PRUDENTIAL PLC
Form 6-K
September 30, 2011

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As filed with the Securities and Exchange Commission on 30 September 2011

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

Commission File Number: 1-15040

PRUDENTIAL PUBLIC LIMITED COMPANY

(Name of Registrant)

**12 Arthur Street,
London EC4R 9AQ, England**

(Address of Principal Executive Offices)

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

Form 20-F _X_ Form 40-F ____

Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ____

Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ____

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

Yes ____ No _X_

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

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SELECTED HISTORICAL FINANCIAL INFORMATION OF PRUDENTIAL

The following table sets forth Prudential's selected consolidated financial data for the periods indicated. Certain data is derived from Prudential's consolidated financial statements prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. As at 30 June 2011, there were no unendorsed standards effective for the periods presented below affecting the consolidated financial information of Prudential and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to Prudential. Accordingly, the selected consolidated financial data presented below that is derived from Prudential's consolidated financial statements is derived from consolidated financial statements prepared in accordance with IFRS as issued by the IASB. This table is only a summary and should be read in conjunction with Prudential's unaudited condensed consolidated interim financial statements and the related notes included in this document, together with the 'Operating and Financial Review' section below.

	Six Months Ended 30 June		
	2011[1]	**2011**	**2010**
	(In $ Millions)	**(In £ Millions)**	
Income statement data			
Earned premiums, net of reinsurance	**20,779**	**12,930**	11,256
Investment return	**12,454**	**7,750**	5,027
Other income	**1,483**	**923**	754
Total revenue, net of reinsurance	**34,716**	**21,603**	17,037
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(28,267)**	**(17,590)**	(13,650)
Acquisition costs and other expenditure	**(4,202)**	**(2,615)**	(2,654)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(225)**	**(140)**	(129)
Total charges, net of reinsurance	**(32,694)**	**(20,345)**	(16,433)
Profit before tax (being tax attributable to shareholders' and policyholders' returns)[2]	**2,022**	**1,258**	604
Tax charge attributable to policyholders' returns	**(151)**	**(94)**	(11)
Profit before tax attributable to shareholders	**1,871**	**1,164**	593
Tax charge attributable to shareholders' returns	**(484)**	**(301)**	(149)
Profit for the period	**1,387**	**863**	444

	Six Months Ended 30 June		
	2011[1]	**2011**	**2010**
Other data			
Based on profit for the period attributable to the Prudential's equity holders:			
Basic earnings per share	**54.6¢**	**34.0p**	17.5p
Diluted earnings per share	**54.5¢**	**33.9p**	17.5p
Dividend per share declared and paid in reporting period[5]	**27.70¢**	**17.24p**	13.56p
Equivalent cents per share[6]		**28.18¢**	19.76¢
Market price at end of period[8]	**1,157.0¢**	**720.0p**	508.5p
Weighted average number of shares (in millions)	**2,533**	**2,533**	2,520

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	As of and for the Six Months Ended 30 June		As of and for the Year Ended 31 December
	2011[1]	2011	2010
	(In $ Millions)	(In £ Millions)	
Statement of financial position data			
Total assets	**433,032**	**269,466**	260,806
Total policyholder liabilities and unallocated surplus of with-profits funds	**373,313**	**232,304**	224,980
Core structural borrowings of shareholder-financed operations	**6,425**	**3,998**	3,676
Total liabilities	**419,297**	**260,919**	252,731
Total equity	**13,735**	**8,547**	8,075
Other data			
New business:			
Single premium sales[4][7]	**15,876**	**9,879**	18,177
New regular premium sales[3][4][7]	**1,342**	**835**	1,667
Gross investment product contributions[4]	**84,957**	**52,867**	106,969
Funds under management	**562,450**	**350,000**	340,000

(1) Amounts stated in US dollars have been translated from pounds sterling at the rate of $1.607 per £1.00 (the noon buying rate in New York City on 30 June 2011).

(2) This measure is the formal profit before tax measure under IFRS but is not the result attributable to shareholders. See 'Presentation of results before tax' in 'IFRS Critical Accounting Policies' within the 'Operating and Financial Review' section below for further explanation.

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

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

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

Investment products included in the table 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.

(5) Under IFRS, dividends declared after the balance sheet date in respect of the prior reporting period are treated as a non-adjusting event. The appropriation reflected in the statement of changes in equity, therefore, includes the final or any second interim dividend in respect of the prior period. The parent company dividend relating to the reporting period was an interim dividend of 7.95p per share, as against an interim dividend of 6.61p per share for the first half of 2010.

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

(7) The new business premiums shown for the 2010 comparative figures exclude the new business premiums from the Group's Japanese insurance subsidiary, which ceased selling new business with effect from 15 February 2010. Japan's new business premiums for the year ended 31 December 2010 were £19 million, comprising £13 million of single premium sales and £6 million of new regular premium sales.

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

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EXCHANGE RATE INFORMATION

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

Period	**Average rate**
Six months ended 30 June 2010	1.52
Twelve months ended 31 December 2010	1.54
Six months ended 30 June 2011	1.62

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

	High	**Low**
March 2011	1.64	1.60
April 2011	1.67	1.61
May 2011	1.67	1.61
June 2011	1.64	1.60
July 2011	1.65	1.59
August 2011	1.66	1.62

On 23 September 2011, the latest practicable date prior to this filing, the noon buying rate was £1.00 = $1.55.

FORWARD-LOOKING STATEMENTS

This report on Form 6-K 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 Prudential's beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty. A number of important factors could cause Prudential's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, future market conditions, 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

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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 US Securities and Exchange Commission (the 'SEC').

Any forward-looking statements contained in this report are made only as of the date hereof. Prudential may also make or disclose written and/or oral forward-looking statements in reports filed or furnished to the SEC, as well as in its annual report and accounts to shareholders, proxy statements, offering circulars, registration statements and prospectuses, prospectus supplements, press releases and other written materials and in oral statements made by directors, officers or employees of Prudential to third parties, including financial analysts. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed in Item 3 'Risk Factors' of Prudential's most recent annual report on Form 20-F. These risk factors are not exhaustive as Prudential operates in a continually changing business environment with new risks emerging from time to time that it may be unable to predict or that it currently does not expect to have a material adverse effect on its business. Prudential 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.

EEV BASIS AND NEW BUSINESS RESULTS

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

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

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

OPERATING AND FINANCIAL REVIEW

The following discussion and analysis should be read in conjunction with Prudential's unaudited condensed consolidated interim financial statements and the related notes to Prudential's unaudited condensed consolidated interim financial statements for the period ended 30 June 2011 included in this document. Prudential's unaudited condensed consolidated interim financial statements have been prepared in accordance with IFRS. A summary of the critical accounting policies which have been applied to these statements is set forth in the section below entitled ' IFRS Critical Accounting Policies'.

The results discussed below are not necessarily indicative of the results to be expected in any future periods. This discussion contains forward- looking statements based on current expectations, which involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in these forward-looking statements due to a number of factors (including those discussed in Item 3 'Risk Factors' of Prudential's most recent annual report on Form 20-F filed with the SEC). See the discussion under the heading 'Forward-looking statements' above.

Introduction and Overview

In the first half of 2011, Prudential continued to provide a broad range of financial products and services, primarily to the retail market. Prudential's principal operations continue to be in Asia, the United States and the United Kingdom. The accounting policies applied by Prudential in determining the IFRS basis results reflected in Prudential's unaudited condensed consolidated interim financial statements for the period ended 30 June 2011 are the same as those previously adopted in Prudential's consolidated financial statements for the year ended 31 December 2010 except for the adoption of new accounting pronouncements in 2011. The adoption of these new accounting pronouncements, which are described in note B to the unaudited condensed consolidated interim financial statements has had no material impact on Prudential's results and financial position.

Overview

In line with its strategy, Prudential Corporation Asia continued to prioritise its 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 continued into the first half of 2011. 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 Prudential's largest business in Asia in terms of sales. Prudential believes that its strategy in the region will allow it 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 the fourth quarter of 2010. However, Prudential believes that it will begin to see the first signs of improvement by the end of 2011 as it is able to train its extensive agency force to sell a new product suite. Prudential remains confident about the long-term prospects in India.

Distribution, as ever, remained critical to Prudential's business in Asia; its unique combination of proprietary agency distribution and bank partnerships continued to deliver excellent results. Prudential expects that agency will remain the dominant and most profitable channel in Asia for many years to come. Prudential believes that its agency distribution platform compares favourably to those of its peer group, whether in terms of scale, training or productivity. In parallel to its agency force, Prudential will continue developing its presence in the bancassurance channel where it has been enjoying growing success in a number of markets, particularly Hong Kong, Indonesia and Singapore.

In the US, Jackson maintained its focus on value over sales volume growth in half year 2011; ensuring sales were delivered at highly profitable margins. Jackson has maintained its pricing discipline

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and has been consistent in its approach of not chasing market share for its own sake. Strong growth has been achieved while preserving at all times its financial discipline. Jackson continued 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. Prudential had expected that, at this point in the variable annuity cycle, increased competition would progressively dampen Jackson's growth and/or reduce the extremely high margins it has been capturing. This has not happened yet. On the contrary, the strength of Prudential's competitive position has allowed it to continue to take proactive steps to optimise the balance between growth, capital and profitability at Jackson. Prudential expects the impact of these initiatives to become visible towards the end of 2011.

Prudential's business in the UK is focused and streamlined. Therefore, it generated differentiated returns relative to the market. It continues to be a market leader in both individual annuities and with-profits. The strength of the with-profits fund underpins Prudential's ongoing ability to deliver strong IFRS profits and cash. Prudential has continued to balance the writing of new business with the generation of cash and capital, successfully delivering attractive returns on capital employed. Its emphasis on value and returns saw the UK business continue to prioritise the retail market in the first half of 2011, while very selectively participating in the wholesale market. Wholesale market opportunities have only been pursued when they met strict financial criteria and were expected to deliver an appropriate return on the capital invested both in terms of quantum but also, and equally important, of payback period.

Prudential's asset management businesses have increased their contribution to its profits and to its 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 Prudential's customers. M&G continued to focus on achieving superior investment performance over the longer term for its customers in the first half of 2011. 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 Prudential has been able to grow not only assets but also IFRS profits.

In Asia, Prudential's asset management business had a strong first half. Funds under management continued to grow, primarily driven by internal funds during the first half. Net inflows remained volatile, in part driven by the tragic events that affected Japan earlier this year. IFRS profit continued to grow strongly. Prudential's priorities for its asset management business in Asia are: (i) to develop institutional relationships, securing pan-Asia discretionary mandates; (ii) to increase its focus on Japan and China, as the region's largest and fastest growing markets respectively; and, finally, (iii) to grow its offshore funds business.

2013 Financial Objectives and Outlook

The objectives discussed below 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 June 2010. They have been prepared using current solvency rules and do not pre-judge the outcome of Solvency II,(as described in the Risk and Capital Management section of this filing) which remains uncertain.

In December 2010, Prudential announced new objectives for the Group that reflect its determination to accelerate growth in Asia and its belief that it can continue to deliver both growth and cash sustainably to its shareholders. Prudential's annual report for 2010 on Form 20-F filed with the SEC

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provides further details. Prudential believes that it remains on course to deliver its 2013 financial 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 United States and in the Eurozone, as well as the associated fiscal difficulties, mean that Prudential remains cautious about the outlook in these regions. While these issues may have some temporary adverse effects across the globe, Prudential continues to believe that its substantial presence in growing and developing markets across Asia put it in a position to continue to deliver relative outperformance in the medium term.

IFRS Critical Accounting Policies

Prudential's discussion and analysis of its financial condition and results of operations are based upon Prudential's unaudited condensed consolidated interim financial statements, prepared in accordance with International Financial Reporting Standards as issued by the IASB and as endorsed by the EU. EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRS have not been endorsed by the EU. As at 30 June 2011, there were no unendorsed standards effective for the period ended 30 June 2011 affecting the condensed consolidated financial information of Prudential, and there were no differences between IFRS endorsed by the EU and IFRS issued by the IASB in terms of their application to Prudential. Accordingly, Prudential's financial information for the period ended 30 June 2011 is prepared in accordance with IFRS as issued by the IASB. It is Prudential's policy to adopt mandatory requirements of new or altered EU-endorsed IFRS standards where required, with earlier adoption applied where permitted and appropriate in the circumstances.

The preparation of these financial statements requires Prudential to make estimates and judgments that affect the reported amounts of assets and liabilities, and revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, Prudential evaluates its estimates, including those related to long-term business provisioning, the fair value of assets and the declaration of bonus rates. Prudential bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially give rise to different results under different assumptions and conditions. Prudential believes that its critical accounting policies are limited to those described below.

The critical accounting policies in respect of the items discussed below are critical for Prudential's results insofar as they relate to Prudential's shareholder-financed business. In particular, this applies for Jackson, which is the largest shareholder-backed business in Prudential. The policies are not critical in respect of Prudential's with-profits business. This distinction reflects the basis of recognition of profit and accounting treatment of unallocated surplus of with-profits funds as a liability. Accordingly, explanation is provided in this section as to why the distinction between the with-profits business and shareholder-backed business is relevant.

In order to provide relevant analysis that is appropriate to the circumstances applicable to the Prudential's businesses, the explanations refer to types of business, fund structure, the relationship between asset and policyholder liability measurement, and the differences in the method of accounting permitted under IFRS 4 for accounting for insurance contract assets, policyholder liabilities and unallocated surplus of Prudential's with-profits funds.

The policies and key assumptions described below are relevant to the reporting periods covered by this filing. Quantitative analysis for the year ended 31 December 2010 was provided in Prudential's

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annual report for 2010 filed with the SEC on Form 20-F. Quantitative analysis for the six months to 30 June 2011 is generally not provided in this section apart from information relating to Jackson's available-for-sale debt securities portfolio and unrecognised deferred tax assets. Other quantitative analysis as applied for the 2011 full year results, will be provided in Prudential's annual report for 2011 to be filed with the SEC on Form 20-F.

Investments

Determining the fair value of financial investments when the markets are not active

Prudential holds certain financial investments for which the markets are not active. These can include financial investments which are not quoted on active markets and financial investments for which markets are no longer active as a result of market conditions e.g. market illiquidity. When the markets are not active, there is generally no or limited observable market data to account for financial investments at fair value. The determination of whether an active market exists for a financial investment requires management's judgment.

If the market for a financial investment of Prudential is not active, the fair value is determined by using valuation techniques. Prudential establishes fair value for these financial investments by using quotations from independent third parties, such as brokers or pricing services or by using internally developed pricing models. Priority is given to publicly available prices from independent sources, when available but overall, the source of pricing and/or the valuation technique 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 valuation techniques include the use of 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 and 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 financial investments.

The financial investments measured at fair value are classified into the following three level hierarchy on the basis of the lowest level of inputs that is significant to the fair value measurement of the financial investment concerned:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

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

Level 3: Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 30 June 2011, £4,423 million of financial investments (net of derivative liabilities) valued at fair value were classified as level 3. Of these, £699 million were held to back shareholder non-linked business, and so changes to these valuations will directly impact shareholders' equity. Further details of the classification of financial instruments are given in note S to the Prudential's unaudited condensed consolidated interim financial statements.

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Determining impairments relating to financial assets

Available-for-sale securities

Financial investments carried on an available-for-sale basis are represented by Jackson's debt securities portfolio. The consideration of evidence of impairment requires management's judgment. In making this determination the factors considered include, for example:

Whether the decline of the financial investment's fair value is substantial.

A substantial decline in fair value might be indicative of a credit loss event that would lead to a measurable decrease in the estimated future cash flows.

The impact of the duration of the security on the calculation of the revised estimated cash flows.

The duration of a security to maturity helps to inform whether assessments of estimated future cash flows that are higher than market value are reasonable.

The duration and extent to which the amortised cost exceeds fair value.

This factor provides an indication of how the contractual cash flows and effective interest rate of a financial asset compares with the implicit market estimate of cash flows and the risk attaching to a 'fair value' measurement. The length of time for which that level of difference has been in place may also provide further evidence as to whether the market assessment implies an impairment loss has arisen.

The financial condition and prospects of the issuer or other observable conditions that indicate the investment may be impaired.

If a loss event that will have a detrimental effect on cash flows is identified an impairment loss in the income statement is recognised. The loss recognised is determined as the difference between the book cost and the fair value of the relevant impaired securities. This loss comprises the effect of the expected loss of contractual cash flows and any additional market price driven temporary reductions in values.

For Jackson's residential mortgage-backed and other asset-backed securities all of which are classified as available-for-sale, the model used to analyze cash flows begins with the current delinquency experience of the underlying collateral pool for the structure, by applying assumptions about how much of the currently delinquent loans will eventually default, and multiplying this by an assumed loss severity. Additional factors are applied to anticipate ageing effects. After applying a cash flow simulation an indication is obtained as to whether or not the security has suffered, or is anticipated to suffer, contractual principal or interest payment shortfall. If a shortfall applies an impairment charge is recorded.

The difference between the fair value and book cost for unimpaired securities designated as available-for-sale is accounted for as unrealised gains or losses, with the movements in the accounting period being included in Other Comprehensive Income.

Prudential's review of fair value involves several criteria, including economic conditions, credit loss experience, other issuer-specific developments and future cash flows. These assessments are based on the best available information at the time. Factors such as market liquidity, the widening of bid/ask spreads and a change in cash flow assumptions can contribute to future price volatility. If actual experience differs negatively from the assumptions and other considerations used in the consolidated financial statements, unrealised losses currently in equity may be recognised in the income statement in future periods. The preceding note in this section provides explanation on how fair value is determined when the markets for the financial investments are not active.

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 Jackson's available-for-sale securities.

	30 June 2011	Changes in Unrealised appreciation** (Reflected as part of movement in comprehensive income)	Foreign exchange translation (Reflected as part of movement in comprehensive income)	31 December 2010
		(In £ Millions)		
Assets fair valued at below book value				
Book value*	**3,512**			4,372
Unrealised loss((iv)(a),(b))	**(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/(loss)	**1,419**	**237**	**(28)**	1,210
Fair value (as included in statement of financial position)***	**25,279**			26,325
Reflected as part of movement in 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.

** Translated at the average rate of $1.6055: £1.

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

	30 June 2011	31 December 2010
	(In £ Millions)	
Available-for-sale	**25,279**	26,325
Consolidated investment funds classified as fair value through profit and loss	**7**	41

	25,286	26,366

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.

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

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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 June 2011		**31 December 2010**	
	Fair value	**Unrealised loss**	**Fair value**	**Unrealised loss**
		(In £ Millions)		
Between 90% and 100%	**2,794**	**(66)**	3,390	(102)
Between 80% and 90%	**186**	**(32)**	273	(44)
Below 80% (note(d))	**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 June 2011		**31 December 2010**	
	Fair value	**Unrealised loss**	**Fair value**	**Unrealised loss**
		(In £ Millions)		
Between 90% and 100%	**114**	**(4)**	98	(6)
Between 80% and 90%	**76**	**(13)**	55	(9)
Below 80% (note(d))	**44**	**(23)**	56	(25)
Total	**234**	**(40)**	209	(40)

(b) Unrealised losses by maturity of security

	30 June 2011	**31 December 2010**
	(In £ Millions)	
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)

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

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

	30 June 2011			31 December 2010		
	Non investment grade	**Investment grade**	**Total**	**Non investment grade**	**Investment grade**	**Total**
			(In £ Millions)			
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 in (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:

	30 June 2011		31 December 2010	
Category analysis	**Fair value**	**Unrealised loss**	**Fair value**	**Unrealised loss**
		(In £ Millions)		
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)

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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:

	30 June 2011	
	Fair value	**Unrealised loss**
	(In £ Millions)	
Age analysis		
Less than 3 months	**22**	**(7)**
3 months to 6 months	**9**	**(2)**
More than 6 months	**235**	**(159)**
	266	**(168)**

Assets held at amortised cost

Financial assets classified as loans and receivables under IAS 39 are carried at amortised cost using the effective interest rate method. Certain mortgage loans of the UK insurance operations have been designated at fair value through profit and loss as this loan portfolio is managed and evaluated on a fair value basis and these are included within loans in the balance sheet. The loans and receivables include loans collateralised by mortgages, deposits and loans to policyholders. In estimating future cash flows, Prudential looks at the expected cash flows of the assets and applies historical loss experience of assets with similar credit risks that has been adjusted for conditions in the historical loss experience which no longer exist or for conditions that are expected to arise. The estimated future cash flows are discounted using the financial asset's original or variable effective interest rate and exclude credit losses that have not yet been incurred.

The risks inherent in reviewing the impairment of any investment include the risk that market results may differ from expectations; facts and circumstances may change in the future and differ from estimates and assumptions; or Prudential may later decide to sell the asset as a result of changed circumstances.

Insurance contracts

Product classification

IFRS 4 requires contracts written by insurers to be classified as either 'insurance contracts' or 'investment contracts' depending on the level of insurance risk transferred. Insurance risk is a pre-existing risk, other than financial risk, transferred from the contract holder to the contract issuer. If significant insurance risk is transferred by the contract then it is classified as an insurance contract. Contracts that transfer financial risk but not significant insurance risk are termed investment contracts. Furthermore, some contracts, both insurance and investment, contain discretionary participating features representing the contractual right to receive additional benefits as a supplement to guaranteed benefits:

(a) that are likely to be a significant portion of the total contract benefits;

(b) whose amount or timing is contractually at the discretion of the insurer; and

(c) that are contractually based on asset or fund performance, as discussed in IFRS 4.

Accordingly, insurers must perform a product classification exercise across their portfolio of contracts issued to determine the allocation to these various categories. IFRS 4 permits the continued usage of previously applied GAAP for insurance contracts and investment contracts with discretionary participating features. Except for UK regulated with-profits funds, as described subsequently, this basis has been applied by Prudential.

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For investment contracts that do not contain discretionary participating features, IAS 39 and, where the contract includes an investment management element, IAS 18, apply measurement principles to assets and liabilities attaching to the contract.

Valuation assumptions

(i) Contracts of with-profits funds

Prudential's insurance contracts and investment contracts with discretionary participating features are primarily with-profits and other protection type policies. For UK regulated with-profits funds, the contract liabilities are valued by reference to the UK Financial Services Authority's (the 'FSA's') realistic basis. In aggregate, this basis has the effect of placing a value on the liabilities of UK with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the with-profits funds and current circumstances.

The basis of determining liabilities for Prudential's with-profits business has little or no effect on the results attributable to shareholders. This is because movements on liabilities of the with-profits funds are absorbed by the unallocated surplus. Except through indirect effects, or in remote circumstances as described below, changes to liability assumptions are therefore reflected in the carrying value of the unallocated surplus, which is accounted for as a liability rather than shareholders' equity.

Prudential's other with-profits contracts are written in with-profits funds that operate in some of Prudential's Asian operations. The liabilities for these contracts and those of Prudential Annuities Limited, which is a subsidiary company of the Prudential Assurance Company ('PAC') with-profits funds, are determined differently. For these contracts the liabilities are estimated using actuarial methods based on assumptions relating to premiums, interest rates, investment returns, expenses, mortality and surrenders. The assumptions to which the estimation of these reserves is particularly sensitive are the interest rate used to discount the provision and the assumed future mortality experience of policyholders.

For liabilities determined using the basis described above for UK regulated with-profits funds, and the other liabilities described in the preceding paragraph, changes in estimates arising from the likely range of possible changes in underlying key assumptions have no direct impact on the reported profit.

This lack of sensitivity reflects the with-profits fund structure, basis of distribution, and the application of previous GAAP to the unallocated surplus of with-profits funds as permitted by IFRS 4. Changes in liabilities of these contracts that are caused by altered estimates are absorbed by the unallocated surplus of the with-profits funds with no direct effect on shareholders' equity.

(ii) Other contracts

Contracts, other than those of with-profits funds, are written in shareholder-backed operations of Prudential. The significant shareholder-backed product groupings and the factors that may significantly affect IFRS results due to experience against assumptions or changes of assumptions vary significantly between business units. For some types of business the effect of changes in assumptions may be significant, whilst for others, due to the nature of the product, assumption setting may be of less significance. From the perspective of shareholder results the key sensitivity relates to the assumption for allowance for credit risk for UK annuity business.

Jackson

Jackson offers individual fixed annuities, fixed index annuities, immediate annuities, variable annuities, individual and variable life insurance and institutional products. With the exception of institutional products and an incidental amount of business for annuity certain contracts, which are accounted for as investment contracts under IAS 39, all of Jackson's contracts are accounted for under

IFRS 4 as insurance contracts by applying US GAAP, the previous GAAP used before IFRS adoption. The accounting requirements under these standards and the effect of changes in valuation assumptions are considered below for fixed annuity, variable annuity and traditional life insurance contracts.

Fixed annuity contracts, which are investment contracts under US GAAP terminology, are accounted for by applying in the first instance a retrospective deposit method to determine the liability for policyholder benefits. This is then augmented by potentially three additional amounts, namely deferred income, any amounts previously assessed against policyholders that are refundable on termination of the contract, and any premium deficiency, i.e. any probable future loss on the contract. These types of contracts contain considerable interest rate guarantee features.

Notwithstanding the accompanying market risk exposure, except in the circumstances of interest rate scenarios where the guarantee rates included in contract terms are higher than crediting rates that can be supported from assets held to cover liabilities, the accounting measurement of Jackson's fixed annuity products is not generally sensitive to interest rate risk. This position derives from the nature of the products and the US GAAP basis of measurement.

Variable annuity contracts written by Jackson may provide for guaranteed minimum death, income, or withdrawal benefit features. In general terms, liabilities for these benefits are accounted for under US GAAP by using estimates of future benefits and fees under best estimate assumptions.

For variable annuity business, the key assumption is the expected long-term level of equity market returns, which for all periods included was 8.4 per cent per annum (after deduction of external fund management fees) determined using a mean reversion methodology. The mean reversion methodology is explained further below under 'Deferred acquisition costs'.

For traditional life insurance contracts, provisions for future policy benefits are determined using the net level premium method and assumptions as of the issue date as to mortality, interest, policy lapses and expenses plus provisions for adverse deviation.

Except to the extent of mortality experience, which primarily affects profits through variations in claim payments and the guaranteed minimum death benefit reserves, the profits of Jackson are relatively insensitive to changes in insurance risk. This reflects the principally spread and fee-based nature of Jackson's business.

Asian operations

The insurance products written in Prudential's Asian operations principally cover with-profits business, unit-linked business, and other non-participating business. The results of with-profits business are relatively insensitive to changes in estimates and assumptions that affect the measurement of policyholder liabilities. As for the UK business, this feature arises because unallocated surplus is accounted for by Prudential as a liability. The results of Asian unit-linked business are also relatively insensitive to changes in estimates or assumptions.

Deferred acquisition costs

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.

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

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.

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

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(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 5 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 8-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 reported in the 2008 results.

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 5 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.

The level of acquisition costs carried in the statement of financial position is also sensitive to unrealised valuation movements on debt securities held to back the liabilities and solvency capital.

Asian operations

For those territories applying US GAAP, principles similar to those set out in respect of Jackson above are applied to the deferral and amortisation of acquisition costs. For other Asian territories, except where the underlying reserving basis makes implicit allowance for the future fees that cover acquisition costs, the deferral and amortisation of acquisition costs is consistent with Modified Statutory

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Basis where costs associated with the production of new business are amortised in line with the emergence of margins.

Pensions

Prudential applies the requirements of IAS 19, 'Employee Benefits' and associated interpretations including IFRIC 14 'IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', to its defined benefit pension schemes. The principal defined benefit pension scheme is the Prudential Staff Pension Scheme ('PSPS'). For PSPS the terms of the trust deed restrict shareholders' access to any underlying surplus. Accordingly, applying the interpretation of IFRIC 14, any underlying IAS 19 basis surplus is not recognised for IFRS reporting.

The financial position for PSPS recorded in the IFRS financial statements reflects the higher of any underlying IAS 19 deficit and any obligation for deficit funding.

The economic participation in the surplus or deficits attaching to the PSPS and the smaller Scottish Amicable Pensions Scheme ('SAPS') are shared between the PAC with-profits sub-fund ('WPSF') and shareholder operations. The economic interest reflects the source of contributions over the scheme life, which in turn reflects the activity of the members during their employment.

In the case of PSPS, movements in the apportionment of the financial position for PSPS between the WPSF and shareholders' funds in the first half of 2011 reflect the 70/30 ratio applied to the base deficit position as at December 31, 2005 but with service cost and contributions for ongoing service apportioned by reference to the cost allocation for activity of current employees. For SAPS, the ratio is estimated to be approximately 50/50 between the WPSF and shareholders' funds.

Due to the inclusion of actuarial gains and losses in the income statement rather than being recognised in other comprehensive income, the results of Prudential are affected by changes in interest rates for corporate bonds that affect the rate applied to discount projected pension payments, changes in mortality assumptions and changes in inflation assumptions.

The table below shows the sensitivity of the underlying PSPS and other scheme liabilities as at 30 June 2011 of £4,612 million and £788 million respectively to changes in discount rates, inflation rates and mortality rate assumptions.

		30 June 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%	Decrease in scheme liabilities by:	
	CPI: Decrease by 0.2% from 2.7% to 2.5%	PSPS	1.1%
	with consequent reduction in salary increases	Other schemes	4.7%
Mortality rate	Increase life expectancy by 1 year	Increase in scheme liabilities by:	
		PSPS	2.1%
		Other schemes	2.6%

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 (which does not permit inclusion of surplus over which shareholders access is not permitted) 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 (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 for that scheme 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 would be recognisable under IAS 19, 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 (31 December 2010: £572 million), due to the changes in the variables shown in the table above would have had an impact on the Group's shareholder results and financial position.

Deferred tax

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 the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved. The taxation regimes applicable across the Group apply separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets. The judgments made, and uncertainties considered, in arriving at deferred tax balances in the financial statements are discussed in note L(ii) to Prudential's unaudited condensed consolidated interim financial statements.

Goodwill

Goodwill impairment testing requires the exercise of judgment by management as to prospective future cash flows.

Other features of IFRS accounting that are of particular significance to an understanding of Prudential's results

The other features that are of particular significance relate to: the timing of adoption of certain IFRS standards and their consequential impact upon the financial statements; the accounting for UK with-profits funds; and the presentation of certain items in the financial statements.

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Insurance contract accounting

With the exception of investment contracts without discretionary participation features, the contracts issued by Prudential's life assurance business are classified as insurance contracts and investment contracts with discretionary participating features. As permitted by IFRS 4, assets and liabilities of these contracts (see below) are accounted for under previously applied GAAP. Accordingly, except as described below, the Modified Statutory Basis ('MSB') of reporting as set out in the revised Statement of Recommended Practice ('SORP') issued by the Association of British Insurers ('ABI') has been applied.

In 2005, Prudential elected to improve its IFRS accounting for UK regulated with-profits funds by the voluntary application of the UK accounting standard FRS 27, 'Life Assurance'. Under this standard, the main accounting changes that were required for UK with-profits funds were:

- derecognition of deferred acquisition costs and related deferred tax; and

- replacement of MSB liabilities with adjusted realistic basis liabilities.

The results included in the unaudited condensed consolidated interim financial statements reflect this basis.

Unallocated surplus represents the excess of assets over policyholder liabilities for Prudential's with-profits funds that have yet to be appropriated between policyholders and shareholders. Prudential has elected to account for unallocated surplus wholly as a liability with no allocation to equity.

This treatment reflects the fact that shareholders' participation in the cost of bonuses arises only on distribution. Shareholder profits on with-profits business reflect one-ninth of the cost of declared bonus.

For Jackson, applying the MSB as applicable to overseas operations, which permits the application of local GAAP in some circumstances, the assets and liabilities of insurance contracts are accounted for under insurance accounting prescribed by US GAAP. For the assets and liabilities of insurance contracts of Asian operations, the local GAAP is applied with adjustments, where necessary, to comply with UK GAAP. For the operations in Taiwan, Vietnam and Japan, countries where local GAAP is not appropriate in the context of the previously applied MSB, accounting for insurance contracts is based on US GAAP. For participating business the liabilities include provisions for the policyholders' interest in realised investment gains and other surpluses that, where appropriate, and in particular for Vietnam, have yet to be declared as bonuses.

The usage of these bases of accounting has varying effects on the way in which product options and guarantees are measured. For UK regulated with-profits funds, options and guarantees are valued on a market consistent basis. For other operations, a market consistent basis is not applied.

Valuation and accounting presentation of fair value movements of derivatives and debt securities of Jackson

Under IAS 39, derivatives are required to be carried at fair value. Unless net investment hedge accounting is applied, value movements on derivatives are recognised in the income statement. In the second half of 2010, Prudential changed its presentation of operating profit based on longer-term investment returns for its US insurance operations, within the supplementary analysis of profit, as explained further below under the section '(c) Additional explanation of performance measures and analysis of consolidated results by business segment and geographical region'. Derivative value movements in respect of equity risk for variable annuity business and other equity related hedging activities are now excluded from operating profit based on longer-term investment returns and included as part of short-term fluctuations in investment returns. Accordingly the value movements on all derivatives held by Jackson are separately identified within the short-term fluctuations in investment returns identified as part of Prudential's segment results described below.

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For derivative instruments of Jackson, Prudential has considered whether it is appropriate to undertake the necessary operational changes to qualify for hedge accounting so as to achieve matching of value movements in hedging instruments and hedged items in the performance statements. In reaching the decision a number of factors were particularly relevant.

These were:

- IAS 39 hedging criteria have been designed primarily in the context of hedging and hedging instruments that are assessable as financial instruments that are either stand-alone or separable from host contracts, rather than, for example, duration characteristics of insurance contracts;

- the high hurdle levels under IAS 39 of ensuring hedge effectiveness at the level of individual hedge transactions;

- the difficulties in applying the macro hedge provisions under IAS 39 (which are more suited to banking arrangements) to Jackson's derivative book;

- the complexity of asset and liability matching of US life insurers such as those with Jackson's product range; and finally

- whether it is possible or desirable, without an unacceptable level of costs and constraint on commercial activity, to achieve the accounting hedge effectiveness required under IAS 39.

Taking account of these considerations Prudential has decided that, except for certain minor categories of derivatives, it is not appropriate to seek to achieve hedge accounting under IAS 39. As a result of this decision, the total income statement results are more volatile as the movements in the value of Jackson's derivatives are reflected within it.

Under IAS 39, unless carried at amortised cost (subject to impairment provisions where appropriate) under the held-to-maturity category, debt securities are also carried at fair value. Prudential has chosen not to classify any financial assets as held-to-maturity. Debt securities of Jackson are designated as available-for-sale with value movements, unless impaired, being recorded as movements within other comprehensive income. Impairments are recorded in the income statement.

Presentation of results before tax

The total tax charge for Prudential reflects tax that in addition to relating to shareholders' profits is also attributable to policyholders and unallocated surplus of with-profits funds and unit-linked policies.

However, pre-tax profits are determined after transfers to or from unallocated surplus of with-profits funds. These transfers are in turn determined after taking account of tax borne by with-profits funds. Consequently, reported profit before the total tax charge is not representative of pre-tax profits attributable to shareholders. In order to provide a measure of pre-tax profits attributable to shareholders Prudential has chosen to adopt an income statement presentation of the tax charge and pre-tax results that distinguishes between policyholder and shareholder components.

Segmental analysis of results and earnings attributable to shareholders

Prudential uses operating profit based on longer-term investment returns as the segmental measure of its results. The basis of calculation is disclosed in the paragraph in the section below entitled 'Additional explanation of performance measures and analysis of consolidated results by business segment and geographical region'.

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For shareholder-backed business, with the exception of debt securities held by Jackson and the majority of assets classified as loans and receivables, all financial investments and investment property are designated as assets at fair value through profit and loss. Short-term fluctuations in investment returns on such assets held by with-profits funds, do not affect directly reported shareholder results. This is because (i) the unallocated surplus of with-profits funds is accounted for as a liability and (ii) excess or deficits of income and expenditure of the funds over the required surplus for distribution are transferred to or from unallocated surplus. However, for shareholder-backed businesses the short-term fluctuations affect the result for the year and Prudential provides additional analysis of results to provide information on results before and after short-term fluctuations in investment returns.

Summary Consolidated Results and Basis of Preparation of Analysis

The following table shows Prudential's consolidated total profit for the periods indicated.

	Half year	
	2011	**2010**
	(In £ Millions)	
Total revenue, net of reinsurance	**21,603**	17,037
Total charges, net of reinsurance	**(20,345)**	(16,433)
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)**	**1,258**	604
Tax charge attributable to policyholders' returns	**(94)**	(11)
Profit before tax attributable to shareholders	**1,164**	593
Tax charge	**(395)**	(160)
Less: tax attributable to policyholders' returns	**94**	11
Tax charge attributable to shareholders' returns	**(301)**	(149)
Profit for the period	**863**	444

* This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders. See 'Presentation of results before tax' under IFRS Critical Accounting Policies section above for further explanation.

Under IFRS, the pre-tax GAAP measure of profits is profit before policyholder and shareholder taxes. This measure is not relevant for reflecting pre-tax results attributable to shareholders for two reasons. Firstly, this profit measure represents the aggregate of pre-tax results attributable to shareholders and a pre-tax amount attributable to policyholders. Secondly, the amount is determined after charging the transfer to the liability for unallocated surplus, which in turn is determined in part by policyholder taxes borne by the ring-fenced with-profits funds. It is noted that this circular feature is specific to with-profits funds in the UK, and other similarly structured overseas funds, and should be distinguished from other products, which are referred to as 'with-profits' and the general accounting treatment of premium or other policy taxes.

Accordingly, Prudential has chosen to explain its unaudited condensed consolidated interim results by reference to profits for the year, reflecting profit after tax. In explaining movements in profit for the year, reference is made to trends in profit before shareholder tax and the shareholder tax charge. The explanations of movement in profit before shareholder tax are shown below by reference to the profit analysis applied for segmental disclosure as shown in note C of Prudential's unaudited condensed consolidated interim financial statements. This basis is used by management and reported externally to Prudential's UK, Hong Kong and Singapore shareholders and to the UK, Hong Kong and Singapore financial markets. Separately, in this section, analysis of movements in profits before shareholder tax is provided by nature of revenue and charges.

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Explanation of Movements in Profits After Tax and Profits Before Shareholder Tax by Reference to the Basis Applied for Segmental Disclosure

a) Group overview

Profit for the period after tax was £863 million in half year 2011 compared to a profit of £444 million in half year 2010. The improvement reflects the movement in results before tax attributable to shareholders, which improved from a profit of £593 million in half year 2010 to a profit of £1,164 million in half year 2011, which was offset by an increase in the tax charge attributable to shareholders from £149 million in half year 2010 to £301 million in half year 2011.

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

The effective tax rate for the tax charge against profit before tax attributable to shareholders was 26 per cent, compared to 25 per cent for half year 2010. The movement was principally due to a reduction in tax free income in Asia and Jackson in half year 2011 compared to half year 2010, partially offset by the reduction in the UK rate of taxation to 26 per cent with effect from 1 April 2011.

b) Summary by business segment and geographical region

Prudential's operating segments as determined under IFRS 8 are insurance operations split by geographic regions in which it conducts business, which are Asia, the United States and the United Kingdom, and asset management operations split into M&G, which is Prudential's UK and European asset management business, the Asian asset management business and the US broker-dealer and asset management business (including Curian).

The following table shows Prudential's IFRS consolidated total profit (loss) after tax for the periods indicated presented by summary business segment and geographic region. The accounting policies applied to the segments below are the same as those used in Prudential's consolidated accounts.

	Half year 2011				
	Asia	**US**	**UK**	**Unallocated corporate**	**Total**
	(In £ Millions)				
Insurance operations	**263**	**276**	**296**		**835**
Asset management*	**34**	**12**	**154**		**200**
Total profit attributable to the segments	**297**	**288**	**450**		**1,035**
Unallocated corporate				**(172)**	**(172)**
Total profit (loss) for the period	**297**	**288**	**450**	**(172)**	**863**

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	Half year 2010				
	Asia	US	UK	Unallocated corporate	Total
	(In £ Millions)				
Insurance operations	255	236	295		786
Asset management*	28	9	98		135
Total profit attributable to the segments	283	245	393		921
Unallocated corporate**				(477)	(477)
Total profit (loss) for the period	283	245	393	(477)	444

* For the US, including the broker dealer business and Curian.

** The results for unallocated corporate for the six months to 30 June 2010 included the impact of the costs of the terminated AIA transaction.

Profit from insurance operations

Total profit from insurance operations in half year 2011 was £835 million compared to a profit of £786 million in half year 2010. All of the profits from insurance operations in the half years 2011 and 2010 were from continuing operations. The movement in profits for insurance operations can be summarised as follows:

	Half year	
	2011	2010
	(In £ Millions)	
Profit before shareholder tax	**1,128**	1,045
Shareholder tax	**(293)**	(259)
Profit after tax	**835**	786

The increase of £83 million in profit before tax attributable to shareholders in half year 2011 compared to half year 2010 primarily reflects an increase in operating profit based on longer-term investment returns of the insurance operations.

The effective shareholder tax rate on profits from insurance operations increased from 25 per cent in half year 2010 to 26 per cent in half year 2011. The movement was principally due to a reduction in the tax free income in Asia and Jackson in half year 2011 compared to half year 2010, partially offset by the reduction in the UK rate of tax.

In order to understand how Prudential's results are derived, it is necessary to understand how profit emerges from its business. This varies from region to region, primarily due to differences in the nature of the products and regulatory environments in which Prudential operates.

Asia

Basis of profits

The assets and liabilities of contracts classified as insurance under IFRS 4 are determined in accordance with methods prescribed by local GAAP and adjusted to comply, where necessary, with UK GAAP. Under IFRS 4, subject to the conditions of that standard, the continued application of UK GAAP in this respect is permitted.

For Asian operations in countries where local GAAP is not well established and in which the business is primarily non-participating and linked business, US GAAP is used as the most appropriate reporting basis. This basis is applied in Japan, Vietnam and less materially following the sale of the agency business in 2009, in Taiwan. For with-profits business in Hong Kong, Singapore and Malaysia the

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basis of profit recognition is bonus driven as described under 'United Kingdom Basis of profits' section below.

Comparison of total profit arising from Asian insurance operations

The following table shows the movement in profit arising from Asian insurance operations from half year 2010 to half year 2011:

	Half year	
	2011	**2010**
	(In £ Millions)	
Profit before shareholder tax	**338**	300
Shareholder tax	**(75)**	(45)
Profit after tax	**263**	255

The increase of £38 million from the profit before tax attributable to shareholders in half year 2010 of £300 million to a profit of £338 million in half year 2011 primarily reflects an increase of £65 million in operating profit based on longer-term investment returns, offset by an adverse change of £27 million in the short-term fluctuations in investment returns for shareholder-backed business.

The effective shareholder tax rate changed from 15 per cent in half year 2010 to 22 per cent in half year 2011, with the movement principally due to a reduction in tax free income in Asia for half year 2011 compared to half year 2010.

United States

Basis of profits

The underlying profit on Jackson's business predominantly arises from spread income from interest-sensitive products, such as fixed annuities, institutional products and fee income on variable annuity business with the insurance assets and liabilities of the business measured on a US GAAP basis. In addition, the results in any period include the incidence of gains and losses on assets classified as available-for-sale, and fair value movements on derivatives and securities classified as fair valued through profit and loss.

Comparison of total profit arising from US insurance operations

The following table shows the movement in profits arising from US insurance operations from half year 2010 to half year 2011:

	Half year	
	2011	**2010**
	(In £ Millions)	
Profit before shareholder tax	**395**	330
Shareholder tax	**(119)**	(94)
Profit after tax	**276**	236

The £65 million increase in profit before tax attributable to shareholders in half year 2011 against the comparative period in 2010, was due to an increase of £41 million in operating profit based on longer-term investment returns and a favourable change of £24 million in the short-term fluctuations in investment returns reflected in the income statement.

The increase in operating profit based on longer-term investment returns in half year 2011 compared to half year 2010 was primarily due to higher separate account fee income due to substantial

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positive net flows over a period of time and also higher spread income, offset by related higher deferred acquisition cost amortisation and higher expenses, net of deferrals. In the second half of 2010, the Company amended the presentation of IFRS operating profit based on longer-term investment returns 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 based on longer-term investment returns for the US insurance operations has been amended to remove the positive £123 million effect. The effect of this change is explained further below under section 'c) Additional explanation of performance measures and analysis of consolidated results by business segment and geographical region'.

The favourable movement in short-term fluctuation in investment returns was driven by market value movements in half year 2011 compared with half year 2010. The effective tax rate on profits from US operations increased from 29 per cent in half year 2010 to 30 per cent in half year 2011.

United Kingdom

Basis of profits

Prudential's results comprise an annual profit distribution to shareholders from its UK long-term with-profits fund, hereafter referred to as the with-profits fund, as well as profits from its annuity and other businesses. For most of Prudential's operations, other than its UK long-term insurance operations, the IFRS basis of accounting matches items of income and related expenditure within the same accounting period. This is achieved through the deferral of acquisition costs and application of the accruals concept.

With-profits products

For Prudential's UK insurance operations, the primary annual contribution to shareholders' profit comes from its with-profits products. With-profits products are designed to provide policyholders with smoothed investment returns through a mix of regular and final bonuses.

Shareholders' profit in respect of bonuses from with-profits products represents an amount of up to one-ninth of the value of that year's bonus declaration to policyholders. The board of directors of the subsidiary companies that have with-profits operations, using actuarial advice, determine the amount of regular and final bonuses to be declared each year on each group of contracts. The smoothing inherent in the bonus declarations provides for relatively stable annual shareholders' profit from this business.

Bonus rates

Bonus rates are applied to with-profits policies in the UK and similar products in Singapore, Hong Kong and Malaysia. The most significant with-profits fund is in the UK where, as at 30 June 2011, liabilities to with-profits policyholders were in aggregate £59.8 billion. Liabilities to with-profits policyholders in Asia as at 30 June 2011 were £11.5 billion. The details that follow are in respect of the UK with-profits business. The method by which bonuses for Prudential's Asia with-profits business are determined is substantially similar to the method by which bonuses for Prudential's UK with-profits business are determined.

The main factors that influence the determination of bonus rates are the return on the investments of the with-profits fund, the effect of inflation, taxation, the expenses of the fund chargeable to policyholders and the degree to which investment returns are smoothed. The overall rate of return earned on investments and the expectation of future investment returns are the most important influences on bonus rates. A high proportion of the assets backing the with-profits business are invested in equities and real estate. If the financial strength of the with-profits fund were adversely affected, then a higher proportion of fixed interest or similar assets might be held by the fund.

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Further details on the determination of the two types of bonus ('regular' and 'final'), the application of significant judgment, key assumptions and the degree of smoothing of investment returns in determining the bonus rates are provided below.

Regular bonus rates

For regular bonuses, the bonus rates are determined for each type of policy primarily by targeting the bonus level at a prudent proportion of the long-term expected future investment return on underlying assets. The expected future investment return is reduced as appropriate for each type of policy to allow for items such as expenses, charges, tax and shareholders' transfers. However, the rates declared may differ by product type, or by the date of payment of the premium or date of issue of the policy or if the accumulated annual bonuses are particularly high or low relative to a prudent proportion of the achieved investment return.

When target bonus levels change, the PAC board of directors has regard to the overall strength of the long-term fund when determining the length of time over which it will seek to achieve the amended prudent target bonus level.

In normal investment conditions, PAC expects changes in regular bonus rates to be gradual over time, and these are not expected to exceed one per cent per annum over any year. However, the directors of PAC retain the discretion whether or not to declare a regular bonus each year, and there is no limit on the amount by which regular bonus rates can change.

Final bonus rates

A final bonus, which is normally declared yearly, may be added when a claim is paid or when units of a unitised product are realised.

The rates of final bonus usually vary by type of policy and by reference to the period, usually a year, in which the policy commences or each premium is paid. These rates are determined by reference to the asset shares for the sample policies but subject to the smoothing approach, explained below.

In general, the same final bonus scale applies to maturity, death and surrender claims except that:

- the total surrender value may be impacted by the application of a Market Value Reduction ('MVR') (for accumulating with-profits policies) and is affected by the surrender bases (for conventional with-profits business); and

- for the Scottish Amicable Insurance Fund ('SAIF') and Scottish Amicable Life ('SAL'), the final bonus rates applicable on surrender may be adjusted to reflect expected future bonus rates.

Application of significant judgment

The application of the above method for determining bonuses requires the PAC board of directors to apply significant judgment in many respects, including in particular the following:

- Determining what constitutes fair treatment of customers: Prudential is required by UK law and regulation to consider the fair treatment of its customers in setting bonus levels. The concept of determining what constitutes fair treatment, while established by statute, is not defined.

- Smoothing of investment returns: Smoothing of investment returns is an important feature of with-profits products. Determining when particular circumstances, such as a significant rise or fall in market values, warrant variations in the standard bonus smoothing limits that apply in normal circumstances requires the PAC Board to exercise significant judgment.

- Determining at what level to set bonuses to ensure that they are competitive: The overall return to policyholders is an important competitive measure for attracting new business.

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Key assumptions

As noted above, the overall rate of return on investments and the expectation of future investment returns are the most important influences in bonus rates, subject to the smoothing described below. Prudential determines the assumptions to apply in respect of these factors, including the effects of reasonably likely changes in key assumptions, in the context of the overarching discretionary and smoothing framework that applies to its with-profits business as described above. As such, it is not possible to quantify specifically the effects of each of these assumptions or of reasonably likely changes in these assumptions.

Prudential's approach, in applying significant judgment and discretion in relation to determining bonus rates, is consistent conceptually with the approach adopted by other firms that manage a with-profits business. It is also consistent with the requirements of UK law, which require all UK firms that carry out a with-profits business to define, and make publicly available, the Principles and Practices of Financial Management ('PPFM') that are applied in the management of their with-profits funds.

Accordingly, Prudential's PPFM contains an explanation of how it determines regular and final bonus rates within the discretionary framework that applies to all with-profits policies, subject to the general legislative requirements applicable. The purpose of Prudential's PPFM is therefore to:

- explain the nature and extent of the discretion available;
- show how competing or conflicting interests or expectations of different groups and generations of policyholders, and policyholders and shareholders are managed so that all policyholders and shareholders are treated fairly; and
- provide a knowledgeable observer (e.g. a financial adviser) with an understanding of the material risks and rewards from starting and continuing to invest in a with-profits policy with Prudential.

Furthermore, in accordance with industry-wide regulatory requirements, the PAC Board has appointed:

- an Actuarial Function Holder who provides the PAC board of directors with all actuarial advice;
- a With-Profits Actuary whose specific duty is to advise the PAC board of directors on the reasonableness and proportionality of the manner in which its discretion has been exercised in applying the PPFM and the manner in which any conflicting interests have been addressed; and
- a With-Profits Committee of independent individuals, which assesses the degree of compliance with the PPFM and the manner in which conflicting rights have been addressed.

Smoothing of investment return

In determining bonus rates for the UK with-profits policies, smoothing is applied to the allocation of the overall earnings of the UK with-profits fund of which the investment return is a significant element. The smoothing approach differs between accumulating and conventional with-profits policies to reflect the different contract features. In normal circumstances, Prudential does not expect most payout values on policies of the same duration to change by more than 10 per cent up or down from one year to the next, although some larger changes may occur to balance payout values between different policies. Greater flexibility may be required in certain circumstances, for example following a significant rise or fall in market values, and in such situations the PAC board of directors may decide to vary the standard bonus smoothing limits in order to protect the overall interests of policyholders.

Unallocated surplus

The unallocated surplus represents the excess of assets over policyholder liabilities of Prudential's with-profits funds. The annual excess or shortfall of income over expenditure of the with-profits funds

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after declaration and attribution of the cost of bonuses to policyholders and shareholders is transferred to, or from, the unallocated surplus through a charge or 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 on investments.

Changes to the level of the unallocated surplus do not directly impact shareholders' results or funds. After allowing for differences in the basis of preparation of the financial information and UK regulatory returns, movements in the level of the unallocated surplus are broadly indicative of movements in the excess of regulatory basis assets over liabilities of the fund. Differences in the basis of preparation of financial statements and UK regulatory returns arise principally from the treatment of certain regulatory basis liabilities, such as mismatching reserves (that are accounted for as reserves within the unallocated surplus), and asset valuation differences and admissibility deductions reflected in the regulatory returns. Except to the extent of any second order effects on other elements of the regulatory returns, such changes can be expected to have a consequent effect on the excess of assets over liabilities of the fund for the purposes of solvency calculations, and the related free asset ratio which is an indicator of the overall financial strength of the fund. Similar principles apply to Prudential's Asian with-profits business.

Surplus assets and their use

The liability for unallocated surplus comprises amounts Prudential expects to pay to policyholders in the future, the related shareholder transfers and surplus assets. These surplus assets have accumulated over many years from a variety of sources and provide the with-profits fund with working capital. This working capital permits Prudential to invest a substantial portion of the assets of the with-profits fund in equity securities and real estate, smooth investment returns to with-profits policyholders, keep its products competitive, write new business without being constrained as to cash flows in the early policy years and demonstrate solvency.

In addition, Prudential can use surplus assets to absorb the costs of significant events, such as fundamental strategic change in its long-term business, and, with the consent of the UK regulator, the cost of its historical pensions mis-selling, without affecting the level of distributions to policyholders and shareholders. The costs of fundamental strategic change may include investment in new technology, redundancy and restructuring costs, cost overruns on new business and the funding of other appropriate long-term insurance related activities, including acquisitions.

The 'SAIF' and 'PAL' funds

Prudential's with-profits fund includes the Scottish Amicable Insurance Fund ('SAIF') and the wholly-owned subsidiary, Prudential Annuities Limited ('PAL'). All assets of the SAIF business are solely attributable to former policyholders of Scottish Amicable Life Assurance Society (predating the acquisition of Scottish Amicable by Prudential in October 1997). Since PAL is a wholly-owned subsidiary of the with-profits fund, profits from this business affect shareholders' profits only to the extent that they affect the annual with-profits bonus declaration and resultant transfer to shareholders.

Accounting for with-profits business

For with-profits business (including non-participating business of Prudential Annuities Limited which is owned by the PAC with-profits fund), adjustments to liabilities and any related tax effects are recognised in the income statement. However, except for any impact on the annual declaration of bonuses, shareholder profit for with-profits business is unaffected. This is because IFRS basis profits for the with-profits business, which are determined on the same basis as on preceding UK GAAP, solely reflect one-ninth of the cost of bonuses declared for the year.

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Fair value of assets

Changes in the fair value of assets of Prudential's long-term with-profits funds will primarily be reflected in the excess of assets over liabilities recorded as the unallocated surplus. Shareholders' profits from with-profits business and shareholders' funds are not directly impacted by movements in the fair values of the assets. However, current investment performance is a factor that is taken into account in the setting of the annual declaration of bonuses which, in turn, affects UK shareholder profits to the extent of one-ninth of the cost of bonus.

Investment returns

For with-profits business, investment returns together with other income and expenditure are recorded within the income statement. However, the difference between net income of the fund and the cost of bonuses and related statutory transfers is reflected in an amount transferred to, or from, the unallocated surplus within the income statement. Except to the extent of current investment returns being taken into account in the setting of a bonus policy, the investment returns of a with-profits fund in a particular year do not affect shareholder profits or with-profits funds.

UK shareholder-backed annuity business

The results for this type of business are prepared in accordance with the UK Modified Statutory Basis. The results reflect the inclusion of investment return including realised and unrealised gains. The charge for benefits reflects the valuation rate of interest applied to discount future anticipated payments to policyholders. This rate in turn reflects current market yields adjusted for factors including default risks on the assets backing the liabilities. The level of allowance for default risk is a key assumption. Details are included in note E to the unaudited condensed consolidated financial statements.

Comparison of total profit arising from UK insurance operations

Profit after tax from UK insurance operations of £296 million in half year 2011 is broadly consistent with the £295 million in half year 2010.

The following table shows the movement in profits arising from UK insurance operations from half year 2010 to half year 2011:

	Half year 2011	**Half year 2010**
	(In £ Millions)	
Profit before shareholder tax	**395**	415
Shareholder tax	**(99)**	(120)
Profit after tax	**296**	295

The decrease in profit before tax attributable to shareholders of £20 million to £395 million in half year 2011 was primarily due to an adverse change in the value of short-term fluctuations in investment returns of the shareholder-backed business of £49 million which reflects asset value movements principally on the shareholder-backed annuity business. This decrease was partially offset by an increase in operating profit based on longer-term investment returns of £23 million from £330 million in half year 2010 to £353 million in half year 2011. Operating profit based on longer-term investment returns included general insurance commissions of £21 million in half year 2011 compared with £23 million for half year 2010.

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The effective shareholder tax rate on profits from UK insurance operations for half year 2011 of 25 per cent compares with an effective tax rate of 29 per cent in half year 2010, with the movement principally due to the reduction in the UK rate of tax.

Profit from asset management

Total profit from asset management increased from £135 million in half year 2010 to £200 million in half year 2011.

The following table shows the movement in profits from asset management from half year 2010 to half year 2011:

	Half year 2011	Half year 2010
	(In £ Millions)	
Profit before shareholder tax	**268**	190
Shareholder tax	**(68)**	(55)
Profit after tax	**200**	135

The £78 million increase in profit before tax attributable to shareholders resulted mainly from an increase in profit generated by M&G, which increased profit before tax of £139 million in half year 2010 to £208 million in half year 2011. In addition, Prudential's Asian asset management operations and US broker dealer and asset management operations experienced improved performances, with profit before shareholder tax increasing by £7 million and £2 million respectively from half year 2010 to half year 2011.

The £69 million increase in profit before tax attributable to M&G reflected a favourable movement of £56 million in operating profit based on longer-term investment returns, which was driven by improved equity market levels with the FTSE All Share averaging 11 per cent higher in half year 2011 compared with the same period in 2010, and strong net inflows, particularly from the retail business. Further, the increase in profit before tax attributable to M&G reflected a decrease in actuarial losses on defined benefit pension schemes of £12 million to £4 million in half year 2011, compared to £16 million in half year 2010.

The effective tax rate on profits from asset management operations decreased from 29 per cent in half year 2010 to 25 per cent in half year 2011, with the movement principally due to the reduction in the UK rate of tax.

Unallocated corporate result

Total net of tax charges for unallocated corporate activity decreased by £305 million from £477 million in half year 2010 to £172 million in half year 2011.

The following table shows the movement in the unallocated corporate result from half year 2010 to half year 2011:

	Half year 2011	Half year 2010
	(In £ Millions)	
Loss before shareholder tax	**(232)**	(642)
Shareholder tax	**60**	165
Loss after tax	**(172)**	(477)

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The loss before shareholder tax in half year 2010 of £642 million included costs of £377 million incurred in relation to the terminated transaction to purchase AIA Group Limited. Further details of these costs are presented in note G of Prudential's unaudited condensed consolidated interim financial statements. The period-on-period movement in loss before shareholder tax also resulted from a favourable movement in other income and expenditure (including restructuring and Solvency II implementation costs) of £19 million, from £265 million in half year 2010 to £246 million in half year 2011 and a favourable change in short-term fluctuations in investment returns from £15 million in half year 2010 to £nil in half year 2011.

The favourable movement of £19 million in net other expenditure includes a credit of £42 million resulting from the Prudential's alteration of its inflation measure basis for future statutory increases to pension payments for certain tranches of Prudential's UK defined benefit schemes. This reflects the UK Government's decision to replace the Retail Prices Index (RPI) basis of indexation with the Consumer Prices Index (CPI).

The effective tax rate on unallocated corporate result remained unchanged at 26 per cent in half year 2011.

c) Additional explanation of performance measures and analysis of consolidated results by business segment and geographical region

Prudential uses a performance measure of operating profit based on longer-term investment returns. The directors believe that this performance measure better reflects underlying performance. It is the basis used by management for the reasons outlined below. It is also the basis on which analysis of the Group's results has been provided to UK shareholders and the UK financial market for some years under long standing conventions for reporting by proprietary UK life assurers.

Prudential determines and presents operating segments based on the information that is internally provided to the Group Executive Committee ('GEC'), which is Prudential's chief operating decision maker.

An operating segment is a component of Prudential that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of Prudential's other components. An operating segment's operating results are reviewed regularly by the GEC to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The operating segments identified by Prudential reflect its organisational structure, which is by both geography (Asia, US and UK) and by product line (insurance operations and asset management). Prudential's operating segments as determined under 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).

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Prudential Capital has been incorporated into the M&G operating segment for the purposes of segment reporting. Prudential's operating segments are also its reportable segments.

The performance measure of operating segments utilised by Prudential 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 Prudential's holding in PruHealth. In the second half of 2010 Prudential 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 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 Asia Regional Head Office.

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

Assets backing UK annuity business liabilities.
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.

Assets backing unit-linked and US variable annuity business separate account liabilities.
For such business, the policyholder unit liabilities are directly reflective of the asset value movements. Accordingly, the operating results based on longer-term investment returns reflect the current period value movements in unit liabilities and the backing assets.

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

(i) Debt and equity-type securities

Longer-term investment returns for both debt and equity-type securities comprise longer-term income receivable (interest/dividend income) and capital returns.

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In principle, for debt securities, the longer-term capital returns comprise two elements. The first element is a risk margin reserve ('RMR') based charge for the expected level of defaults for the period, which is determined by reference to the credit quality of the portfolio. The difference between impairment losses in the reporting period and the RMR charge to the operating result is reflected in short-term fluctuations in investment returns. The second element is for the amortisation of interest-related realised gains and losses to operating results based on longer-term investment returns to the date when sold bonds would have otherwise matured.

The shareholder-backed operation for which the distinction between impairment losses and interest-related realised gains and losses is in practice relevant to a significant extent is Jackson National Life. Details of the RMR charge, as well as the amortisation of interest related realised gains and losses, for Jackson are shown in note F of the condensed consolidated interim financial statements.

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

At 30 June 2011 the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £390 million (31 December 2010: net gain of £337 million).

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

As at 30 June 2011, the equity-type securities for US insurance non-linked operations amounted to £862 million (31 December 2010: £852 million). For these operations, the longer-term rates of return for income and capital applied in 2011 ranged from 7.1 per cent to 7.5 per cent for equity-type securities such as common and preferred stock and portfolio holdings in mutual funds and from 9.1 per cent to 9.5 per cent for certain other equity-type securities such as investments in limited partnerships and private equity funds (half year 2010: 7.0 per cent to 7.9 per cent and 9.0 per cent to 9.9 per cent, respectively).

For Asian insurance operations, investments in equity securities held for non-linked shareholder-financed operations amounted to £449 million as at 30 June 2011 (31 December 2010: £506 million). Of this balance, £122 million (31 December 2010: £101 million) related to the Group's 8.66 per cent stake in China Life Insurance Company of Taiwan. This £122 million (31 December 2010: £101 million) investment is in the nature of a trade investment for which the determination of longer-term investment returns is on the basis as described in note (iv)(c) below. For the investments representing the other equity securities which had period end balances of £327 million (31 December 2010: £405 million), the rates of return applied in the half year 2011 and 2010 ranged from 9.0 per cent to 13.8 per cent with the rates applied varying by territory.

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

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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.

(ii) US variable and fixed index annuity business

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

- 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 a revised presentation applied from the full year 2010 reporting relating to value movements for Jackson's variable and fixed index annuity business. The revised presentation was adopted to reallocate 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 within the supplementary analysis of profit. 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 Prudential management's IFRS 8 segment measure. Within the supplementary analysis of profit, the change is presentational only. It has no impact

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on profit before tax or shareholders' equity. The impact of this change to the results for half year 2010 is as follows:

	Half Year 2010		
	Previous basis	Change	Revised basis
	(In £ Millions)		
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

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.

(iii) 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.

(iv) 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

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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:

a *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.

b *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.

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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.

c *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.

Actuarial and other gains and losses on defined benefit pension schemes

Actuarial and other gains and losses on defined benefit pension schemes principally reflect short-term value movements on scheme assets and the effects of changes in actuarial assumptions. Under Prudential's accounting policies these items are recorded within the income statement, rather than through other comprehensive income, due to the interaction of Prudential's approach to adoption of IFRS 4 for with-profits funds and the requirements of IAS 19.

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Reconciliation of total profit by business segment and geography to IFRS operating profit based on longer-term investment returns

Analysis of IFRS operating profit based on longer-term investment returns and IFRS total profit

A reconciliation of profit before tax (including tax attributable to policyholders' returns) to profit before tax attributable to shareholders and profit for the period is shown below.

	Half year	
	2011	**2010**
	(In £ Millions)	
Insurance business		
Long-term business (note (ii))		
Asia	**326**	262
US (note (iii))	**368**	327
UK	**332**	307
Development expenses	**(2)**	(3)
Long-term business operating profit based on longer-term investment returns	**1,024**	893
UK general insurance commission (note (iv))	**21**	23
Asset management business		
M&G	**199**	143
Asian asset management	**43**	36
Curian	**5**	2
US broker-dealer and asset management (note (iii))	**12**	13
	1,304	1,110
Other income and expenditure	**(253)**	(240)
RPI to CPI inflation measure change on defined benefit pension schemes (note (vi))	**42**	
Solvency II implementation costs	**(27)**	(22)
Restructuring costs	**(8)**	(3)
Total IFRS operating profit based on longer-term investment returns (note (i))	**1,058**	845
Short-term fluctuations in investment returns (note (v))		
Insurance operations	**85**	137
Other operations	**28**	12
Total short-term fluctuations in investment returns	**113**	149
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes (note (vii))	**(7)**	(24)
Costs of terminated AIA transaction		(377)
Profit from continuing operations before tax attributable to shareholders	**1,164**	593
Tax charge attributable to shareholders' returns	**(301)**	(149)
Profit for the period	**863**	444
Non-controlling interests	**(2)**	(2)
Total profit for the period attributable to equity holders of Prudential	**861**	442

Notes

(i)

Operating profit based on longer-term investment returns.

The Group provides supplementary analysis of IFRS profit before tax attributable to shareholders so as to distinguish operating profit based on longer-term investment returns from other elements of total profit. Operating profit based on longer-term investment returns is the basis on which management regularly reviews the performance of Prudential's segments as defined by IFRS 8. Further discussion on the determination of operating profit based on longer-term investment

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returns is provided in section c) "Additional explanation of performance measures and analysis of consolidated results by business segment and geographical region" above.

(ii) Effect of changes to assumptions, estimates and bases of determining life assurance liabilities.

The results of Prudential's long-term business operations are affected by changes to assumptions, estimates and bases of preparation. These are described in note E to the unaudited condensed consolidated interim financial statements.

(iii) Jackson operating results based on longer-term investment returns.

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.

(iv) UK operations transferred its general insurance business to Churchill in 2002, with general insurance commission representing the commission receivable (net of expenses) for Prudential branded general insurance products as part of this arrangement.

(v) Short-term fluctuations in investment returns on shareholder- backed business.

	Half year	
	2011	2010
	(In £ Millions)	
Insurance operations		
Asia	**14**	41
US	**27**	3
UK	**44**	93
Other operations		
Other	**28**	12
Total	**113**	149

* In the second half of 2010 Prudential 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 further in section c (ii) 'US variable and fixed index annuity business' above.

Further details on the short-term fluctuations in investment returns are provided below under 'Charge for short-term fluctuations in investment returns' and also in note F to the unaudited condensed consolidated interim financial statements.

(vi) During half year 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 Retail Prices Index (RPI) basis of indexation with the Consumer Prices Index (CPI). This resulted in a credit to operating profit before tax of £42 million.

(vii) 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 on scheme liabilities, the effect of changes in assumptions and altered provisions for deficit funding, where relevant.

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Reconciliation of IFRS operating profit based on longer-term investment returns to IFRS total profit

The following tables reconcile Prudential's operating profit based on longer-term investment returns to total profit attributable to shareholders.

Half year 2011	Insurance operations UK	US	Asia	Asset management M&G	US	Asia	Total Segment	Unallocated corporate	Total
				(In £ Millions)					
Insurance operations:									
Operating profit based on longer-term investment returns	**353**	**368**	**324**	**199**	**17**	**43**	**1,304**	**(246)**	**1,058**
Short-term fluctuations in investment returns on shareholder-backed business	**44**	**27**	**14**	**13**			**98**	**15**	**113**
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(2)**			**(4)**			**(6)**	**(1)**	**(7)**
Profit (loss) from continuing operations before tax attributable to shareholders	**395**	**395**	**338**	**208**	**17**	**43**	**1,396**	**(232)**	**1,164**
Tax attributable to shareholders									**(301)**
Profit for the period									**863**

Half year 2010	Insurance operations UK	US	Asia	Asset management M&G	US	Asia	Total Segment	Unallocated corporate	Total
				(In £ Millions)					
Insurance operations:									
Operating profit based on longer-term investment returns	330	327	259	143	15	36	1,110	(265)	845
Short-term fluctuations in investment returns on shareholder-backed business	93	3	41	12			149		149
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(8)			(16)			(24)		(24)
Costs of terminated AIA transaction								(377)	(377)
Profit (loss) from continuing operations before tax attributable to shareholders	415	330	300	139	15	36	1,235	(642)	593
Tax attributable to shareholders									(149)
Profit for the period									444

* In the second half of 2010 the Company amended the presentation of IFRS operating profit for its US insurance operations to reallocate the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) from operating profit based on longer-term investment returns to short-term fluctuations in investment returns. Accordingly, the half year 2010 operating profit has been amended to reallocate the positive £123 million effect

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IFRS operating profit based on longer-term investment returns

In half year 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.

Insurance operations

In Asia, IFRS operating profit for long-term business increased by 25 per cent from £259 million in the first half of 2010 to £324 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[(1)]) was four per cent of APE new business sales (2010: six per cent). This was, in part, due to Prudential's 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.

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(1) Excludes Japan new business strain of £1 million in 2010.

Hong Kong, Indonesia, Singapore and Malaysia, Prudential's largest markets in Asia, continued 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 Prudential has 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 was 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 was driven by the growth in the business, but it also included £82 million of accelerated DAC amortisation, which arises as a result of market movements and their interaction with the mean reversion methodology.

In Prudential's UK business, total IFRS operating profit was seven per cent ahead of the prior half year at £353 million (half year 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.

Asset management business

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 was driven by the strong net inflows received in recent periods, which together with improved equity markets, saw funds under management grow to £203 billion at 30 June 2011, compared with £178 billion at 30 June 2010. Of this £203 billion, external funds under management comprised £93.4 billion (30 June 2010: £75.7 billion). Net inflows fell to

£2.9 billion in the first half of 2011 as against £4.7 billion in the first half of 2010. Although this represented a substantial decrease, a reduction was expected after two successive years of particularly strong net inflows.

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 was driven both by increased operating revenues from higher funds under management and continued cost discipline resulting in an improved cost/income ratio. 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. Net inflows from third parties, however, fell from £1.3 billion in half year 2010 to negative £12 million in half year 2011. This was due in part to lower bond fund returns and to Japan, where significant inflows of £728 million from the launch of the Asia Oceania equity fund in 2010 were not repeated in half year 2011, and where the environment was not conducive to new product launches in half year 2011. This situation was partially mitigated by net inflows from corporate and institutional clients in Korea, together with new institutional mandates.

Unallocated corporate result

The £13 million increase in the charge for other income and expenditure to £253 million primarily reflected 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 Prudential continued to make progress in preparing for this change.

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

The following discussion 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

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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				
	Asia	US	UK	Unallocated	Total
	(In £ Millions)				
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**
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)**
Total operating profit based on longer-term investment returns	**367**	**385**	**552**	**(246)**	**1,058**

	Half year 2010				
	Asia	US	UK	Unallocated	Total
	(In £ Millions)				
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
	36	15	143		194

Asset management operating profit					
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

* Including restructuring and Solvency II implementation costs.

(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.

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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 to Prudential's unaudited condensed consolidated interim financial statements included in this document.

Total

	Half year 2011			**Half year 2010**		
Long-term business	**Profit**	**Average Liability**	**Margin**	**Profit**	**Average Liability**	**Margin**
	(In £ Millions)		**(bps)**	**(In £ Millions)**		**(bps)**
Spread income	**548**	**56,815**	**193**	466	53,852	173
Fee income	**423**	**68,564**	**123**	321	51,997	123
With-profits	**171**	**92,701**	**37**	171	87,291	39
Insurance margin	**345**			316		
Margin on revenues	**665**			619		
Expenses						
Acquisition costs*	**(927)**	**1,824**	**(51%)**	(823)	1,662	(50%)
Administration expenses	**(497)**	**125,379**	**(79)**	(453)	105,849	(86)
DAC adjustments	**180**			155		
Expected return on shareholder assets	**116**			121		
Operating profit	**1,024**			893		

Asia

	Half year 2011			**Half year 2010**		
Long-term business	**Profit**	**Average Liability**	**Margin**	**Profit**	**Average Liability**	**Margin**
	(In £ Millions)		**(bps)**	**(In £ Millions)**		**(bps)**
Spread income	**46**	**5,241**	**176**	39	4,155	188
Fee income	**67**	**12,973**	**103**	52	10,287	101
With-profits	**17**	**11,214**	**30**	17	9,711	35
Insurance margin	**225**			202		
Margin on revenues	**560**			474		
Expenses						
Acquisition costs*	**(349)**	**743**	**(47%)**	(318)	720	(44%)
Administration expenses	**(242)**	**18,214**	**(266)**	(225)	14,442	(312)
DAC adjustments	**(11)**			15		
Expected return on shareholder assets	**11**			3		
Operating profit	**324**			259		

* The ratio for acquisition costs is calculated as a percentage of APE including with-profits together with Japan (half year 2011 Japanese sales £nil; half year 2010: £7 million). Acquisition costs include only those relating to shareholders. APE is defined under the section 'EEV Basis and New Business Results' in this document.

Analysis of Asian operating profit drivers

Spread income has increased from £39 million in half year 2010 to £46 million in half year 2011. There has been a small fall in margin from 188 bps in 2010 to 176 bps in half year 2011 principally due to lower investment returns in China in 2011.

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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 half year 2010 to £225 million in half year 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 on-going 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 60 per cent for half year 2011 and 53 per cent for half year 2010. (Excluding India, half year 2011: 62 per cent and half year 2010: 60 per cent)

Administration expenses have increased from £225 million in half year 2010 to £242 million in half year 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.

US

	Half year 2011			Half year 2010		
Long-term business	**Profit**	**Average Liability**	**Margin**	**Profit**	**Average Liability**	**Margin**
	(In £ Millions)		**(bps)**	**(In £ Millions)**		**(bps)**
Spread income	**380**	**29,011**	**262**	344	29,317	235
Fee income	**327**	**33,604**	**195**	240	22,465	214
With-profits						
Insurance margin	**113**			118		
Margin on revenues						
Expenses						
Acquisition costs*	**(485)**	**672**	**(72%)**	(408)	560	(73%)
Administration expenses	**(195)**	**62,615**	**(62)**	(167)	51,782	(65)
DAC adjustments	**192**			142		
Expected return on shareholder assets	**36**			58		
Operating profit	**368**			327		

* The ratio for acquisition costs is calculated as a percentage of APE. APE is defined under the section 'EEV Basis and New Business Results' in this document.

Analysis of US operating profit drivers:

Spread income benefited by £53 million in half year 2011 from the effect of transactions entered into during 2010 to more closely match the overall asset and liability duration (half year 2010: £44 million). The increase in spread margin from 235 bps in half year 2010 to 262 bps in half year 2011 is due primarily to decreased crediting rates on fixed annuities.

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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 in half year 2011 (half year 2010: 201 bps). Separate account values increased in half year 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 half year 2010 to £113 million in half year 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 were modestly lower at 72 per cent in half year 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 half year 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**		
Long-term business	**Profit**	**Average Liability**	**Margin**	**Profit**	**Average Liability**	**Margin**
	(In £ Millions)		**(bps)**	**(In £ Millions)**		**(bps)**
Spread income	**122**	**22,563**	**108**	83	20,380	81
Fee income	**29**	**21,987**	**26**	29	19,245	30
With-profits	**154**	**81,487**	**38**	154	77,580	40
Insurance margin	**7**			(4)		
Margin on revenues	**105**			145		
Expenses						
Acquisition costs*	**(93)**	**409**	**(23%)**	(97)	382	(25%)
Administration expenses	**(60)**	**44,550**	**(27)**	(61)	39,625	(31)
DAC adjustments	**(1)**			(2)		
Expected return on shareholder assets	**69**			60		
Operating profit	**332**			307		

* The ratio for acquisition costs is calculated as a percentage of APE including with-profits sales. Acquisition costs include only those relating to shareholders. APE is defined under the section 'EEV Basis and New Business Results' in this document.

Analysis of UK operating profit drivers:

Spread income has increased by £39 million to £122 million in half year 2011 reflecting in a higher margin of 108 bps, up from 81 bps in half year 2010. 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

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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 half year 2010 to positive £7 million in half year 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 half year 2010 to 23 per cent in half year 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), with 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 half year 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 half year 2011. This is primarily the result of cost savings initiatives initiated by the UK in line with the business's stated objectives.

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Asian operations analysis of operating profit by territory

	Half year	
	2011	**2010**
	(In £ Millions)	
Underlying operating profit		
China		6
Hong Kong	**31**	27
India	**22**	15
Indonesia	**95**	70
Japan		(2)
Korea	**9**	6
Malaysia	**57**	45
Philippines	**1**	1
Singapore	**72**	56
Taiwan	**(8)**	
Thailand	**2**	(1)
Vietnam	**19**	21
Other	**1**	(1)
Non-recurrent items (note (ii))	**25**	19
Total insurance operations (note (i))	**326**	262
Development expenses	**(2)**	(3)
Total long-term business operating profit	**324**	259
Asset management	**43**	36
Total Asian operations	**367**	295

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:

	Half year	
	2011	**2010**
	(In £ Millions)	
New business strain (excluding Japan)	**(31)**	(42)
Japan		(1)
New business strain (including Japan)	**(31)**	(43)
Business in force	**357**	305
Total	**326**	262

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 re-occur in subsequent periods.

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Analysis of asset management operating profit based on longer-term investment returns

	Half year 2011				
	M&G(i)	Asia(i)	PruCap	US	Total
	(In £ Millions)				
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)**
Operating profit based on longer-term investment returns	**172**	**43**	**27**	**17**	**259**
Average funds under management (FUM)**	**£200.5 bn**	**£52.2 bn**			
Margin based on operating income**	**37 bps**	**39 bps**			
Cost/income ratio***	**55%**	**59%**			

	Half year 2010				
	M&G(i)	Asia(i)	PruCap	US	Total
	(In £ Millions)				
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)**	£176.0 bn	£44.2 bn			
Margin based on operating income**	34 bps	41 bps			
Cost/income ratio***	60%	62%			

(i) M&G and Asia asset management businesses can be further analysed as follows:

	M&G Operating income*							Asia Operating income*					
	Retail	Margin of FUM**	Institutional+	Margin of FUM**	Total	Margin of FUM**		Retail	Margin of FUM**	Institutional+	Margin of FUM**	Total	Margin of FUM**
	(£m)	(bps)	(£m)	(bps)	(£m)	(bps)		(£m)	(bps)	(£m)	(bps)	(£m)	(bps)
30 June 2011	**209**	**95**	**157**	**20**	**366**	**37**	**30 June 2011**	**61**	**61**	**40**	**25**	**101**	**39**
30 June 2010	165	102	137	19	302	34	30 June 2010	59	64	33	25	92	41

*

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 (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.

***

Cost/income ratio is calculated as cost as a percentage of income excluding performance-related fees.

+

Institutional includes internal funds.

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.

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Short-term fluctuations in investment returns

In calculating the operating profit based on longer-term investment returns, longer-term investment return assumptions are used rather than actual investment returns arising in the period. The difference between the 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.

Short-term fluctuations in investment returns for the Group's insurance operations in half year 2011 of £85 million comprise positive £14 million for Asia, positive £27 million for US operations and positive £44 million for the UK.

The positive short-term fluctuations of £14 million for the Asian operations include 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 the 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 the 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[(1)]). The primary reason for the decrease in rate compared to half year 2010 is the reduction in the UK tax rate. The effective rate of tax on total profits is 26 per cent (2010: 25 per cent).

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(1) In the second half of 2010 the Company amended the presentation of IFRS operating profit for its US insurance operations to reallocate the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) from operating profit based on longer-term investment returns to short-term fluctuations in investment returns. Accordingly the half year 2010 operating profit has been amended to reallocate the positive £123 million effect with a consequential impact on the effective tax rate.

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IFRS earnings per share

Earnings per share (EPS)

	Half Year	
	2011	2010
	(Pence)	
Basic IFRS EPS based on operating profit after tax and non-controlling interests(i)	**32.2**	25.4
Basic IFRS EPS based on total profit after non-controlling interests	**34.0**	17.5

(i) In the second half of 2010 the Company amended the presentation of IFRS operating profit for its US insurance operations to reallocate the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) from operating profit based on longer-term investment returns to short-term fluctuation in investment returns. Accordingly the half year 2010 operating profit has been amended to reallocate the positive £123 million effect.

Explanation of Movements in Profits Before Shareholder Tax by Nature of Revenue and Charges

The following table shows Prudential's consolidated total revenue and consolidated total charges for the following periods.

	Half year 2011	Half year 2010
	(In £ Millions)	
Earned premiums, net of reinsurance	**12,930**	11,256
Investment return	**7,750**	5,027
Other income	**923**	754
Total revenue, net of reinsurance	**21,603**	17,037
Benefits and claims and movement in unallocated surplus of with-profits funds	**(17,590)**	(13,650)
Acquisition costs and other expenditure	**(2,615)**	(2,654)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(140)**	(129)
Total charges, net of reinsurance	**(20,345)**	(16,433)
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)**	**1,258**	604
Tax charge attributable to policyholders' returns	**(94)**	(11)
Profit before tax attributable to shareholders	**1,164**	593
Tax charge attributable to shareholders' returns	**(301)**	(149)
Profit for the period	**863**	444

* This measure is the formal profit (loss) before tax measure under IFRS but it is not the result attributable to shareholders. See 'Presentation of results before tax' under the 'IFRS Critical Accounting Policies' section above for further explanation.

Earned premiums

	Half year 2011	Half year 2010
	(In £ Millions)	
Asian operations	**3,487**	2,927
US operations	**6,674**	5,689
UK operations	**2,769**	2,640
Total	**12,930**	11,256

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Earned premiums, net of reinsurance, for insurance operations totalled £12,930 million in half year 2011 compared to £11,256 million in half year 2010. The increase of £1,674 million for half year 2011 was driven by an increase of £985 million in the US operations, an increase of £560 million in the Asian and an increase of £129 million in the UK operations.

a) Asia

Earned premiums in Asia, net of reinsurance in half year 2011 were £3,487 million, an increase of 19 per cent over the comparable £2,927 figure in half year 2010. The premiums reflect the aggregate of single and recurrent premiums of new business sold in the period and premiums on annual business sold in previous periods. The growth in earned premiums reflects increases for both factors.

The prospects for the life insurance sector in Asia remain very positive as they are supported by strong economic fundamentals, relatively low market penetration and the increasing size of the middle class with its 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.

Prudential's overarching strategy in Asia 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.

b) United States

Earned premiums, net of reinsurance increased by 17 per cent from £5,689 million in half year 2010 to £6,674 million in half year 2011, driven principally by the increase in sales of new single variable annuity business and an addition of modest institutional sales partially offset by decreases in fixed annuity and fixed index annuity sales.

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. Fixed index annuity sales were down as Jackson continued to focus its marketing efforts on higher margin variable annuity products.

The growth in the variable annuity business 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 Prudential's major competitors and increased distribution capacity.

c) United Kingdom

Earned premiums, net of reinsurance for UK operations increased from £2,640 million in half year 2010 to £2,769 million in half year 2011, primarily reflecting a bulk annuity buy-in insurance agreement signed in half year 2011 with total new business premiums of £281 million and an increase in sales of with-profits bonds, partially offset by reductions in the sales of individual annuities and reductions in premiums for annual business sold in prior years. The reduction in the sales of individual annuities, as UK continues to proactively manage the flow of external conventional new business to control capital consumption, was mainly due to the end of a partnership agreement in the second half of 2010 and also the effects of the change in the minimum retirement age from 50 to 55.

Prudential continues to be a market leader in both individual annuities and with-profits. Prudential's emphasis on value and returns saw the UK business continue to prioritise the retail market while participating selectively in the wholesale market when returns meet our financial criteria.

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Investment return

	Half year 2011	Half year 2010
	(In £ Millions)	
Asian operations	**790**	239
US operations	**2,274**	(31)
UK operations	**4,665**	4,916
Unallocated Corporate	**21**	(97)
Total	**7,750**	5,027

Investment return principally comprises interest income, dividends, investment appreciation/depreciation (realised and unrealised gains) and losses on investments designated as fair value through profit and loss and realised gains and losses, including impairment losses, on securities designated as available-for-sale. Movements in unrealised appreciation/depreciation of Jackson's debt securities designated as available-for-sale are not reflected in investment return but are recorded in other comprehensive income.

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.

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	Half Year 2011	Half Year 2010
	(In £ Millions)	
Asian operations		
Policyholders' returns		
Assets backing unit-linked liabilities	**208**	(4)
With-profits business	**404**	34
	612	30
Shareholders' returns	**178**	209
Total	**790**	239
US operations		
Policyholders' returns		
Assets held to back (separate account) unit-linked liabilities	**1,530**	(981)
Shareholders' returns		
Realised gains and losses (including impairment losses on available-for-sale bonds)	**81**	14
Value movements on derivative hedging programme for general account business	**93**	149