: LOANS PORTFOLIO**

Loans are accounted for at amortised cost net of impairment except for certain mortgage loans of the UK insurance operations which have been designated at fair value through profit and loss as this loan portfolio is managed and evaluated on a fair value basis. The amounts included in the statement of financial position are analysed as follows:

	2011 £m		2010 £m	
	30 Jun	30 Jun	30 Jun	31 Dec
Insurance operations				
UK <sup>note i</sup>	2,401	2,214		2,302
US <sup>note ii</sup>	4,062	4,537		4,201
Asia <sup>note iii</sup>	1,283	1,383		1,340
Asset management operations				
M&G <sup>note iv</sup>	1,271	1,453		1,418
<b>TOTAL</b>	<b>9,017</b>	<b>9,587</b>		<b>9,261</b>

**Notes****i UK insurance operations**

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

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
PAC WPSF			
Mortgage loans*	269	197	256
Policy loans	22	23	21
Other loans <sup>†</sup>	1,031	969	993
Total PAC WPSF loans	1,322	1,189	1,270
Shareholder-backed			
Mortgage loans*	1,075	1,019	1,027
Other loans	4	6	5
Total shareholder-backed loans	1,079	1,025	1,032
Total UK insurance operations loans	2,401	2,214	2,302

\* The mortgage loans are collateralised by properties.

† Other loans held by the PAC WPSF are all commercial loans and comprise mainly syndicated loans.

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### T: LOANS PORTFOLIO > CONTINUED

#### ii US insurance operations

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

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
Mortgage loans*	3,525	3,948	3,641
Policy loans†	536	573	548
Other loans	1	16	12
Total US insurance operations loans	4,062	4,537	4,201

\* All of the mortgage loans are commercial mortgage loans which are collateralised by properties. The property types are mainly industrial, multi-family residential, suburban office, retail and hotel. The breakdown by property type is as follows:

	2011 30 Jun %	2010 30 Jun %	2010 31 Dec %
Industrial	27	30	31
Multi-family residential	23	18	18
Office	19	21	19
Retail	20	20	21
Hotels	10	10	10
Other	1	1	1
	100	100	100

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 £6.3 million (30 June 2010: £7.1 million; 31 December 2010: £6.6 million). The portfolio has a current estimated average loan to value of 72 per cent (30 June 2010: 72 per cent; 31 December 2010: 73 per cent) which provides significant cushion to withstand substantial declines in value.

† The policy loans are fully secured by individual life insurance policies or annuity policies. These loans are accounted for at amortised cost, less any impairment.

#### iii Asian insurance operations

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

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
Mortgage loans*	31	18	25
Policy loans*	544	497	528
Other loans†	708	868	787
Total Asian insurance operations loans	1,283	1,383	1,340

\* 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 Malaysian operation and which are all investment graded by two local rating agencies.

#### iv M&G

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

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
Loans and receivables internal ratings:			
A+ to A-	29	87	213
BBB+ to BBB-	943	907	873
BB+ to BB-	255	315	219
B+ to B-	44	144	113
Total M&G loans	1,271	1,453	1,418



## U: DEBT SECURITIES PORTFOLIO

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 2011 provided in the notes below.

	2011 £m	2010 £m	
	30 Jun	30 Jun	31 Dec
Insurance operations			
UK <sup>note i</sup>	74,818	72,072	74,304
US <sup>note ii</sup>	25,286	27,371	26,366
Asia <sup>note iii</sup>	15,357	12,425	14,108
Asset management operations <sup>note iv</sup>	1,752	1,466	1,574
<b>TOTAL</b>	<b>117,213</b>	<b>113,334</b>	<b>116,352</b>

### Notes

#### i UK insurance operations

	PAC with-profits sub-fund				Other funds and subsidiaries			UK insurance operations		
	Scottish Amicable Insurance Fund £m	Excluding Prudential Annuities Limited £m	Prudential Annuities Limited £m	Total £m	Unit-linked assets and liabilities £m	PRIL £m	Other annuity and long-term business £m	2011 30 Jun Total £m	2010 30 Jun Total £m	2010 31 Dec Total £m
S&P – AAA	868	4,032	1,669	5,701	1,097	3,513	463	11,642	18,937	18,833
S&P – AA+ to AA-	350	2,128	1,323	3,451	543	2,430	266	7,040	6,371	6,885
S&P – A+ to A-	1,184	7,511	3,676	11,187	1,561	6,677	828	21,437	20,695	21,508
S&P – BBB+ to BBB-	959	7,024	1,145	8,169	688	2,515	444	12,775	12,799	12,848
S&P – Other	352	2,364	106	2,470	64	165	29	3,080	2,724	3,403
	3,713	23,059	7,919	30,978	3,953	15,300	2,030	55,974	61,526	63,477
Moody's – Aaa	323	1,945	1,835	3,780	1,433	1,818	544	7,898	597	765
Moody's – Aa1 to Aa3	26	180	91	271	115	237	38	687	283	360
Moody's – A1 to A3	27	282	221	503	30	184	28	772	577	632
Moody's – Baa1 to Baa3	56	355	282	637	54	213	41	1,001	861	949
Moody's – Other	25	243	32	275	16	77	11	404	314	233
	457	3,005	2,461	5,466	1,648	2,529	662	10,762	2,632	2,939
Fitch	20	141	119	260	19	157	19	475	656	630
Other	465	3,026	2,295	5,321	93	1,635	93	7,607	7,258	7,258
Total debt securities	4,655	29,231	12,794	42,025	5,713	19,621	2,804	74,818	72,072	74,304

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### U: DEBT SECURITIES PORTFOLIO > CONTINUED

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 £7,607 million total debt securities held at 30 June 2011 (30 June 2010: £7,258 million; 31 December 2010: £7,258 million) which are not externally rated are either internally rated or unrated. These are analysed as follows:

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
Internal ratings or unrated:			
AAA to A-	2,276	2,289	2,210
BBB to B-	3,791	3,529	3,861
Below B- or unrated	1,540	1,440	1,187
Total	7,607	7,258	7,258

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 £1,728 million PRIL and other annuity and long-term business investments which are not externally rated, £7 million were internally rated AAA, £130 million AA, £504 million A, £854 million BBB, £83 million BB and £150 million were internally rated B+ and below or unrated.

During the period Standard and Poor's withdrew its ratings of debt securities issued by a number of Sovereigns. Where these are no longer available Moody's ratings have been used. This primarily impacts the UK and Asia insurance operations.

#### ii US insurance operations

US insurance operations held total debt securities with a carrying value of £25,286 million at 30 June 2011 (30 June 2010: £27,371 million; 31 December 2010: £26,366 million). The table below provides information relating to the credit risk of the aforementioned debt securities.

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
<b>Summary</b>			
Corporate and government security and commercial loans:			
Government	1,758	2,648	2,440
Publicly traded and SEC Rule 144A securities	14,872	14,444	14,747
Non-SEC Rule 144A securities	3,058	3,359	3,044
Total	19,688	20,451	20,231
Residential mortgage-backed securities	2,536	3,343	2,784
Commercial mortgage-backed securities	2,274	2,494	2,375
Other debt securities	788	1,083	976
Total debt securities	25,286	27,371	26,366

The following table summarises the securities detailed above by rating as at 30 June 2011 using Standard and Poor's (S&P), Moody's, Fitch and implicit ratings of MBS based on NAIC valuations:

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
S&P – AAA	3,252	5,600	4,187
S&P – AA+ to AA-	835	1,164	801
S&P – A+ to A-	5,490	6,118	5,156
S&P – BBB+ to BBB-	7,872	8,469	8,202
S&P – Other	939	833	866
	18,388	22,184	19,212
Moody's – Aaa	110	8	34
Moody's – Aa1 to Aa3	14	34	32
Moody's – A1 to A3	34	247	36
Moody's – Baa1 to Baa3	73	89	73
Moody's – Other	60	66	135
	291	444	310
Implicit ratings of MBS based on NAIC valuations (see below)			
NAIC 1	2,914	810	3,083
NAIC 2	209	161	181
NAIC 3-6	222	319	232
	3,345	1,290	3,496
Fitch	97	262	176
Other*	3,165	3,191	3,172
Total debt securities	25,286	27,371	26,366

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

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
NAIC 1	1,217	1,240	1,193
NAIC 2	1,861	1,787	1,849
NAIC 3-6	87	164	130
	3,165	3,191	3,172

In the table above, with the exception of some residential mortgage-backed securities and commercial mortgage-backed securities for 2010, 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.

During 2009 and 2010, the NAIC in the US revised the regulatory rating process for mortgage-backed securities. The table above includes these securities, where held by Jackson, using the regulatory rating levels established by external third parties (PIMCO for residential mortgage-backed securities and BlackRock Solutions for commercial mortgage-backed securities).

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### U: DEBT SECURITIES PORTFOLIO > CONTINUED

#### iii Asian insurance operations

	With-profits business £m	Unit-linked business £m	Other business £m	2011 30 Jun Total £m	2010 30 Jun Total £m	2010 31 Dec Total £m
S&P – AAA	2,176	48	146	2,370	2,517	2,934
S&P – AA+ to AA-	440	107	1,434	1,981	2,679	2,138
S&P – A+ to A-	1,368	877	825	3,070	1,807	2,843
S&P – BBB+ to BBB-	799	63	204	1,066	952	913
S&P – Other	589	609	589	1,787	1,360	1,773
	5,372	1,704	3,198	10,274	9,315	10,601
Moody's – Aaa	752	239	353	1,344	216	65
Moody's – Aa1 to Aa3	46	68	15	129	115	115
Moody's – A1 to A3	59	13	74	146	243	130
Moody's – Baa1 to Baa3	32	6	14	52	103	95
Moody's – Other	29	6	29	64	33	49
	918	332	485	1,735	710	454
Fitch	103	3	40	146	237	49
Other	1,080	971	1,151	3,202	2,163	3,004
Total debt securities	7,473	3,010	4,874	15,357	12,425	14,108

The following table analyses debt securities of 'Other business' which are not externally rated:

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
Government bonds	387	183	350
Corporate bonds rated as investment grade by local external ratings agencies	626	334	666
Structured deposits issued by banks which are rated, but specific deposits are not	113	4	5
Other	25	198	22
	1,151	719	1,043

#### iv Asset management operations

Of the total debt securities at 30 June 2011 of £1,752 million, £1,739 million was held by M&G.

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
M&G			
AAA to A- by Standard and Poor's or Aaa rated by Moody's	1,573	1,353	1,468
Other	166	97	92
Total M&G	1,739	1,450	1,560

v Group exposure to holdings in asset-backed securities

The Group's exposure to holdings in asset-backed securities, which comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), CDO funds and other asset-backed securities (ABS), at 30 June 2011 is as follows:

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
<b>SHAREHOLDER-BACKED OPERATIONS (EXCLUDING ASSETS HELD IN UNIT-LINKED FUNDS):</b>			
UK insurance operations <sup>note a</sup>	993	1,102	1,181
US insurance operations <sup>note b</sup>	5,598	6,921	6,135
Asian insurance operations <sup>note c</sup>	110	76	113
Other operations <sup>note d</sup>	659	360	437
	7,360	8,459	7,866
<b>WITH-PROFITS OPERATIONS:</b>			
UK insurance operations <sup>note a</sup>	5,602	4,682	5,237
Asian insurance operations <sup>note c</sup>	263	429	435
	5,865	5,111	5,672
<b>TOTAL</b>	<b>13,225</b>	<b>13,570</b>	<b>13,538</b>

**Notes**

a UK insurance operations

The UK insurance operations' exposure to asset-backed securities at 30 June 2011 comprises:

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
Shareholder-backed business (30 June 2011: 46% AAA, 24% AA) <sup>i</sup>	993	1,102	1,181
With-profits operations (30 June 2011: 58% AAA, 11% AA) <sup>ii</sup>	5,602	4,682	5,237
Total	6,595	5,784	6,418

i All of the exposure of the shareholder-backed business relates to the UK market and primarily relates to investments held by PRIL.

ii Exposure of the with-profits operations relates to exposure to:

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
UK market	4,360	3,046	3,685
US market	1,242	1,636	1,552
	5,602	4,682	5,237

b US insurance operations

US insurance operations' exposure to asset-backed securities at 30 June 2011 comprises:

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
RMBS Sub-prime (30 June 2011: 39% AAA, 11% AA)*	218	226	224
Alt-A (30 June 2011: 15% AAA, 4% AA)	390	425	415
Prime including agency (30 June 2011: 75% AAA, 1% AA)	1,928	2,692	2,145
CMBS (30 June 2011: 38% AAA, 13% AA)*	2,274	2,494	2,375
CDO funds (30 June 2011: 7% AAA, 3% AA)†, including Nil exposure to sub-prime	107	160	162
Other ABS (30 June 2011: 24% AAA, 17% AA), including £31m exposure to sub-prime	681	924	814
Total	5,598	6,921	6,135

\* MBS ratings refer to the ratings implicit within NAIC risk-based capital valuation (see note C (a)).

† Including the Group's economic interest in Piedmont and other consolidated CDO funds.

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### U: DEBT SECURITIES PORTFOLIO > CONTINUED

#### c Asian insurance operations

The Asian insurance operations' exposure to asset-backed securities is primarily held by the with-profits operations. The £263 million (30 June 2010: £429 million; 31 December 2010: £435 million) asset-backed securities exposure of the Asian with-profits operations comprises:

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
CMBS	88	113	251
CDO funds and ABS	175	316	184
Total	263	429	435

The £263 million includes £176 million (30 June 2010: £310 million; 31 December 2010: £341 million) held by investment funds consolidated under IFRS in recognition of the control arrangements for those funds and include an amount not owned by the Group with a corresponding liability of £7 million (30 June 2010: £16 million; 31 December 2010: £7 million) on the statement of financial position for net asset value attributable to external unit holders in respect of these funds, which are non-recourse to the Group. Of the £263 million, 52 per cent (30 June 2010: 49 per cent; 31 December 2010: 43 per cent) are investment graded by Standard and Poor's.

#### d Other operations

Other operations' exposure to asset-backed securities at 30 June 2011 is held by Prudential Capital and comprises:

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
RMBS Prime (30 June 2011: 90% AAA, 10% AA)	340	143	197
CMBS (30 June 2011: 24% AAA, 19% AA)	185	184	184
CDO funds and ABS – all without sub-prime exposure (30 June 2011: 68% AAA)	134	33	56
Total	659	360	437

### V: DEBT SECURITIES OF US INSURANCE OPERATIONS: VALUATION BASIS, ACCOUNTING PRESENTATION OF GAINS AND LOSSES AND SECURITIES IN AN UNREALISED LOSS POSITION

#### i Valuation basis

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 7 requires classification of the fair values applied by the Group into a three level hierarchy. At 30 June 2011, 0.1 per cent of Jackson's debt securities were classified as level 3 (30 June 2010: 0.3 per cent; 31 December 2010: 0.3 per cent) comprising of fair values where there are significant inputs which are not based on observable market data.

#### ii Accounting presentation of gains and losses

With the exception of debt securities of US insurance operations classified as 'available-for-sale' under IAS 39, unrealised value movements on the Group's investments are booked within the income statement. For with-profits operations, such value movements are reflected in changes to asset share liabilities to policyholders or the liability for unallocated surplus. For shareholder-backed operations, the unrealised value movements form part of the total return for the year booked in the profit before tax attributable to shareholders. Separately, as noted elsewhere and in note C in this report, and as applied previously, the Group provides an analysis of this profit distinguishing operating profit based on longer-term investment returns and short-term fluctuations in investment returns.

However, for debt securities 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 F of this report. This classification is applied for most of the debt securities of the Group's US insurance operations.

#### iii Half year 2011 movements in unrealised gains and losses

In half year 2011 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 £1,210 million to a net unrealised gain of £1,419 million. This increase primarily reflects the decrease in US Treasury rates. The gross unrealised gain in the statement of financial position increased from £1,580 million at 31 December 2010 to £1,685 million at 30 June 2011, while the gross unrealised loss decreased from £370 million at 31 December 2010 to £266 million at 30 June 2011.

These features are included in the table shown below of the movements in the values of available-for-sale securities.

	30 Jun 2011			31 Dec 2010
	£m	Changes in unrealised appreciation*	Foreign exchange translation	£m
		Reflected as part of movement in comprehensive income		
	£m	£m	£m	£m
Assets fair valued at below book value				
Book value*	3,512			4,372
Unrealised loss <sup>iv,a,b</sup>	(266)	94	10	(370)
Fair value (as included in statement of financial position)	3,246			4,002
Assets fair valued at or above book value				
Book value*	20,348			20,743
Unrealised gain	1,685	143	(38)	1,580
Fair value (as included in statement of financial position)	22,033			22,323
Total				
Book value*	23,860			25,115
Net unrealised gain	1,419	237	(28)	1,210
Fair value (as included in statement of financial position) <sup>†</sup>	25,279			26,325
Reflected as part of movement in other comprehensive income				
Movement in unrealised appreciation	237			1,221
Exchange movements	(28)			(15)
	209			1,206

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

† Debt securities for US operations included in the statement of financial position at 30 June 2011 and as referred to in note U, comprise:

	2011 30 Jun £m	2010 31 Dec £m
Available-for-sale	25,279	26,325
Consolidated investment funds classified as fair value through profit and loss	7	41
	25,286	26,366

‡ Translated at the average rate of \$1.6055: £1.

Included within the movement in gross unrealised losses for the debt securities of Jackson of £94 million as shown above was a net decrease in value of £2 million relating to sub-prime and Alt-A securities for which the carrying values are shown in the 'Fair value of securities as a percentage of book value' table below.

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### V: DEBT SECURITIES OF US INSURANCE OPERATIONS: VALUATION BASIS, ACCOUNTING PRESENTATION OF GAINS AND LOSSES AND SECURITIES IN AN UNREALISED LOSS POSITION > CONTINUED

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

The following tables show some key attributes of those securities that are in an unrealised loss position at 30 June 2011.

##### 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 2011 £m		31 Dec 2010 £m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Between 90% and 100%	2,794	(66)	3,390	(102)
Between 80% and 90%	186	(32)	273	(44)
Below 80% <sup>noted</sup>	266	(168)	339	(224)
Total	3,246	(266)	4,002	(370)

Included within the table above are amounts relating to sub-prime and Alt-A securities of:

	30 Jun 2011 £m		31 Dec 2010 £m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Between 90% and 100%	114	(4)	98	(6)
Between 80% and 90%	76	(13)	55	(9)
Below 80% <sup>noted</sup>	44	(23)	56	(25)
Total	234	(40)	209	(40)

##### b Unrealised losses by maturity of security

	2011 30 Jun £m	2010 31 Dec £m
Less than 1 year	–	–
1 year to 5 years	(4)	(6)
5 years to 10 years	(32)	(47)
More than 10 years	(32)	(49)
Mortgage-backed and other debt securities	(198)	(268)
Total	(266)	(370)



**c Age analysis of unrealised losses for the years indicated**

The following table shows the aged analysis for 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 2011 £m			31 Dec 2010 £m		
	Non-investment grade	Investment grade	Total	Non-investment grade	Investment grade	Total
Less than 6 months	(6)	(11)	(17)	(3)	(67)	(70)
6 months to 1 year	(2)	(30)	(32)	(2)	–	(2)
1 year to 2 years	(4)	–	(4)	(13)	(20)	(33)
2 years to 3 years	(7)	(50)	(57)	(27)	(55)	(82)
More than 3 years	(49)	(107)	(156)	(58)	(125)	(183)
Total	(68)	(198)	(266)	(103)	(267)	(370)

At 30 June 2011, the gross unrealised losses in the statement of financial position for the sub-prime and Alt-A securities in an unrealised loss position were £40 million (31 December 2010: £40 million), as shown above in note (a). Of these losses £4 million (31 December 2010: £1 million) relate to securities that have been in an unrealised loss position for less than one year and £36 million (31 December 2010: £39 million) to securities that have been in an unrealised loss position for more than one year.

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

As shown in the table (a) above, £168 million of the £266 million of gross unrealised losses at 30 June 2011 (31 December 2010: £224 million of the £370 million of gross unrealised losses) related to securities whose fair value was below 80 per cent of the book value. The analysis of the £168 million (31 December 2010: £224 million), by category of debt securities and by age analysis indicating the length of time for which their fair value was below 80 per cent of the book value, is as follows:

Category analysis	30 Jun 2011 £m		31 Dec 2010 £m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Residential mortgage-backed securities				
Prime (including agency)	45	(17)	88	(39)
Alt-A	6	(2)	15	(4)
Sub-prime	38	(21)	41	(20)
	89	(40)	144	(63)
Commercial mortgage-backed securities	9	(26)	8	(29)
Other asset-backed securities	118	(79)	123	(105)
Total structured securities	216	(145)	275	(197)
Corporates	50	(23)	64	(27)
Total	266	(168)	339	(224)

The following table shows the age analysis as at 30 June 2011, of the securities whose fair value were below 80 per cent of the book value:

Age analysis	30 Jun 2011 £m	
	Fair value	Unrealised loss
Less than 3 months	22	(7)
3 months to 6 months	9	(2)
More than 6 months	235	(159)
	266	(168)

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### W: NET CORE STRUCTURAL BORROWINGS OF SHAREHOLDER-FINANCED OPERATIONS

	2011 £m	2010 £m	
	30 Jun	30 Jun	31 Dec
Core structural borrowings of shareholder-financed operations: <sup>note i</sup>			
Perpetual subordinated capital securities (Innovative Tier 1) <sup>note ii</sup>	1,764	1,533	1,463
Subordinated notes (Lower Tier 2) <sup>note ii</sup>	1,280	1,234	1,255
Subordinated debt total	3,044	2,767	2,718
Senior debt: <sup>note iii</sup>			
2023	300	300	300
2029	249	249	249
Holding company total	3,593	3,316	3,267
PruCap bank loan <sup>note iv</sup>	250	–	250
Jackson surplus notes (Lower Tier 2) <sup>note ii</sup>	155	166	159
Total (per condensed consolidated statement of financial position)	3,998	3,482	3,676
Less: Holding company cash and short-term investments (recorded within the condensed consolidated statement of financial position) <sup>note v</sup>	(1,476)	(1,023)	(1,232)
<b>NET CORE STRUCTURAL BORROWINGS OF SHAREHOLDER-FINANCED OPERATIONS</b>	<b>2,522</b>	<b>2,459</b>	<b>2,444</b>

#### Notes

- i The maturity profile, currencies and interest rates applicable to the core structural borrowings of shareholder-financed operations of the Group are as detailed in note H13 of the Group's consolidated financial statements for the year ended 31 December 2010. Other than the changes described in notes (ii) and (iv) below, there are no changes affecting these core structural borrowings in the half year 2011.
- ii These debt classifications are consistent with the treatment of capital for regulatory purposes, as defined in the FSA handbook. In January 2011, the Company issued US\$550 million 7.75 per cent Tier 1 subordinated debt, primarily to retail investors. The proceeds, net of costs, were US\$539 million (£340 million) and are intended to finance the repayments of the €500 million Tier 2 subordinated debt in December 2011. The Group has designated US\$2.85 billion (30 June 2010 and 31 December 2010: US\$2.3 billion) of its Tier 1 subordinated debt as a net investment hedge under IAS 39 to hedge the currency risks related to the net investment in Jackson.
- iii The senior debt ranks above subordinated debt in the event of liquidation.
- iv The £250 million PruCap bank loan was made in December 2010 in two tranches: £135 million maturing in June 2014, currently drawn at a cost of twelve month £LIBOR plus 1.2 per cent and £115 million maturing in August 2012, currently drawn at a cost of six month £LIBOR plus 0.99 per cent. Prior to 20 June 2011, the £115 million tranche was drawn at a cost of six month £LIBOR plus 1.41 per cent.
- v Including central finance subsidiaries.

**X: OTHER BORROWINGS**

	2011 £m	2010 £m	
	30 Jun	30 Jun	31 Dec
<b>OPERATIONAL BORROWINGS ATTRIBUTABLE TO SHAREHOLDER-FINANCED OPERATIONS<sup>note i</sup></b>			
Borrowings in respect of short-term fixed income securities programmes	2,633	2,564	2,560
Non-recourse borrowings of US operations	34	171	90
Other borrowings <sup>note ii</sup>	245	499	354
<b>TOTAL</b>	<b>2,912</b>	<b>3,234</b>	<b>3,004</b>
<b>BORROWINGS ATTRIBUTABLE TO WITH-PROFITS OPERATIONS</b>			
Non-recourse borrowings of consolidated investment funds	1,212	1,047	1,287
£100m 8.5% undated subordinated guaranteed bonds of Scottish Amicable Finance plc	100	100	100
Other borrowings (predominantly obligations under finance leases)	128	166	135
<b>TOTAL</b>	<b>1,440</b>	<b>1,313</b>	<b>1,522</b>

**Notes**

- i In addition to the debt listed above, £200 million Floating Rate Notes were issued by Prudential plc in April 2011 which mature in October 2011. These Notes have been wholly subscribed to 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 Other borrowings include 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.
- Further, the Group has chosen to designate as a fair value hedge under IAS 39 certain fixed to floating rate swaps which hedge the fair value exposures interest rate movements of these borrowings.

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### Y: DEFINED BENEFIT PENSION SCHEMES

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

	2011 £m	2010 £m	
	30 Jun	30 Jun	31 Dec
Economic position			
Deficit, gross of deferred tax, based on scheme assets held, including investments in Prudential insurance policies:			
Attributable to the PAC with-profits fund (i.e. absorbed by the liability for unallocated surplus)	(74)	(120)	(106)
Attributable to shareholder-backed operations (i.e. shareholders' equity)	(65)	(140)	(114)
Economic deficit	(139)	(260)	(220)
Exclude: investments in Prudential insurance liabilities (offset on consolidation in the Group financial statements against insurance liabilities)	(222)	(198)	(227)
<b>DEFICIT UNDER IAS 19 INCLUDED IN PROVISIONS IN THE STATEMENT OF FINANCIAL POSITION</b>	<b>(361)</b>	<b>(458)</b>	<b>(447)</b>

The Group business operations operate a number of pension schemes. The largest defined benefit scheme is the principal UK scheme, namely the Prudential Staff Pension Scheme (PSPS). In the UK, the Group also operates two smaller defined benefit schemes for employees in respect of Scottish Amicable and M&G. For all three schemes the projected unit method was used for the most recent full actuarial valuations. There is also a small defined benefit pension scheme in Taiwan.

The underlying 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 investments in Prudential policies comprise £121 million (30 June 2010: £94 million; 31 December 2010: £118 million) for PSPS and £222 million (30 June 2010: £198 million; 31 December 2010: £227 million) for the M&G pension scheme.

Separately, the economic financial position also includes the effect of the application of IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. Under IFRIC 14, for PSPS, where the Group does not have unconditional right of refund to any surplus in the scheme due to constraints in the trust deed to prevent the company access, the surplus is not recognised. Additionally, the Group has to recognise a liability for committed deficit funding obligation to PSPS.

Accordingly, at 30 June 2011, the Group has not recognised the underlying PSPS surplus of £858 million, gross of deferred tax (30 June 2010: £309 million; 31 December 2010: £485 million) and has recognised a liability for deficit funding to 30 June 2012 for PSPS of £35 million gross of deferred tax (30 June 2010: £62 million; 31 December 2010: £47 million).

Defined benefit schemes in the UK are generally required to be subject to full actuarial valuation 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. PSPS was last actuarially valued as at 5 April 2008. This valuation demonstrated the scheme to be 106 per cent funded by reference to the Scheme Solvency Target that forms the basis of the scheme's statutory funding objective. No formal deficit plan was required. However, in recognition of the fall in value of the Scheme's investments between 5 April 2008 and the completion of the actuarial valuation, an additional funding akin to deficit funding was agreed by the Trustees. This is subject to a reassessment when the next valuation is completed. The total contributions being currently made by the Group into the scheme, representing the annual accrual cost and deficit funding, are £50 million per annum. Deficit funding for PSPS is apportioned in the ratio of 70/30 between the PAC with-profits fund and shareholder-backed operations following detailed consideration in 2005 of the sourcing of previous contributions. Employer contributions for ongoing service of current employees are apportioned in the ratio relevant to current activity.

The valuation of the Scottish Amicable Pension Scheme as at 31 March 2008 demonstrated the scheme to be 91 per cent funded. Based on this valuation, deficit funding amounts designed to eliminate the actuarial deficit over a seven year period were made from July 2009 of £7.3 million per annum. Since the valuation date, there has been deterioration in the funding level. During 2010, the Group agreed to pay additional funding of £5.8 million per annum from October 2010 until the conclusion of the next formal valuation, or until the funding level reaches 90 per cent, whichever is the earlier. The IAS 19 deficit of the Scottish Amicable Pension Scheme at 30 June 2011 of £99 million (30 June 2010: £154 million; 31 December 2010: £146 million) has been allocated approximately 50 per cent to the PAC with-profits fund and 50 per cent to the shareholders' fund.

The valuation of the M&G pension scheme as at 31 December 2008 was finalised in January 2010 and demonstrated the scheme to be 76 per cent funded. Based on this valuation, deficit funding amounts designed to eliminate the actuarial deficit over a five year period have been made from January 2010 of £14.1 million per annum for the first two years and £9.3 million per annum for the subsequent three years. The IAS 19 deficit of the M&G pension scheme on an economic basis at 30 June 2011 was £5 million (30 June 2010: £44 million; 31 December 2010: £27 million) and is wholly attributable to shareholders.

The next triennial valuations for the PSPS and Scottish Amicable as at 5 April 2011 and 31 March 2011 respectively are currently in progress. The next triennial valuation for the M&G pension scheme is as at 31 December 2011.

#### i Assumptions

The actuarial assumptions used in determining benefit obligations and the net periodic benefit costs for the period ended 30 June 2011 were as follows:

	2011 30 Jun %	2010 30 Jun %	2010 31 Dec %
Discount rate*	5.6	5.4	5.45
Rate of increase in salaries	5.7	5.4	5.55
Rate of inflation†			
Retail Price Index (RPI)	3.7	3.4	3.55
Consumer Price Index (CPI)	2.7	n/a	n/a
Rate of increase of pensions in payment for inflation:			
Guaranteed (maximum 5%)	2.7	3.4	3.55
Guaranteed (maximum 2.5%)‡	2.5	2.5	2.5
Discretionary‡	2.5	2.5	2.5
Expected returns on plan assets	5.1	5.9	5.9

\* 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 for the period ended 30 June 2011 reflects the long-term assumption for the UK RPI or CPI depending on the tranche of the schemes. For prior periods it reflects the long-term assumption for the UK RPI. See explanation below.

‡ The rates of 2.5 per cent are those for PSPS. Assumed rates of increase of pensions in payments for inflation for all other schemes are 2.7 per cent for 30 June 2011 (30 June 2010: 3.4 per cent; 31 December 2010: 3.55 per cent).

The calculations are based on current actuarially calculated mortality estimates with a specific allowance made for future improvements in mortality. The specific allowance for half year 2011 and full year 2010 is in line with a custom calibration of the 2009 mortality model from the Continuous Mortality Investigation Bureau of the Institute and Faculty of Actuaries ('CMI'). The specific allowance for half year 2010 was broadly based on adjusted versions of the medium cohort projections prepared by the CMI.

The tables used for PSPS immediate annuities in payment at 30 June 2011 were:

Male: 108.6 per cent PNMA 00 with improvements in line with a custom calibration of the CMIs 2009 mortality model, with a long-term mortality improvement rate of 1.75 per cent per annum; and

Female: 103.4 per cent PNFA 00 with improvements in line with a custom calibration of the CMIs 2009 mortality model, with a long-term mortality improvement rate of 1.00 per cent per annum.

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### Y: DEFINED BENEFIT PENSION SCHEMES > CONTINUED

In July 2010, the UK Government announced plans to use the CPI in place of the RPI in its determination of the statutory minimum pension increases for private sector occupational pension schemes. In December 2010, the Government published the statutory revaluation order for 2011 which confirms the change to use CPI. Further, in December 2010, the Government consulted on the impact of the switch from RPI to CPI on the private sector occupational pension schemes. In its response following the consultation published in June 2011, the Government confirmed that it would not introduce legislation to override scheme rules which provide for pension increases/revaluation on a basis that is higher than the statutory minimum.

For the Group's UK defined benefit schemes, the pensions in deferment and/or pensions in payment for certain tranches of these schemes are subject to statutory increases in accordance with the schemes rules and are therefore affected by the Government's decision to change the indexation from RPI to CPI. Other tranches, where RPI is specified in the scheme rules, are unaffected.

During 2011, the pension schemes communicated to their members the changes in basis from RPI to CPI in light of the Government announcement. The impact of this change in the six months ended 30 June 2011 was an accounting benefit of £42 million to the Group's operating profit based on longer-term investment returns and profit attributable to shareholders before tax and £31 million to shareholders' equity. There was no impact on the results for the year ended 31 December 2010.

#### ii Estimated pension scheme deficit - economic basis

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 2011 £m				
	Surplus (deficit) in scheme at 1 Jan 2011	(Charge) credit to income statement		Contributions paid	Surplus (deficit) in scheme at 30 Jun 2011 note c
Operating results (based on longer-term investment returns) note a		Actuarial and other gains and losses note b			
<b>ALL SCHEMES</b>					
<b>UNDERLYING POSITION</b>					
<b>(WITHOUT THE EFFECT OF IFRIC 14)</b>					
Surplus (deficit)	312	266	129	47	754
Less: amount attributable to PAC with-profits fund	(264)	(171)	(94)	(21)	(550)
Shareholders' share:					
Gross of tax surplus (deficit)	48	95	35	26	204
Related tax	(13)	(24)	(9)	(8)	(54)
Net of shareholders' tax	35	71	26	18	150
<b>EFFECT OF IFRIC 14</b>					
Surplus (deficit)	(532)	(220)	(141)	–	(893)
Less: amount attributable to PAC with-profits fund	370	155	99	–	624
Shareholders' share:					
Gross of tax surplus (deficit)	(162)	(65)	(42)	–	(269)
Related tax	44	16	11	–	71
Net of shareholders' tax	(118)	(49)	(31)	–	(198)
<b>WITH THE EFFECT OF IFRIC 14</b>					
Surplus (deficit)	(220)	46	(12)	47	(139)
Less: amount attributable to PAC with-profits fund	106	(16)	5	(21)	74
Shareholders' share:					
Gross of tax surplus (deficit)	(114)	30	(7)	26	(65)
Related tax	31	(8)	2	(8)	17
Net of shareholders' tax	(83)	22	(5)	18	(48)

## Notes

a The components of the credit (charge) to operating results (gross of allocation of the share attributable to the PAC with-profits fund) are as follows:

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Current service cost	(19)	(18)	(38)
Negative past service cost – RPI to CPI inflation measure change <sup>note i</sup>	282	–	–
Finance (expense) income:			
Interest on pension scheme liabilities	(153)	(147)	(294)
Expected return on assets	156	162	325
Total credit (charge) without the effect of IFRIC 14	266	(3)	(7)
Effect of IFRIC 14 for pension schemes	(220)	(20)	(38)
Total credit (charge) after the effect of IFRIC 14 <sup>note ii</sup>	46	(23)	(45)

i RPI/CPI inflation measure change

The £282 million credit shown above comprises £216 million for PSPS and £66 million for other schemes. As noted earlier, the PSPS scheme surplus is not recognised for accounting purposes due to the application of IFRIC 14. The £66 million for other schemes (as shown in the table below) is allocated as £24 million to PAC with-profits fund and £42 million to shareholders referred to in note C.

ii The net credit (charge) to operating profit (gross of the share attributable to the PAC with-profits fund) of £46 million (half year 2010: (£23 million); full year 2010: (£45 million)) is made up of the following:

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Underlying IAS 19 charge for other pension schemes	(9)	(9)	(18)
Cash costs for PSPS	(10)	(12)	(23)
Unwind of discount on opening provision for deficit funding for PSPS	(1)	(2)	(4)
Negative past service cost – RPI to CPI inflation measure change (note (i) to table above)	66	–	–
	46	(23)	(45)

Consistent with the derecognition of the Company's interest in the underlying IAS 19 surplus of PSPS, the charge to operating profit based on longer-term investment returns for PSPS reflects the cash cost of contributions for ongoing service of active members. In addition, the charge to the operating results also includes a charge for the unwind of discount on the opening provision for deficit funding for PSPS.

b The components of the credit (charge) for actuarial and other gains and losses (gross of allocation of the share attributable to the PAC with-profits fund) are as follows:

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Actual less expected return on assets	65	39	306
Gains (losses) on changes of assumptions for plan liabilities	69	(302)	(411)
Experience losses on liabilities	(5)	(2)	(4)
Total charge without the effect of IFRIC 14	129	(265)	(109)
Effect of IFRIC 14 for pension schemes	(141)	234	94
Actuarial and other gains and losses after the effect of IFRIC 14	(12)	(31)	(15)

The net charge for actuarial and other gains and losses is recorded within the income statement but, within the segmental analysis of profit, the shareholders' share of actuarial and other gains and losses (i.e. net of allocation of the share to the PAC with-profits funds) is excluded from operating profit based on longer-term investment returns.

The half year 2011 actuarial gains of £129 million (gross of allocation of share to the PAC with-profits funds and before the application of IFRIC 14) primarily reflects the effect of the excess of market returns over long-term assumptions combined with the effect of changes in economic assumptions.

Consistent with the derecognition of the Company's interest in the underlying IAS 19 surplus of PSPS, the actuarial gains and losses do not include those of PSPS. In addition, as a result of applying IFRIC 14, the Group has recognised a provision for deficit funding in respect of PSPS. The change in half year 2011 in relation to this provision was £(4) million (half year and full year 2010: £nil) and is recognised as other gains and losses within the £(12) million of actuarial and other gains and losses shown above.

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### Y: DEFINED BENEFIT PENSION SCHEMES > CONTINUED

- c On the 'economic basis', after including the underlying assets represented by the investments in Prudential insurance policies as scheme assets, the underlying statements of financial position of the schemes at 30 June were:

	<b>2011 30 Jun £m</b>	<b>2010 30 Jun £m</b>	<b>2010 31 Dec £m</b>
Equities	513	839	825
Bonds	4,491	3,935	4,203
Properties	345	279	228
Cash-like investments	805	587	748
Total value of assets	6,154	5,640	6,004
Present value of benefit obligations	(5,400)	(5,526)	(5,692)
	754	114	312
Effect of the application of IFRIC 14 for pension schemes:			
Derecognition of PSPS surplus	(858)	(309)	(485)
Adjust for obligation deficit funding*	(35)	(65)	(47)
Pre-tax deficit	(139)	(260)	(220)

\* The £35 million adjustment at 30 June 2011 related to PSPS (30 June 2010: £62 million for PSPS and £3 million for M&G pension scheme; 31 December 2010: £47 million for PSPS only).



### iii Sensitivity of the pension scheme liabilities to key variables

The total underlying Group pension scheme liabilities of £5,400 million (30 June 2010: £5,526 million; 31 December 2010: £5,692 million) comprise £4,612 million (30 June 2010: £4,745 million; 31 December 2010: £4,866 million) for PSPS and £788 million (30 June 2010: £781 million; 31 December 2010: £826 million) for the other schemes. The table below shows the sensitivity of the underlying PSPS and the other scheme liabilities at 30 June 2011, 30 June 2010 and 31 December 2010 to changes in discount rate, inflation rates and mortality rates.

30 Jun 2011		
Assumption	Change in assumption	Impact on scheme liabilities on IAS 19 basis
Discount rate	Decrease by 0.2% from 5.6% to 5.4%	Increase in scheme liabilities by: PSPS 3.5% Other schemes 5.0%
Discount rate	Increase by 0.2% from 5.6% to 5.8%	Decrease in scheme liabilities by: PSPS 3.3% Other schemes 4.6%
Rate of inflation	RPI: Decrease by 0.2% from 3.7% to 3.5% CPI: Decrease by 0.2% from 2.7% to 2.5% with consequent reduction in salary increases	Decrease in scheme liabilities by: PSPS 1.1% Other schemes 4.7%
Mortality rate	Increase life expectancy by 1 year	Increase in scheme liabilities by: PSPS 2.1% Other schemes 2.6%
30 Jun 2010		
Assumption	Change in assumption	Impact on scheme liabilities on IAS 19 basis
Discount rate	Decrease by 0.2% from 5.4% to 5.2%	Increase in scheme liabilities by: PSPS 3.5% Other schemes 5.1%
Discount rate	Increase by 0.2% from 5.4% to 5.6%	Decrease in scheme liabilities by: PSPS 3.4% Other schemes 4.8%
Rate of inflation	RPI: Decrease by 0.2% from 3.4% to 3.2% with consequent reduction in salary increases	Decrease in scheme liabilities by: PSPS 1.1% Other schemes 4.9%
Mortality rate	Increase life expectancy by 1 year	Increase in scheme liabilities by: PSPS 2.2% Other schemes 2.3%
31 Dec 2010		
Assumption	Change in assumption	Impact on scheme liabilities on IAS 19 basis
Discount rate	Decrease by 0.2% from 5.45% to 5.25%	Increase in scheme liabilities by: PSPS 3.6% Other schemes 5.2%
Discount rate	Increase by 0.2% from 5.45% to 5.65%	Decrease in scheme liabilities by: PSPS 3.5% Other schemes 4.8%
Rate of inflation	RPI: Decrease by 0.2% from 3.55% to 3.35% with consequent reduction in salary increases	Decrease in scheme liabilities by: PSPS 1.0% Other schemes 4.9%
Mortality rate	Increase life expectancy by 1 year	Increase in scheme liabilities by: PSPS 2.1% Other schemes 2.6%

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### Y: DEFINED BENEFIT PENSION SCHEMES > CONTINUED

The sensitivity of the underlying pension scheme liabilities to changes in discount, inflation and mortality rates as shown above does not directly equate to an 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 Scottish Amicable schemes to the PAC with-profits fund as described above.

The sensitivity to the changes in the key variables as shown in the table above has no significant impact on the pension costs included in the Group's operating results. This is due to the pension costs charged in each of the periods presented being derived largely from market conditions at the beginning of the period. After applying IFRIC 14 and to the extent attributable to shareholders, any residual impact from the changes to these variables is reflected as actuarial gains and losses on defined benefit pension schemes within the supplementary analysis of profits. The relevance of this is described further below.

For PSPS, the underlying surplus of the scheme of £858 million (30 June 2010: £309 million; 31 December 2010: £485 million) has not been recognised under IFRIC 14. Any change in the underlying scheme liabilities to the extent that it is not sufficient to alter PSPS into a liability in excess of the deficit funding provision will not have an impact on the Group's results and financial position. Based on the underlying financial position of PSPS as at 30 June 2011, none of the changes to the underlying scheme liabilities for the changes in the variables shown in the table above have had an impact on the Group's half year 2011 results and financial position.

In the event that a change in the PSPS scheme liabilities results in a deficit position for the scheme which is recognisable, the deficit recognised affects the Group's results and financial position only to the extent of the amounts attributable to shareholder operations. The amounts attributable to the PAC with-profits fund are absorbed by the liability for unallocated surplus and have no direct effect on the profit or loss attributable to shareholders or shareholders' equity.

The deficit of the Scottish Amicable pension scheme has been allocated approximately 50 per cent to the PAC with-profits fund and 50 per cent to the shareholders. Accordingly, half of the changes to its scheme liabilities, which at 30 June 2011 were £540 million (30 June 2010: £542 million; 31 December 2010: £572 million), for the changes in the variables shown in the table above would have had an impact on the Group's shareholder results and financial position.

## Z: POLICYHOLDER LIABILITIES

### Analysis of movement in policyholder liabilities and unallocated surplus of with-profits funds

#### Group insurance operations

	Insurance operations £m			
	UK	US	Asia	Total
<b>AT 1 JANUARY 2011</b>	135,717	60,523	28,740	224,980
Premiums	3,871	6,805	2,395	13,071
Surrenders	(2,301)	(2,153)	(1,119)	(5,573)
Maturities/Deaths	(3,571)	(436)	(341)	(4,348)
Net flows	(2,001)	4,216	935	3,150
Shareholders' transfers post tax	(113)	–	(14)	(127)
Investment-related items and other movements	3,632	1,429	634	5,695
Foreign exchange translation differences	120	(1,461)	(53)	(1,394)
<b>AT 30 JUNE 2011</b>	137,355	64,707	30,242	232,304
<i>Comprising:</i>				
– Policyholder liabilities	126,544	64,707	30,181	221,432
– Unallocated surplus of with-profits funds	10,811	–	61	10,872
At 1 January 2010	126,195	48,311	21,911	196,417
Premiums	3,359	5,656	2,068	11,083
Surrenders	(2,060)	(1,767)	(1,046)	(4,873)
Maturities/Deaths	(3,546)	(418)	(215)	(4,179)
Net flows	(2,247)	3,471	807	2,031
Shareholders' transfers post tax	(111)	–	(12)	(123)
Assumption changes (shareholder-backed business)	(64)	–	19	(45)
Investment-related items and other movements	4,934	(424)	(72)	4,438
Foreign exchange translation differences	(513)	3,895	1,911	5,293
Acquisition of UOB Life Assurance Limited	–	–	968	968
At 30 June 2010	128,194	55,253	25,532	208,979
<i>Comprising:</i>				
– Policyholder liabilities	118,180	55,253	25,480	198,913
– Unallocated surplus of with-profits funds	10,014	–	52	10,066
Average policyholder liability balances*				
Half year 2011	126,037	62,615	29,428	218,080
Half year 2010	117,205	51,782	24,153	193,140

\* Adjusted for acquisition and disposals in the period and excluding unallocated surplus of with-profits funds.

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.

Premiums, surrenders and maturities/deaths represent the amounts impacting policyholder liabilities and may not represent the total cash paid/received (for example, premiums are net of any deductions to cover acquisition costs and claims represents the policyholder liabilities released).

At 30 June 2010, £188 million of surrenders and £9 million of maturities relating to Indian unit-linked business, which had previously been netted off investment-related items and other movements, have now been presented against the appropriate classifications. This change has no impact on the previously reported full year 2010 equivalent analysis.

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### Z: POLICYHOLDER LIABILITIES > CONTINUED

#### UK insurance operations

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of UK insurance operations is as follows:

	SAIF and PAC with-profits sub-fund £m	Other shareholder-backed funds and subsidiaries		Total £m
		Unit- linked liabilities £m	Annuity and other long-term business £m	
<b>AT 1 JANUARY 2011</b>	91,773	21,671	22,273	135,717
Premiums	1,693	1,261	917	3,871
Surrenders	(1,216)	(1,085)	–	(2,301)
Maturities/Deaths	(2,473)	(322)	(776)	(3,571)
Net flows <sup>note a</sup>	(1,996)	(146)	141	(2,001)
Shareholders' transfers post tax	(113)	–	–	(113)
Switches	(113)	113	–	–
Investment-related items and other movements <sup>note b</sup>	2,527	666	439	3,632
Foreign exchange translation differences	120	–	–	120
<b>AT 30 JUNE 2011</b>	92,198	22,304	22,853	137,355
<i>Comprising:</i>				
– Policyholder liabilities	81,387	22,304	22,853	126,544
– Unallocated surplus of with-profits funds	10,811	–	–	10,811
At 1 January 2010	87,495	19,035	19,665	126,195
Premiums	1,624	933	802	3,359
Surrenders	(1,428)	(619)	(13)	(2,060)
Maturities/Deaths	(2,491)	(354)	(701)	(3,546)
Net flows <sup>note a</sup>	(2,295)	(40)	88	(2,247)
Shareholders' transfers post tax	(111)	–	–	(111)
Switches	(133)	133	–	–
Assumption changes (shareholder-backed business) <sup>note c</sup>	–	–	(64)	(64)
Investment-related items and other movements <sup>note b</sup>	3,171	358	1,405	4,934
Foreign exchange translation differences	(483)	(30)	–	(513)
At 30 June 2010	87,644	19,456	21,094	128,194
<i>Comprising:</i>				
– Policyholder liabilities	77,630	19,456	21,094	118,180
– Unallocated surplus of with-profits funds	10,014	–	–	10,014
Average policyholder liability balances*				
Half year 2011	81,487	21,987	22,563	126,037
Half year 2010	77,580	19,245	20,380	117,205

\* Excluding the unallocated surplus of the with-profits funds and as adjusted for corporate transactions in the period.

#### Notes

- Net outflows decreased from £2,247 million in half year 2010 to £2,001 million in 2011, principally as a result of lower surrenders within the with-profits fund in the period.
- Investment-related items and other movements of £3,632 million across fund types reflected the continued strong performance of UK equity markets in 2011, as well as investment gains on bonds and property.
- Assumption changes in 2010 principally represent the net impact of changes to the mortality assumptions and expense assumptions.

**US insurance operations**

	Variable annuity separate account liabilities £m	Fixed annuity, GIC and other business £m	Total £m
<b>AT 1 JANUARY 2011</b>	31,203	29,320	60,523
Premiums	5,015	1,790	6,805
Surrenders	(974)	(1,179)	(2,153)
Maturities/Deaths	(148)	(288)	(436)
Net flows <sup>note b</sup>	3,893	323	4,216
Transfers from general to separate account	541	(541)	–
Investment-related items and other movements <sup>note c</sup>	1,103	326	1,429
Foreign exchange translation differences <sup>note a</sup>	(735)	(726)	(1,461)
<b>AT 30 JUNE 2011</b>	36,005	28,702	64,707
At 1 January 2010	20,639	27,672	48,311
Premiums	3,524	2,132	5,656
Surrenders	(656)	(1,111)	(1,767)
Maturities/Deaths	(116)	(302)	(418)
Net flows <sup>note b</sup>	2,752	719	3,471
Transfers from general to separate account	496	(496)	–
Investment-related items and other movements <sup>note c</sup>	(1,273)	849	(424)
Foreign exchange translation differences <sup>note a</sup>	1,677	2,218	3,895
At 30 June 2010	24,291	30,962	55,253
Average policyholder liability balances			
Half year 2011	33,604	29,011	62,615
Half year 2010	22,465	29,317	51,782

**Notes**

- a Movements in the period have been translated at an average rate of 1.62 (30 June 2010: 1.53). The closing balance has been translated at closing rate of 1.61 (30 June 2010: 1.50). Differences upon retranslation are included in foreign exchange translation differences.
- b Net flows for the period were £4,216 million compared with £3,471 million for the six months ended 30 June 2010, driven largely by increased new business volumes for the variable annuity business.
- c Positive investment-related items and other movements in variable annuity separate account liabilities of £1,103 million for the first six months ended 2011 reflect the increase in the US equity market during the period as compared to a fall in equity markets in the first half of 2010. Fixed annuity, GIC and other business's investment-related items and other movements primarily reflects the interest credited to policyholder account in the period.

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### Z: POLICYHOLDER LIABILITIES > CONTINUED

#### Asian insurance operations

	With-profits business £m	Unit-linked liabilities £m	Other £m	Total £m
<b>AT 1 JANUARY 2011</b>	11,024	12,724	4,992	28,740
Premiums				
New business	90	553	305	948
In-force	506	578	363	1,447
Surrenders <sup>note c</sup>	596	1,131	668	2,395
Maturities/Deaths	(215)	(799)	(105)	(1,119)
	(249)	(16)	(76)	(341)
Net flows <sup>note b</sup>	132	316	487	935
Shareholders transfers post tax	(14)	–	–	(14)
Investment-related items and other movements <sup>note d</sup>	449	110	75	634
Foreign exchange translation differences <sup>note a</sup>	(61)	72	(64)	(53)
<b>AT 30 JUNE 2011</b>	11,530	13,222	5,490	30,242
Comprising:				
– Policyholder liabilities	11,469	13,222	5,490	30,181
– Unallocated surplus of with-profits funds	61	–	–	61
At 1 January 2010	8,861	9,717	3,333	21,911
Premiums				
New business	57	492	206	755
In-force	423	595	295	1,313
Surrenders <sup>notes c and f</sup>	480	1,087	501	2,068
Maturities/Deaths <sup>note f</sup>	(237)	(660)	(149)	(1,046)
	(148)	(24)	(43)	(215)
Net flows <sup>note b</sup>	95	403	309	807
Shareholders transfers post tax	(12)	–	–	(12)
Change in other reserving basis	–	–	19	19
Investment-related items and other movements <sup>notes d and f</sup>	(47)	(123)	98	(72)
Foreign exchange translation differences <sup>note a</sup>	761	855	295	1,911
Acquisition of UOB Life Assurance Limited <sup>note e</sup>	504	3	461	968
At 30 June 2010	10,162	10,855	4,515	25,532
Comprising:				
– Policyholder liabilities	10,110	10,855	4,515	25,480
– Unallocated surplus of with-profits funds	52	–	–	52
Average policyholder liability balances*				
Half year 2011	11,214	12,973	5,241	29,428
Half year 2010	9,711	10,287	4,155	24,153

\*Adjusted for transactions in the period and excluding the unallocated surplus of with-profits funds.

## Notes

- a Movements in the period have been translated at the average exchange rate for the six months ended 30 June 2011. The closing balance has been translated at the closing spot rates as at 30 June 2011. Differences upon retranslation are included in foreign exchange translation differences.
- b Net flows have increased by £128 million from £807 million in 2010 to £935 million in 2011 primarily reflecting increased flows from new business. Excluding India, net flows have increased by 24 per cent to £814 million in 2011 (2010: £658 million).
- c The rate of surrenders for shareholder-backed business (expressed as a percentage of opening liabilities) was 5.1 per cent in the first half of 2011, compared with 6.2 per cent in the first half and 6.4 per cent in the second half of 2010 respectively. There have been improvements in both Malaysia and Indonesia where we had experienced increased withdrawals in 2010, as policyholders took the opportunity to capitalise on the increased value of their unit-linked policies as stock markets recovered.
- d Positive investment related items and other movements of £634 million in half year 2011 primarily reflects improvements in the Indonesia and Malaysia stock markets, together with positive movements within the with-profits funds including positive investment returns in Hong Kong and Singapore.
- e The acquisition of UOB Life Assurance Limited reflects the liabilities acquired at the date of acquisition.
- f At 30 June 2010, £188 million of surrenders and £9 million of maturities relating to Indian unit-linked business which had previously been netted off investment related items and other movements, have now been presented against the appropriate classifications. This change has no impact on the previously reported full year 2010 equivalent analysis.

## AA: SHARE CAPITAL, SHARE PREMIUM AND OWN SHARES

	Half year 2011		
	Number of ordinary shares	Share capital £m	Share premium £m
Issued shares of 5p each fully paid:			
At 1 January 2011	2,545,594,506	127	1,856
Shares issued under share option schemes	2,122,869	–	15
<b>AT 30 JUNE 2011</b>	<b>2,547,717,375</b>	<b>127</b>	<b>1,871</b>
	Half year 2010		
	Number of ordinary shares	Share capital £m	Share premium £m
Issued shares of 5p each fully paid:			
At 1 January 2010	2,532,227,471	127	1,843
Shares issued under share option schemes	2,438,918	–	13
Shares issued in lieu of cash dividends	4,538,026	–	26
Reserve movements in respect of shares issued in lieu of cash dividends	–	–	(26)
At 30 June 2010	2,539,204,415	127	1,856
	Full year 2010		
	Number of ordinary shares	Share capital £m	Share premium £m
Issued shares of 5p each fully paid:			
At 1 January 2010	2,532,227,471	127	1,843
Shares issued under share option schemes	2,455,227	–	13
Shares issued in lieu of cash dividends	10,911,808	–	62
Reserve movements in respect of shares issued in lieu of cash dividends	–	–	(62)
At 31 December 2010	2,545,594,506	127	1,856

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### AA: SHARE CAPITAL, SHARE PREMIUM AND OWN SHARES > CONTINUED

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.

Shares issued in lieu of cash dividends in 2010 were considered to take the legal form of bonus issue shares and were accounted for as such. The scrip dividend alternative has been replaced by the Dividend Reinvestment Plan (DRIP) from the 2010 final dividend.

At 30 June 2011, 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		Exercisable by year
		from	to	
<b>30 JUNE 2011</b>	12,027,702	288p	572p	2016
30 June 2010	11,327,786	266p	572p	2016
31 December 2010	12,802,482	288p	572p	2016

#### Transactions by Prudential plc and its subsidiaries in Prudential plc shares

The Group buys and sells Prudential plc ('own shares') either in relation to its share schemes or via transactions undertaken by authorised investment funds that the Group is deemed to control. Further information about these transactions is set out below.

The cost of own shares of £82 million as at 30 June 2011 (30 June 2010: £61 million; 31 December 2010: £75 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans and savings-related share option schemes. At 30 June 2011, 5.2 million (30 June 2010: 4.5 million; 31 December 2010: 4.5 million) Prudential plc shares with a market value of £38 million (30 June 2010: £23 million; 31 December 2010: £30 million) were held in such trusts. Of this total, 5.1 million (30 June 2010: 4.1 million; 31 December 2010: 4.4 million) shares were held in trusts under employee incentive plans.

In half year 2011, the Company purchased the following number of shares in respect of employee incentive plans.

	Number of shares purchased* (in millions)	Cost £m
<b>HALF YEAR 2011</b>	3.2	15.5
Half year 2010	4.1	18.9
Full year 2010	5.7	32.0

\* The maximum number of shares held in half year 2011 was 5.2 million which was at the end of the period.

Of the total shares held in trust 0.1 million (30 June 2010: 0.3 million; 31 December 2010: 0.1 million) were held by a qualifying employee share ownership trust. These shares are expected to be fully distributed in the future on maturity of savings-related share option schemes.

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 2011 was 9.2 million (30 June 2010: 9.7 million; 31 December 2010: 9.8 million) and the cost of acquiring these shares of £45 million (30 June 2010: £46 million; 31 December 2010: £47 million) is included in the cost of own shares. The market value of these shares as at 30 June 2011 was £66 million (30 June 2010: £49 million; 31 December 2010: £65 million).

During half year 2011 these funds made net disposals of 554,285 Prudential shares (30 June 2010: 955,718; 31 December 2010: 833,618) for a net decrease of £2 million to book cost (30 June 2010: £4 million; 31 December 2010: £3 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 2011 or 2010.



### AB: CONTINGENCIES AND RELATED OBLIGATIONS

The Group is involved in various litigation and regulatory issues. Whilst 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 2011.

### AC: ASSOCIATES AND JOINT VENTURES

The Group had two associates at 30 June 2011 (30 June 2010: two; 31 December 2010: three) that were accounted for under the equity method. The Group's share of the profit and loss of these associates during the period was a loss of £1 million (half year 2010: £nil; full year 2010: a loss of £6 million). This is reflected in the Group's profit after tax attributable to equity holders during the period.

In addition, the Group owns a number of joint ventures. Joint ventures represent activities over which the Group exercises joint control through contractual agreement with one or more parties. The Group's significant joint ventures, which are accounted for using proportionate consolidation, comprise various joint ventures relating to property investments where the Group has a 50 per cent interest as well as the following interests:

Investment	% held	Principal activity	Country
CITIC Prudential Life Insurance Company Limited	50	Life assurance	China
CITIC-Prudential Fund Management Company Limited	49	Asset management	China
ICICI Prudential Asset Management Company Limited	49	Asset management	India
Prudential BSN Takaful Berhad	49	General and life insurance	Malaysia
BOCI-Prudential Asset Management Limited	36	Asset management	China
ICICI Prudential Life Insurance Company Limited	26	Life assurance	India

Joint ventures contributed £20 million (30 June 2010: £40 million; 31 December 2010: £60 million) to profit after tax attributable to equity holders during the period.

In addition to the above the Group has associates that are carried at fair value through profit and loss, as allowed under IAS 28, that comprise investment in Open-Ended Investment Companies (OEICs), unit trusts, funds holding collateralised debt obligations, property unit trusts, and venture capital investments of the PAC with-profits funds where the Group has significant influence.

## NOTES ON THE IFRS BASIS RESULTS CONTINUED

### AD: ACQUISITION OF SUBSIDIARIES

The PAC with-profits fund, via its venture fund holdings and as part of its investment portfolio, made two acquisitions during the period. These were acquisitions for a 100 per cent interest of Earth & Wind Energias Renovables S.L., a company which invests in solar panel parks, in March 2011 and a 100 per cent interest of Alticom Holdings B.V., a company investing in telecommunication towers, in June 2011.

As these transactions are within the with-profits fund, they have no impact on shareholders' profit or equity for the period ended 30 June 2011. The impact on the Group's consolidated revenue, including investment returns, is not material. Had the acquisitions been effected at 1 January 2011, the revenue and profit of the Group from continuing operations for the period ended 30 June 2011 would not have been materially different.

A summary of the consideration, goodwill and net assets acquired relating to these two acquisitions is provided in the table below:

	Total £m
<b>CASH CONSIDERATION PAID</b>	<b>55</b>
Net assets acquired:	
Property, plant and equipment	149
Other non-investment and non-cash assets	9
Cash and cash equivalents	14
Borrowings attributable to with-profits funds	(110)
Derivative liabilities	(2)
Other non-insurance liabilities	(8)
<b>FAIR VALUE OF NET ASSETS ACQUIRED</b>	<b>52</b>
<b>TOTAL GOODWILL ARISING ON ACQUISITION ATTRIBUTABLE TO THE WITH-PROFITS FUND</b>	<b>3</b>

The acquisition costs associated with this transaction were expensed as incurred and totalled less than £1 million.

Goodwill represents management's expectation of future income streams and is not allowable for tax.

### AE: RELATED PARTY TRANSACTIONS

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 2010.

There were no transactions with related parties during the six months ended 30 June 2011 which have had a material effect on the results or financial position of the Group.

### AF: POST BALANCE SHEET EVENTS

The 2011 interim dividend approved by the Board of Directors after 30 June 2011 is as described in note N.

Details of the reduction in the UK corporation tax rate to 25 per cent which became substantively enacted after the balance sheet date on 5 July 2011 and the subsequent proposed phased rate changes to 23 per cent are as described in note L.

## 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 2011, 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 2011 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 2010.

The current directors of Prudential plc are as listed in the Group's 2010 Annual Report.

# COMBINED IFRS BASIS RESULTS AND EEV BASIS RESULTS REPORT 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 2011 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 2011 which comprises the Operating Profit Based on Longer-Term Investment Returns, the Summary 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 United Kingdom's Financial Services Authority ('the UK FSA') 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 FSA. 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 16 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 29 July 2011.

## Scope of review

We conducted our reviews 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 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

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 2011 is not prepared, in all material respects, in accordance with the EEV Principles, using the methodology and assumptions set out in notes 1 and 16 to the EEV basis supplementary financial information.

*G. Bainbridge*

**G BAINBRIDGE**  
FOR AND ON BEHALF OF KPMG AUDIT PLC  
Chartered Accountants  
15 Canada Square  
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E14 5GL

4 August 2011

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

## ADDITIONAL FINANCIAL 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 policyholder accounts. It excludes the longer-term investment return on assets in excess of those covering shareholder-backed policyholder liabilities, 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 shareholders' transfer from the with-profits fund in the period.
- iv **Insurance margin** primarily represents profits derived from the insurance risks of mortality, morbidity and persistency.
- 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 (e.g. investment expenses are netted off 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, net of costs deferred in respect of new business.

#### Analysis of pre-tax IFRS operating profit by source

	Half year 2011 £m				
	Asia	US	UK	Unallocated	Total
Spread income	46	380	122	–	548
Fee income	67	327	29	–	423
With-profits	17	–	154	–	171
Insurance margin	225	113	7	–	345
Margin on revenues	560	–	105	–	665
Expenses:					
Acquisition costs	(349)	(485)	(93)	–	(927)
Administration expenses	(242)	(195)	(60)	–	(497)
DAC adjustments	(11)	192	(1)	–	180
Expected return on shareholder assets	11	36	69	–	116
Long-term business operating profit	324	368	332	–	1,024
Asset management operating profit	43	17	199	–	259
General insurance commission	–	–	21	–	21
RPI to CPI inflation measure change on defined benefit schemes	–	–	–	42	42
Other income and expenditure*	–	–	–	(288)	(288)
<b>TOTAL OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS</b>	<b>367</b>	<b>385</b>	<b>552</b>	<b>(246)</b>	<b>1,058</b>

\* Including restructuring and Solvency II implementation costs.

	Half year 2010 <sup>i</sup> £m				
	Asia	US	UK	Unallocated	Total
Spread income	39	344	83	–	466
Fee income	52	240	29	–	321
With-profits	17	–	154	–	171
Insurance margin	202	118	(4)	–	316
Margin on revenues	474	–	145	–	619
Expenses:					
Acquisition costs	(318)	(408)	(97)	–	(823)
Administration expenses	(225)	(167)	(61)	–	(453)
DAC adjustments	15	142	(2)	–	155
Expected return on shareholder assets	3	58	60	–	121
Long-term business operating profit	259	327	307	–	893
Asset management operating profit	36	15	143	–	194
General insurance commission	–	–	23	–	23
Other income and expenditure*	–	–	–	(265)	(265)
Total operating profit based on longer-term investment returns	295	342	473	(265)	845

	Full year 2010 £m				
	Asia	US	UK	Unallocated	Total
Spread income	70	692	251	–	1,013
Fee income	122	506	60	–	688
With-profits	32	–	310	–	342
Insurance margin	392	188	12	–	592
Margin on revenues	1,018	–	223	–	1,241
Expenses:					
Acquisition costs	(656)	(851)	(167)	–	(1,674)
Administration expenses	(467)	(344)	(113)	–	(924)
DAC adjustments	2	517	(1)	–	518
Expected return on shareholder assets	19	125	98	–	242
Long-term business operating profit	532	833	673	–	2,038
Asset management operating profit	72	22	284	–	378
General insurance commission	–	–	46	–	46
Other income and expenditure*	–	–	–	(521)	(521)
Total operating profit based on longer-term investment returns	604	855	1,003	(521)	1,941

\* Including restructuring and Solvency II implementation costs.

#### Note

- i In the second half of 2010, the Company amended the presentation of IFRS operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations. Accordingly, the half year 2010 operating profit has been amended to remove the positive £123 million effect.

## ADDITIONAL FINANCIAL INFORMATION CONTINUED

### I (a): ANALYSIS OF LONG-TERM INSURANCE BUSINESS PRE-TAX IFRS OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS BY DRIVER > CONTINUED

#### Margin analysis of 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. The margin is on an annualised basis in which half year profits are annualised by multiplying by two. Details of the Group's average policyholder liability balances are given in note Z.

	Total								
	Half year 2011			Half year 2010			Full year 2010		
	Profit £m	Average Liability £m	Margin bps	Profit £m	Average Liability £m	Margin bps	Profit £m	Average Liability £m	Margin bps
<b>Long-term business</b>									
Spread income	548	56,815	193	466	53,852	173	1,013	53,858	188
Fee income	423	68,564	123	321	51,997	123	688	57,496	120
With-profits	171	92,701	37	171	87,291	39	342	89,693	38
Insurance margin	345			316			592		
Margin on revenues	665			619			1,241		
Expenses:									
Acquisition costs*	(927)	1,824	(51)%	(823)	1,662	(50)%	(1,674)	3,492	(48)%
Administration expenses	(497)	125,379	(79)	(453)	105,849	(86)	(924)	111,354	(83)
DAC adjustments	180			155			518		
Expected return on shareholder assets	116			121			242		
Operating profit	1,024			893			2,038		

\* The ratio for acquisition costs is calculated as a percentage of APE including with-profits sales together with Japan (half year 2011 Japanese sales: £nil; half year and full year 2010: £7 million). Acquisition costs include only those relating to shareholders.



	Asia								
	Half year 2011			Half year 2010			Full year 2010		
	Profit £m	Average Liability £m	Margin bps	Profit £m	Average Liability £m	Margin bps	Profit £m	Average Liability £m	Margin bps
<b>Long-term business</b>									
Spread income	46	5,241	176	39	4,155	188	70	4,393	159
Fee income	67	12,973	103	52	10,287	101	122	11,222	109
With-profits	17	11,214	30	17	9,711	35	32	10,135	32
Insurance margin	225			202			392		
Margin on revenues	560			474			1,018		
Expenses:									
Acquisition costs*	(349)	743	(47)%	(318)	720	(44)%	(656)	1,508	(44)%
Administration expenses	(242)	18,214	(266)	(225)	14,442	(312)	(467)	15,615	(299)
DAC adjustments	(11)			15			2		
Expected return on shareholder assets	11			3			19		
Operating profit	324			259			532		

\* The ratio for acquisition costs is calculated as a percentage of APE including with-profits sales together with Japan (half year 2011 Japanese sales: £nil; half year and full year 2010: £7 million). Acquisition costs include only those relating to shareholders.

#### Analysis of Asian operating profit drivers

- **Spread income** has increased from £39 million in 2010 to £46 million in 2011. There has been a small fall in margin from 188 bps in 2010 to 176 bps in 2011 principally due to lower investment returns in China in 2011.
- **Fee income** has increased in absolute terms by 29 per cent to £67 million broadly in line with increased unit linked liabilities following improved equity markets and positive net flows into unit linked business.
- **Insurance margin** has increased by £23 million from £202 million in 2010 to £225 million in 2011. This reflects the continued growth in the in-force book, which has a relatively high proportion of risk-based products.
- **Margin on revenues** has increased by £86 million to £560 million reflecting the ongoing growth in the size of the portfolio. During the period the new business mix has moved towards those countries that levy higher premium charges (e.g. Indonesia and Malaysia).
- **Acquisition costs** – Acquisition costs have increased by 10 per cent, ahead of the 3 per cent increase in sales. This trend is distorted by the changes in country mix, particularly by the reduction of sales in India. Excluding India, acquisition costs were 15 per cent higher, compared to APE sales growth of 17 per cent.

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 half year 2011: 60 per cent, half year 2010: 53 per cent and full year 2010: 53 per cent. (Excluding India, half year 2011: 62 per cent, half year 2010: 60 per cent and full year 2010: 58 per cent).

- **Administration expenses** have increased from £225 million in 2010 to £242 million in 2011. The administration expense ratio has improved from 312 bps in 2010 to 266 bps in 2011 as we continue to see the benefits of operational leverage.
- **Expected return** on shareholder assets has increased to £11 million primarily due to higher shareholder assets and lower investment expenses in the period.

## ADDITIONAL FINANCIAL INFORMATION CONTINUED

### I (a): ANALYSIS OF LONG-TERM INSURANCE BUSINESS PRE-TAX IFRS OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS BY DRIVER > CONTINUED

	US								
	Half year 2011			Half year 2010			Full year 2010		
	Profit £m	Average Liability £m	Margin bps	Profit £m	Average Liability £m	Margin bps	Profit £m	Average Liability £m	Margin bps
<b>Long-term business</b>									
Spread income	380	29,011	262	344	29,317	235	692	28,496	243
Fee income	327	33,604	195	240	22,465	214	506	25,921	195
With-profits	–			–	–	–	–		
Insurance margin	113			118			188		
Margin on revenues	–			–			–		
Expenses:									
Acquisition costs*	(485)	672	(72)%	(408)	560	(73)%	(851)	1,164	(73)%
Administration expenses	(195)	62,615	(62)	(167)	51,782	(65)	(344)	54,417	(63)
DAC adjustments	192			142			517		
Expected return on shareholder assets	36			58			125		
Operating profit	368			327			833		

\* The ratios for acquisition costs is calculated as a percentage of APE.

#### Analysis of US operating profit drivers:

- **Spread income** benefited by £53 million in 2011 from the effect of transactions entered into during 2010 to more closely match the overall asset and liability duration (2010: £44 million). The increase in spread margin from 235 bps in 2010 to 262 bps in 2011 is due primarily to decreased crediting rates on fixed annuities.
- **Fee income** margins are based on the average of the opening and closing separate account balances, while earned fees are mainly calculated daily based on the separate account balance. The first half of 2010 experienced a large fall in equity markets at the end of that period. Using an average based on month end separate account balances in local currency, margins were 197 bps at half year 2011 (half year 2010: 201 bps; full year 2010: 200 bps). Separate account values increased in 2011 both as a result of the contribution from strong sales and positive equity market performance.
- **Insurance margin** represents operating profits from insurance risks, including variable annuity guarantees and other sundry net income. Positive net flows into variable annuity business with life contingent and other guarantees have helped lead to a small improvement in the margin in local currency. However, exchange rate movements resulted in a small decline in the margin from £118 million in 2010 to £113 million in 2011.
- **Acquisition costs** have increased in absolute terms compared to half year 2010 due to the significant increase in sales volumes. However, acquisition costs as a percentage of APE is modestly lower at 72 per cent in 2011.
- **Administration expenses** increased to £195 million in half year 2011, compared to £167 million in the first half of 2010, primarily as a result of higher asset-based commission paid on the larger 2011 separate account balance. These asset-based commissions paid upon policy anniversary dates are treated as an administration expense in this analysis as opposed to a cost of acquisition. Notwithstanding the higher levels of asset-based commission, the administration expense ratio has reduced from 65 bps to 62 bps reflecting the benefits of operational leverage.

	UK								
	Half year 2011			Half year 2010			Full year 2010		
	Profit £m	Average Liability £m	Margin bps	Profit £m	Average Liability £m	Margin bps	Profit £m	Average Liability £m	Margin bps
<b>Long-term business</b>									
Spread income	122	22,563	108	83	20,380	81	251	20,969	120
Fee income	29	21,987	26	29	19,245	30	60	20,353	29
With-profits	154	81,487	38	154	77,580	40	310	79,558	39
Insurance margin	7			(4)			12		
Margin on revenues	105			145			223		
Expenses:									
Acquisition costs*	(93)	409	(23)%	(97)	382	(25)%	(167)	820	(20)%
Administration expenses	(60)	44,550	(27)	(61)	39,625	(31)	(113)	41,322	(27)
DAC adjustments	(1)			(2)			(1)		
Expected return on shareholder assets	69			60			98		
Operating profit	332			307			673		

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

#### Analysis of UK operating profit drivers:

- **Spread income** has increased by £39 million to £122 million in 2011 reflecting in a higher margin of 108 bps, up from 81 bps last year. The 27 bps improvement to margin is due to the bulk annuity deal written in the first half of 2011 together with the benefit to yields of transactions undertaken in the period to improve the quality of the annuity investment portfolio.
- **Margin on revenues** represents premium charges for expenses and other sundry operating income amounts of the UK business. Lower amounts were recorded in the first half of 2011 (£105 million) as compared to the first half of 2010 (£145 million) mainly as a result of expense assumption changes on annuity business in 2010 not being repeated in the first half of 2011.
- **Insurance margin** has improved by £11 million from negative £4 million in 2010 to positive £7 million in 2011, primarily reflecting improved profitability in PruHealth, following the acquisition of Standard Life Healthcare, and higher sales in PruProtect together with the benefit of lower new business strain on those sales.
- **Acquisition costs** as a percentage of new business sales has fallen from 25 per cent in 2010 to 23 per cent in 2011. This is principally due to the impact of the bulk annuity deal written in the period which contributed £28 million APE with a relatively modest level of acquisition costs.

The ratio above considers the percentage of shareholder acquisition costs as a percentage of total APE sales. It is therefore impacted by the level of with-profit sales in the year. Acquisition costs as a percentage of shareholder-backed new business sales were 44 per cent in half year 2011 (51 per cent in half year 2010; 36 per cent in full year 2010), the improvement over half year 2010 principally due to the bulk annuity deal as set out above.

- **Administration expenses** have remained broadly consistent with the prior year at £60 million (2010: £61 million), whilst average policyholder liabilities for shareholder-backed business in 2011 have increased by 12 per cent from the first half of 2010. Correspondingly, the margin, expressed as shareholder administration costs compared to the policyholder liabilities of shareholder-backed business, has fallen from 31 bps in the first half of 2010 to 27 bps in same period in 2011. This is primarily the result of cost savings initiatives initiated by the UK in line with the business's stated objectives.

## ADDITIONAL FINANCIAL INFORMATION CONTINUED

### I (b): ASIAN OPERATIONS - ANALYSIS OF IFRS OPERATING PROFIT BY TERRITORY

Operating profit based on longer-term investment returns for Asian operations are analysed as follows:

	2011 £m		2010 £m	
	Half year	Half year	Half year	Full year
Underlying operating profit				
China	–	6		5
Hong Kong	31	27		51
India	22	15		24
Indonesia	95	70		157
Japan	–	(2)		(6)
Korea	9	6		12
Malaysia	57	45		97
Philippines	1	1		2
Singapore	72	56		129
Taiwan	(8)	–		(4)
Thailand	2	(1)		2
Vietnam	19	21		43
Other	1	(1)		5
Non-recurrent items <sup>note ii</sup>	25	19		19
<b>TOTAL INSURANCE OPERATIONS<sup>note i</sup></b>	<b>326</b>	<b>262</b>		<b>536</b>
Development expenses	(2)	(3)		(4)
<b>TOTAL LONG-TERM BUSINESS OPERATING PROFIT</b>	<b>324</b>	<b>259</b>		<b>532</b>
Asset management	43	36		72
<b>TOTAL ASIAN OPERATIONS</b>	<b>367</b>	<b>295</b>		<b>604</b>

#### 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:

	2011 Half year £m	2010 Half year £m	2010 Full year £m
New business strain (excluding Japan)	(31)	(42)	(56)
Japan	–	(1)	(1)
New business strain (including Japan)	(31)	(43)	(57)
Business in force	357	305	593
Total	326	262	536

The IFRS new business strain corresponds to approximately four per cent of new business APE premiums for half year 2011 (half year 2010: approximately six per cent; full year 2010: approximately four per cent).

The strain reflects the aggregate of the pre-tax regulatory basis strain to net worth after IFRS adjustments for deferral of acquisition costs and deferred income where appropriate.

ii Non-recurrent items of £25 million in half year 2011 (2010: £19 million), represents a small number of items that are not anticipated to reoccur in subsequent periods.

**I (c): ANALYSIS OF ASSET MANAGEMENT OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS**

	Half year 2011 £m				
	M&G <sup>1</sup>	Asia <sup>1</sup>	PruCap	US	Total
Operating income before performance-related fees	351	98	55	125	629
Performance-related fees	15	3	–	–	18
Operating income*	366	101	55	125	647
Operating expense	(194)	(58)	(28)	(108)	(388)
<b>OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS</b>	172	43	27	17	259
Average funds under management (FUM) <sup>†</sup>	£200.5bn	£52.2bn			
Margin based on operating income <sup>†</sup>	37 bps	39 bps			
Cost/income ratio <sup>‡</sup>	55%	59%			

	Half year 2010 £m				
	M&G <sup>1</sup>	Asia <sup>1</sup>	PruCap	US	Total
Operating income before performance-related fees	299	91	43	114	547
Performance-related fees	3	1	–	–	4
Operating income*	302	92	43	114	551
Operating expense	(180)	(56)	(22)	(99)	(357)
Operating profit based on longer-term investment returns	122	36	21	15	194
Average funds under management (FUM) <sup>†</sup>	£176.0bn	£44.2bn			
Margin based on operating income <sup>†</sup>	34 bps	41 bps			
Cost/income ratio <sup>‡</sup>	60%	62%			

	Full year 2010 £m				
	M&G <sup>1</sup>	Asia <sup>1</sup>	PruCap	US	Total
Operating income before performance-related fees	615	185	88	229	1,117
Performance-related fees	17	6	–	–	23
Operating income*	632	191	88	229	1,140
Operating expense	(386)	(119)	(50)	(207)	(762)
Operating profit based on longer-term investment returns	246	72	38	22	378
Average funds under management (FUM) <sup>†</sup>	£186.5bn	£47.2bn			
Margin based on operating income <sup>†</sup>	34 bps	40 bps			
Cost/income ratio <sup>‡</sup>	63%	64%			

\* Operating income is net of commissions and includes performance-related fees.

† Margin represents annualised operating income as a proportion of the related funds under management. Half year figures have been annualised by multiplying by two. Opening and 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 is calculated as cost as a percentage of income excluding performance-related fees.

## ADDITIONAL FINANCIAL INFORMATION CONTINUED

### I (c): ANALYSIS OF ASSET MANAGEMENT OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS > CONTINUED

#### Note

i M&G and Asia asset management businesses can be further analysed as follows:

	M&G					
	Operating income*					
	Retail £m	Margin of FUM†** bps	Institutional§ £m	Margin of FUM† bps	Total £m	Margin of FUM† bps
30 Jun 2011	209	95	157	20	366	37
30 Jun 2010	165	102	137	19	302	34
31 Dec 2010	345	93	287	19	632	34

	Asia					
	Operating income*					
	Retail £m	Margin of FUM† bps	Institutional§ £m	Margin of FUM† bps	Total £m	Margin of FUM† bps
30 Jun 2011	61	61	40	25	101	39
30 Jun 2010	59	64	33	25	92	41
31 Dec 2010	120	62	71	26	191	40

\* Operating income is net of commissions and includes performance-related fees.

\*\*As noted above, the margins on operating income are based on the average of the opening and closing FUM balances. For M&G, if a monthly average FUM had been used in calculating the retail returns for half year 2011 and half year 2010, the retail margins would have been 96 bps for half year 2011 and 98 bps for half year 2010.

† Margin represents annualised operating income as a proportion of the related funds under management (FUM). Half year figures have been annualised by multiplying by two. Opening and 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.

§ Institutional includes internal funds.

## II (a): IFRS SHAREHOLDERS' FUNDS SUMMARY BY BUSINESS UNIT AND NET ASSET VALUE PER SHARE

### i Shareholders' fund summary

	2011 £m		2010 £m	
	30 Jun	30 Jun	31 Dec	
<b>ASIAN OPERATIONS</b>				
Insurance operations				
Net assets of operation	2,030	1,757	1,913	
Acquired goodwill	239	235	236	
Total	2,269	1,992	2,149	
Asset management				
Net assets of operation	212	180	197	
Acquired goodwill	61	61	61	
Total	273	241	258	
Total	2,542	2,233	2,407	
<b>US OPERATIONS</b>				
Jackson (net of surplus note borrowings)	3,764	3,905	3,815	
Broker-dealer and asset management operations:				
Net assets of operation	108	111	106	
Acquired goodwill	16	16	16	
Total	124	127	122	
Total	3,888	4,032	3,937	
<b>UK OPERATIONS</b>				
Insurance operations:				
Long-term business operations	2,294	1,920	2,115	
Other	48	17	33	
Total	2,342	1,937	2,148	
M&G				
Net assets of operation	310	190	254	
Acquired goodwill	1,153	1,153	1,153	
Total	1,463	1,343	1,407	
Total	3,805	3,280	3,555	
<b>OTHER OPERATIONS</b>				
Holding company net borrowings	(2,117)	(2,293)	(2,035)	
Shareholders' share of provision for future deficit funding of the Prudential Staff Pension Scheme (net of tax)	(8)	(13)	(10)	
Other net assets (liabilities)	391	(78)	177	
Total	(1,734)	(2,384)	(1,868)	
<b>TOTAL OF ALL OPERATIONS</b>	<b>8,501</b>	<b>7,161</b>	<b>8,031</b>	

### ii Net asset value per share

	2011 £m		2010 £m	
	30 Jun	30 Jun	31 Dec	
Closing equity shareholders' funds	8,501	7,161	8,031	
Net asset value per share attributable to equity shareholders (in pence) <sup>note i</sup>	334p	282p	315p	

#### Note

- i Based on the closing issued share capital as at:
- 30 June 2011 of 2,548 million shares;
  - 30 June 2010 of 2,539 million shares; and
  - 31 December 2010 of 2,546 million shares.

## ADDITIONAL FINANCIAL INFORMATION CONTINUED

### III (a): FUNDS UNDER MANAGEMENT

#### i Summary

	2011 £bn		2010 £bn	
	30 Jun	31 Dec	30 Jun	31 Dec
Business area				
Asian operations	32.2		27.8	30.9
US operations	67.2		58.7	63.6
UK operations	146.4		136.3	145.2
Internal funds under management	245.8		222.8	239.7
External funds <sup>note i</sup>	103.7		86.5	100.4
<b>TOTAL FUNDS UNDER MANAGEMENT</b>	<b>349.5</b>		<b>309.3</b>	<b>340.1</b>

#### Note

- i External funds shown above for 30 June 2011 of £103.7 billion (30 June 2010: £86.5 billion; 31 December 2010: £100.4 billion) comprise £115.2 billion (30 June 2010: £96.0 billion; 31 December 2010: £111.4 billion) in respect of investment products as published in the New Business schedule, less £11.5 billion (30 June 2010: £9.5 billion; 31 December 2010: £11.0 billion) that are classified within internal funds.

#### ii Internal funds under management - analysis by business area

	Asian operations			US operations			UK operations			Total		
	2011 30 Jun £bn	2010 30 Jun £bn	2010 31 Dec £bn	2011 30 Jun £bn	2010 30 Jun £bn	2010 31 Dec £bn	2011 30 Jun £bn	2010 30 Jun £bn	2010 31 Dec £bn	2011 30 Jun £bn	2010 30 Jun £bn	2010 31 Dec £bn
Investment												
properties <sup>note i</sup>	–	–	–	0.1	0.1	0.1	11.5	11.4	11.5	11.6	11.5	11.6
Equity securities	14.2	12.5	14.5	36.2	24.6	31.5	40.6	34.6	40.7	91.0	71.7	86.7
Debt securities	15.4	12.4	14.1	25.3	27.4	26.4	76.5	73.5	75.9	117.2	113.3	116.4
Loans	1.2	1.4	1.3	4.1	4.5	4.2	3.7	3.7	3.8	9.0	9.6	9.3
Other investments and deposits	1.4	1.5	1.0	1.5	2.1	1.4	14.1	13.1	13.3	17.0	16.7	15.7
Total	32.2	27.8	30.9	67.2	58.7	63.6	146.4	136.3	145.2	245.8	222.8	239.7

#### Note

- i As included in the investments section of the consolidated statement of financial position at 30 June 2011 except for £0.5 billion (30 June 2010: £0.2 billion; 31 December 2010: £0.4 billion) properties which are held-for-sale or occupied by the Group and, accordingly under IFRS, are included in other statement of financial position captions.



### III (b): EFFECT OF FOREIGN CURRENCY RATE MOVEMENTS ON RESULTS

#### i Rates of exchange

The profit and loss accounts of foreign subsidiaries are translated at average exchange rates for the year. Assets and liabilities of foreign subsidiaries are translated at closing exchange rates. Foreign currency borrowings that have been used to provide a hedge against Group equity investments in overseas subsidiaries are also translated at closing exchange rates. The impact of these translations is recorded as a component of the movement in shareholders' equity.

The following translation rates have been applied:

Local currency: £	Closing	Average	Closing	Average	Closing	Average
	2011 30 Jun	2011 30 Jun	2010 30 Jun	2010 30 Jun	2010 31 Dec	2010 31 Dec
Hong Kong	12.49	12.58	11.65	11.85	12.17	12.01
Indonesia	13,767.54	14,133.01	13,562.15	14,007.05	14,106.51	14,033.41
Malaysia	4.85	4.90	4.84	5.04	4.83	4.97
Singapore	1.97	2.03	2.09	2.13	2.01	2.11
India	71.77	72.74	69.49	69.83	70.01	70.66
Vietnam	33,048.21	33,110.56	28,545.59	28,806.01	30,526.26	29,587.63
USA	1.61	1.62	1.50	1.53	1.57	1.55

#### ii Effect of rate movements on results

##### IFRS basis results

	2011 £m	2010 £m	
	As published Half year	Memorandum Half year notes i and ii	Memorandum Full year note i
Asian operations:			
Long-term operations	326	259	532
Development expenses	(2)	(3)	(4)
Total Asian insurance operations after development costs	324	256	528
Asset management	43	36	73
Total Asian operations	367	292	601
US operations:			
Jackson <sup>note ii</sup>	368	308	796
Broker-dealer, asset management and Curian operations	17	14	21
Total US operations	385	322	817
UK operations:			
Long-term business	332	307	673
General insurance commission	21	23	46
Total UK insurance operations	353	330	719
M&G	199	143	284
Total UK operations	552	473	1,003
Total segment profit	1,304	1,087	2,421
Other income and expenditure	(253)	(240)	(450)
RPI to CPI inflation measure change on defined benefit pension schemes	42	-	-
Solvency II implementation costs	(27)	(22)	(45)
Restructuring costs	(8)	(3)	(26)
Operating profit from continuing operations based on longer-term investment returns	1,058	822	1,900
Shareholders' funds	8,501	7,034	8,003

## ADDITIONAL FINANCIAL INFORMATION CONTINUED

### III (b): EFFECT OF FOREIGN CURRENCY RATE MOVEMENTS ON RESULTS > CONTINUED

#### EEV basis results

	2011 £m	2010 £m	
	As published Half year	Memorandum Half year note i	Memorandum Full year note i
Asian operations:			
New business:			
Excluding Japan	465	393	896
Japan	–	(1)	(1)
Total	465	392	895
Business in force	309	239	536
Long-term operations	774	631	1,431
Asset management	43	36	73
Development expenses	(2)	(3)	(4)
Total Asian operations	815	664	1,500
US operations			
New business	458	341	728
Business in force	373	289	667
Jackson	831	630	1,395
Broker-dealer, asset management and Curian operations	17	14	21
Total US operations	848	644	1,416
UK operations			
New business	146	135	365
Business in force	391	314	571
Long-term business	537	449	936
General insurance commission	21	23	46
Total insurance	558	472	982
M&G	199	143	284
Total UK operations	757	615	1,266
Other income and expenditure	(281)	(262)	(494)
RPI to CPI inflation measure change of defined benefit pension schemes	45	–	–
Solvency II implementation costs	(28)	(22)	(46)
Restructuring costs	(9)	(5)	(28)
Operating profit from continuing operations based on longer-term investment returns	2,147	1,634	3,614
Shareholders' funds	18,993	16,329	18,115

#### Notes

i The 'as published' operating profit for 2011 and 'memorandum' operating profit for 2010 have been calculated by applying average 2011 exchange rates (CER).

The 'as published' shareholders' funds for 2011 and 'memorandum' shareholders' funds for 2010 have been calculated by applying closing period end 2011 exchange rates.

ii In the second half of 2010, the Company amended the presentation of IFRS operating profit for its US operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations in investment returns. Accordingly, the half year 2010 operating profit has been amended to remove the positive £123 million effect. The half year 2010 operating profit has been amended accordingly.

### III (c): OPTION SCHEMES

The Group maintains four share option schemes satisfied by the issue of new shares. UK-based executive directors are eligible to participate in the UK Savings Related Share Option Scheme and Asia-based executives can participate in the International Savings Related Share Option Scheme. Dublin-based employees are eligible to participate in the Prudential International Assurance Sharesave Plan and Hong Kong-based agents can participate in the Non-employee Savings Related Share Option Scheme. Further details of the schemes and accounting policies are detailed in Note I4 of the IFRS basis consolidated financial statements in the 2010 Annual Report.

All options were granted at £nil consideration. No options have been granted to substantial shareholders, suppliers of goods or services (excluding options granted to agents under the Non-employee Savings Related Share Option Scheme) or in excess of the individual limit for the relevant scheme.

The options schemes will terminate as follows, unless the directors resolve to terminate the plans at an earlier date:

- UK Savings Related Share Option Scheme: 8 May 2013
- International Savings Related Share Option Scheme: 31 May 2021
- Prudential International Assurance Sharesave Plan: 3 August 2019
- Non-employee Savings Related Share Option Scheme: 9 May 2012

The weighted average share price of Prudential plc for the period ended 30 June 2011 was £6.99 (2010: £5.53).

The following analyses show the movement in options for each of the option schemes for the six month period ended 30 June 2011. No options were granted in the period.

#### UK Savings Related Share Option Scheme

Date of grant	Exercise price £	Exercise period		Beginning of period	Number of options					End of period
		Beginning	End		Granted	Exercised	Cancelled	Forfeited	Lapsed	
01 Oct 2003	3.62	01 Dec 2010	31 May 2011	2,775	–	1,850	–	–	925	–
15 Apr 2004	3.46	01 Jun 2011	30 Nov 2011	17,946	–	11,860	–	–	–	6,086
30 Sep 2004	3.43	01 Dec 2011	31 May 2012	8,430	–	985	–	–	56	7,389
12 Apr 2005	3.87	01 Jun 2012	30 Nov 2012	12,222	–	–	–	–	184	12,038
29 Sep 2005	4.07	01 Dec 2010	31 May 2011	10,597	–	9,411	–	–	–	1,186
29 Sep 2005	4.07	01 Dec 2012	31 May 2013	9,492	–	237	–	–	183	9,072
20 Apr 2006	5.65	01 Jun 2011	30 Nov 2011	13,884	–	11,438	–	–	–	2,446
20 Apr 2006	5.65	01 Jun 2013	30 Nov 2013	7,564	–	–	–	–	121	7,443
28 Sep 2006	4.75	01 Dec 2011	31 May 2012	48,003	–	2,283	–	–	475	45,245
28 Sep 2006	4.75	01 Dec 2013	31 May 2014	13,325	–	–	–	–	–	13,325
26 Apr 2007	5.72	01 Jun 2010	30 Nov 2010	3,558	–	495	–	–	198	2,865
26 Apr 2007	5.72	01 Jun 2012	30 Nov 2012	8,337	–	–	–	–	1,146	7,191
26 Apr 2007	5.72	01 Jun 2014	30 Nov 2014	503	–	–	–	–	–	503
27 Sep 2007	5.52	01 Dec 2010	31 May 2011	25,033	–	21,910	–	–	3,123	–
27 Sep 2007	5.52	01 Dec 2012	31 May 2013	17,870	–	–	–	–	243	17,627
27 Sep 2007	5.52	01 Dec 2014	31 May 2015	1,668	–	–	–	–	–	1,668
25 Apr 2008	5.51	01 Jun 2011	30 Nov 2011	50,952	–	31,384	682	–	1,705	17,181
25 Apr 2008	5.51	01 Jun 2013	30 Nov 2013	28,220	–	168	–	–	953	27,099
25 Apr 2008	5.51	01 Jun 2015	30 Nov 2015	1,670	–	–	–	–	–	1,670
25 Sep 2008	4.38	01 Dec 2011	31 May 2012	153,998	–	5,814	2,058	1,315	4,400	140,411
25 Sep 2008	4.38	01 Dec 2013	31 May 2014	49,036	–	401	–	765	517	47,353
25 Sep 2008	4.38	01 Dec 2015	31 May 2016	14,857	–	709	–	–	1,117	13,031
27 Apr 2009	2.88	01 Jun 2012	30 Nov 2012	3,138,322	–	96,748	11,986	23,282	76,184	2,930,122
27 Apr 2009	2.88	01 Jun 2014	30 Nov 2014	1,993,530	–	23,690	13,022	9,766	48,581	1,898,471
27 Apr 2009	2.88	01 Jun 2016	30 Nov 2016	202,734	–	4,090	5,686	–	9,556	183,402
25 Sep 2009	4.25	01 Dec 2012	31 May 2013	264,812	–	5,991	5,634	213	6,647	246,327
25 Sep 2009	4.25	01 Dec 2014	31 May 2015	101,327	–	601	1,462	–	1,593	97,671
28 Sep 2010	4.61	01 Dec 2013	31 May 2014	314,557	–	1,228	11,076	6,318	11,252	284,683
28 Sep 2010	4.61	01 Dec 2015	31 May 2016	134,638	–	–	334	–	–	134,304
				6,649,860	–	231,293	51,940	41,659	169,159	6,155,809

The total number of securities available for issue under the scheme is 6,155,809, which represents 0.242 per cent of the issued share capital at 30 June 2011.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £7.21.

## ADDITIONAL FINANCIAL INFORMATION CONTINUED

### III (c): OPTION SCHEMES > CONTINUED

#### International Savings Related Share Option Scheme

Date of grant	Exercise price £	Exercise period		Beginning of period	Number of options					End of period
		Beginning	End		Granted	Exercised	Cancelled	Forfeited	Lapsed	
12 Apr 2005	3.87	01 Jun 2010	30 Nov 2010	758	–	–	–	–	758	–
20 Apr 2006	5.65	01 Jun 2011	30 Nov 2011	820	–	–	–	–	–	820
28 Sep 2006	4.75	01 Dec 2011	31 May 2012	709	–	–	–	–	–	709
26 Apr 2007	5.72	01 Jun 2010	30 Nov 2010	88,610	–	–	–	854	87,756	–
26 Apr 2007	5.72	01 Jun 2012	30 Nov 2012	17,847	–	–	–	–	–	17,847
27 Sep 2007	5.52	01 Dec 2010	31 May 2011	40,465	–	9,891	4,185	–	4,204	22,185
25 Apr 2008	5.51	01 Jun 2011	30 Nov 2011	27,068	–	5,861	–	256	739	20,212
25 Apr 2008	5.51	01 Jun 2013	30 Nov 2013	4,192	–	–	–	–	–	4,192
25 Sep 2008	4.38	01 Dec 2011	31 May 2012	236,700	–	–	10,937	654	–	225,109
25 Sep 2008	4.38	01 Dec 2013	31 May 2014	6,951	–	–	–	–	–	6,951
27 Apr 2009	2.88	01 Jun 2012	30 Nov 2012	1,906,105	–	5,466	11,854	48,443	–	1,840,342
27 Apr 2009	2.88	01 Jun 2014	30 Nov 2014	90,029	–	–	–	3,609	–	86,420
25 Sep 2009	4.25	01 Dec 2012	31 May 2013	132,837	–	979	11,196	4,928	–	115,734
25 Sep 2009	4.25	01 Dec 2014	31 May 2015	2,682	–	–	–	1,950	–	732
28 Sep 2010	4.61	01 Dec 2013	31 May 2014	175,050	–	–	4,923	1,208	–	168,919
28 Sep 2010	4.61	01 Dec 2015	31 May 2016	6,501	–	–	–	–	–	6,501
				2,737,324	–	22,197	43,095	61,902	93,457	2,516,673

The total number of securities available for issue under the scheme is 2,516,673, which represents 0.099 per cent of the issued share capital at 30 June 2011.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £7.25.

#### Prudential International Assurance Sharesave Plan

Date of grant	Exercise price £	Exercise period		Beginning of period	Number of options					End of period
		Beginning	End		Granted	Exercised	Cancelled	Forfeited	Lapsed	
27 Sep 2007	5.52	01 Dec 2010	31 May 2011	618	–	618	–	–	–	–
25 Sep 2008	4.38	01 Dec 2011	31 May 2012	1,520	–	–	–	–	829	691
27 Apr 2009	2.88	01 Jun 2012	30 Nov 2012	30,320	–	–	–	–	–	30,320
27 Apr 2009	2.88	01 Jun 2014	30 Nov 2014	6,567	–	–	–	–	–	6,567
25 Sep 2009	4.25	01 Dec 2012	31 May 2013	2,426	–	–	–	–	–	2,426
				41,451	–	618	–	–	829	40,004

The total number of securities available for issue under the scheme is 40,004, which represents 0.002 per cent of the issued share capital at 30 June 2011.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £7.10.

## Non-employee Savings Related Share Option Scheme

Date of grant	Exercise price £	Exercise period		Beginning of period	Number of options					End of period
		Beginning	End		Granted	Exercised	Cancelled	Forfeited	Lapsed	
28 Sep 2006	4.75	01 Dec 2011	31 May 2012	8,577	-	-	-	-	-	8,577
26 Apr 2007	5.72	01 Jun 2010	30 Nov 2010	13,533	-	-	-	-	13,533	-
26 Apr 2007	5.72	01 Jun 2012	30 Nov 2012	15,557	-	-	-	-	-	15,557
27 Sep 2007	5.52	01 Dec 2010	31 May 2011	19,595	-	11,988	-	-	-	7,607
27 Sep 2007	5.52	01 Dec 2012	31 May 2013	5,748	-	-	-	-	-	5,748
25 Apr 2008	5.51	01 Jun 2011	30 Nov 2011	20,951	-	1,311	-	-	-	19,640
25 Apr 2008	5.51	01 Jun 2013	30 Nov 2013	4,195	-	-	-	-	-	4,195
25 Sep 2008	4.38	01 Dec 2011	31 May 2012	42,741	-	-	1,587	-	-	41,154
25 Sep 2008	4.38	01 Dec 2013	31 May 2014	17,135	-	-	3,427	-	-	13,708
27 Apr 2009	2.88	01 Jun 2012	30 Nov 2012	897,848	-	-	8,525	-	-	889,323
27 Apr 2009	2.88	01 Jun 2014	30 Nov 2014	749,908	-	-	14,774	-	-	735,134
25 Sep 2009	4.25	01 Dec 2012	31 May 2013	50,612	-	-	-	-	-	50,612
25 Sep 2009	4.25	01 Dec 2014	31 May 2015	11,717	-	-	-	-	-	11,717
28 Sep 2010	4.61	01 Dec 2013	31 May 2014	1,136,477	-	-	3,486	-	-	1,132,991
28 Sep 2010	4.61	01 Dec 2015	31 May 2016	379,253	-	-	-	-	-	379,253
				3,373,847	-	13,299	31,799	-	13,533	3,315,216

The total number of securities available for issue under the scheme is 3,315,216, which represents 0.130 per cent of the issued share capital at 30 June 2011.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £7.11.

### Employees

Our approach to our employees is as disclosed within the Corporate Responsibility Review section of our 2010 Annual Report and this has not changed substantially in the six month period ended 30 June 2011.

## EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

### OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS<sup>1</sup>

#### Results analysis by business area

	Note	2011 £m	2010 £m <sup>vi</sup>	
		Half year	Half year	Full year
<b>ASIAN OPERATIONS</b>				
New business:				
Excluding Japan	2	465	396	902
Japan <sup>v</sup>		–	(1)	(1)
Total		465	395	901
Business in force	3	309	241	549
Long-term business		774	636	1,450
Asset management		43	36	72
Development expenses		(2)	(3)	(4)
Total		815	669	1,518
<b>US OPERATIONS</b>				
New business	2	458	361	761
Business in force	3	373	306	697
Long-term business		831	667	1,458
Broker-dealer and asset management		17	15	22
Total		848	682	1,480
<b>UK OPERATIONS</b>				
New business	2	146	135	365
Business in force	3	391	314	571
Long-term business		537	449	936
General insurance commission		21	23	46
Total UK insurance operations		558	472	982
M&G		199	143	284
Total		757	615	1,266
<b>OTHER INCOME AND EXPENDITURE</b>				
Investment return and other income		5	5	30
Interest payable on core structural borrowings		(140)	(129)	(257)
Corporate expenditure		(116)	(113)	(220)
Charge for share-based payments for Prudential schemes		(2)	(3)	(3)
Charge for expected asset management margin <sup>ii</sup>		(28)	(22)	(44)
Total		(281)	(262)	(494)
RPI to CPI inflation measure change on defined benefit pension schemes <sup>iii</sup>		45	–	–
Solvency II implementation costs <sup>iv</sup>		(28)	(22)	(46)
Restructuring costs <sup>iv</sup>		(9)	(5)	(28)
<b>OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS<sup>1</sup></b>		<b>2,147</b>	<b>1,677</b>	<b>3,696</b>
Analysed as profits (losses) from:				
New business:				
Excluding Japan	2	1,069	892	2,028
Japan <sup>v</sup>		–	(1)	(1)
Total		1,069	891	2,027
Business in force	3	1,073	861	1,817
Long-term business		2,142	1,752	3,844
Asset management		259	194	378
Other results		(254)	(269)	(526)
Total		2,147	1,677	3,696

## Notes

- i EEV basis operating profit based on longer-term investment returns excludes the recurrent items of short-term fluctuations in investment returns, the mark to market value movements on core borrowings, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, and the effect of changes in economic assumptions. In addition, for half year and full year 2010, operating profit excludes costs associated with the terminated AIA transaction and for full year 2010, the gain arising upon the dilution of the Group's holding in PruHealth. The amounts for these items are included in total EEV profit attributable to shareholders. The Company believes that operating profit, as adjusted for these items, better reflects underlying performance. Profit before tax and basic earnings per share include these items together with actual investment returns. This basis of presentation has been adopted consistently throughout these results.
- ii The value of future profits or losses from asset management and service companies that support the Group's covered businesses are included in the profits for new business and the in-force value of the Group's long-term business. The results of the Group's asset management operations include the profits from management of internal and external funds. For EEV basis reporting, Group shareholders' other income is adjusted to deduct the expected margins for the period on management of covered business. The deduction is on a basis consistent with that used for projecting the results for covered business. Group operating profit accordingly includes the variance between actual and expected profit in respect of covered business.
- iii During the first half of 2011 the Group altered its inflation measure basis for future statutory increases to pension payments for certain tranches of its UK defined benefit pension schemes. This reflects the UK Government's decision to replace the basis of indexation from RPI with CPI. This resulted in a credit to operating profit for half year 2011 on an IFRS basis of £42 million and an additional £3 million recognised on the EEV basis.
- iv Restructuring costs comprise the charge of £(8) million recognised on an IFRS basis and an additional £(1) million recognised on the EEV basis for the shareholders' share of restructuring costs incurred by the PAC with-profits fund. Solvency II implementation costs comprise the charge of £(27) million recognised on an IFRS basis and an additional £(1) million recognised on the EEV basis.
- v New business profits for the Group's Japanese insurance subsidiary, which ceased writing new business with effect from 15 February 2010, have been presented separately from those of the remainder of the Group.
- vi The comparative results have been prepared using previously reported average exchange rates for the period.

# EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS CONTINUED

## SUMMARISED CONSOLIDATED INCOME STATEMENT

	Note	2011 £m	2010 £m	
		Half year	Half year	Full year
<b>OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS</b>				
Asian operations		815	669	1,518
US operations		848	682	1,480
UK operations:				
UK insurance operations		558	472	982
M&G		199	143	284
		757	615	1,266
Other income and expenditure		(281)	(262)	(494)
RPI to CPI inflation measure change on defined benefit pension schemes		45	–	–
Solvency II implementation costs		(28)	(22)	(46)
Restructuring costs		(9)	(5)	(28)
<b>OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS</b>		2,147	1,677	3,696
Short-term fluctuations in investment returns	5	(111)	(227)	(30)
Mark to market value movements on core borrowings	9	(74)	(42)	(164)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes		(8)	(25)	(11)
Effect of changes in economic assumptions	6	(111)	(52)	(10)
Costs of terminated AIA transaction	4	–	(377)	(377)
Gain on dilution of holding in PruHealth	13	–	–	3
<b>PROFIT BEFORE TAX (INCLUDING ACTUAL INVESTMENT RETURNS)</b>		1,843	954	3,107
Tax attributable to shareholders' profit	11	(572)	(140)	(530)
<b>PROFIT FOR THE PERIOD*</b>		1,271	814	2,577
Attributable to:				
Equity holders of the Company		1,269	812	2,573
Non-controlling interests		2	2	4
<b>PROFIT FOR THE PERIOD*</b>		1,271	814	2,577

\* All profit is from continuing operations.



**EARNINGS PER SHARE (IN PENCE)**

	Note	2011	2010	
		Half year	Half year	Full year
From operating profit based on longer-term investment returns, after related tax and non-controlling interests of £1,559 million (half year 2010: £1,210 million; full year 2010: £2,700 million*)	12	61.5p	48.0p	106.9p
Based on profit after tax and non-controlling interests† of £1,269 million (half year 2010: £812 million; full year 2010: £2,573 million)	12	50.1p	32.2p	101.9p

\* Operating earnings per share for full year 2010 has been determined after excluding an exceptional tax credit of £158 million which primarily related to the impact of a settlement agreed with the UK tax authorities - see note 11.

† All profit is from continuing operations.

**DIVIDENDS PER SHARE (IN PENCE)**

	2011	2010	
	Half year	Half year	Full year
Dividends relating to reporting period:			
Interim dividend (2011 and 2010)	7.95p	6.61p	6.61p
Final dividend (2010)	–	–	17.24p
Total	7.95p	6.61p	23.85p
Dividends declared and paid in reporting period:			
Current year interim dividend	–	–	6.61p
Final/second interim for prior year	17.24p	13.56p	13.56p
Total	17.24p	13.56p	20.17p

## EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS CONTINUED

### MOVEMENT IN SHAREHOLDERS' EQUITY (EXCLUDING NON-CONTROLLING INTERESTS)

	Note	2011 £m	2010 £m	
		Half year	Half year	Full year
Profit for the period attributable to equity shareholders		1,269	812	2,573
Items taken directly to equity:				
Exchange movements on foreign operations and net investment hedges:				
Exchange movements arising during the period		(96)	806	659
Related tax		(5)	(8)	34
Dividends		(439)	(344)	(511)
New share capital subscribed (including shares issued in lieu of cash dividends)		15	39	75
Reserve movements in respect of share-based payments		25	15	37
Treasury shares:				
Movement in own shares in respect of share-based payment plans		(10)	8	(4)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		2	4	3
Mark to market value movements on Jackson assets backing surplus and required capital (gross movement)		39	103	105
Related tax		(14)	(36)	(37)
Net increase in shareholders' equity	10	786	1,399	2,934
Shareholders' equity at beginning of period (excluding non-controlling interests)	7,10	18,207	15,273	15,273
<b>SHAREHOLDERS' EQUITY AT END OF PERIOD (EXCLUDING NON-CONTROLLING INTERESTS)</b>	<b>7,10</b>	<b>18,993</b>	<b>16,672</b>	<b>18,207</b>

	Note	30 Jun 2011 £m			30 Jun 2010 £m			31 Dec 2010 £m		
		Long-term business operations	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
<b>COMPRISING:</b>										
Asian operations:										
Net assets of operations		7,825	212	8,037	6,736	180	6,916	7,445	197	7,642
Acquired goodwill		239	61	300	235	61	296	236	61	297
	7	8,064	273	8,337	6,971	241	7,212	7,681	258	7,939
US operations:										
Net assets of operations		4,821	108	4,929	4,984	111	5,095	4,799	106	4,905
Acquired goodwill		–	16	16	–	16	16	–	16	16
	7	4,821	124	4,945	4,984	127	5,111	4,799	122	4,921
UK insurance operations:										
Net assets of operations		6,200	48	6,248	5,442	17	5,459	5,970	33	6,003
M&G:										
Net assets of operations		–	310	310	–	190	190	–	254	254
Acquired goodwill		–	1,153	1,153	–	1,153	1,153	–	1,153	1,153
		–	1,463	1,463	–	1,343	1,343	–	1,407	1,407
	7	6,200	1,511	7,711	5,442	1,360	6,802	5,970	1,440	7,410
Other operations:										
Holding company net borrowings at market value	9	–	(2,364)	(2,364)	–	(2,343)	(2,343)	–	(2,212)	(2,212)
Other net assets (liabilities)		–	364	364	–	(110)	(110)	–	149	149
	7	–	(2,000)	(2,000)	–	(2,453)	(2,453)	–	(2,063)	(2,063)
<b>SHAREHOLDERS' EQUITY AT END OF PERIOD (EXCLUDING NON-CONTROLLING INTERESTS)</b>	7	19,085	(92)	18,993	17,397	(725)	16,672	18,450	(243)	18,207
Representing:										
Net assets		18,846	(1,322)	17,524	17,162	(1,955)	15,207	18,214	(1,473)	16,741
Acquired goodwill		239	1,230	1,469	235	1,230	1,465	236	1,230	1,466
		19,085	(92)	18,993	17,397	(725)	16,672	18,450	(243)	18,207

#### NET ASSET VALUE PER SHARE (IN PENCE)

	30 Jun 2011	30 Jun 2010	31 Dec 2010
Based on EEV basis shareholders' equity of £18,993 million (half year 2010: £16,672 million; full year 2010: £18,207 million)	745p	657p	715p
Number of issued shares at period end (millions)	2,548	2,539	2,546
<b>Annualised return on embedded value*</b>	17%	16%	18%

\* Annualised return on embedded value is based on EEV operating profit after related tax and non-controlling interests as a percentage of opening EEV basis shareholders' equity. Half year profits are annualised by multiplying by two.

## EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS CONTINUED

### SUMMARY STATEMENT OF FINANCIAL POSITION

	Note	2011 £m	2010 £m	
		30 Jun	30 Jun	31Dec
<b>TOTAL ASSETS LESS LIABILITIES, BEFORE DEDUCTION FOR INSURANCE FUNDS</b>		239,471	214,771	231,667
Less insurance funds:*				
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds		(230,970)	(207,610)	(223,636)
Less shareholders' accrued interest in the long-term business		10,492	9,511	10,176
		(220,478)	(198,099)	(213,460)
<b>TOTAL NET ASSETS</b>	<b>7,10</b>	<b>18,993</b>	<b>16,672</b>	<b>18,207</b>
Share capital		127	127	127
Share premium		1,871	1,856	1,856
IFRS basis shareholders' reserves		6,503	5,178	6,048
Total IFRS basis shareholders' equity	7	8,501	7,161	8,031
Additional EEV basis retained profit	7	10,492	9,511	10,176
<b>SHAREHOLDERS' EQUITY (EXCLUDING NON-CONTROLLING INTERESTS)</b>	<b>7,10</b>	<b>18,993</b>	<b>16,672</b>	<b>18,207</b>

\* Including liabilities in respect of insurance products classified as investment contracts under IFRS 4.

# NOTES ON THE EEV BASIS RESULTS

## 1 BASIS OF PREPARATION, METHODOLOGY AND ACCOUNTING PRESENTATION

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 for 2011 and 2010 half years are unaudited. The 2010 full year results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2010. The supplement included an unqualified audit report from the auditors.

### a 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 EEV basis results for the Group's covered business are then combined with the IFRS basis results of the Group's other operations.

The definition of long-term business operations is consistent with previous practice and comprises those contracts falling under the definition of long-term insurance business 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. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management.

With two principal exceptions, covered business comprises the Group's long-term business operations. The principal exceptions are for the closed Scottish Amicable Insurance Fund (SAIF) and for the presentational treatment of the financial position of the Group's principal defined benefit pension scheme, the Prudential Staff Pension Scheme (PSPS). A small amount of UK Group pensions business is also not modelled for EEV reporting purposes.

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 PSPS deficit funding liability attaching to the shareholder-backed business is included in the total for Other operations, reflecting the fact that the deficit funding is being paid for by the parent company, Prudential plc. The changes in financial position of the Scottish Amicable and M&G pension schemes are reflected in the EEV results for UK insurance operations and Other operations respectively.

### b Methodology

#### i Embedded value

##### 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:

- 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;
  - the time value of cost of options and guarantees;
- locked-in required capital; and
- 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 1c(iv)) no smoothing of market or account balance values, unrealised gains or investment return is applied in determining the embedded value or profit before tax. Separately, the analysis of profit is delineated between operating profit based on longer-term investment returns and other constituent items, as explained in note 1c(i).

#### Valuation of in-force and new business

The embedded value results are prepared incorporating best estimate assumptions about all relevant factors including levels of future investment returns, expenses, persistency and mortality. 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.

#### 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.

# NOTES ON THE EEV BASIS RESULTS CONTINUED

## 1 BASIS OF PREPARATION, METHODOLOGY AND ACCOUNTING PRESENTATION > CONTINUED

### Principal economic assumptions

For the Group's UK and US operations, the EEV basis results for all periods shown 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 (the 'active' basis).

For Asian operations, the half year 2011 and full year 2010 EEV basis results have been determined on the 'active' basis of assumption setting. For half year 2010 the EEV basis results for Japan, Korea and US dollar denominated business written in Hong Kong were determined on the 'active' basis. For other Asian countries the investment return assumptions and risk discount rates for half year 2010 were based on an assessment of longer-term economic conditions (the 'passive' basis). The altered approach with effect from full year 2010 to determine the EEV basis results for all Asian territories on an active basis of economic assumption setting is in line with the Group's other operations, and reflects the fact that markets in a number of Asian countries are becoming increasingly developed.

The effect of the change in full year 2010 to move to an 'active' basis is as follows:

Effect on:	2010 £m Full year
Pre-tax operating profits from:	
New business <sup>note2</sup>	5
Business in force <sup>note3</sup>	(58)
Total	(53)
Short-term fluctuations in investment returns and changes in economic assumptions	16
Total profit before tax	(37)
Shareholders' funds as at 31 December 2010	(39)

For all periods, for all the Group's operations, expected returns on equity and property asset classes are derived by adding a risk premium, based on the long-term view of Prudential's economists 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.

### New Business

The contribution from new business represents profits determined by applying operating assumptions as at the end of the period.

In determining the new business contribution for UK immediate annuity business, which is interest rate sensitive, it is appropriate to use assumptions reflecting point of sale market conditions, consistent with how the business is priced. For other business within the Group, end of period economic assumptions are used.

### 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 reflects 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 are broadly speaking held for the longer-term.

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

### 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 (net of 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.

### Financial options and guarantees

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

##### *Asian operations*

Subject to local market circumstances and regulatory requirements, the guarantee features described below in respect of UK business broadly apply to similar types of participating contracts principally written in the PAC Hong Kong branch, 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. Such contracts are written in the Korean life operations.

##### *US operations (Jackson)*

The principal 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 (half year and full year 2010: 1.5 per cent to 5.5 per cent), depending on the particular product, jurisdiction where issued, and date of issue. At half year 2011, 85 per cent (half year and full year 2010: 83 per cent) of the account values on fixed annuities relates to policies with guarantees of 3 per cent or less. The average guarantee rate is 2.9 per cent for all periods throughout these results.

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)). Jackson reinsures and hedges these risks using equity options and futures contracts. These guarantees generally protect the policyholder's value in the event of poor equity market performance.

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 would be of a similar nature to those described above for fixed annuities.

##### *UK insurance operations*

The only significant financial options and guarantees in the UK insurance operations arise in the with-profits fund and SAIF.

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 held a provision on the Pillar I Peak 2 basis of £26 million at 30 June 2011 (30 June 2010: £31 million; 31 December 2010: £24 million) to honour guarantees on a small amount of guaranteed annuity option products.

Beyond the generic features and the provisions held in respect of guaranteed annuities described above, there are very few explicit options or guarantees of the with-profits fund such as minimum investment returns, surrender values, or annuity values at retirement and any granted have generally been at very low levels.

The Group's main exposure to guaranteed annuity options in the UK is through SAIF and a provision on the Pillar I Peak 2 basis of £327 million (half year 2010: £321 million; full year 2010: £336 million) was held in SAIF at 30 June 2011 to honour the guarantees. As SAIF is a separate sub-fund of the Prudential Assurance Company long-term fund which is attributable to policyholders of the fund, the movement in the provision has no direct impact on shareholders.

# NOTES ON THE EEV BASIS RESULTS CONTINUED

## 1 BASIS OF PREPARATION, METHODOLOGY AND ACCOUNTING PRESENTATION > CONTINUED

### *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 note 16.

### *ii Level of required capital*

In adopting the EEV Principles, Prudential has based required capital on its internal targets for economic capital subject to it being at least the local statutory minimum requirements. Economic capital is assessed using internal models but, when applying the EEV Principles, Prudential does not take credit for the significant diversification benefits that exist within the Group. 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:

- Asian operations: the level of required capital has been set at the higher of local statutory requirements and the economic capital requirement;
- US operations: the level of required capital has been set to an amount at least equal to 235 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 at the higher of Pillar I and Pillar II requirements for shareholder-backed business of UK insurance operations as a whole, which for half year 2011 and 2010 was Pillar I.

### *iii 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 equal 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. The majority of non-market and non-credit risks are considered to be 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 are calculated each period. They are combined with 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 credit risk is to cover:

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

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

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

### Asian operations

For Asian 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.

### US business

For Jackson business, the allowance for long-term defaults is reflected in the risk margin reserve 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 defaults. 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 Risk Margin Reserve (RMR) long-term default assumptions, and how much is liquidity premium. 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 crediting rates. Consequently, it is only necessary to allow for the balance of the credit risk in the risk discount rate.

After taking these and other more detailed factors into account and, based on market conditions from 2009 to half year 2011, the risk discount rate for general account business includes an additional allowance of 150 basis points for credit risk. For VA business, the additional allowance increase has been set at 20 per cent (equivalent to 30 basis points) of the increase for non-VA business to reflect the fact that a proportion of the VA business is allocated to holdings of general account debt securities. The additional allowance to be applied in future reporting periods will be altered, as necessary, for future credit conditions and as the business in force alters over time.

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 business

#### a 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, 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, credit risk premium and 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 and the remaining element of short-term downgrade and default allowances are incorporated into the risk margin included in the discount rate.

# NOTES ON THE EEV BASIS RESULTS CONTINUED

## 1 BASIS OF PREPARATION, METHODOLOGY AND ACCOUNTING PRESENTATION > CONTINUED

### b With-profit fund PAL annuity business

For UK annuity business written by PAL the basis for determining the aggregate allowance for credit risk is consistent with that applied for UK shareholder-backed annuity business and includes provision for short-term defaults and credit risk premium. The allowance for credit risk in PAL 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.

### c With-profit 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

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 for other than shareholder-backed annuity, no additional allowance is necessary. For UK shareholder-backed annuity business, an additional allowance of 50 basis points is used to reflect the longevity risk which is of particular relevance. For the Group's Asian operations in China, India, Indonesia, Philippines, Taiwan, Thailand and Vietnam, additional allowances are applied for emerging market risk ranging from 100 to 250 basis points.

### iv Management actions

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.

### v 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 those few extreme 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-profit funds of the Group's Asian operations.

### vi Pension costs

The Group operates three defined benefit schemes in the UK. The largest scheme is the Prudential Staff Pension Scheme (PSPS). The other two, smaller schemes are the Scottish Amicable and M&G schemes.

Under IFRS the surpluses or deficits attaching to these schemes are accounted for in accordance with the provisions of IAS 19 that apply the principles of IFRIC 14, providing guidance on assessing the limit in IAS 19 on the amount of surplus in a defined benefit pension scheme that can be recognised as an asset.

Under the EEV basis the IAS 19 basis surpluses (to the extent not restricted under IFRIC 14) or deficits are initially allocated in the same manner. The shareholders' 10 per cent interest in the PAC with-profits fund estate is determined after inclusion of the portion of the IAS 19 basis surpluses or deficits attributable to the fund. Adjustments under EEV in respect of accounting for surpluses or deficits on the Scottish Amicable Pension Scheme are reflected as part of UK operations and for other defined benefit schemes the adjustments are reflected as part of 'Other operations', as shown in note 7.

Separately, the projected cash flows of in-force covered business include the cost of contributions to the defined benefit schemes for future service based on the contribution basis applying to the schemes at the time of the preparation of the results.

**vii Debt capital**

Core structural debt liabilities are carried at market value. As the liabilities are generally held to maturity or for the long term, no deferred tax asset or liability has been established on the difference, compared to the IFRS carrying value. Accordingly, no deferred tax credit or charge is recorded in the results for the reporting period in respect of the mark to market value adjustment.

**viii 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 purpose of translating the profits and losses at average exchange rates, notwithstanding the fact that EEV profit represents the incremental value added on a discounted cash flow basis, is to maintain consistency with the methodology applied for IFRS basis reporting.

**c Accounting presentation****i Analysis of profit before tax**

To the extent applicable, presentation of the EEV profit for the period is consistent with the basis that the Group applies for analysis of IFRS basis profits before shareholder taxes between operating and non-operating results. Operating results reflect the underlying results including longer-term investment returns and, except as explained in note 1c(iv) below, the unwind of discount on the value of in-force business. Operating results include the impact of routine changes of estimates relating to non-economic assumptions.

Non-operating results comprise the recurrent items of short-term fluctuations in investment returns, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, the mark to market value movements on core borrowings and the effect of changes in economic assumptions.

In addition, for half year and full year 2010 the Company incurred costs associated with the terminated AIA transaction and also for full year 2010 the Group's holding in PruHealth was diluted. The effect of both of these items has been shown separately from operating profits based on longer-term investment returns.

**ii 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 1c(iv) 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 reflected in the result for the period. In general, the effect is booked in operating results.

**iii Effect of changes in operating assumptions**

Operating profits include 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.

# NOTES ON THE EEV BASIS RESULTS CONTINUED

## 1 BASIS OF PREPARATION, METHODOLOGY AND ACCOUNTING PRESENTATION > CONTINUED

### *iv 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, required capital and surplus assets at the start of the period as adjusted for the effect of changes in economic and operating assumptions reflected in the current period.

For UK insurance operations the amount included within operating results based on longer-term investment returns represents the unwind of discount on the value of in-force business at the beginning of the period (adjusted for the effect of current period assumption changes), the unwind of discount on additional value representing the shareholders' share of smoothed surplus assets retained within the PAC with-profits fund (as explained in note 1b(v) above), and the expected return on shareholders' assets held in other UK long-term business operations. Surplus assets retained within the PAC with-profits fund are smoothed for this purpose to remove the effects of short-term investment volatility from operating results. In the summary statement of financial position and for total profit reporting, asset values and investment returns are not smoothed.

### *v Pension costs*

#### **Profit before tax**

Movements on the shareholders' share of surpluses (to the extent not restricted by IFRIC 14) and deficits of the Group's defined benefit pension schemes adjusted for contributions paid in the period are recorded within the income statement. Consistent with the basis of distribution of bonuses and the treatment of the estate described in note 1b(iv) and (v), the shareholders' share incorporates 10 per cent of the proportion of the financial position attributable to the PAC with-profits fund. The financial position is determined by applying the requirements of IAS 19.

#### **Actuarial and other gains and losses**

For pension schemes in which the IAS 19 position reflects the difference between the assets and liabilities of the scheme, actuarial and other gains and losses comprise:

- the difference between actual and expected return on the scheme assets;
- experience gains and losses on scheme liabilities;
- the impact of altered economic and other assumptions on the discounted value of scheme liabilities; and
- for pension schemes where the IAS 19 position reflects a deficit funding obligation, actuarial and other gains and losses includes the movement in estimates of deficit funding requirements.

These items are recorded in the income statement but, consistent with the IFRS basis of presentation, are excluded from operating results based on longer-term investment returns.

### *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 option and guarantees, are recorded in non-operating results.

### *vii Taxation*

The profit for the period for covered business is in most cases calculated initially at the post-tax level. The post-tax profit for covered business is then grossed up for presentation purposes at the rates of tax applicable to the countries and periods concerned. In the UK the rate applied for half year 2011 is 26 per cent (half year 2010: 28 per cent; full year 2010: 27 per cent). For Jackson, the US federal tax rate of 35 per cent is applied to gross up movements on the value of in-force business. The overall tax rate includes the impact of tax effects determined on a local regulatory basis. For Asia, similar principles apply subject to the availability of taxable profits. 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 substantively enacted by the end of the reporting period. Possible future changes of rate are not anticipated.

### *viii Inter-company arrangements*

The EEV results for covered business incorporate the effect of the reinsurance arrangement of non-profit immediate pension annuity liabilities of SAIF (which is not covered business) to PRIL. In addition, the analysis of free surplus and value of in-force business takes account of the impact of contingent loan arrangements between Group companies.

**ix Foreign exchange rates**

Foreign currency results have been translated as discussed in note 1b(viii), for which the principal exchange rates are as follows:

Local currency: £	Closing rate at 30 Jun 2011	Average for the 6 months to 30 Jun 2011	Closing rate at 30 Jun 2010	Average for the 6 months to 30 Jun 2010	Closing rate at 31 Dec 2010	Average for 2010
China	10.38	10.57	10.15	10.41	10.32	10.46
Hong Kong	12.49	12.58	11.65	11.85	12.17	12.01
India	71.77	72.74	69.49	69.83	70.01	70.66
Indonesia	13,767.54	14,133.01	13,562.15	14,007.05	14,106.51	14,033.41
Korea	1,714.06	1,780.29	1,828.18	1,760.68	1,776.86	1,786.23
Malaysia	4.85	4.90	4.84	5.04	4.83	4.97
Singapore	1.97	2.03	2.09	2.13	2.01	2.11
Taiwan	46.11	47.00	48.07	48.61	45.65	48.65
Vietnam	33,048.21	33,110.56	28,545.59	28,806.01	30,526.26	29,587.63
US	1.61	1.62	1.50	1.53	1.57	1.55

**2 ANALYSIS OF NEW BUSINESS CONTRIBUTION** note iv

	Period ended 30 Jun 2011						
	New business premiums		Annual premium and contribution equivalents (APE) <small>note i</small>	Present value of new business premiums (PVNBP) <small>note i</small>	Pre-tax new business contribution <small>notes ii,iii</small>	New business margin <small>note i</small>	
	Single £m	Regular £m	£m	£m	£m	(APE) %	(PVNBP) %
Asian operations	744	668	743	3,939	465	63	11.8
US operations	6,615	10	672	6,689	458	68	6.8
UK insurance operations	2,520	157	409	3,264	146	36	4.5
Total	9,879	835	1,824	13,892	1,069	59	7.7

	Period ended 30 Jun 2010						
	New business premiums		Annual premium and contribution equivalents (APE) <small>note i</small>	Present value of new business premiums (PVNBP) <small>note i</small>	Pre-tax new business contribution <small>notes ii,iii</small>	New business margin <small>note i</small>	
	Single £m	Regular £m	£m	£m	£m	(APE) %	(PVNBP) %
Asian operations <small>note v</small>	430	670	713	3,316	396	56	11.9
US operations	5,493	11	560	5,569	361	64	6.5
UK insurance operations	2,438	138	382	3,081	135	35	4.4
Total	8,361	819	1,655	11,966	892	54	7.5

	Year ended 31 Dec 2010						
	New business premiums		Annual premium and contribution equivalents (APE) <small>note i</small>	Present value of new business premiums (PVNBP) <small>note i</small>	Pre-tax new business contribution <small>notes ii,iii</small>	New business margin <small>note i</small>	
	Single £m	Regular £m	£m	£m	£m	(APE) %	(PVNBP) %
Asian operations <small>notes v,vi</small>	1,104	1,391	1,501	7,493	902	60	12.0
US operations	11,417	22	1,164	11,572	761	65	6.6
UK insurance operations <small>note vii</small>	5,656	254	820	6,842	365	45	5.3
Total	18,177	1,667	3,485	25,907	2,028	58	7.8

## NOTES ON THE EEV BASIS RESULTS CONTINUED

### 2 ANALYSIS OF NEW BUSINESS CONTRIBUTION<sup>note iv</sup> > CONTINUED

	New business margin (APE) %		
	2011 Half year	2010 Half year	2010 Full year
Asian operations: <sup>note v</sup>			
China	40	44	47
Hong Kong	72	72	74
India	21	20	20
Indonesia	76	71	75
Korea	41	45	31
Taiwan	26	19	13
Other	73	74	79
Weighted average for all Asian operations	63	56	60

#### Notes

- i New business margins are shown on two bases, namely the margins by reference to Annual Premium Equivalents (APE) and the Present Value of New Business Premiums (PVNBP) and are calculated as the ratio of the value of new business profit to APE and PVNBP. APE are calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts. PVNBP are 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.
- ii In determining the EEV basis value of new business written in the period the 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.
- iii New business contributions represent profits determined by applying operating assumptions as at the end of the period. In general, the use of point of sale or end of period economic assumptions is not significant in determining the new business contribution for different types of business and across financial reporting periods. However, to obtain proper measurement of the new business contribution for business which is interest rate sensitive, it is appropriate to use assumptions reflecting point of sale market conditions, consistent with how the business was priced. In practice, the only area within the Group where this has a material effect is for UK shareholder-backed annuity business. For other business within the Group end of period economic assumptions are used.
- iv The amounts shown in the tables are translated at average exchange rates for the period.
- v The tables for half year and full year 2010 exclude new business sales and contributions for Japanese insurance operations in which the Company ceased selling new business from 15 February 2010.
- vi The new business contribution in full year 2010 of £902 million for Asian operations includes a benefit of around £5 million arising from the application of the 'active' basis of economic assumption setting rather than the previously applied basis of an assessment of longer-term economic conditions, as described in note 1b.
- vii The new business margin for UK operations for full year 2010 of 45 per cent reflects the signing of a bulk annuity buy-in insurance agreement with an APE of £88 million.

### 3 OPERATING PROFIT FROM BUSINESS IN FORCE

#### Group summary

	Period ended 30 Jun 2011 £m			
	Asian operations note i	US operations note ii	UK operations note iii	Total
Unwind of discount and other expected returns	333	203	289	825
Effect of change in operating assumptions	(18)	14	–	(4)
Experience variances and other items	(6)	156	102	252
Total	309	373	391	1,073

	Period ended 30 Jun 2010 £m			
	Asian operations note i	US operations note ii	UK operations note iii	Total
Unwind of discount and other expected returns	300	181	292	773
Effect of change in operating assumptions	(14)	3	–	(11)
Experience variances and other items	(45)	122	22	99
Total	241	306	314	861

	Year ended 31 Dec 2010 £m			Total
	Asian operations note i	US operations note ii	UK operations note iii	
Unwind of discount and other expected returns	573	369	550	1,492
Effect of change in operating assumptions	(23)	3	(3)	(23)
Experience variances and other items	(1)	325	24	348
Total	549	697	571	1,817

## Notes

### Analysis by business unit

#### i Asian operations

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Unwind of discount and other expected returns <sup>a</sup>	333	300	573
Effect of change in operating assumptions:			
Mortality and morbidity <sup>b</sup>	–	(2)	89
Expense <sup>c</sup>	–	10	(62)
Persistency <sup>d</sup>	–	(8)	(75)
Other	(18)	(14)	25
	(18)	(14)	(23)
Experience variance and other items:			
Mortality and morbidity <sup>e</sup>	26	28	45
Expense <sup>f</sup>	(29)	(31)	(39)
Persistency <sup>g</sup>	(10)	(41)	(48)
Other <sup>h</sup>	7	(1)	41
	(6)	(45)	(1)
Total Asian operations <sup>i</sup>	309	241	549

## Notes

- a The increase in unwind of discount and other expected returns from £300 million for half year 2010 to £333 million for half year 2011 mainly arises from the growth in the opening value of the in-force book offset by the effect of moving from the 'passive' basis to an 'active' basis for setting economic assumptions across all of the Asian life operations.
- b The credit of £89 million in full year 2010 for mortality and morbidity assumption changes mainly arises in Indonesia of £72 million comprising £36 million for relaxation of morbidity assumptions and £36 million to reflect recent experience in relation to protection benefits provided by unit-linked policies.
- c The charge of £(62) million in full year 2010 for expense assumption changes includes a charge in Korea of £(40) million, to reflect higher policy maintenance costs and a charge of £(16) million in Malaysia relating to altered maintenance expense assumptions. The credit of £10 million in half year 2010 primarily arises in Vietnam of £9 million.
- d The charge of £(75) million for full year 2010 for the effect of changes in persistency assumptions mainly arises in Indonesia (£(33) million), Malaysia (£(26) million) and India (£(24) million) partly offset by a credit in Hong Kong (£16 million). The charge in Indonesia of £(33) million primarily relates to Shariah and single premium policies for which lower renewal rates have been experienced. The charge in Malaysia of £(26) million reflects altered premium holiday and other lapse assumptions and the charge in India of £(24) million represents changes in the paid-up assumption on linked business. The charge of £(8) million in half year 2010 arises in India for changes in the paid-up assumption on linked business.
- e The favourable effect of £26 million in half year 2011 (full year 2010: £45 million) for mortality and morbidity experience variances reflects better than expected experience, most significantly in Hong Kong, Singapore and Malaysia. Also included for half year 2011 is a positive mortality and morbidity experience variance in Indonesia reflecting better than expected experience. The favourable effect of £28 million for half year 2010 relating to mortality and morbidity experience variances reflects better than expected experience across the territories.
- f The negative expense experience variance of £(29) million in half year 2011 (half year 2010: £(31) million; full year 2010: £(39) million) includes a charge of £(15) million (half year 2010: £(12) million; full year 2010: £(18) million) for expense overruns for operations which are at a relatively early stage of development, for which actual expenses are in excess of those factored into the product pricing. Also included is £(5) million arising in Taiwan reflecting over-runs whilst the business rebuilds scale following the sale of the Agency business (half year 2010: £(5) million; full year 2010: £(9) million). Also included for half year 2010 is a charge of £(9) million in Korea which reflects the lower level of sales in the period.

## NOTES ON THE EEV BASIS RESULTS CONTINUED

### 3 OPERATING PROFIT FROM BUSINESS IN FORCE > CONTINUED

- g The negative persistency experience variance of £(10) million in half year 2011 mainly arises in Malaysia of £(11) million reflecting higher partial withdrawals on unit-linked business. The negative persistency experience variance of £(48) million in full year 2010 mainly arises in India of £(27) million relating to paid-ups and surrenders on unit-linked business and in Malaysia of £(26) million for partial withdrawals on unit-linked business as customers sought to monetise a proportion of their funds following two years of exceptional returns. The negative persistency experience variance of £(41) million in half year 2010 principally arises in India of £(12) million, primarily relating to paid-ups and surrenders on unit-linked business and in Indonesia with an impact of £(11) million, which in part reflects first year lapse experience. Also included in half year 2010 is a charge of £(8) million in Malaysia, reflecting higher partial withdrawal for unit-linked business as a result of the significant rise in the local equity market and a charge of £(6) million in Korea.
- h The credit of £41 million in full year 2010 for other experience and other items includes a credit of £24 million arising in Indonesia for the impact of additional riders being added to in-force policies during the year, funded from the policyholder unit linked account balances.
- i The in-force operating profit for full year 2010 of £549 million reflects the effect of setting economic assumptions on an 'active' basis rather than the previously applied 'passive' basis as described in note 1(b), the impact of which was to lower in-force operating profits in full year 2010 by £58 million, principally for altered unwind of discount. The half year 2010 results are as previously published which were prepared on the passive basis of economic assumption setting.

#### ii US operations

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Unwind of discount and other expected returns <sup>a</sup>	203	181	369
Effect of changes in operating assumptions:			
Mortality <sup>b</sup>	(36)	10	10
Persistency <sup>c</sup>	29	4	4
Variable Annuity (VA) fees <sup>d</sup>	24	27	27
Other <sup>e</sup>	(3)	(38)	(38)
	14	3	3
Experience variances and other items:			
Spread experience variance <sup>f</sup>	81	61	158
Amortisation of interest-related realised gains and losses <sup>g</sup>	43	47	82
Other <sup>h</sup>	32	14	85
	156	122	325
Total US operations	373	306	697

#### Notes

- a The increase in unwind of discount and other expected returns from £181 million for half year 2010 to £203 million for half year 2011 mainly arises from the growth in the in-force book between 1 January 2010 and 1 January 2011.
- b The charge of £(36) million for half year 2011 for updated mortality assumptions primarily arises on variable annuity business to reflect recent experience. The credit of £10 million for half year and full year 2010 represents a credit of £29 million for business other than variable annuity, reflecting recent experience, partially offset by a negative effect on variable annuity business of £(19) million for a change in the modelling of mortality rates.
- c The credit of £29 million for the effect of changes in persistency assumptions in half year 2011 arises on variable annuity business of a credit of £15 million and £14 million on other business. The credit of £15 million for VA business represents a credit of £32 million to reflect a decrease in lapse rates for selected product and policy duration combinations, partially offset by a charge of £(17) million to increase partial withdrawal rates in line with experience. The credit of £14 million for other business reflects updated persistency assumptions for life and fixed annuity business.
- d The effect of the change of assumption for VA fees represents the capitalised value of the change in the projected level of policyholder advisory fees, which vary according to the size and mix of VA funds. The credit of £24 million for half year 2011 (half year and full year 2010: £27 million) reflects an increase in the projected level of fees paid by policyholders, according to the current fund size and mix.
- e The charge of £(38) million for other operating assumption changes in half year and full year 2010 includes the net effect of a number of items including a charge of £(19) million for the altered projection of life reserves run-off.
- f The spread assumption for Jackson is determined on a longer-term basis, net of provision for defaults. The spread experience variance in half year 2011 of £81 million (half year 2010: £61 million; full year 2010: £158 million) includes the positive effect of the transactions undertaken in 2010 to more closely match the overall asset and liability duration.
- g The amortisation of interest-related gains and losses reflects the same treatment applied to the supplementary analysis of IFRS profit. 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.
- h The credit of £32 million in half year 2011 represents a credit of £12 million for favourable persistency experience, mainly arising on annuity business, a credit of £7 million for favourable expense experience and £13 million for other items. The credit of £14 million in half year 2010 for other experience variances and other items primarily relates to favourable expense, mortality and persistency variances. Other experience variances of £85 million for full year 2010 represents positive experience variances for expenses of £32 million, primarily representing favourable experience variance relating to marketing expenses; persistency experience variance of £23 million, mainly arising from favourable experience on annuity and institutional business; positive mortality experience variance of £21 million, primarily relating to life products and £9 million for other items.



## iii UK insurance operations

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Unwind of discount and other expected returns	289	292	550
Effect of change in UK corporate tax rate <sup>a</sup>	46	–	41
Effect of changes in operating assumptions:			
Updated mortality assumptions, net of release of margins <sup>b</sup>	–	–	(40)
Expense <sup>c</sup>	–	–	37
Other items <sup>d</sup>	56	22	(17)
Total UK insurance operations	391	314	571

**Notes**

- a In half year 2011 a change to reduce the UK corporate tax rate to 26 per cent with effect from 1 April 2011 was substantively enacted. This reduction in tax rate supersedes the reduction in corporate tax rate which was enacted in 2010 to reduce the tax rate from 28 per cent to 27 per cent with effect from 1 April 2011. The effect of the change in tax rate of £46 million in half year 2011 represents the pre-tax benefit of the reduction in tax rate from 27 per cent to 26 per cent, arising from the increase in the present value of the post-tax projected cash flows, grossed up for notional tax, attaching to the in-force business. The effect of the change in tax rate of £41 million for full year 2010 represents the pre-tax benefit of the anticipated reduction in the tax rate from 28 per cent to 27 per cent, which was enacted at that date.
- b In full year 2010 the Continuous Mortality Investigation (CMI) model and Core Projection parameters were reviewed and a custom parameterisation of the CMI model was made where some aspects of the pattern of convergence from current rates of improvements to long-term rates of improvement have been altered. The assumption change shown above for full year 2010 of a charge of £(40) million represents the effect of the implementation of the custom parameterisation on the opening value of in-force business at 1 January 2010, offset by the effects of other mortality assumption changes and the release of margins on the base mortality assumptions.
- c The credit of £37 million in full year 2010 for changes in operating expense assumptions relates to renewal expense assumptions on shareholder-backed annuity business.
- d Other items of £56 million for half year 2011 includes £28 million for the effects of annuity portfolio rebalancing. The credit of £22 million for half year 2010 mainly relates to changes in the proportion married assumption used within the valuation of immediate annuity business.

**4 COSTS OF TERMINATED AIA TRANSACTION IN 2010**

The following costs were incurred in the first six months of 2010 in relation to the proposed, and subsequently terminated, transaction to purchase AIA Group Limited and related rights issue.

	2010 £m
AIG termination break fee	153
Underwriting fees	58
Costs associated with foreign exchange hedging	100
Adviser fees and other	66
<b>TOTAL COSTS BEFORE TAX</b>	<b>377</b>
Associated tax relief	(93)
Total costs after tax	284

## NOTES ON THE EEV BASIS RESULTS CONTINUED

### 5 SHORT-TERM FLUCTUATIONS IN INVESTMENT RETURNS

Short-term fluctuations in investment returns, net of the related change in the time value of cost of options and guarantees, arise as follows:

	2011 £m		2010 £m	
	Half year	Half year	Half year	Full year
Insurance operations:				
Asia <sup>note i</sup>	(63)	(21)		287
US <sup>note ii</sup>	(91)	(140)		(678)
UK <sup>note iii</sup>	15	(78)		336
Other operations:				
Other <sup>note iv</sup>	28	12		25
Total	(111)	(227)		(30)

#### Notes

##### i Asian operations

For half year 2011 short-term fluctuations in investment returns of £(63) million primarily reflect the unrealised losses on bonds and equities in Vietnam of £(27) million, and unfavourable equity performance in India (£(26) million) and Singapore (£(20) million), partially offset by an unrealised gain of £26 million on the Group's 8.66 per cent stake in China Life Insurance Company of Taiwan, which at 30 June 2011 was valued at £122 million.

For half year 2010 short-term fluctuations in investment returns of £(21) million primarily reflect the deterioration in equity markets, particularly in Hong Kong of £(31) million and Singapore of £(42) million, partly offset by the impact of positive bond returns, mainly arising in Vietnam of £14 million.

For full year 2010 short-term fluctuations in investment returns of £287 million primarily reflect the favourable performance in equity markets across the territories, primarily arising in Indonesia (£55 million), Hong Kong (£51 million), Taiwan (£40 million), Malaysia (£37 million) and Singapore (£16 million). Also included for full year 2010 is an unrealised gain of £30 million on the Group's 8.66 per cent stake in China Life Insurance Company of Taiwan, which at 31 December 2010 was valued at £100 million.

##### ii US operations

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

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Actual realised losses less default assumption and amortisation of interest-related gains and losses for fixed income securities and related swap transactions <sup>a</sup>	7	(175)	(351)
Investment return related (loss) gain due primarily to changed expectation of profits on in-force variable annuity business in future periods based on current period equity returns, net of related hedging activity for equity, related products <sup>b</sup>	(121)	30	(332)
Actual less long-term return on equity based investments and other items	23	5	5
Total Jackson	(91)	(140)	(678)

#### Notes

a For half year and full year 2010 the charges relating to fixed income securities of £(175) million and £(351) million respectively primarily represent the excess of credit-related losses in the period on the US statutory basis over the amortisation of interest-related gains and longer-term default assumption included within operating profit, together with the impact of de-risking activities within the portfolio.

b This item arises due to the market returns, net of related hedging activity, being higher or lower than the assumed longer-term rate of return. This gives rise to higher or lower than expected period end values of variable annuity assets under management with a resulting effect on the projected value of future account values and hence future profitability from altered fees. The US equity market returns were 5.6 per cent compared to the assumed longer-term rate of 3.3 per cent for the period which was more than offset by the impact of hedging activity. For half year and full year 2010, the US equity market returns were approximately negative 3.3 per cent (full year 2010: positive 14.5 per cent) compared to the assumed longer-term rate of 3.25 per cent (full year 2010: 6.8 per cent), which was more than offset by the impact of hedging activity for both periods.

## iii UK insurance operations

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

	2011 Half year £m	2010 Half year £m	2010 Full year £m
With-profits <sup>a</sup>	9	(76)	218
Shareholder-backed annuity <sup>b</sup>	5	17	84
Unit-linked and other <sup>c</sup>	1	(19)	34
	15	(78)	336

**Notes**

- a For with-profits business the amounts reflect the excess (deficit) of the actual investment return on the investments of the PAC with-profits fund (covering policyholder liabilities and unallocated surplus) against the assumed long-term rate for the period. For half year 2011 the credit of £9 million (half year 2010: a charge of £(76) million; full year 2010: a credit of £218 million) reflects the positive 3.34 per cent actual investment return against the assumed long-term rate for the period of 3.32 per cent (half year 2010: 2.6 per cent against 3.3 per cent; full year 2010: 12.0 per cent against 6.7 per cent).
- b Short-term fluctuations in investment returns for shareholder-backed annuity business include gains (losses) on surplus assets relative to the expected return due to a fall (rise) in yields, the difference between actual and expected default experience and mismatching profits and losses arising from the impacts of changes in yields on assets and liabilities of differing durations. The short-term fluctuations in investment returns for half year 2011 of a credit of £5 million primarily reflects mismatching profits of £6 million. The short-term fluctuations in investment returns for half year 2010 of a credit of £17 million primarily represent gains arising on surplus assets of £47 million, partially offset by mismatching losses of £(28) million. The short-term fluctuations in investment returns for full year 2010 of a credit of £84 million represent better than expected default experience of £64 million, higher than expected gains arising on surplus assets of £55 million, partially offset by mismatching losses of £(21) million, and other impacts of £(14) million.
- c The charge of £(19) million for half year 2010 and a credit of £34 million for full year 2010 primarily relates to unit-linked business representing the (decrease) increase in capitalised value of future fees arising from the (negative) positive movements in market values experienced during the relevant reporting periods.

## iv Other operations

Short-term fluctuations in investment returns of other operations arise from:

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Unrealised value movements on swaps held centrally to manage Group assets and liabilities	20	–	(25)
Unrealised value movements on Prudential Capital bond portfolio	16	12	48
Unrealised value movements on investments held by Other operations	(8)	–	2
	28	12	25

## NOTES ON THE EEV BASIS RESULTS CONTINUED

### 6 EFFECT OF CHANGES IN ECONOMIC ASSUMPTIONS

The effects of changes in economic assumptions for in-force business, net of the related change in the time value of cost of options and guarantees, included within the profit before tax (including actual investment returns) arise as follows:

	2011 £m	2010 £m	
	Half year	Half year	Full year
Asian operations <sup>note i</sup>	(17)	(56)	(71)
US operations <sup>note ii</sup>	(13)	(14)	(1)
UK insurance operations <sup>note iii</sup>	(81)	18	62
Total	(111)	(52)	(10)

#### Notes

- i The charge of £(17) million for the effect of changes in economic assumptions for Asian operations in half year 2011 arises from modest changes in economic factors across the territories in the period. The effect of changes in economic assumptions for Asian operations in half year 2010 of a charge of £(56) million and in full year 2010 of a charge of £(71) million primarily represent the effect of de-risking certain asset portfolios in Hong Kong and Singapore totalling £(96) million and £(73) million respectively, together with the effects of routine adjustments for changes in economic factors. Full year 2010 also includes the effect of altering the basis of setting economic assumptions to the 'active' basis as described in note 1b.
- ii The effect of changes in economic assumptions, net of the related change in the time value of cost of options and guarantees of a charge of £(13) million, for US operations for half year 2011 reflects the following:

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Effect of changes in 10-year treasury rates, beta and equity risk premium: <sup>note</sup>			
Fixed annuity and other general account business	20	127	111
Variable Annuity (VA) business	(33)	(141)	(112)
	(13)	(14)	(1)

#### Note

For Jackson, the charge for the effect of changes in economic assumptions represents the aggregate of the effects of changes to projected returns and the risk discount rate. The risk discount rate, as discussed in note 1b(iii), represents the aggregate of the risk-free rate and margin for market risk, credit risk and non-diversifiable non-market risk.

For fixed annuity and other general account business the effect of changes to the risk-free rate, which is defined as the 10-year treasury rate, is reflected in the risk discount rate. This discount rate is in turn applied to projected cash flows which principally reflect projected spread, which is largely insensitive to changes in the risk-free rate. Secondary effects on the cash flows also result from changes to assumed future yield and resulting policyholder behaviour. For VA business, changes to the risk-free rate are also reflected in determining the risk discount rate. However, the projected cash flows are also reassessed for altered investment returns on the underlying separate account assets from which fees are charged. For half year 2011, the effect of these changes resulted in an overall credit for fixed annuity and other general account business of £20 million (half year 2010: £127 million; full year 2010: £111 million) and a charge of £(33) million (half year 2010: £(141) million; full year 2010: £(112) million) for VA business reflecting the reduction of 0.1 per cent (half year 2010: a reduction of 0.9 per cent; full year 2010: a reduction of 0.6 per cent) in the risk-free rate (as shown in note 16a).

- iii The effect of changes in economic assumptions, net of the related change in the time value of cost of options and guarantees, of a charge of £(81) million for UK insurance operations for half year 2011 comprises the effect of:

	2011 Half year £m			2010 Half year £m			2010 Full year £m		
	Shareholder-backed annuity business note a	With-profits and other business note b	Total	Shareholder-backed annuity business note a	With-profits and other business note b	Total	Shareholder-backed annuity business note a	With-profits and other business note b	Total
Effect of changes in expected long-term rates of return	14	(62)	(48)	(72)	(276)	(348)	(102)	(80)	(182)
Effect of changes in risk discount rates	(11)	(13)	(24)	100	241	341	55	183	238
Other changes	–	(9)	(9)	–	25	25	(6)	12	6
	3	(84)	(81)	28	(10)	18	(53)	115	62

#### Notes

- a For shareholder-backed annuity business the overall effect of changes in expected long-term rates of return and risk discount rates for the periods shown above reflect the combined effects of the assumptions shown in note 16a which incorporates default allowance for both best estimate defaults (which are reflected in the long-term rates of return) and allowance for credit risk premium and additional short-term defaults reflected in the risk discount rate.
- b For with-profits and other business the charge of £(84) million for half year 2011 primarily reflects the impact of decreases in fund earned rates, primarily arising from reductions in the additional returns assumed on corporate bonds as shown in note 16a.

## NOTES ON THE EEV BASIS RESULTS CONTINUED

### 7 SHAREHOLDERS' FUNDS (EXCLUDING NON-CONTROLLING INTERESTS) - SEGMENTAL ANALYSIS

	2011 £m	2010 £m	
	30 Jun	30 Jun	31 Dec
<b>ASIAN OPERATIONS</b>			
Long-term business:			
Net assets of operations – EEV basis shareholders' funds <sup>note iii</sup>	7,825	6,736	7,445
Acquired goodwill	239	235	236
	8,064	6,971	7,681
Asset management: <sup>note i</sup>			
Net assets of operations	212	180	197
Acquired goodwill	61	61	61
	273	241	258
	8,337	7,212	7,939
<b>US OPERATIONS</b>			
Jackson – EEV basis shareholders' funds (net of surplus note borrowings of £172 million (half year 2010: £182 million; full year 2010: £172 million)	4,821	4,984	4,799
Broker-dealer and asset management operations <sup>note i</sup>			
Net assets of operations	108	111	106
Acquired goodwill	16	16	16
	124	127	122
	4,945	5,111	4,921
<b>UK OPERATIONS</b>			
Insurance operations:			
Long-term business operations:			
Smoothed shareholders' funds	6,195	5,549	5,911
Actual shareholders' funds less smoothed shareholders' funds	5	(107)	59
EEV basis shareholders' funds	6,200	5,442	5,970
Other <sup>note i</sup>	48	17	33
	6,248	5,459	6,003
M&G: <sup>note i</sup>			
Net assets of operations	310	190	254
Acquired goodwill	1,153	1,153	1,153
	1,463	1,343	1,407
	7,711	6,802	7,410
<b>OTHER OPERATIONS</b>			
Holding company net borrowings at market value <sup>note 9</sup>	(2,364)	(2,343)	(2,212)
Other net assets (liabilities) <sup>note i</sup>	364	(110)	149
	(2,000)	(2,453)	(2,063)
<b>Total</b>	<b>18,993</b>	<b>16,672</b>	<b>18,207</b>

	30 Jun 2011 £m			30 Jun 2010 £m			31 Dec 2010 £m		
	Statutory IFRS basis shareholders' equity	Additional retained profit on an EEV basis	EEV basis shareholders' equity	Statutory IFRS basis shareholders' equity	Additional retained profit on an EEV basis	EEV basis shareholders' equity	Statutory IFRS basis shareholders' equity	Additional retained profit on an EEV basis	EEV basis shareholders' equity
<b>REPRESENTING:</b>									
Asian operations	2,269	5,795	8,064	1,992	4,979	6,971	2,149	5,532	7,681
US operations	3,764	1,057	4,821	3,905	1,079	4,984	3,815	984	4,799
UK insurance operations	2,294	3,906	6,200	1,920	3,522	5,442	2,115	3,855	5,970
Total long-term business operations	8,327	10,758	19,085	7,817	9,580	17,397	8,079	10,371	18,450
Other operations <sup>note ii</sup>	174	(266)	(92)	(656)	(69)	(725)	(48)	(195)	(243)
Group total	8,501	10,492	18,993	7,161	9,511	16,672	8,031	10,176	18,207

#### Notes

- i These amounts have been determined on the statutory IFRS basis with the exception of the share of the Prudential Staff Pension Scheme (PSPS) deficit attributable to the PAC with-profits fund, which is included in 'Other operations' net assets (liabilities). The overall pension scheme deficit, net of tax, attributable to shareholders relating to PSPS is determined as shown below:

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
IFRS basis deficit (relating to shareholder-backed operations)	(8)	(13)	(10)
Additional EEV deficit (relating to shareholders' 10 per cent share of the IFRS basis deficit attributable to the PAC with-profits fund)	(2)	(4)	(3)
EEV basis	(10)	(17)	(13)

- ii The additional retained profit on an EEV basis for Other operations represents the mark to market value difference on holding company net borrowings of a charge of £(247) million (half year 2010: £(50) million; full year 2010 £(177) million), as shown in note 9, and the effect of accounting for pension costs for the Prudential Staff Pension Scheme.
- iii The EEV basis shareholders' funds for Asian long-term business of £7,825 million for half year 2011 and £7,445 million for full year 2010 have been determined on an active basis of economic assumption setting. The half year 2010 EEV basis shareholders' funds for Asian long-term business of £6,736 million has been determined on a passive basis of economic assumption setting, as described in note 1b. Full year 2010 includes the £(39) million effect of moving from a passive to an active basis of economic assumption setting.

## NOTES ON THE EEV BASIS RESULTS CONTINUED

### 8 ANALYSIS OF MOVEMENT IN FREE SURPLUS

Free surplus is the excess of the net worth over the capital required to support the covered business. Where appropriate, adjustments are made to the regulatory basis net worth from the local regulatory basis so as to include backing assets movements at fair value rather than cost so as to comply with the EEV Principles. Prudential has based required capital on its internal targets for economic capital subject to it being at least the local statutory minimum requirements, as described in note 1b(ii).

	Half year 2011 £m		
	Long-term business note 14	Asset management and UK general insurance commission note ii	Free surplus of long-term business, asset management and UK general insurance commission
<b>LONG-TERM BUSINESS AND ASSET MANAGEMENT OPERATIONS</b> <sup>note i</sup>			
Underlying movement:			
New business	(297)	–	(297)
Business in force:			
Expected in-force cash flows (including expected return on net assets)	1,010	208	1,218
Effects of changes in operating assumptions, operating experience variances and other operating items	139	–	139
RPI to CPI inflation measure change on defined benefit pension schemes	20	13	33
	872	221	1,093
Changes in non-operating items <sup>note iii</sup>	(49)	5	(44)
	823	226	1,049
Net cash flows (to) from parent company <sup>note iv</sup>	(720)	30	(690)
Exchange movements, timing differences and other items <sup>note v</sup>	32	(168)	(136)
<b>NET MOVEMENT IN FREE SURPLUS</b>	135	88	223
Balance at 1 January 2011	2,748	590	3,338
<b>BALANCE AT 30 JUNE 2011</b>	<b>2,883</b>	<b>678</b>	<b>3,561</b>
Representing:			
Asian operations	1,039	212	1,251
US operations	1,141	108	1,249
UK operations	703	358	1,061
	2,883	678	3,561
1 January 2011			
Representing:			
Asian operations	1,045	197	1,242
US operations	1,163	106	1,269
UK operations	540	287	827
	2,748	590	3,338

#### Notes

- i All figures are shown net of tax.
- ii For the purposes of this analysis, free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis shareholders' funds as shown in note 7.
- iii Changes in non-operating items  
This represents short-term fluctuations in investment returns, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes and the effect of changes in economic assumptions for long-term business operations.  
Short-term fluctuations in investment returns primarily reflect temporary market movements on the portfolio of investments held by the Group's shareholder-backed operations.
- iv 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.



v Exchange movements, timing differences and other items represent:	Half year 2011 £m		
	Long-term business	Asset management and UK general insurance commission	Total
Exchange movements <sup>note14</sup>	(34)	–	(34)
Mark to market value movements on Jackson assets backing surplus and required capital <sup>note14</sup>	25	–	25
Other <sup>notevi</sup>	41	(168)	(127)
	32	(168)	(136)

vi Other primarily relates to timing differences, intra-group loans and other non-cash items.

## 9 NET CORE STRUCTURAL BORROWINGS OF SHAREHOLDER-FINANCED OPERATIONS

	30 Jun 2011 £m			30 Jun 2010 £m			31 Dec 2010 £m		
	IFRS basis	Mark to market value adjustment note ii	EEV basis at market value	IFRS basis	Mark to market value adjustment note ii	EEV basis at market value	IFRS basis	Mark to market value adjustment note ii	EEV basis at market value
Holding company* cash and short-term investments	(1,476)	–	(1,476)	(1,023)	–	(1,023)	(1,232)	–	(1,232)
Core structural borrowings – central funds <sup>notei</sup>	3,593	247	3,840	3,316	50	3,366	3,267	177	3,444
Holding company net borrowings	2,117	247	2,364	2,293	50	2,343	2,035	177	2,212
Core structural borrowings – PruCap <sup>noteiii</sup>	250	–	250	–	–	–	250	–	250
Core structural borrowings – Jackson	155	17	172	166	16	182	159	13	172
Net core structural borrowings of shareholder – financial operations	2,522	264	2,786	2,459	66	2,525	2,444	190	2,634

\* Including central finance subsidiaries.

### Notes

i EEV basis holding company borrowings comprise:

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
Perpetual subordinated capital securities (Innovative Tier 1)	1,837	1,470	1,491
Subordinated debt (Lower Tier 2)	1,416	1,323	1,372
Senior debt	587	573	581
	3,840	3,366	3,444

In January 2011, the Company issued US\$550 million perpetual subordinated capital securities.

In accordance with the EEV Principles, core borrowings are carried at market value. As the liabilities are generally held to maturity or for the long-term, no deferred tax asset or liability has been established on the market value adjustment above.

ii The movement in the mark to market value adjustment represents:

	2011 30 Jun £m	2010 30 Jun £m	2010 31 Dec £m
Mark to market movement in balance sheet:			
Beginning of period	190	30	30
Change:			
Income statement	74	42	164
Foreign exchange effects	–	(6)	(4)
End of period	264	66	190

iii The core structural borrowing by PruCap in half year 2011 and full year 2010 of £250 million represents a bank loan taken out in full year 2010 which was made in two tranches: £135 million maturing in June 2014 and £115 million maturing in August 2012.

## NOTES ON THE EEV BASIS RESULTS CONTINUED

### 10 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS (EXCLUDING NON-CONTROLLING INTERESTS)

	Half year 2011 £m					
	Long-term business operations					Group total
	Asian operations	US operations	UK insurance operations	Total long-term business operations	Other operations	
<b>OPERATING PROFIT (BASED ON LONGER-TERM INVESTMENT RETURNS)</b>						
Long-term business:						
New business <sup>note2</sup>	465	458	146	1,069	–	1,069
Business in force <sup>note3</sup>	309	373	391	1,073	–	1,073
	774	831	537	2,142	–	2,142
Asia development expenses	(2)	–	–	(2)	–	(2)
UK general insurance commission	–	–	–	–	21	21
M&G	–	–	–	–	199	199
Asian asset management operations	–	–	–	–	43	43
US broker-dealer and asset management	–	–	–	–	17	17
Other income and expenditure	–	–	–	–	(281)	(281)
RPI to CPI inflation measure change on defined benefit pension schemes	–	–	27	27	18	45
Solvency II implementation costs	–	(2)	(4)	(6)	(22)	(28)
Restructuring costs	–	–	(9)	(9)	–	(9)
<b>OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS</b>	772	829	551	2,152	(5)	2,147
Short-term fluctuations in investment returns <sup>note5</sup>	(63)	(91)	15	(139)	28	(111)
Mark to market value movements on core borrowings <sup>note9</sup>	–	(5)	–	(5)	(69)	(74)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	(3)	(3)	(5)	(8)
Effect of changes in economic assumptions <sup>note6</sup>	(17)	(13)	(81)	(111)	–	(111)
<b>PROFIT (LOSS) BEFORE TAX (INCLUDING ACTUAL INVESTMENT RETURNS)</b>	692	720	482	1,894	(51)	1,843
Tax (charge) credit attributable to shareholders' profit (loss): <sup>note11</sup>						
Tax on operating profit	(160)	(284)	(144)	(588)	2	(586)
Tax on short-term fluctuations in investment returns	(10)	(1)	(4)	(15)	(7)	(22)
Tax on shareholders' share of actuarial and other gains and losses on defined pension schemes	–	–	–	–	1	1
Tax on effect of changes in economic assumptions	9	5	21	35	–	35
Total tax charge	(161)	(280)	(127)	(568)	(4)	(572)
Non-controlling interests	–	–	–	–	(2)	(2)
<b>PROFIT (LOSS) FOR THE PERIOD</b>	531	440	355	1,326	(57)	1,269

	Half year 2011 £m					
	Long-term business operations					Group total
	Asian operations	US operations	UK insurance operations	Total long-term business operations	Other operations	
<b>OTHER MOVEMENTS</b>						
Exchange movements on foreign operations and net investment hedges <sup>note i</sup>	(1)	(118)	–	(119)	23	(96)
Related tax	–	–	–	–	(5)	(5)
Intra-group dividends (including statutory transfers) <sup>note iii</sup>	(157)	(328)	(114)	(599)	599	–
External dividends	–	–	–	–	(439)	(439)
Reserve movements in respect of share-based payments	–	–	–	–	25	25
Investment in operations <sup>note iii</sup>	12	–	2	14	(14)	–
Other transfers <sup>note iv</sup>	(5)	3	(13)	(15)	15	–
Movement in own shares in respect of share-based payment plans	–	–	–	–	(10)	(10)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	–	–	–	–	2	2
New share capital subscribed	–	–	–	–	15	15
Mark to market value movements on Jackson assets backing surplus and required capital (net of related tax of £14 million) <sup>note 14</sup>	–	25	–	25	–	25
<b>NET INCREASE IN SHAREHOLDERS' EQUITY</b>	<b>380</b>	<b>22</b>	<b>230</b>	<b>632</b>	<b>154</b>	<b>786</b>
Shareholders' equity at 1 January 2011 <sup>notes ii and 7</sup>	7,445	4,799	5,970	18,214	(7)	18,207
<b>SHAREHOLDERS' EQUITY AT 30 JUNE 2011<sup>notes ii and 7</sup></b>	<b>7,825</b>	<b>4,821</b>	<b>6,200</b>	<b>18,846</b>	<b>147</b>	<b>18,993</b>

### Notes

- i Profits are translated at average exchange rates, consistent with the method applied for statutory IFRS basis results. The amounts recorded above for exchange rate movements reflect the difference between 30 June 2011 and 31 December 2010 exchange rates as applied to shareholders' funds at 1 January 2011 and the difference between 30 June 2011 and average rates for the six months ended 30 June 2011.
- ii For the purposes of the table above, goodwill related to Asia long-term operations (as shown in note 7) is included in Other operations.
- iii Total intra-group dividends and investment in operations represent:

	Asian operations £m	US operations £m	UK insurance operations £m	Total long-term business operations £m	Other operations £m	Total £m
Intra-group dividends (including statutory transfers) <sup>a</sup>	(157)	(328)	(114)	(599)	599	–
Investment in operations <sup>b</sup>	12	–	2	14	(14)	–
Total <sup>c</sup>	(145)	(328)	(112)	(585)	585	–

- a Intra-group dividends (including statutory transfers) represent dividends that have been declared in the period and amounts accrued in respect of statutory transfers.
- b Investment in operations reflects increases in share capital.
- c For long-term business operations, the difference between the total above of £(585) million for intra-group dividends (including statutory transfers) and investment in operations and the net cash flows to parent company of £(720) million (as shown in note 8) primarily relates to timing differences arising on statutory transfers, intra-group loans and other non-cash items.

## NOTES ON THE EEV BASIS RESULTS CONTINUED

### 10 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS (EXCLUDING NON-CONTROLLING INTERESTS) > CONTINUED

iv Other transfers from long-term business operations to Other operations in half year 2011 represent:

	Asian operations £m	US operations £m	UK insurance operations £m	Total long-term business operations £m
Adjustment for net of tax asset management projected profits of covered business	(7)	(1)	(13)	(21)
Other adjustments	2	4	–	6
	(5)	3	(13)	(15)

### 11 TAX ATTRIBUTABLE TO SHAREHOLDERS' PROFIT

The tax charge comprises:

	2011 £m	2010 £m	
	Half year	Half year	Full year
<b>TAX CHARGE ON OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS:</b>			
Long-term business:			
Asian operations <sup>note i</sup>	160	133	329
US operations	284	227	509
UK insurance operations <sup>note i</sup>	144	123	260
	588	483	1,098
Other operations	(2)	(18)	(106)
Total tax charge on operating profit based on longer-term investment returns, excluding exceptional tax credit	586	465	992
Exceptional tax credit <sup>note ii</sup>	–	–	(158)
<b>TOTAL TAX CHARGE ON OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS, INCLUDING EXCEPTIONAL TAX CREDIT</b>	<b>586</b>	<b>465</b>	<b>834</b>
<b>TAX CREDIT ON ITEMS NOT INCLUDED IN OPERATING PROFIT:</b>			
Tax charge (credit) on short-term fluctuations in investment returns <sup>note iii</sup>	22	(219)	(222)
Tax credit on shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(1)	(6)	(2)
Tax (credit) charge on effect of changes in economic assumptions	(35)	(7)	13
Tax credit on costs of terminated AIA transaction	–	(93)	(93)
Total tax credit on items not included in operating profit	(14)	(325)	(304)
<b>TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES (INCLUDING TAX ON ACTUAL INVESTMENT RETURNS)</b>	<b>572</b>	<b>140</b>	<b>530</b>

#### Notes

- i Including tax relief on Asia development expenses and restructuring costs borne by UK insurance operations.
- ii The tax charge on operating profit based on longer-term investment returns in full year 2010 of £834 million included an exceptional tax credit of £158 million which primarily related to the impact of the settlement agreed with the UK tax authorities.
- iii The tax charge on short-term fluctuations in investment returns for half year 2010 of £(219) million and in full year 2010 of £(222) million includes a credit of £62 million and £52 million respectively for a net present value reduction in US deferred tax liabilities following changes to variable annuity reserving in accordance with revised statutory guidance.

**12 EARNINGS PER SHARE (EPS)**

	2011 £m	2010 £m	
	Half year	Half year	Full year
<b>OPERATING EPS:</b>			
Operating profit before tax	2,147	1,677	3,696
Tax excluding exceptional tax credit	(586)	(465)	(992)
Non-controlling interests	(2)	(2)	(4)
Operating profit after tax and non-controlling interests excluding exceptional tax credit	1,559	1,210	2,700
Exceptional tax credit*	–	–	158
Operating profit after tax and non-controlling interests including exceptional tax credit	1,559	1,210	2,858
Operating EPS (pence) excluding exceptional tax credit	61.5p	48.0p	106.9p
Operating EPS (pence) including exceptional tax credit	61.5p	48.0p	113.2p
<b>TOTAL EPS:</b>			
Profit before tax	1,843	954	3,107
Tax	(572)	(140)	(530)
Non-controlling interests	(2)	(2)	(4)
Total profit after tax and non-controlling interests	1,269	812	2,573
Total EPS (pence) including exceptional tax credit	50.1p	32.2p	101.9p
Average number of shares (millions)	2,533	2,520	2,524

\* The full year 2010 tax charge attributable to shareholders' return includes an exceptional tax credit of £158 million which primarily relates to the impact of the settlement agreed with the UK tax authorities.

The average number of shares reflects the average number in issue adjusted for shares held by employee trusts and consolidated unit trusts and OEICs which are treated as cancelled.

**13 CHANGE TO THE GROUP'S HOLDING IN PRUHEALTH IN 2010**

On 1 August 2010, Discovery Holdings of South Africa, the Group's joint venture partner in its investment in PruHealth completed the acquisition of the entire share capital of Standard Life Healthcare, a wholly-owned subsidiary of the Standard Life Group, for £138 million. Discovery funded the purchase of the Standard Life Healthcare transaction, and contributed Standard Life Healthcare to PruHealth as a capital investment on completion. As a result of the transaction, Discovery increased their shareholding in PruHealth from the previous level of 50 per cent to 75 per cent, and Prudential's shareholding was reduced from 50 per cent of the previous joint venture structure to 25 per cent of the new structure with the much enlarged business.

A gain of £3 million arises upon the dilution, representing the difference between the fair value of the enlarged 25 per cent investment still held and the book value of the original 50 per cent investment holding.

## NOTES ON THE EEV BASIS RESULTS CONTINUED

### 14 RECONCILIATION OF NET WORTH AND VALUE OF IN-FORCE BUSINESS <sup>note i</sup>

	Half year 2011 £m				
	Free Surplus note 8	Required capital	Total net worth	Value of in-force business note vii	Total long-term business
<b>GROUP</b>					
<b>SHAREHOLDERS' EQUITY AT 1 JANUARY 2011</b>	2,748	3,415	6,163	12,051	18,214
New business contribution <sup>notes iv, v, vi</sup>	(297)	212	(85)	841	756
Existing business – transfer to net worth	935	(189)	746	(746)	–
Expected return on existing business	75	43	118	517	635
Changes in operating assumptions and experience variances	139	19	158	(5)	153
RPI to CPI inflation measure change on defined benefit pension schemes	20	–	20	–	20
Changes in non-operating assumptions and experience variances	(49)	(154)	(203)	(35)	(238)
<b>PROFIT AFTER TAX FROM LONG-TERM BUSINESS</b>	823	(69)	754	572	1,326
Exchange movements on foreign operations and net investment hedges	(34)	(39)	(73)	(46)	(119)
Intra-group dividends (including statutory transfers) and investment in operations <sup>note ii</sup>	(664)	–	(664)	79	(585)
Mark to market value movements on Jackson assets backing surplus and required capital	25	–	25	–	25
Other transfers from net worth	(15)	–	(15)	–	(15)
<b>SHAREHOLDERS' EQUITY AT 30 JUNE 2011</b>	2,883	3,307	6,190	12,656	18,846
<b>REPRESENTING:</b>					
<b>ASIAN OPERATIONS</b>					
<b>SHAREHOLDERS' EQUITY AT 1 JANUARY 2011</b>	1,045	790	1,835	5,610	7,445
New business contribution <sup>notes v, vi</sup>	(129)	49	(80)	430	350
Existing business – transfer to net worth	287	11	298	(298)	–
Expected return on existing business	58	(1)	57	232	289
Changes in operating assumptions and experience variances	(29)	22	(7)	(20)	(27)
Changes in non-operating assumptions and experience variances	(5)	(14)	(19)	(62)	(81)
<b>PROFIT AFTER TAX FROM LONG-TERM BUSINESS</b>	182	67	249	282	531
Exchange movements on foreign operations and net investment hedges	(4)	(1)	(5)	4	(1)
Intra-group dividends (including statutory transfers) and investment in operations <sup>note ii</sup>	(179)	–	(179)	34	(145)
Other transfers from net worth	(5)	–	(5)	–	(5)
<b>SHAREHOLDERS' EQUITY AT 30 JUNE 2011</b>	1,039	856	1,895	5,930	7,825

	Half year 2011 £m				
	Free Surplus note 8	Required capital	Total net worth	Value of in-force business note vii	Total long-term business
<b>US OPERATIONS</b>					
<b>SHAREHOLDERS' EQUITY AT 1 JANUARY 2011</b>	1,163	1,505	2,668	2,131	4,799
New business contribution <sup>note v</sup>	(135)	123	(12)	310	298
Existing business – transfer to net worth	385	(163)	222	(222)	–
Expected return on existing business	21	22	43	89	132
Changes in operating assumptions and experience variances	108	–	108	7	115
Changes in non-operating assumptions and experience variances <sup>note iii</sup>	(71)	(130)	(201)	96	(105)
<b>PROFIT AFTER TAX FROM LONG-TERM BUSINESS</b>	308	(148)	160	280	440
Exchange movements on foreign operations and net investment hedges	(30)	(38)	(68)	(50)	(118)
Intra-group dividends (including statutory transfers) and investment in operations	(328)	–	(328)	–	(328)
Mark to market value movements on Jackson assets backing surplus and required capital	25	–	25	–	25
Other transfers to net worth	3	–	3	–	3
<b>SHAREHOLDERS' EQUITY AT 30 JUNE 2011</b>	1,141	1,319	2,460	2,361	4,821
<b>UK INSURANCE OPERATIONS</b>					
<b>SHAREHOLDERS' EQUITY AT 1 JANUARY 2011</b>	540	1,120	1,660	4,310	5,970
New business contribution <sup>note v</sup>	(33)	40	7	101	108
Existing business – transfer to net worth	263	(37)	226	(226)	–
Expected return on existing business	(4)	22	18	196	214
Changes in operating assumptions and experience variances	60	(3)	57	8	65
RPI to CPI inflation measure change on defined benefit pension schemes	20	–	20	–	20
Changes in non-operating assumptions and experience variances	27	(10)	17	(69)	(52)
<b>PROFIT AFTER TAX FROM LONG-TERM BUSINESS</b>	333	12	345	10	355
Intra-group dividends (including statutory transfers) and investment in operations <sup>note ii</sup>	(157)	–	(157)	45	(112)
Other transfers from net worth	(13)	–	(13)	–	(13)
<b>SHAREHOLDERS' EQUITY AT 30 JUNE 2011</b>	703	1,132	1,835	4,365	6,200

#### Notes

- i All figures are shown net of tax.
- ii The amounts shown in respect of free surplus and the value of in-force business for Asian and UK operations for intra-group dividends and investment in operations include the repayment of contingent loan funding. Contingent loan funding represents amounts whose repayment to the lender is contingent upon future surpluses emerging from certain contracts specified under the arrangement. If insufficient surplus emerges on those contracts, there is no recourse to other assets of the Group and the liability is not payable to the degree of shortfall.
- iii Changes in non-operating assumptions and experience variances for US operations includes a release of required capital to free surplus after a reduction in the required asset risk charges arising from improvements to quality of the investment portfolio.

## NOTES ON THE EEV BASIS RESULTS CONTINUED

### 14 RECONCILIATION OF NET WORTH AND VALUE OF IN-FORCE BUSINESS<sup>note i</sup> > CONTINUED

iv The movements arising from new business contribution are as follows:

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Free surplus invested in new business:			
Excluding Japan	(297)	(337)	(643)
Japan	–	(2)	(2)
Total	(297)	(339)	(645)
Required capital	212	223	461
Total net worth	(85)	(116)	(184)
Value of in-force business	841	745	1,616
Total post-tax new business contribution	756	629	1,432

v Free surplus invested in new business is as follows:

	Half year 2011 £m					
	Asian operations (excluding Japan) note vi	US operations	UK insurance operations	Total long-term business operations (excluding Japan) note vi	Japan note vi	Total long-term business operations
Pre-tax new business contribution <sup>note 2</sup>	465	458	146	1,069	–	1,069
Tax	(115)	(160)	(38)	(313)	–	(313)
Post-tax new business contribution	350	298	108	756	–	756
Free surplus invested in new business	(129)	(135)	(33)	(297)	–	(297)
Post-tax new business contribution per £1 million free surplus invested	2.7	2.2	3.3	2.5	–	2.5
	Half year 2010 £m					
	Asian operations (excluding Japan) note vi	US operations	UK insurance operations	Total long-term business operations (excluding Japan) note vi	Japan note vi	Total long-term business operations note vi
Pre-tax new business contribution <sup>note 2</sup>	396	361	135	892	(1)	891
Tax	(98)	(126)	(38)	(262)	–	(262)
Post-tax new business contribution	298	235	97	630	(1)	629
Free surplus invested in new business	(123)	(179)	(35)	(337)	(2)	(339)
Post-tax new business contribution per £1 million free surplus invested	2.4	1.3	2.8	1.9	(0.5)	1.9
	Full year 2010 £m					
	Asian operations (excluding Japan) note vi	US operations	UK insurance operations	Total long-term business operations (excluding Japan) note vi	Japan note vi	Total long-term business operations note vi
Pre-tax new business contribution <sup>note 2</sup>	902	761	365	2,028	(1)	2,027
Tax	(230)	(266)	(99)	(595)	–	(595)
Post-tax new business contribution	672	495	266	1,433	(1)	1,432
Free surplus invested in new business	(278)	(300)	(65)	(643)	(2)	(645)
Post-tax new business contribution per £1 million free surplus invested	2.4	1.7	4.1	2.2	(0.5)	2.2



- vi New business contribution and free surplus invested in new business for the Group's Japanese insurance subsidiary, which ceased selling new business with effect from 15 February 2010, have been presented separately from those of the remainder of the Group.
- vii The value of in-force business includes the value of future margins from current in-force business less the cost of holding required capital and represents:

	Half year 2011 £m			
	Asian operations	US operations	UK insurance operations	Group
Value of in-force business before deduction of cost of capital and guarantees	6,285	2,851	4,681	13,817
Cost of capital	(340)	(181)	(238)	(759)
Cost of time value of guarantees	(15)	(309)	(78)	(402)
Net value of in-force business	5,930	2,361	4,365	12,656

	Half year 2010 £m			
	Asian operations	US operations	UK insurance operations	Group
Value of in-force business before deduction of cost of capital and guarantees	5,340	2,787	4,102	12,229
Cost of capital	(273)	(159)	(229)	(661)
Cost of time value of guarantees	(14)	(330)	(48)	(392)
Net value of in-force business	5,053	2,298	3,825	11,176

	Full year 2010 £m			
	Asian operations	US operations	UK insurance operations	Group
Value of in-force business before deduction of cost of capital and guarantees	5,941	2,584	4,635	13,160
Cost of capital	(321)	(183)	(236)	(740)
Cost of time value of guarantees	(10)	(270)	(89)	(369)
Net value of in-force business	5,610	2,131	4,310	12,051

## NOTES ON THE EEV BASIS RESULTS CONTINUED

### 15 SENSITIVITY OF RESULTS TO ALTERNATIVE ASSUMPTIONS

#### Sensitivity analysis - economic assumptions

The tables below show the sensitivity of the embedded value as at 30 June 2011 (31 December 2010) and the new business contribution after the effect of required capital for half year 2011 and full year 2010 to:

- one per cent increase in the discount rates;
- one 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);
- one per cent rise in equity and property yields;
- 10 per cent fall in market value of equity and property assets (embedded value only);
- holding company statutory minimum capital (by contrast to required capital), (embedded value only);
- five basis point increase in long-term expected defaults; and
- 10 basis point increase in the liquidity premium for UK shareholder-backed annuities.

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

#### New business profit per operating profit summary

	Half year 2011 £m			
	Asian operations	US operations	UK insurance operations	Total long-term business operations
Half year 2011	465	458	146	1,069
Discount rates – 1% increase	(56)	(31)	(21)	(108)
Interest rates – 1% increase	(8)	30	(1)	21
Interest rates – 1% decrease	(1)	(26)	2	(25)
Equity/property yields – 1% rise	19	44	5	68
Long-term expected defaults – 5 bps increase	–	–	(5)	(5)
Liquidity premium – 10 bps increase	–	–	10	10
	Full year 2010 £m			
	Asian operations	US operations	UK insurance operations	Total long-term business operations
Full year 2010	901	761	365	2,027
Discount rates – 1% increase	(111)	(51)	(53)	(215)
Interest rates – 1% increase	(7)	34	(8)	19
Interest rates – 1% decrease	(20)	(40)	8	(52)
Equity/property yields – 1% rise	41	63	12	116
Long-term expected defaults – 5 bps increase	–	–	(13)	(13)
Liquidity premium – 10 bps increase	–	–	26	26

**Embedded value of long-term operations**

	Half year 2011 £m			
	Asian operations	US operations	UK insurance operations	Total long-term business operations
<b>30 JUNE 2011</b> <sup>note 10</sup>	7,825	4,821	6,200	18,846
Discount rates – 1% increase	(663)	(172)	(445)	(1,280)
Interest rates – 1% increase	(299)	(134)	(305)	(738)
Interest rates – 1% decrease	251	66	381	698
Equity/property yields – 1% rise	298	144	229	671
Equity/property market values – 10% fall	(156)	(46)	(316)	(518)
Statutory minimum capital	110	124	4	238
Long-term expected defaults – 5 bps increase	–	–	(90)	(90)
Liquidity premium – 10 bps increase	–	–	180	180
	Full year 2010 £m			
	Asian operations	US operations	UK insurance operations	Total long-term business operations
<b>31 DECEMBER 2010</b> <sup>note 10</sup>	7,445	4,799	5,970	18,214
Discount rates – 1% increase	(643)	(164)	(437)	(1,244)
Interest rates – 1% increase	(220)	(148)	(254)	(622)
Interest rates – 1% decrease	176	103	336	615
Equity/property yields – 1% rise	308	120	227	655
Equity/property market values – 10% fall	(174)	(5)	(339)	(518)
Statutory minimum capital	104	127	5	236
Long-term expected defaults – 5 bps increase	–	–	(87)	(87)
Liquidity premium – 10 bps increase	–	–	174	174

**Effect of proposed changes in UK corporation tax rate**

The half year 2011 results include the effect of the change in the UK corporate tax rate that has been substantively enacted to revise the rate to 26 per cent from 1 April 2011. The effect of the subsequent reduction in the UK corporate tax rate to reduce the rate to 25 per cent effective from 1 April 2012, which was substantively enacted on 5 July 2011, would be to increase the net of tax value of the in-force business of UK insurance operations at 30 June 2011 by around £31 million. The impact of further reductions in the UK corporate tax rate of one per cent per annum to 23 per cent in 2014 would be an increase in the net of tax value of in-force business of UK insurance operations of around £56 million.

## NOTES ON THE EEV BASIS RESULTS CONTINUED

### 16 ASSUMPTIONS

#### a Principal economic assumptions

##### *Deterministic assumptions*

The tables below summarise the principal financial assumptions:

Assumed investment returns reflect the expected future returns on the assets held and allocated to the covered business at the valuation date.

Equity risk premiums in Asia range from 3.25 per cent to 8.7 per cent (half year 2010: 3.25 per cent to 8.6 per cent; full year 2010: 3.25 per cent to 8.7 per cent). In the US and the UK, the equity risk premium is 4.0 per cent for all periods throughout these results.

#### ASIAN OPERATIONS<sup>notes i, iii</sup>

	30 Jun 2011 %											
	China	Hong Kong notes iii,v	India	Indonesia	Japan	Korea	Malaysia notes iv,v	Philippines	Singapore note v	Taiwan	Thailand	Vietnam
Risk discount rate:												
New business	10.4	5.0	13.5	12.9	–	7.8	7.1	13.6	4.8	5.3	10.7	19.7
In force	10.4	4.9	13.5	12.9	4.9	7.8	7.2	13.6	5.7	5.25	10.7	19.7
Expected long-term rate of inflation	2.5	2.25	4.0	5.0	–	3.0	2.5	4.0	2.0	1.0	3.0	6.5
Government bond yield	3.9	3.2	8.5	7.7	1.1	4.3	4.0	6.9	2.3	1.6	3.9	12.9
	30 Jun 2010 %											
	China	Hong Kong notes iii,v	India	Indonesia	Japan	Korea	Malaysia notes iv,v	Philippines	Singapore note v	Taiwan	Thailand	Vietnam
Risk discount rate:												
New business	10.5	4.6	12.5	13.7	–	7.8	8.8	15.75	6.3	7.7	13.75	15.75
In force	10.5	4.6	12.5	13.7	5.1	7.2	8.9	15.75	7.3	7.8	13.75	15.75
Expected long-term rate of inflation	3.5	2.25	4.0	5.0	–	3.0	2.5	5.0	2.0	2.0	3.0	5.0
Government bond yield	7.0	3.0	7.5	9.0	1.7	5.0	5.75	9.0	4.75	5.5	7.0	9.0
	31 Dec 2010 %											
	China	Hong Kong notes iii,v	India	Indonesia	Japan	Korea	Malaysia notes iv,v	Philippines	Singapore note v	Taiwan	Thailand	Vietnam
Risk discount rate:												
New business	10.45	5.1	13.1	13.0	4.9	7.9	7.0	13.2	5.4	5.0	10.5	18.85
In force	10.45	5.1	13.1	13.0	4.9	8.1	7.1	13.2	6.1	5.2	10.5	18.85
Expected long-term rate of inflation	2.5	2.25	4.0	5.0	–	3.0	2.5	4.0	2.0	1.0	3.0	5.5
Government bond yield	3.95	3.3	8.1	7.75	1.1	4.6	4.0	6.4	2.7	1.6	3.8	12.1

	Asia total %		
	30 Jun 2011	30 Jun 2010	31 Dec 2010
Weighted risk discount rate: <sup>note ii</sup>			
New business (excluding Japan)	8.2	9.1	8.4
In force	7.9	8.6	8.1

#### Notes

- i In preparing the EEV basis results for half year 2011 and full year 2010 the 'active' basis of economic assumption setting has been applied for all Asian operations. For half year 2010 the 'active' basis was applied in preparing the EEV results for Japan, Korea and US dollar denominated business written in Hong Kong.
- ii The weighted risk discount rates for Asian operations shown above have been determined by weighting each country's risk discount rates by reference to the EEV basis new business result and the closing value of in-force business.
- iii For Hong Kong the assumptions shown are for US dollar denominated business which comprises the largest proportion of the in-force business. For other territories, the assumptions are for local currency denominated business which reflects the largest proportion of the in-force business.
- iv The risk discount rate for Malaysia reflects both the Malaysia life and Takaful operations.
- v The mean equity return assumptions for the most significant equity holdings in the Asian operations were:

	2011 30 Jun %	2010 30 Jun %	2010 31 Dec %
Hong Kong	7.2	7.0	7.3
Malaysia	10.0	11.7	10.0
Singapore	8.35	10.7	8.7

To obtain the mean, an average over all simulations of the accumulated return at the end of the projection period is calculated. The annual average return is then calculated by taking the root of the average accumulated return minus 1.

## NOTES ON THE EEV BASIS RESULTS CONTINUED

### 16 ASSUMPTIONS > CONTINUED

#### US OPERATIONS

	2011 %	2010 %	
	30 Jun	30 Jun	31 Dec
Assumed new business spread margins: <sup>note iii</sup>			
Fixed Annuity business <sup>*note i</sup>	1.9	2.0	2.0
Fixed Index Annuity business	2.5	2.5	2.5
Risk discount rate:			
Variable annuity	7.8	7.5	7.8
Non-variable annuity	5.5	5.3	5.6
Weighted average total: <sup>note ii</sup>			
New business	7.7	7.2	7.6
In force	7.0	6.4	6.9
US 10-year treasury bond rate at end of period	3.2	3.0	3.3
Pre-tax expected long-term nominal rate of return for US equities	7.2	7.0	7.3
Expected long-term rate of inflation	2.5	1.8	2.3

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

#### Notes

- i For new business issuances in half year 2011, the assumed spread margin for fixed annuities and for the proportion of variable annuity business invested in the general account of 1.9 per cent (half year 2010 and full year 2010: 2.0 per cent) applies from inception for all durations. For half year 2011 the assumed spread reflects the combined effects of net annualised yields on new assets of 4.55 per cent and crediting rates.
- ii The weighted average risk discount rates reflect the mix of business between variable annuity and non-variable annuity business. The increase in the weighted average risk discount rates from full year 2010 to half year 2011 primarily reflects a change in the product mix with the half year 2011 results seeing an increase in the proportion of new and in-force business arising from Variable Annuity business. In the event that US 10-year treasury rates increase, the altered embedded value results would reflect a lower contribution from fixed annuity business and a partially offsetting increase for variable annuity business as the projected earned rate, as well as the discount rate, would increase for this type of business.
- iii Credit risk treatment  
The projected cash flows incorporate the expected long-term spread between the earned rate and the rate credited to policyholders. The projected earned rates reflect book value yields which are adjusted over time to reflect projected reinvestment rates. Positive net cash flows are assumed to be reinvested in a mix of corporate bonds, commercial mortgages and limited partnerships. The yield on those assets is assumed to grade from the current level to a yield that allows for a long-term assumed credit spread on the reinvested assets of 1.25 per cent over 10 years. The expected new business spread margins are determined after allowing for a Risk Margin Reserve (RMR) allowance for half year 2011 of 25 bps (half year 2010: 25 bps; full year 2010: 26 bps) for longer-term defaults as described in note 1b(iii). The RMR of 25 bps represents the allowance, as at the valuation applied in the cash flow projections of the value of the in-force business.  
In the event that longer-term default levels are higher, then unlike for UK annuity business where policyholder benefits are not changeable, Jackson has some discretion to adjust crediting rates, subject to contract guarantee levels and general market competition considerations.  
For US operations, the risk discount rates shown above include an additional allowance for a combination of credit risk premium and short-term downgrade and default allowance for general account business of 150 basis points and for variable annuity business of 30 basis points to reflect the fact that a proportion of the variable annuity business is allocated to the general account (as described in note 1b(iii)).

UK INSURANCE OPERATIONS<sup>note iv</sup>

	2011 %	2010 %	
	30 Jun	30 Jun	31 Dec
<b>SHAREHOLDER-BACKED ANNUITY BUSINESS:</b>			
Risk discount rate: <sup>notes i, iv</sup>			
New business	7.35	7.3	7.3
In force	9.9	9.6	9.9
Pre-tax expected long-term nominal rate of return for shareholder-backed annuity business: <sup>note iii</sup>			
Fixed annuities:			
New business	5.2	5.0	4.9
In-force	5.1	5.1	5.1
Inflation-linked annuities:			
New business	5.0	5.1	5.1
In-force	5.4	5.5	5.2
<b>OTHER BUSINESS:</b>			
Risk discount rate: <sup>notes ii, iv</sup>			
New business	7.0	6.6	6.9
In force	7.1	6.8	7.0
Pre-tax expected long-term nominal rates of investment return:			
UK equities	8.0	8.0	8.0
Overseas equities	7.2 to 10.1	7.0 to 10.1	7.3 to 10.2
Property	6.8	6.2	6.7
Gilts	4.0	4.0	4.0
Corporate bonds <sup>note iv</sup>	5.6	5.6	5.7
Expected long-term rate of inflation	3.7	3.5	3.55
Post-tax expected long-term nominal rate of return for the PAC with-profits fund:			
Pension business (where no tax applies)	6.6	6.5	6.7
Life business	5.8	5.7	5.9

**Notes**

- i The risk discount rate applied to shareholder-backed annuity business has been determined after allowing for credit risk as detailed in note iv below.
- ii The risk discount rates for new business and business in force for UK insurance operations other than shareholder-backed annuities reflect weighted rates based on the type of business.
- iii The pre-tax rates of return for shareholder-backed annuity business are based on the gross redemption yield on the backing assets net of a best estimate allowance for future defaults.
- iv Credit spread treatment  
For with-profits business, the embedded value reflects the discounted value of future shareholder transfers. These transfers are directly affected by the level of projected rates of return on investments, including debt securities. 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.  
For UK shareholder-backed annuity business, different dynamics apply both in terms of the nature of the business and the EEV methodology applied. For this type of business the assets are generally held to maturity to match long duration liabilities. It is therefore appropriate under EEV methodology to include a liquidity premium in the economic basis used. The appropriate EEV risk discount rate is set in order to equate the EEV with a 'market consistent embedded value' including liquidity premium. The liquidity premium in the 'market consistent embedded value' is derived from the yield on the assets held after deducting an appropriate allowance for credit risk. The risk discount rate in EEV reflects the excess of the total allowance for credit risk over the best estimate default assumptions. For Prudential Retirement Income Limited (PRIL), which has approximately 90 per cent of UK shareholder-backed annuity business, the allowance for credit risk for the in-force business at 30 June 2011 is made up of:
- 16 basis points for fixed annuities and 15 basis points for inflation-linked annuities in respect of long-term expected defaults. This is derived by applying Moody's data from 1970 to 2009 uplifted by between 100 per cent (B) and 200 per cent (AAA) according to credit rating, to the asset portfolios.
  - 11 basis points for fixed annuities and 10 basis points for inflation-linked annuities in respect of long-term credit risk premium for the potential volatility in default levels. This is derived by applying the 95th worst percentile from Moody's data from 1970 to 2009, to the asset portfolios.
  - 42 basis points for fixed annuities and 39 basis points for inflation-linked annuities in respect of additional short-term credit risk, reflecting short-term credit rating downgrades and defaults in excess of the long-term assumptions. This element of the overall credit assumption has not been derived by reference to credit spreads: rather it reflects events in the period, namely the impact of credit migration, the decision not to release favourable default experience, asset trading and the addition of higher credit quality new business assets (compared to the in-force portfolio).

## NOTES ON THE EEV BASIS RESULTS CONTINUED

### 16 ASSUMPTIONS > CONTINUED

The credit assumptions used and the residual liquidity premium element of the bond spread over swap rates is as follows:

	2011 30 Jun bps	2010 30 Jun bps	2010 31 Dec bps
<b>NEW BUSINESS<sup>note 1</sup></b>			
Bond spread over swap rates	130	110	117
Total credit risk allowance <sup>note 2</sup>	36	37	38
Liquidity premium	94	73	79
<b>IN-FORCE BUSINESS</b>			
Bond spread over swap rates	151	173	160
Credit risk allowance:			
Long-term expected defaults	16	17	16
Long-term credit risk premium	10	11	10
Short-term allowance for credit risk	41	39	42
Total credit risk allowance <sup>note 2</sup>	67	67	68
Liquidity premium	84	106	92

#### Notes

- The new business liquidity premium is based on the weighted average of the point of sale liquidity premium.
- Specific assets are allocated to the new business for the period with the appropriate allowance for credit risk which was 36 basis points (half year 2010: 37 bps; full year 2010: 38 bps). The reduced allowance for new business in comparison to that for the in-force book reflects the assets held and other factors that influence the necessary level of provision.  
The overall allowance for credit risk is prudent by comparison with historic rates of default and would be sufficient to withstand a wide range of extreme credit events over the expected lifetime of the annuity business.

#### Stochastic assumptions

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations described above. Assumptions specific to the stochastic calculations, such as the volatilities of asset returns, reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of longer-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 allowance for correlation between the various asset classes.

Details are given below of the key characteristics and calibrations of each model.

#### Asian operations

- The same asset return models as used in the UK, appropriately calibrated, have been used for the Asian operations as described for UK insurance operations below. The principal asset classes are government and corporate bonds. Equity holdings are much lower than in the UK whilst property holdings do not represent a significant investment asset;
- The stochastic cost of guarantees is primarily only of significance for the Hong Kong, Korea, Malaysia and Singapore operations; and
- The mean stochastic returns are consistent with the mean deterministic returns for each country. The expected volatility of equity returns for all periods ranges from 18 per cent to 35 per cent, and the volatility of government bond yields ranges for half year 2011 from 0.9 per cent to 2.4 per cent (half year 2010: 1.3 per cent to 2.4 per cent; full year 2010: 0.9 per cent to 2.4 per cent).

#### US operations (Jackson)

- Interest rates are projected using a log-normal generator calibrated to the market yield curve at the valuation date;
- Corporate bond returns are based on Treasury securities plus a spread that has been calibrated to current market conditions and varies by credit quality; and
- Variable annuity equity returns and bond interest rates have been stochastically generated using a log-normal model with parameters determined by reference to historical data. The volatility of equity fund returns for half year 2011 ranges from 19.0 per cent to 32.3 per cent, (half year 2010: 18.6 per cent to 28.1 per cent; full year 2010: 19.0 per cent to 32.1 per cent) depending on the risk class and the class of equity, and the standard deviation of interest rates ranges from 2.0 per cent to 2.4 per cent (half year 2010: 1.4 per cent to 1.6 per cent; full year 2010: 2.0 per cent to 2.4 per cent).



#### UK insurance operations

- Interest rates are projected using a two-factor model calibrated to the initial market yield curve;
- The risk premium on equity assets is assumed to follow a log-normal distribution;
- The corporate bond return is calculated as the return on a zero-coupon bond plus a spread. The spread process is a mean reverting stochastic process; and
- Property returns are modelled in a similar fashion to corporate bonds, namely as the return on a riskless bond, plus a risk premium, plus a process representative of the change in residual values and the change in value of the call option on rents.

Mean returns have been derived as the annualised arithmetic average return across all simulations and durations.

For each projection year, standard deviations have been calculated by taking the square root of the annualised variance of the returns over all the simulations. These have been averaged over all durations in the projection. For equity and property, the standard deviations relate to the total return on these assets. The standard deviations applied for all periods are as follows:

	%
Equities:	
UK	18.0
Overseas	18.0
Property	15.0

#### b 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.

#### c 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. It is Prudential's policy not to take credit for future cost reduction programmes until the savings have been delivered.

For Asian life 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.

Expenditure of the Regional Head Office that is not allocated to the covered business or asset management operations is charged as incurred. These costs are primarily for corporate related activities. Development expenses are also charged as incurred.

Corporate expenditure for Group Head Office, to the extent not allocated to the PAC with-profits funds, together with Solvency II implementation and restructuring costs, are charged to EEV basis results as incurred.

#### d Taxation and other legislation

Current taxation and other legislation have been assumed to continue unaltered except where changes have been announced and substantively enacted in the period.



# TOTAL INSURANCE AND INVESTMENT PRODUCTS NEW BUSINESS

## TOTAL INSURANCE AND INVESTMENT PRODUCTS NEW BUSINESS <sup>notes i,iv</sup>

	Single			Regular			Annual premium and contribution equivalents (APE)			Present value of new business premiums (PVNBP)		
	2011 £m Half year	2010 £m Half year	2010 £m Full year	2011 £m Half year	2010 £m Half year	2010 £m Full year	2011 £m Half year	2010 £m Half year	2010 £m Full year	2011 £m Half year	2010 £m Half year	2010 £m Full year
<b>GROUP INSURANCE OPERATIONS</b>												
Asia – ex India <sup>note iii</sup>	636	398	1,019	632	554	1,211	696	594	1,313	3,690	2,987	6,911
India	108	32	85	36	116	180	47	119	188	249	329	582
Asia	744	430	1,104	668	670	1,391	743	713	1,501	3,939	3,316	7,493
US	6,615	5,493	11,417	10	11	22	672	560	1,164	6,689	5,569	11,572
UK	2,520	2,438	5,656	157	138	254	409	382	820	3,264	3,081	6,842
<b>GROUP TOTAL</b>	<b>9,879</b>	<b>8,361</b>	<b>18,177</b>	<b>835</b>	<b>819</b>	<b>1,667</b>	<b>1,824</b>	<b>1,655</b>	<b>3,485</b>	<b>13,892</b>	<b>11,966</b>	<b>25,907</b>
<b>GROUP TOTAL - EX INDIA<sup>note iii</sup></b>	<b>9,771</b>	<b>8,329</b>	<b>18,092</b>	<b>799</b>	<b>703</b>	<b>1,487</b>	<b>1,777</b>	<b>1,536</b>	<b>3,297</b>	<b>13,643</b>	<b>11,637</b>	<b>25,325</b>
<b>ASIAN INSURANCE OPERATIONS</b>												
Hong Kong	76	31	107	143	127	276	151	130	287	883	746	1,693
Indonesia	85	39	141	150	125	269	158	129	283	573	464	1,011
Malaysia	42	20	58	87	75	198	91	77	204	526	406	1,153
Philippines	49	23	64	9	8	17	14	10	23	73	42	108
Singapore	173	147	318	86	60	143	103	75	175	778	573	1,357
Thailand	5	8	15	10	12	25	11	13	26	42	45	100
Vietnam	–	–	1	19	18	41	19	18	41	65	65	148
<b>SE Asian operations inc. Hong Kong</b>	<b>430</b>	<b>268</b>	<b>704</b>	<b>504</b>	<b>425</b>	<b>969</b>	<b>547</b>	<b>452</b>	<b>1,039</b>	<b>2,940</b>	<b>2,341</b>	<b>5,570</b>
China (Group's 50% interest)	35	60	103	31	21	48	35	27	58	173	161	336
Korea	44	24	66	51	43	89	55	45	96	292	226	486
Taiwan	127	46	146	46	65	105	59	70	120	285	259	519
<b>TOTAL ASIAN OPERATIONS - EX INDIA</b>	<b>636</b>	<b>398</b>	<b>1,019</b>	<b>632</b>	<b>554</b>	<b>1,211</b>	<b>696</b>	<b>594</b>	<b>1,313</b>	<b>3,690</b>	<b>2,987</b>	<b>6,911</b>
India	108	32	85	36	116	180	47	119	188	249	329	582
<b>TOTAL ASIAN OPERATIONS</b>	<b>744</b>	<b>430</b>	<b>1,104</b>	<b>668</b>	<b>670</b>	<b>1,391</b>	<b>743</b>	<b>713</b>	<b>1,501</b>	<b>3,939</b>	<b>3,316</b>	<b>7,493</b>
<b>US INSURANCE OPERATIONS</b>												
Fixed annuities	229	416	836	–	–	–	23	42	84	229	416	836
Fixed index annuities	415	600	1,089	–	–	–	42	60	109	415	600	1,089
Life	6	5	11	10	11	22	11	11	23	80	81	166
Variable annuities	5,892	4,472	9,481	–	–	–	589	447	948	5,892	4,472	9,481
Wholesale	73	–	–	–	–	–	7	–	–	73	–	–
<b>TOTAL US INSURANCE OPERATIONS</b>	<b>6,615</b>	<b>5,493</b>	<b>11,417</b>	<b>10</b>	<b>11</b>	<b>22</b>	<b>672</b>	<b>560</b>	<b>1,164</b>	<b>6,689</b>	<b>5,569</b>	<b>11,572</b>

# TOTAL INSURANCE AND INVESTMENT PRODUCTS NEW BUSINESS CONTINUED

## TOTAL INSURANCE AND INVESTMENT PRODUCTS NEW BUSINESS <sup>notes i, iv</sup> > CONTINUED

	Single			Regular			Annual premium and contribution equivalents (APE)			Present value of new business premiums (PVNBP)		
	2011 £m Half year	2010 £m Half year	2010 £m Full year	2011 £m Half year	2010 £m Half year	2010 £m Full year	2011 £m Half year	2010 £m Half year	2010 £m Full year	2011 £m Half year	2010 £m Half year	2010 £m Full year
<b>UK AND EUROPE INSURANCE OPERATIONS</b>												
Direct and partnership annuities	184	362	593	–	–	–	18	36	59	184	362	593
Intermediated annuities	117	119	221	–	–	–	12	12	22	117	119	221
Internal vesting annuities	561	637	1,235	–	–	–	56	64	124	561	637	1,235
<b>Total individual annuities</b>	<b>862</b>	<b>1,118</b>	<b>2,049</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>86</b>	<b>112</b>	<b>205</b>	<b>862</b>	<b>1,118</b>	<b>2,049</b>
Corporate pensions	121	159	228	135	106	198	147	122	221	750	613	1,099
Onshore bonds	835	688	1,660	–	–	–	84	69	166	836	689	1,660
Other products	421	462	774	22	32	56	64	78	133	535	650	1,089
Wholesale <sup>note v</sup>	281	11	945	–	–	–	28	1	95	281	11	945
<b>TOTAL UK AND EUROPE INSURANCE OPERATIONS</b>	<b>2,520</b>	<b>2,438</b>	<b>5,656</b>	<b>157</b>	<b>138</b>	<b>254</b>	<b>409</b>	<b>382</b>	<b>820</b>	<b>3,264</b>	<b>3,081</b>	<b>6,842</b>
<b>GROUP TOTAL</b> <sup>note iii</sup>	<b>9,879</b>	<b>8,361</b>	<b>18,177</b>	<b>835</b>	<b>819</b>	<b>1,667</b>	<b>1,824</b>	<b>1,655</b>	<b>3,485</b>	<b>13,892</b>	<b>11,966</b>	<b>25,907</b>
<b>GROUP TOTAL - EX INDIA</b> <sup>note iii</sup>	<b>9,771</b>	<b>8,329</b>	<b>18,092</b>	<b>799</b>	<b>703</b>	<b>1,487</b>	<b>1,777</b>	<b>1,536</b>	<b>3,297</b>	<b>13,643</b>	<b>11,637</b>	<b>25,325</b>

**INVESTMENT PRODUCTS - FUNDS UNDER MANAGEMENT** notes ii,iv

	Half year 2011 £m				
	1 Jan 2011	Market gross inflows	Redemptions	Market exchange translation and other movements	30 Jun 2011
Asian operations	22,048	39,477	(39,106)	(553)	21,866
US operations	–	–	–	–	–
UK operations	89,326	13,390	(10,468)	1,102	93,350
<b>GROUP TOTAL</b>	<b>111,374</b>	<b>52,867</b>	<b>(49,574)</b>	<b>549</b>	<b>115,216</b>

	Half year 2010 £m				
	1 Jan 2010	Market gross inflows	Redemptions	Market exchange translation and other movements	30 Jun 2010
Asian operations	19,474	37,983	(38,281)	1,169	20,345
US operations	–	–	–	–	–
UK operations	70,306	13,372	(8,698)	690	75,670
<b>GROUP TOTAL</b>	<b>89,780</b>	<b>51,355</b>	<b>(46,979)</b>	<b>1,859</b>	<b>96,015</b>

**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.

Annual Premiums Equivalents (APE) are calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts and are subject to roundings. The Present Value of New Business Premiums (PVNBP) are 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. New business premiums for regular premium products are shown on an annualised basis. Department of Work and Pensions (DWP) rebate business is classified as single recurrent business. 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 classified as investment products for IFRS basis reporting.

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, i.e. falling within one of the classes of insurance specified in Part II of Schedule 1 to the Regulated Activities Order under FSA 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 Investment products referred to in the tables for funds 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, 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.
- iii The tables above exclude new business sales for the Group's Japanese insurance subsidiary, which ceased selling new business with effect from 15 February 2010.
- iv 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 at those dates.
- v UK wholesale sales for full year 2010 include amounts for a bulk annuity buy-in insurance agreement with an APE of £88 million.



# ADDITIONAL INFORMATION

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## CORPORATE GOVERNANCE

### Hong Kong listing obligations

The directors confirm that the Company has complied with the code provisions of Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange for the reporting period, except that it has deviated in respect of the Terms of Reference of the Remuneration Committee. The Terms of Reference of the Remuneration Committee are limited to considering the remuneration of the Chairman and the executive directors and do not extend to making recommendations to the Board in respect of the remuneration of the non-executive directors. The reason for the deviation is that it would be inconsistent with the principles of the UK Corporate Governance Code for the Remuneration Committee to be involved in setting the fees of non-executive directors.

The directors also confirm that the half year results 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 Appendix 10 of the Listing Rules of the Hong Kong Stock Exchange, and that the directors of the Company have complied with this code of conduct throughout the period.

### Going concern

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue their operations for the foreseeable future and therefore consider it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements.

The UK's Financial Reporting Council (FRC) has published guidance concerning directors' considerations of the Company as a going concern, in particular the guidance pertaining to half year statements. The directors have addressed all relevant procedures and considerations as outlined in the FRC's guidance.

The Company's business activities, together with the factors likely to affect its future development, successful performance and position in the current economic climate are set out in the Business Review.

In this context, the directors have considered liquidity risk, capital and related sensitivities, which are discussed in the Risk and Capital Management section of the Business Review. Specifically, in making their going concern assessment, the directors have considered:

- the Group's capital position;
- the Group's capital commitments;
- the market risk and liquidity profile of the Group's assets and liabilities;
- the maturity profile of the Group's core and operational borrowings;
- various liquidity stress scenarios; and
- the capital and liquidity positions of its subsidiaries.

The Group's IFRS financial statements include cash flow details in the 'Condensed consolidated statement of cash flows' and borrowings information in notes W and X.

## SIGNIFICANT SHAREHOLDINGS

As at 30 June 2011, Prudential had received notifications in accordance with Rule 5.1.2R of the Disclosure and Transparency Rules of the Financial Services Authority from the following companies, disclosing their direct or indirect interests in three per cent or more of Prudential's issued ordinary share capital:

Shareholder	Interest
Legal and General Group Plc	3.99%
Norges Bank	4.03%
BlackRock, Inc	5.01%
Capital Research and Management Company	9.91%



## DISCLOSURE OF INTERESTS OF DIRECTORS

The following table sets out the share options held by the directors in the UK Savings Related Share Option Scheme (SAYE) as at the end of the period. No other directors held shares in any other option scheme.

	Date of grant	Exercise price £	Market price at 30 Jun 2011 £	Exercise period		Number of options					End of period	
				Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited		Lapsed
Tidjane Thiam	25 Apr 2008	5.51	7.20	01 Jun 2011	30 Nov 2011	1,705	–	–	–	–	–	1,705
John Foley	25 Apr 2008	5.51	7.20	01 Jun 2013	29 Nov 2013	2,953	–	–	–	–	–	2,953

### Directors' shareholdings

The Company and its directors, chief executives and shareholders have been granted a partial exemption from the disclosure requirements under Part XV of the Securities and Futures Ordinance (SFO). As a result of this exemption, directors, chief executives and shareholders do not have an obligation under the SFO to notify the Company of shareholding interests, and the Company is not required to maintain a register of directors' and chief executives' interests under section 352 of the SFO nor a register of interests of substantial shareholders under section 336 of the SFO. The Company is, however, required to file with the Hong Kong Stock Exchange any disclosure of interests notified to it in the United Kingdom.

The following table sets out the interests of directors in the issued share capital of Prudential including the interests of persons connected with directors for the purposes of DTR 3.1.2 of the Disclosure and Transparency Rules as at the end of the period. This includes shares acquired under the Share Incentive Plan, and deferred annual bonus awards and interests in shares awarded on appointment as detailed in the table on 'Other Share Awards' on page 225.

	At 1 January 2011	At 30 June 2011
Keki Dadiseth	30,655	32,196
Howard Davies	575	1,561
Rob Devey	78,261	124,957
John Foley	535,386	544,792
Michael Garrett	36,972	39,233
Ann Godbehere	14,628	15,914
Bridget Macaskill	44,006	45,264
Paul Manduca	1,260	2,233
Harvey McGrath	299,540	300,636
Michael McLintock	604,390	711,321
Nic Nicandrou	133,555	166,465
Kathleen O'Donovan	23,484	24,425
James Ross <sup>1</sup>	21,190	–
Barry Stowe <sup>2</sup>	264,437	367,912
Tidjane Thiam	273,025	643,473
Lord Turnbull	15,589	16,624
Mike Wells <sup>3</sup>	293,842	437,432

### Notes

- 1 James Ross ceased to be a non-executive director on 19 May 2011.
- 2 Shares held partially in the form of ADRs; 1 ADR represents 2 shares.
- 3 Shares held in the form of ADRs; 1 ADR represents 2 shares.

## DISCLOSURE OF INTERESTS OF DIRECTORS CONTINUED

### Directors' outstanding long-term incentive awards

#### Share-based long-term incentive awards

The section below sets out the outstanding share awards under the Group Performance Share Plan and the awards under additional long-term plans for the executive directors with regional responsibilities.

Plan name	Year of award	Conditional share awards outstanding at 1 Jan 2011 (Number of shares)	Conditional awards in 2011 (Number of shares)	Market price at date of award (pence)	Dividend equivalents on vested shares (Number of shares released) (note 3)	Rights exercised in 2011	Rights lapsed in 2011	Conditional share awards outstanding at 30 Jun 2011 (Number of shares)	Date of end of performance period
<b>ROB DEVEY</b>									
GPSP	2009	120,898		639				120,898	31 Dec 11
BUPP	2009	120,897		639				120,897	31 Dec 11
GPSP	2010	104,089		568.5				104,089	31 Dec 12
BUPP	2010	104,089		568.5				104,089	31 Dec 12
GPSP	2011		76,242	733.5				76,242	31 Dec 13
BUPP	2011		76,242	733.5				76,242	31 Dec 13
		449,973	152,484					602,457	
<b>JOHN FOLEY</b>									
GPSP	2011		152,484	733.5				152,484	31 Dec 13
			152,484					152,484	
<b>MICHAEL McLINTOCK</b>									
GPSP	2008	48,330		674.5	5,696	48,330		0	31 Dec 10
GPSP	2009	92,022		455.5				92,022	31 Dec 11
GPSP	2010	66,238		568.5				66,238	31 Dec 12
GPSP	2011		48,517	733.5				48,517	31 Dec 13
		206,590	48,517		5,696	48,330		206,777	
<b>NIC NICANDROU</b>									
GPSP	2009	316,328		639				316,328	31 Dec 11
GPSP	2010	208,179		568.5				208,179	31 Dec 12
GPSP	2011		152,484	733.5				152,484	31 Dec 13
		524,507	152,484					676,991	
<b>BARRY STOWE</b>									
GPSP	2008	107,988		674.5	12,728	107,988		0	31 Dec 10
BUPP	2008	53,994		674.5	1,908	16,198	37,796	0	31 Dec 10
GPSP	2009	196,596		455.5				196,596 <sup>1</sup>	31 Dec 11
BUPP	2009	196,596		455.5				196,596 <sup>1</sup>	31 Dec 11
GPSP	2010	129,076		568.5				129,076 <sup>1</sup>	31 Dec 12
BUPP	2010	129,076		568.5				129,076 <sup>1</sup>	31 Dec 12
GPSP	2011		88,270	733.5				88,270 <sup>1</sup>	31 Dec 13
BUPP	2011		88,270	733.5				88,270 <sup>1</sup>	31 Dec 13
		813,326	176,540		14,636	124,186	37,796	827,884	
<b>TIDJANE THIAM</b>									
GPSP	2008	314,147		674.5	37,035	314,147		0	31 Dec 10
GPSP	2009	299,074		455.5				299,074	31 Dec 11
GPSP	2010	510,986		568.5				510,986	31 Dec 12
GPSP	2011		374,279	733.5				374,279	31 Dec 13
		1,124,207	374,279		37,035	314,147		1,184,339	

Plan name	Year of award	Conditional share awards outstanding at 1 Jan 2011 (Number of shares)	Conditional awards in 2011 (Number of shares)	Market price at date of award (pence)	Dividend equivalents on vested shares (Number of shares released) (note 3)	Rights exercised in 2011	Rights lapsed in 2011	Conditional share awards outstanding at 30 Jun 2011 (Number of shares)	Date of end of performance period
<b>MIKE WELLS</b> <sup>note 4</sup>									
JNL PSP	2007	85,500		766.5		85,500		0 <sup>2</sup>	31 Dec 10
JNL PSP	2008	84,900		546				84,900 <sup>2</sup>	31 Dec 11
JNL PSP	2009	218,100		455.5				218,100 <sup>2</sup>	31 Dec 12
JNL PSP	2010	141,000		568.5				141,000 <sup>2</sup>	31 Dec 13
GPSP	2011		197,648	733.5				197,648 <sup>2</sup>	31 Dec 13
BUPP	2011		197,648	733.5				197,648 <sup>2</sup>	31 Dec 13
		529,500	395,296			85,500		839,296	

#### Notes

- 1 The awards in 2009, 2010 and 2011 for Barry Stowe were made in ADRs (1 ADR = 2 Prudential plc shares). The figures in the table are represented in terms of Prudential shares.
- 2 The awards for Mike Wells were all made in ADRs (1 ADR = 2 Prudential plc shares). The figures in the table are represented in terms of Prudential shares.
- 3 In 2009 and 2010 a scrip dividend equivalent and in 2011 a DRIP dividend equivalent were accumulated on these awards.
- 4 The table above reflects the maximum number of shares (150% of the original number awarded) which may be released to Mike Wells under the JNL Performance Share Plan. This maximum number of shares may be released if stretch performance targets are achieved.

#### Other share awards

The table below sets out the share awards that have been made to executive directors under their appointment terms and those deferred from annual incentive plan payouts. The number of shares is calculated using the average share price over the three business days commencing on the day of the announcement of the Group's annual financial results for the relevant year. For the awards from the 2010 annual incentives, made in 2011, the average share price was 735 pence.

	Year of grant	Conditional share awards outstanding at 1 Jan 2011 (Number of shares)	Conditionally awarded in 2011 (Number of shares)	Dividends accumulated (Number of shares) (note 2)	Shares released in 2011 (Number of shares)	Conditional share awards outstanding at 30 Jun 2011 (Number of shares)	Date of end of restricted period	Shares released in 2011 (Number of shares)	Date of release	Market price at date of award (pence)	Market price at date of vesting or release (pence)
<b>ROB DEVEY</b>											
Awards under appointment terms	2009	50,575				50,575	31 Mar 12			639	
Deferred 2009 annual incentive award	2010	27,686		651		28,337	31 Dec 12			552.5	
Deferred 2010 annual incentive award	2011		44,987	1,058		46,045	31 Dec 13			721.5	

## DISCLOSURE OF INTERESTS OF DIRECTORS CONTINUED

### Other share awards continued

	Year of grant	Conditional share awards outstanding at 1 Jan 2011 (Number of shares)	Conditionally awarded in 2011 (Number of shares)	Dividends accumulated (Number of shares) (note 2)	Shares released in 2011 (Number of shares)	Conditional share awards outstanding at 30 Jun 2011 (Number of shares)	Date of end of restricted period	Shares released in 2011 (Number of shares)	Date of release	Market price at date of award (pence)	Market price at date of vesting or release (pence)
<b>JOHN FOLEY</b>											
Deferred 2008 deferred PruCap award	2010	233,333		5,487		238,820	16 Dec 11			612	
Deferred 2009 deferred PruCap award	2010	166,667		3,919		170,586	14 Dec 12			612	
<b>MICHAEL McLINTOCK</b>											
Deferred 2007 annual incentive award	2010	68,385			68,385	0	31 Dec 10	68,385	10 Mar 11	519.5	735
Deferred 2008 annual incentive award	2010	132,664		3,120		135,784	31 Dec 11			519.5	
Deferred 2009 annual incentive award	2010	72,104		1,695		73,799	31 Dec 12			552.5	
Deferred 2010 annual incentive award	2011		75,136	1,767		76,903	31 Dec 13			721.5	
<b>NIC NICANDROU</b>											
Awards under appointment terms	2009	13,898			13,898	0	30 Mar 11	13,898	30 Mar 11	639	721.5
		16,059			16,059	0	30 Mar 11	16,059	30 Mar 11	639	721.5
		68,191				68,191	31 Mar 12			639	
Deferred 2009 annual incentive award	2010	25,380		596		25,976	31 Dec 12			552.5	
Deferred 2010 annual incentive award	2011		46,394	1,091		47,485	31 Dec 13			721.5	

	Year of grant	Conditional share awards outstanding at 1 Jan 2011 (Number of shares)	Conditionally awarded in 2011 (Number of shares)	Dividends accumulated (Number of shares) (note 2)	Shares released in 2011 (Number of shares)	Conditional share awards outstanding at 30 Jun 2011 (Number of shares)	Date of end of restricted period	Shares released in 2011 (Number of shares)	Date of release	Market price at date of award (pence)	Market price at date of vesting or release (pence)
<b>BARRY STOWE</b>											
Deferred 2007 annual incentive award	2008	45,339			45,339	0	31 Dec 10	45,339	10 Mar 11	635	735
Deferred 2008 annual incentive award	2009	21,815		513		22,328	31 Dec 11			349.5	
Deferred 2009 annual incentive award	2010	37,650		886		38,536	31 Dec 12			552.5	
Deferred 2010 annual incentive award	2011		54,244	1,276		55,520	31 Dec 13			721.5	
<b>TIDJANE THIAM</b>											
Awards under appointment terms	2008	49,131			49,131	0	30 Mar 11	49,131	30 Mar 11	662	721.5
Deferred 2008 annual incentive award	2010	67,367		1,584		68,951	31 Dec 11			552.5	
Deferred 2009 annual incentive award	2010	60,928		1,432		62,360	31 Dec 12			552.5	
Deferred 2010 annual incentive award	2011		213,550	5,022		218,572	31 Dec 13			721.5	
<b>MIKE WELLS</b>											
2009 After Tax Deferral Program award <sup>(note 3)</sup>	2010	32,250				32,250	15 Mar 13			520	
Deferred 2010 Group Deferred Bonus Plan award	2011		87,508	2,060		89,568	31 Dec 13			721.5	

**Notes**

- 1 The Deferred Share Awards in 2010 and 2011 for Barry Stowe and Mike Wells were made in ADRs (1 ADR = 2 Prudential plc shares). The figures in the table are represented in terms of Prudential shares.
- 2 In 2009 and 2010 a scrip dividend equivalent and in 2011 a DRIP dividend equivalent were accumulated on these awards.
- 3 This award attracts dividends in the form of cash rather than shares.

## DISCLOSURE OF INTERESTS OF DIRECTORS CONTINUED

### Shares acquired under the Share Incentive Plan

	Year of initial grant	Share Incentive Plan awards held in Trust at 1 Jan 2011 (Number of shares)	Partnership shares accumulated in 2011 (Number of shares)	Matching shares accumulated in 2011 (Number of shares)	Dividend shares accumulated in 2011 (Number of shares)	Share Incentive Plan awards held in Trust at 30 Jun 2011 (Number of shares)
<b>NIC NICANDROU</b>						
Shares held in Trust	2010	303	121	30	9	463

#### Note

The table above provides information about shares purchased under the SIP together with Matching Shares (awarded on a 1:4 basis) and dividend shares. The total number of shares will only be released if Nic Nicandrou remains in employment for five years.

#### Cash-settled long-term incentive awards

This information has been prepared in line with the reporting requirements of the Hong Kong Stock Exchange and sets out executive directors' outstanding share awards and share options. For details of the cash-settled long-term incentive awards held by some executive directors, please see our Annual Report.

# SHAREHOLDER INFORMATION

## Financial calendar

2011 interim date	Shareholders registered on the UK register	Shareholders registered on the Irish Branch Register	Shareholders registered on the Hong Kong branch register	Shareholders with ordinary shares standing to the credit of their CDP securities accounts
Ex dividend date	17 August 2011	17 August 2011	18 August 2011	17 August 2011
Record date	19 August 2011	19 August 2011	19 August 2011	19 August 2011
Payment of 2011 interim dividend	22 September 2011	22 September 2011	22 September 2011	On or about 29 September 2011

### Shareholder enquiries

For enquiries about shareholdings, including dividend and lost share certificates, please contact the Company's registrars:

#### By post:

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA

#### By telephone:

Tel: 0871 384 2035  
Fax: 0871 384 2100  
Textel: 0871 384 2255 (for hard of hearing)  
Calls to 0871 numbers are charged at 8p per minute from a BT landline. Other telephone providers' costs may vary.  
International shareholders telephone: +44 (0) 121 415 7026

### Dividend mandates

Shareholders may find it convenient to have their dividends paid directly to their bank or building society account. If you wish to take advantage of this facility, please call Equiniti and request a Cash Dividend Mandate form. Alternatively, you may download a form from [www.prudential.co.uk/prudential-plc/investors/shareholder\\_services/forms](http://www.prudential.co.uk/prudential-plc/investors/shareholder_services/forms)

### Cash dividend alternative

The Company has introduced a Dividend Re-investment Plan (DRIP). It was offered for the first time in connection with the 2010 final dividend. The scrip dividend scheme was therefore discontinued at that time.

Shareholders who have elected for the DRIP will automatically receive shares for all future dividends in respect of which a DRIP alternative is offered. The election may be cancelled at any time by the shareholder. Further details of the DRIP and the timetable are available on the Company's website at [www.prudential.co.uk/prudential-plc/investors](http://www.prudential.co.uk/prudential-plc/investors)

### Electronic communications

Shareholders are encouraged to elect to receive shareholder documents electronically by registering with Shareview at [www.shareview.co.uk](http://www.shareview.co.uk). This will save on printing and distribution costs, and create environmental benefits. Shareholders who have registered, will be sent an email notification whenever shareholder documents are available on the Company's website and a link will be provided to that information. When registering, shareholders will need their shareholder reference number which can be found on their share certificate or proxy form. The option to receive shareholder documents electronically is not available to shareholders holding shares through The Central Depository (Pte) Limited (CDP). Please contact Equiniti if you require any assistance or further information.

### Share dealing services

The Company's Registrars, Equiniti, offer a postal dealing facility for buying and selling Prudential plc ordinary shares; please see the Equiniti address opposite or telephone 0871 384 2248. They also offer a telephone and internet dealing service, Shareview, which provides a simple and convenient way of selling the Company's shares. For telephone sales call 0871 384 2020 between 8.30am and 4.30pm, Monday to Friday, and for internet sales log on to [www.shareview.co.uk/dealing](http://www.shareview.co.uk/dealing)

### ShareGift

Shareholders who have only a small number of shares the value of which makes them uneconomic to sell, may wish to consider donating them to ShareGift (Registered Charity 1052686). The relevant share transfer form may be obtained from our website [www.prudential.co.uk/prudential-plc/investors/shareholder\\_services/forms](http://www.prudential.co.uk/prudential-plc/investors/shareholder_services/forms) or from Equiniti. Further information about ShareGift may be obtained on +44 (0)20 7930 3737 or from [www.ShareGift.org](http://www.ShareGift.org). There are no implications for capital gains tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief.

### Hong Kong branch register

The Company operates a branch register for shareholders in Hong Kong. All enquiries regarding Hong Kong branch register accounts should be directed to Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. Telephone: +852 2862 8555

## SHAREHOLDER INFORMATION CONTINUED

### **Singapore shareholder enquiries**

Shareholders who have shares standing to the credit of their securities accounts with CDP in Singapore may refer queries to the CDP at 4 Shenton Way, #02-01, SGX Centre 2, Singapore 068807. Telephone +65 6535 7511. Enquiries regarding shares held in Depository Agent Sub-accounts should be directed to your Depository Agent or broker.

### **Irish branch register**

The Company operates a branch register for shareholders in Ireland. All enquiries regarding Irish branch register accounts should be directed to Capita Registrars (Ireland) Limited, Unit 5, Manor Street Business Park, Manor Street, Dublin 7. Telephone: + 353 1 810 2400

### **American Depositary Receipts (ADRs)**

The Company's ordinary shares are listed on the New York Stock Exchange in the form of American Depositary Shares, evidenced by ADRs and traded under the symbol PUK. Each American Depositary Share represents two ordinary shares. All enquiries regarding ADR holder accounts should be directed to JP Morgan, the authorised depository bank, at JP Morgan Chase & Co, PO Box 64504, St. Paul, MN 55164-0504, USA. Telephone General +1 800 990 1135 or from outside the US +1 651 453 2128 or log on to [www.adr.com](http://www.adr.com)



# HOW TO CONTACT US

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Chairman

### Tidjane Thiam

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### Nic Nicandrou

Chief Financial Officer

### Margaret Coltman

Group General Counsel &  
Company Secretary

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Group Chief Risk Officer

### Peter Goerke

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### John Murray

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**Prudential public limited company**

Incorporated and registered in England and Wales

**Registered office**

Laurence Pountney Hill

London EC4R 0HH

Registered number 1397169

[www.prudential.co.uk](http://www.prudential.co.uk)

Prudential plc is a company incorporated, some of whose subsidiaries are authorised and regulated by the Financial Services Authority (FSA).

**Forward-looking statement**

This report may contain certain 'forward-looking statements' with respect to certain of Prudential's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance 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, fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives

related to the financial crisis and the effect of the European Union's 'Solvency II' requirements on Prudential's capital maintenance requirements; the impact of competition, inflation, and deflation; experience in particular with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of changes in capital, solvency standards or accounting standards, 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 heading 'Risk factors' in Prudential's most recent Annual Report and in Item 3 'Risk Factors' of Prudential's most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission. Prudential's most recent Annual Report and Form 20-F are available on its website at [www.prudential.co.uk](http://www.prudential.co.uk)

Any forward-looking statements contained in this report are made only as of the date hereof. Prudential undertakes no obligation to update the forward-looking statements contained in this statement 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 Prospectus Rules, the Listing Rules, the Disclosure and Transparency Rules, the Hong Kong Listing Rules or the SGX-ST listing rules.

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Registered number 1397169

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some of whose subsidiaries are  
authorised and regulated by the  
Financial Services Authority (FSA).