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Additional unaudited financial information

I: 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 audited consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU) and European Embedded Value (EEV).

This table is only a summary and should be read in conjunction with Prudential's consolidated financial statements and the related notes included elsewhere in this document.

Income statement data

	Year ended 31 December				
	2011 £m	**2010** £m	**2009** £m	**2008** £m	**2007** £m
IFRS basis results					
Gross premium earned	**25,706**	24,568	20,299	18,993	18,359
Outward reinsurance premiums	**(429)**	(357)	(323)	(204)	(171)
Earned premiums, net of reinsurance	**25,277**	24,211	19,976	18,789	18,188
Investment return	**9,360**	21,769	26,889	(30,202)	12,225
Other income	**1,869**	1,666	1,234	1,146	2,457
Total revenue, net of reinsurance	**36,506**	47,646	48,099	(10,267)	32,870
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(29,289)**	(40,518)	(41,195)	10,824	(26,785)
Acquisition costs and other expenditure	**(5,005)**	(4,799)	(4,572)	(2,459)	(4,859)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(286)**	(257)	(209)	(172)	(168)
Loss on sale of Taiwan agency business	**–**	–	(559)	–	–
Total charges, net of reinsurance	**(34,580)**	(45,574)	(46,535)	8,193	(31,812)
Profit (loss) before tax (being tax attributable to shareholders' and policyholders' returns)[1]	**1,926**	2,072	1,564	(2,074)	1,058
Tax credit (charge) attributable to policyholders' returns	**17**	(611)	(818)	1,624	5
Profit (loss) before tax attributable to shareholders	**1,943**	1,461	746	(450)	1,063
Tax (charge) credit attributable to shareholders' returns	**(449)**	(25)	(55)	59	(354)
Profit (loss) from continuing operations after tax	**1,494**	1,436	691	(391)	709
Discontinued operations (net of tax)	**–**	–	(14)	–	241
Profit (loss) for the year	**1,494**	1,436	677	(391)	950
Based on profit (loss) for the year attributable to the equity holders of the Company:					
Basic earnings per share (in pence)	**58.8p**	56.7p	27.0p	(16.0)p	38.7p
Diluted earnings per share (in pence)	**58.7p**	56.6p	27.0p	(16.0)p	38.6p
Dividend per share declared and paid in reporting period (in pence)	**25.19p**	20.17p	19.20p	18.29p	17.42p

Supplementary IFRS income statement data

	Year ended 31 December				
	2011 £m	**2010** £m	**2009** £m	**2008** £m	**2007** £m
Operating profit based on longer-term investment returns(note 2)	**2,070**	1,941	1,564	1,212	1,152
Short-term fluctuations in investment returns on shareholder-backed business	**(148)**	(123)	(123)	(1,650)	(51)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**21**	(10)	(74)	(13)	(1)
Costs of terminated AIA transaction	**–**	(377)	–	–	–
Gain on dilution of Group's holdings	**–**	30	–	–	–
Loss on sale and results of Taiwan agency business	**–**	–	(621)	1	(37)
Profit (loss) from continuing operations before tax attributable to shareholders(note 2)	**1,943**	1,461	746	(450)	1,063
Operating earnings per share (reflecting operating profit based on longer-term investment returns after related tax and non-controlling interests and excluding 2010 exceptional tax credit) (in pence)	**63.9p**	62.0p	47.5p	38.1p	31.3p
Operating earnings per share (reflecting operating profit based on longer-term investment returns after related tax and non-controlling interests and including 2010 exceptional tax credit) (in pence)	**63.9p**	68.3p	47.5p	38.1p	31.3p

Supplementary EEV income statement data

	Year ended 31 December				
	2011 £m	**2010** £m	**2009** £m	**2008** £m	**2007** £m
Operating profit based on longer-term investment returns(note 2)	**3,978**	3,696	3,090	2,865	2,353
Short-term fluctuations in investment returns on shareholder-backed business	**(907)**	(30)	351	(4,967)	200
Mark to market value movements on core borrowings	**(14)**	(164)	(795)	656	223
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**23**	(11)	(84)	(14)	(5)
Effect of changes in economic assumptions	**(158)**	(10)	(910)	(398)	632
Costs of terminated AIA transaction	**–**	(377)	–	–	–
Gain on dilution of Group's holdings		3	–	–	–
Profit on sale and results of Taiwan agency business	**–**	–	91	(248)	267
Profit (loss) from continuing operations before tax attributable to shareholders	**2,922**	3,107	1,743	(2,106)	3,670
Operating earnings per share (reflecting operating profit based on longer-term investment returns after related tax and non-controlling interests and excluding 2010 exceptional tax credit) (in pence)	**115.7p**	106.9p	88.8p	85.1p	69.2p
Operating earnings per share (reflecting operating profit based on longer-term investment returns after related tax and non-controlling interests and including 2010 exceptional tax credit) (in pence)	**115.7p**	113.2p	88.8p	85.1p	69.2p

Additional unaudited financial information continued

I: Selected historical financial information of Prudential continued

New business data

New business excluding Japan(note 3)

	Year ended 31 December				
	AER				
	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Annual premium equivalent (APE) sales:					
– Asia	1,660	1,501	1,209	1,174	1,044
– US	1,275	1,164	912	716	671
– UK	746	820	723	947	910
– Total APE sales	3,681	3,485	2,844	2,837	2,625
EEV new business profit (NBP)	2,151	2,028	1,619	1,205	1,103
NBP margin (% APE)	58%	58%	57%	42%	42%

Statement of financial position data

As of and for the Year Ended 31 December	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
IFRS basis results:					
Total assets	273,580	260,806	227,754	215,542	219,382
Total policyholder liabilities and unallocated surplus of with-profits funds	236,290	224,980	196,417	182,391	190,317
Core structural borrowings of shareholder-financed operations	3,611	3,676	3,394	2,958	2,492
Total liabilities	264,420	252,731	221,451	210,429	213,218
Total equity	9,160	8,075	6,303	5,113	6,164

Other data

As of and for the Year Ended 31 December	2011 £bn	2010 £bn	2009 £bn	2008 £bn	2007 £bn
Funds under management(note 4)	351	340	290	249	267
EEV shareholders' equity, excluding non-controlling interests	19.6	18.2	15.3	15.0	14.6
Insurance Groups Directive capital surplus (as adjusted)(note 5)	4.0	4.3	3.4	1.5	1.9

Notes

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

(2) Operating profits are determined on the basis of including longer-term investment returns. EEV and IFRS operating profits are stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, transaction costs arising from business combinations in the period and costs associated with the terminated AIA transaction. In addition, for EEV basis results, operating profit excludes the effect of changes in economic assumptions and the market value movements on core borrowings.

(3) Asia comparative APE new business sales prior to 2011 exclude the Japanese insurance operations, which ceased writing new business from 15 February 2010.

(4) Funds under management comprise funds of the Group held in the statement of financial position and external funds that are managed by Prudential asset management operations.

(5) The surpluses shown are before allowing for the final dividends for each year, which are paid in the following year. The 2011 surplus is estimated. Since 2007, following the sale of Egg Banking, Prudential has been subject to the capital adequacy requirements of the Insurance Groups Directive (IGD) which applies to groups whose activities are mainly in the insurance sector. Prior to the sale of Egg Banking, Prudential was subject to the capital adequacy requirements of the Financial Conglomerates Directive (FCD) which applies to groups with significant cross-sector activities in insurance and banking/investment services. Prudential was classified as an insurance conglomerate under the FCD. As the requirements for insurance conglomerates under the FCD are closely aligned to the requirements for insurance groups under the IGD, the move for Prudential from FCD to IGD did not result in a significant impact.

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

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

i **Spread income** represents the difference between net investment income (or premium income in the case of the UK annuities new business) and amounts credited to policyholder accounts. It excludes the longer-term investment return on assets in excess of those covering shareholder-backed policyholder liabilities, which has been separately disclosed as **expected return on shareholder assets**.

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

iii **With-profits** business represents the shareholders' transfer from the with-profits fund in the period.

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

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

vi **Acquisition costs and administration expenses** represent expenses incurred in the period attributable to shareholders. It excludes items such as restructuring costs and Solvency II costs, which are not included in the segment profit for insurance, as well as items that are more appropriately included in other source of earnings lines (eg 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

	2011 £m				
	Asia	US	UK	Unallocated	Total
Spread income	88	730	247	–	1,065
Fee income	131	680	59	–	870
With-profits	38	–	293	–	331
Insurance margin	477	232	27	–	736
Margin on revenues	1,199	–	226	–	1,425
Expenses:					
Acquisition costs	(766)	(890)	(127)	–	(1,783)
Administration expenses	(503)	(412)	(128)	–	(1,043)
DAC adjustments	14	271	(5)	–	280
Expected return on shareholder assets	26	83	91	–	200
Long-term business operating profit	704	694	683	–	2,081
Asset management operating profit	80	24	357	–	461
GI commission	–	–	40	–	40
RPI to CPI inflation measure change on defined benefit pension schemes	–	–	–	42	42
Other income and expenditure*	–	–	–	(554)	(554)
Total operating profit based on longer-term investment returns	784	718	1,080	(512)	2,070

* Including restructuring and Solvency II implementation costs.

Additional unaudited financial information continued

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

	2010† £m				
	Asia	US	UK	Unallocated	Total
Spread income	70	692	251	–	1,013
Fee income	122	506	60	–	688
With-profits	32	–	310	–	342
Insurance margin	392	188	12	–	592
Margin on revenues	1,018	–	194	–	1,212
Expenses:					
Acquisition costs	(656)	(851)	(138)	–	(1,645)
Administration expenses	(467)	(344)	(113)	–	(924)
DAC adjustments	2	517	(1)	–	518
Expected return on shareholder assets	19	125	98	–	242
Long-term business operating profit	532	833	673	–	2,038
Asset management operating profit	72	22	284	–	378
GI commission	–	–	46	–	46
Other income and expenditure*	–	–	–	(521)	(521)
Total operating profit based on longer-term investment returns	604	855	1,003	(521)	1,941

* Including restructuring and Solvency II implementation costs.
† Following the reduction in 2010 of the Group's interest in the PruHealth and PruProtect businesses from 50 per cent to 25 per cent, the profits of these businesses have been shown as a single line in the insurance margin line in 2011, consistent with associate accounting principles. 2010 has been amended in light of this change.

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. Details of the Group's average policyholder liability balances are given in D2(c), D3(c) and D4(c).

	Total					
	2011			2010‡		
Long-term business	Profit £m	Average Liability* £m	Margin bps	Profit £m	Average Liability* £m	Margin bps
Spread income	1,065	57,417	185	1,013	53,894	188
Fee income	870	68,298	127	688	56,822	121
With-profits	331	93,056	36	342	89,693	38
Insurance margin	736			592		
Margin on revenues	1,425			1,212		
Expenses:						
Acquisition costs†	(1,783)	3,681	(48)%	(1,645)	3,492	(47)%
Administration expenses	(1,043)	125,715	(83)	(924)	110,716	(83)
DAC adjustments	280			518		
Expected return on shareholder assets	200			242		
Operating profit	2,081			2,038		

* The average liability balance is generally calculated as the average of the opening and closing liability balances as this is seen as a good proxy for average balances throughout the year. Given the volatility in the year, the calculation of average liabilities has been refined for Jackson in two ways: (i) the average for both the general and the separate account balances is now derived from month-end balances throughout the year as opposed to opening and closing balances only, and (ii) liabilities held in the general account for variable annuity living and death guaranteed benefits have been excluded from the calculation of the average as no spread income is earned on these balances. The 2010 balances for Jackson have been amended for consistency albeit impacts are minimal.
† The ratio for acquisition costs is calculated as a percentage of APE including with-profits sales and Japan (2011: £nil; 2010: £7 million). Acquisition costs include only those relating to shareholders.
‡ Following the reduction in 2010 of the Group's interest in the PruHealth and PruProtect businesses from 50 per cent to 25 per cent, the profits of these businesses have been shown as a single line in the insurance margin line consistent with associate accounting principles. The UK's 2010 analysis has been amended in light of this change.

Long-term business	Asia					
	2011			2010		
	Profit £m	Average Liability £m	Margin bps	Profit £m	Average Liability £m	Margin bps
Spread income	88	5,623	157	70	4,393	159
Fee income	131	12,370	106	122	11,222	109
With-profits	38	11,775	32	32	10,135	32
Insurance margin	477			392		
Margin on revenues	1,199			1,018		
Expenses:						
Acquisition costs*	(766)	1,660	(46)%	(656)	1,508	(44)%
Administration expenses	(503)	17,993	(280)	(467)	15,615	(299)
DAC adjustments	14			2		
Expected return on shareholder assets	26			19		
Operating profit	704			532		

* The ratio for acquisition costs is calculated as a percentage of APE, including with-profits sales and Japan (2011: £nil; 2010: £7 million). Acquisition costs include only those relating to shareholders.

Analysis of Asian IFRS operating profit drivers

- **Spread income** has increased by £18 million from £70 million in 2010 to £88 million in 2011, an increase of 26 per cent that predominantly reflects the growth of the Asian non-linked policyholder liabilities;
- **Fee income** has increased by £9 million from £122 million in 2010 to £131 million in 2011, broadly in line with the movement in unit-linked liabilities following continued positive net flows into unit-linked business;
- **Insurance margin** has increased by £85 million from £392 million in 2010 to £477 million in 2011, predominantly reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products. 2011 includes £38 million (2010: £19 million) of non-recurring items, reflecting assumption changes and other items that are not expected to reoccur in future periods;
- **Margin on revenues** has increased by £181 million to £1,199 million in 2011, reflecting the ongoing growth in the size of the portfolio. During the year the new business mix has moved towards those countries that levy higher premium charges (eg Indonesia);
- **Acquisition costs** have increased by 17 per cent from £656 million in 2010 to £766 million in 2011, ahead of the 10 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 21 per cent higher compared to a 18 per cent increase in sales. The analysis above uses shareholder acquisition costs as a proportion of total APE. If with-profits sales were excluded from the denominators, the acquisition cost ratio would become 59 per cent (2010: 53 per cent). (Excluding India 2011: 61 per cent, 2010: 58 per cent);
- **Administration expenses** have increased from £467 million in 2010 to £503 million in 2011. The administration expense ratio has improved from 299 bps in 2010 to 280 bps in 2011 as we continue to see the benefits of operational leverage; and
- **Expected return on shareholder assets** has increased by £7 million to £26 million, principally reflecting higher shareholder assets and lower investment expenses in the period.

Additional unaudited financial information continued

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

	US					
	2011			2010		
Long-term business	Profit £m	Average Liability* £m	Margin bps	Profit £m	Average Liability* £m	Margin bps
Spread income	730	28,274	258	692	28,532	243
Fee income	680	34,452	197	506	25,247	200
With-profits	–			–		
Insurance margin	232			188		
Margin on revenues	–			–		
Expenses:						
Acquisition costs†	(890)	1,275	(70)%	(851)	1,164	(73)%
Administration expenses	(412)	62,726	(66)	(344)	53,779	(64)
DAC adjustments	271			517		
Expected return on shareholder assets	83			125		
Operating profit	694			833		

* The average liability balance is generally calculated as the average of the opening and closing liability balances as this is seen as a good proxy for average balances throughout the year. Given the volatility in the year, the calculation of average liabilities has been refined for Jackson in two ways: (i) the average for both the general and the separate account balances is now derived from month-end balances throughout the year as opposed to opening and closing balances only, and (ii) liabilities held in the general account for variable annuity living and death guaranteed benefits have been excluded from the calculation of the average as no spread income is earned on these balances. The 2010 balances have been amended for consistency, albeit impacts are minimal.

† The ratio for acquisition costs is calculated as a percentage of total APE.

Analysis of US IFRS operating profit drivers

- **Spread income** benefited by £113 million in 2011 from the effect of transactions entered into in 2011 and 2010 to more closely match the overall asset and liability duration (2010: £108 million). Excluding this effect, the spread margin would have been 218 bps (2010: 205 bps). The reported spread margin increased from 243 bps in 2010 to 258 bps in 2011. This is despite the downward pressure on yields caused by the low interest rate environment, the effect of which continues to be mitigated by reductions in crediting rates;
- **Fee income** has increased by 34 per cent to £680 million in 2011, broadly in line with the growth in separate account balances. The growth in account balances during 2011 reflected the strong net flows from variable annuity business;
- **Insurance margin** represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Positive net flows into variable annuity business with life contingent and other guarantee fees have primarily resulted in an improvement in the margin from £188 million in 2010 to £232 million in 2011;
- **Acquisition costs** have increased in absolute terms compared to 2010, due largely to the significant increase in sales volumes. However, acquisition costs as a percentage of total APE is slightly lower at 70 per cent in 2011, with the decrease attributable to a reduced rate of marketing costs and lower average commissions;
- **Administration expenses** increased to £412 million in 2011, compared to £344 million in 2010, primarily as a result of higher asset based commission paid on the larger 2011 separate account balance. These asset based commissions paid upon policy anniversary dates are treated as an administration expense in this analysis as opposed to a cost of acquisition, and are offset by higher fees. The administration cost was marginally higher at 66 bps (2010: 64 bps). Excluding trail commission amounts, the resulting administration expense ratio would be 46 bps (2010: 48 bps); and
- **DAC adjustments** decreased by £246 million to £271 million in 2011 compared to £517 million in 2010. This mainly reflects additional DAC amortisation of approximately £166 million related to the reversal of the benefit received in 2008 from the mean reversion formula, as well as accelerated DAC amortisation of £66 million as separate account returns, were lower than 2010.

Long-term business	UK 2011 Profit £m	Average Liability £m	Margin bps	2010† Profit £m	Average Liability £m	Margin bps
Spread income	247	23,520	105	251	20,969	120
Fee income	59	21,476	27	60	20,353	29
With-profits	293	81,281	36	310	79,558	39
Insurance margin	27			12		
Margin on revenues	226			194		
Expenses:						
Acquisition costs*	(127)	746	(17)%	(138)	820	(17)%
Administration expenses	(128)	44,996	(28)	(113)	41,322	(27)
DAC adjustments	(5)			(1)		
Expected return on shareholder assets	91			98		
Operating profit	683			673		

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

† Following the reduction in 2010 of the Group's interest in the PruHealth and PruProtect businesses from 50 per cent to 25 per cent, the profits of these businesses have been shown as a single line in the insurance margin line in 2011, consistent with associate accounting priciples. 2010 has been amended in light of this change.

Analysis of UK IFRS operating profit drivers

- **Spread income** remains broadly unchanged from 2010 at £247 million (2010: £251 million). The margin has fallen from 120 bps to 105 bps principally due to 2010 benefiting from higher bulk annuity sales, partly offset by the benefit of portfolio restructuring undertaken in the year and higher yields being achieved on new individual annuity business;
- **Insurance margin** has increased from £12 million in 2010 to £27 million in 2011, principally driven by an improvement in the profitability of PruHealth and PruProtect;
- **Margin on revenues** represents premiums charges for expenses and other sundry net income received by the UK. Higher amounts were recorded in 2011 (£226 million) compared to 2010 (£194 million), reflecting higher sundry income and an increase in premiums from shareholder-backed retail business in 2011 as compared to 2010;
- **Acquisition costs** as a percentage of new business sales has remained constant with 2010 at 17 per cent;

  The ratio above expresses the percentage of shareholder acquisition costs as a percentage of total APE sales. It is therefore impacted by the level of with-profit sales in the year. Acquisition costs as a percentage of shareholder-backed new business sales were 33 per cent in 2011 (30 per cent in 2010), due in part to the beneficial effect in 2010 of the higher level of bulk annuity transactions, which had a relatively modest level of acquisition costs;
- **Administration expenses** have increased by £15 million to £128 million in 2011 primarily as a result of increased project expenditure, resulting in a marginally higher administration expense ratio of 28 bps in 2011 (2010: 27 bps); and
- **Expected return on shareholder asset** has fallen from £98 million in 2010 to £91 million in 2011 following a reduction in assumed longer-term yields on assets backing shareholder capital.

Additional unaudited financial information continued

II(b): Asian operations – analysis of IFRS operating profit by territory

	2011 £m	2010 £m
China	11	5
Hong Kong	69	51
India	43	24
Indonesia	212	157
Japan	2	(6)
Korea	17	12
Malaysia	104	97
Philippines	5	2
Singapore	167	129
Taiwan bancassurance business	1	(4)
Thailand	4	2
Vietnam	35	43
Other	1	5
Non-recurrent items[note (ii)]	38	19
Total insurance operations[note (i)]	709	536
Development expenses	(5)	(4)
Total long-term business operating profit	704	532
Eastspring Investments	80	72
Total Asian operations	784	604

Notes

(i) Analysis of operating profit between new and in-force business
The result for insurance operations comprises amounts in respect of new business and business in-force as follows:

	2011 £m	2010 £m
New business strain (excluding Japan)	(54)	(56)
Japan	–	(1)
New business strain (including Japan)	(54)	(57)
Business in force	763	593
Total	709	536

The IFRS new business strain corresponds to approximately 3 per cent of new business APE premiums for 2011 (2010: approximately 4 per cent of new business APE).

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 £38 million in 2011 (2010: £19 million) represents a small number of items that are not anticipated to reoccur in subsequent periods.

II(c): Analysis of asset management operating profit based on longer-term investment returns

	2011 £m				
	M&G note (i)	Eastspring Investments note (i)	PruCap	US	Total
Operating income before performance-related fees	706	196	122	249	1,273
Performance-related fees	21	6	–	–	27
Operating income*	727	202	122	249	1,300
Operating expense	(426)	(122)	(66)	(225)	(839)
Operating profit based on longer-term investment returns	301	80	56	24	461
Average funds under management (FUM)†	199.8 bn	51.1 bn			
Margin based on operating income†	36 bps	40 bps			
Cost/income ratio‡	60%	62%			

	2010 £m				
	M&G note (i)	Eastspring Investments note (i)	PruCap	US	Total
Operating income before performance-related fees	615	185	88	229	1,117
Performance-related fees	17	6	–	–	23
Operating income*	632	191	88	229	1,140
Operating expense	(386)	(119)	(50)	(207)	(762)
Operating profit based on longer-term investment returns	246	72	38	22	378
Average funds under management (FUM)†	186.5 bn	47.2 bn			
Margin based on operating income†	34 bps	40 bps			
Cost/income ratio‡	63%	64%			

Note

(i) M&G and Eastspring Investments can be further analysed as follows:

	M&G					
	Operating income*					
	Retail £m	Margin of FUM†§ bps	Institutional¶ £m	Margin of FUM† bps	Total £m	Margin of FUM† bps
2011	416	96	311	20	727	36
2010	345	93	287	19	632	34

	Eastspring Investments					
	Operating income*					
	Retail £m	Margin of FUM† bps	Institutional¶ £m	Margin of FUM† bps	Total £m	Margin of FUM† bps
2011	120	64	82	25	202	40
2010	120	62	71	26	191	40

* Operating income is net of commissions and includes performance-related fees, and for M&G carried interest on private equity investments.

† Margin represents operating income as a proportion of the related funds under management (FUM). 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.

§ 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, the retail margins would have been 95 bps for 2011 and 2010.

¶ Institutional includes internal funds.

Additional unaudited financial information continued

III(a): Adoption of altered US GAAP requirements to Group IFRS reporting in 2012

Change to accounting policy for deferral of acquisition costs for operations applying US GAAP measurement principles to insurance assets and liabilities from 1 January 2012

Background

Under the Group's accounting policies the measurement of insurance assets and liabilities reflects the application of UK GAAP under the Modified Statutory Basis (MSB). This has been applied from when the Company first adopted IFRS in 2005, subject to subsequent policy improvements under IFRS 4. The MSB in turn is based on the codification in the 2003 ABI Statement of Recommended Practice which, subject to various restrictions, permits the use of local bases for overseas operations. Accordingly, since 2005, the insurance assets and liabilities of the Group's US operations have been measured using US GAAP. This basis has also been explicitly applied to those Asian operations (namely India, Japan, Taiwan and Vietnam) where the local regulatory basis is not appropriate as a starting point for deriving MSB compliant results.

In October 2010, the Emerging Issues Task Force of the US Financial Accounting Standards Board issued Update No 2010-26 on 'Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts'. The update was issued to address perceived diversity by companies preparing financial statements in accordance with US GAAP as regards the types of acquisition costs being deferred. Under US GAAP, costs that can be deferred and amortised are those that 'vary with and are primarily related to the acquisition of insurance contracts'. The Update requires insurers to capitalise only those incremental costs directly related to acquiring a contract for financial statements for reporting periods starting after 15 December 2011. All other indirect acquisition expenses are required to be charged to the income statement as incurred expenses. Accordingly, the main impact of the Update is to disallow insurers from deferring costs that are not directly related to successful sales.

Under the Update, US insurers preparing financial statements under US GAAP can choose to make a prospective or a retrospective application. Under the prospective basis, the change is confined to the income statement from the date of adoption to incorporate the additional charge for non-deferrable expenses for the activity of the reporting period. No changes are made to the results of comparative periods.

By contrast, under retrospective application, the deferred acquisition costs balances in the statement of financial position for comparative periods are reset so as to only defer those costs permitted by the Update. In the income statement, the net effect of the Update reflects:

(i) as for the prospective basis, the additional charge for non deferrable expenses for the activity of the reporting period, offset by
(ii) a reduced charge for DAC amortisation reflecting the lower level of expenses that could be deferred on prior period activity.

Under the Group's IFRS reporting, Prudential has the option to either continue with its current basis of measurement or improve its accounting policy under IFRS 4 to acknowledge the issuance of the Update. Prudential has chosen to continue with its current basis of measurement for reporting of its 2011 results and improve its policy in 2012 to apply the US GAAP update on the retrospective basis to the results of its US insurance operation, Jackson. The reason and timing for the change is to achieve consistency with the basis expected to be applied by peer competitor companies in the US market in their US GAAP financial statements. To ensure consistency, it is also intended to make the change on the retrospective basis in 2012 for the Asian operations that historically have effectively applied US GAAP for measuring insurance assets and liabilities.

Effect of change of policy in 2012

The results impact of the policy improvement to adopt the Update in 2012 is summarised in the tables shown below.

Effect of policy improvement in 2012 on comparative results for 2011 and full-year 2010

Analysis of profit and earnings per share	Year ended 31 December 2011 £m			6 months ended 30 June 2011 £m			Year ended 31 December 2010 £m		
	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012
Analysis of profit									
Operating profit based on longer-term investment returns									
Asian insurance operations(note (a))	704	–	704	324	(2)	322	532	(10)	522
US insurance operations(note (b))	694	(43)	651	368	(28)	340	833	(105)	728
Other operations	672	–	672	366	–	366	576	–	576
Total	2,070	(43)	2,027	1,058	(30)	1,028	1,941	(115)	1,826
Short-term fluctuations in investment returns	(148)	(72)	(220)	113	(20)	93	(123)	(75)	(198)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	21	–	21	(7)	–	(7)	(10)	–	(10)
Costs of terminated AIA transaction	–	–	–	–	–	–	(377)	–	(377)
Gain on dilution of Group holdings	–	–	–	–	–	–	30	–	30
Profit before tax attributable to shareholders (including actual investment returns)	1,943	(115)	1,828	1,164	(50)	1,114	1,461	(190)	1,271
Tax attributable to shareholders – operating profit excluding, for 2010, exceptional tax credit:									
Asian insurance operations	(122)	–	(122)	(39)	1	(38)	(58)	2	(56)
US insurance operations	(200)	15	(185)	(110)	10	(100)	(249)	37	(212)
Other operations	(126)	–	(126)	(91)	–	(91)	(64)	–	(64)
	(448)	15	(433)	(240)	11	(229)	(371)	39	(332)
Exceptional 2010 tax credit related primarily to the impact of settlement agreed with the UK tax authorities	–	–	–	–	–	–	158	–	158
Total	(448)	15	(433)	(240)	11	(229)	(213)	39	(174)
Tax attributable to shareholders – non-operating profit	(1)	25	24	(61)	7	(54)	188	26	214
Non-controlling interests – operating profit	(4)	–	(4)	(2)	–	(2)	(5)	–	(5)
Profit after tax and non-controlling interests	1,490	(75)	1,415	861	(32)	829	1,431	(125)	1,306

Additional unaudited financial information continued

III(a): Adoption of altered US GAAP requirements to Group IFRS reporting in 2012 continued

Analysis of profit and earnings per share	Year ended 31 December 2011 £m			6 months ended 30 June 2011 £m			Year ended 31 December 2010 £m		
	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012
Operating profit after tax and non-controlling interests									
Excluding, for 2010, exceptional tax credit	1,618	(28)	1,590	816	(19)	797	1,565	(76)	1,489
Exceptional 2010 tax credit	–			–	–	–	158	–	158
Total	1,618	(28)	1,590	816	(19)	797	1,723	(76)	1,647
Earnings per Share (pence)									
Operating (basic) – excluding, for 2010, exceptional tax credit (pence)	63.9p	(1.1)p	62.8p	32.2p	(0.8)p	31.4p	62.0p	(3.0)p	59.0p
Operating (diluted) – excluding, for 2010, exceptional tax credit (pence)	63.8p	(1.1)p	62.7p	32.1p	(0.8)p	31.3p	61.9p	(3.0)p	58.9p
Total (diluted) (pence)	58.7p	(3.0)p	55.7p	33.9p	(1.3)p	32.6p	56.6p	(4.9)p	51.7p

Notes on effect of change on operating profit based on longer-term investment returns

(a) Asian insurance operations

	Year ended 31 December 2011 £m			6 months ended 30 June 2011 £m			Year ended 31 December 2010 £m		
	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012
New business									
Acquisition costs on new contracts not able to be deferred		(16)			(10)			(20)	
Business in force at beginning of period									
Reduction in amortisation on reduced DAC balance		16			8			10	
Total		–			(2)			(10)	
Arising in the following insurance operations:									
India		4			2			1	
Japan		–			–			–	
Taiwan		1			(1)			(3)	
Vietnam		(5)			(3)			(8)	
Total		–			(2)			(10)	

(b) US insurance operations

	Year ended 31 December 2011 £m			6 months ended 30 June 2011 £m			Year ended 31 December 2010 £m		
	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012
New business									
Acquisition costs on new contracts not able to be deferred		(156)			(80)			(159)	
Business in force at beginning of period									
Reduction in amortisation on reduced DAC balance		113			52			54	
Total		(43)			(28)			(105)	

Changes in equity and balance sheet	Year ended 31 December 2011 £m As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	6 months ended 30 June 2011 £m As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	Year ended 31 December 2010 £m As reported under current policy	Effect of change	Under new policy from 1 Jan 2012
Changes in equity									
Profit for the year net of non-controlling interests	1,490	(75)	1,415	861	(32)	829	1,431	(125)	1,306
Exchange movements on foreign operations and net investment hedges, net of related tax	(32)	(5)	(37)	(75)	13	(62)	251	(14)	237
Available-for-sale securities									
US operations classified as available-for-sale	811	–	811	237	–	237	1,221	–	1,221
Related change in amortisation of deferred income and acquisition costs	(331)	56	(275)	(97)	26	(71)	(496)	86	(410)
Related tax	(168)	(19)	(187)	(49)	(8)	(57)	(247)	(31)	(278)
Total comprehensive income for the year net of non-controlling interests	1,770	(43)	1,727	877	(1)	876	2,160	(84)	2,076
Dividends	(642)	–	(642)	(439)	–	(439)	(511)	–	(511)
New share capital and other movements	(42)	–	(42)	32	–	32	111	–	111
Net increase in equity	1,086	(43)	1,043	470	(1)	469	1,760	(84)	1,676
At beginning of year	8,031	(510)	7,521	8,031	(510)	7,521	6,271	(426)	5,845
At end of year	9,117	(553)	8,564	8,501	(511)	7,990	8,031	(510)	7,521

Additional unaudited financial information continued

III(a): Adoption of altered US GAAP requirements to Group IFRS reporting in 2012 continued

Changes in equity and balance sheet	Year ended 31 December 2011 £m			6 months ended 30 June 2011 £m			Year ended 31 December 2010 £m		
	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	As reported under current policy	Effect of change	Under new policy from 1 Jan 2012
Balance sheet									
Assets									
Deferred acquisition costs attributable to shareholders:									
Insurance operations									
Asia	744	(50)	694	741	(52)	689	758	(52)	706
US	3,880	(785)	3,095	3,639	(717)	2,922	3,543	(714)	2,829
UK	111	–	111	115	–	115	116	–	116
Asset management	12	–	12	9	–	9	9	–	9
	4,747	(835)	3,912	4,504	(769)	3,735	4,426	(766)	3,660
Investments and other assets	268,833	–	268,833	264,962	–	264,962	256,380	–	256,380
Total assets	273,580	(835)	272,745	269,466	(769)	268,697	260,806	(766)	260,040
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds	236,290	–	236,290	232,304	–	232,304	224,980	–	224,980
Core structural borrowings of shareholder-financed operations	3,611	–	3,611	3,998	–	3,998	3,676	–	3,676
Deferred tax liabilities	4,211	(282)	3,929	4,194	(258)	3,936	4,224	(256)	3,968
Other liabilities	20,308	–	20,308	20,423	–	20,423	19,851	–	19,851
Total liabilities	264,420	(282)	264,138	260,919	(258)	260,661	252,731	(256)	252,475
Equity									
Shareholders' equity									
Asian insurance operations	2,349	(43)	2,306	2,269	(45)	2,224	2,149	(45)	2,104
US insurance operations	4,271	(510)	3,761	3,764	(466)	3,298	3,815	(465)	3,350
Rest of Group	2,497	–	2,497	2,468	–	2,468	2,067	–	2,067
	9,117	(553)	8,564	8,501	(511)	7,990	8,031	(510)	7,521
Non-controlling interests	43	–	43	46	–	46	44	–	44
Total equity	9,160	(553)	8,607	8,547	(511)	8,036	8,075	(510)	7,565
Total liabilities and equity	273,580	(835)	272,745	269,466	(769)	268,697	260,806	(766)	260,040

III(b): IFRS shareholders' funds summary by business unit and net asset value per share

i Shareholders' fund summary

	2011 £m	2010 £m
Asian operations		
Insurance operations:		
Net assets of operation	2,114	1,913
Acquired goodwill	235	236
Total	2,349	2,149
Eastspring Investments		
Net assets of operation	211	197
Acquired goodwill	61	61
Total	272	258
Total	2,621	2,407
US operations		
Jackson (net of surplus note borrowings)	4,271	3,815
Broker-dealer and asset management operations:		
Net assets of operation	113	106
Acquired goodwill	16	16
Total	129	122
Total	4,400	3,937
UK operations		
Insurance operations:		
Long-term business operations	2,552	2,115
Other	29	33
Total	2,581	2,148
M&G		
Net assets of operation	229	254
Acquired goodwill	1,153	1,153
Total	1,382	1,407
Total	3,963	3,555
Other operations		
Holding company net borrowings	(2,001)	(2,035)
Shareholders' share of provision for future deficit funding of the Prudential Staff Pension Scheme (net of tax)	(5)	(10)
Other net assets	139	177
Total	(1,867)	(1,868)
Total of all operations	9,117	8,031

ii Net asset value per share

	2011	2010
Closing equity shareholders' funds	£9,117m	£8,031m
Net asset value per share attributable to equity shareholders[note (i)]	358p	315p

Note
(i) Based on the closing issued share capital as at 31 December 2011 of 2,548 million shares (2010: 2,546 million shares).

Additional unaudited financial information continued

IV(a): Reconciliation of expected transfer of fair value of in-force (VIF) and required capital business of free surplus

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

The tables below show how the VIF generated by the in-force long-term business and the associated required capital is modelled as emerging into free surplus over the next 40 years. Although a small amount (1 per cent) of the Group's embedded value emerges after this date, analysis of cash flows emerging in the early years is considered most meaningful. The modelled cash flows use the same methodology underpinning the Group's embedded-value reporting, and so are subject to the same assumptions and sensitivities.

In addition to showing the amounts, both discounted and undiscounted, expected to be generated from all in-force business at 31 December 2011, the tables also present the expected future free surplus to be generated from the investment made in new business during 2011 over the same 40-year period.

	2011 £m							
	Undiscounted expected generation from all in-force business at 31 December*				Undiscounted expected generation from 2011 long-term new business written*			
Expected period of emergence	Asia	US	UK	Total	Asia	US	UK	Total
2012	674	680	423	1,777	104	245	20	369
2013	647	485	502	1,634	123	103	21	247
2014	634	450	472	1,556	120	96	23	239
2015	595	480	437	1,512	92	16	18	126
2016	590	484	428	1,502	91	102	20	213
2017	564	438	412	1,414	84	61	20	165
2018	556	425	400	1,381	86	52	17	155
2019	541	425	389	1,355	87	103	17	207
2020	523	369	380	1,272	81	87	17	185
2021	512	318	372	1,202	83	73	17	173
2022	491	274	364	1,129	78	67	16	161
2023	482	226	360	1,068	74	51	16	141
2024	472	169	353	994	73	42	16	131
2025	465	156	345	966	69	38	16	123
2026	464	135	332	931	88	33	17	138
2027	463	112	327	902	66	27	16	109
2028	460	97	316	873	68	22	16	106
2029	449	85	306	840	62	18	16	96
2030	445	67	297	809	65	15	16	96
2031	437	57	283	777	70	10	17	97
2032 to 2036	2,035	177	1,185	3,397	294	27	79	400
2037 to 2041	1,869	(96)	894	2,667	260	(35)	81	306
2042 to 2046	1,737	–	488	2,225	242	–	54	296
2047 to 2051	1,597	–	282	1,879	242	–	36	278
Total free surplus expected to emerge in the next 40 years	17,702	6,013	10,347	34,062	2,702	1,253	602	4,557

* The analysis excludes amounts incorporated into VIF at 31 December 2011 where there is no definitive timeframe for when the payments will be made or receipts received. In particular, it excludes the value of the shareholders' interest in the estate. It also excludes any free surplus emerging after 2051.

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

New business	2011 £m Asia	US	UK	Total
Undiscounted expected free surplus generation for years 2012 to 2051	2,702	1,253	602	4,557
Less: discount effect	(1,611)	(377)	(355)	(2,343)
Discounted expected free surplus generation for years 2012 to 2051	1,091	876	247	2,214
Discounted expected free surplus generation for years 2051+	32	–	2	34
Less: Free surplus investment in new business	(297)	(202)	(54)	(553)
Other items*	(15)	(144)	–	(159)
Post-tax EEV new business profit	811	530	195	1,536
Tax	265	285	65	615
Pre-tax EEV new business profit	1,076	815	260	2,151

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

The undiscounted expected free surplus generation from all in-force business at 31 December 2011 shown below can be reconciled to the amount that was expected to be generated as at 31 December 2010 as follows.

Group	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Other £m	Total £m
2010 expected free surplus generation for years 2011 to 2050	1,923	1,551	1,579	1,449	1,446	1,367	26,538	35,853
Less: Amounts expected to be realised in the current year	(1,923)	–	–	–	–	–	–	(1,923)
Add: Expected free surplus to be generated in year 2051*	–	–	–	–	–	–	230	230
Foreign exchange differences	–	(11)	(13)	(11)	(9)	(8)	(64)	(116)
New business	–	369	247	239	126	213	3,363	4,557
Operating movements	–	16	19	18	–	3		
Non-operating and other movements	–	(148)	(198)	(139)	(51)	(73)	(3,986)	(4,539)
2011 expected free surplus generation for years 2012 to 2051	–	1,777	1,634	1,556	1,512	1,502	26,081	34,062

Asia	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Other £m	Total £m
2010 expected free surplus generation for years 2011 to 2050	635	598	573	558	554	554	14,472	17,944
Less: Amounts expected to be realised in the current year	(635)	–	–	–	–	–	–	(635)
Add: Expected free surplus to be generated in year 2051*	–	–	–	–	–	–	192	192
Foreign exchange differences	–	(15)	(17)	(14)	(13)	(11)	(87)	(157)
New business	–	104	123	120	92	91	2,172	2,702
Operating movements	–	1	3	(4)	(18)	(21)		
Non-operating and other movements	–	(14)	(35)	(26)	(20)	(23)	(2,187)	(2,344)
2011 expected free surplus generation for years 2012 to 2051	–	674	647	634	595	590	14,562	17,702

* Excluding 2011 new business.

Additional unaudited financial information continued

IV(a): Reconciliation of expected transfer of fair value of in-force (VIF) and required capital business of free surplus continued

US	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Other £m	Total £m
2010 expected free surplus generation for years 2011 to 2050	852	546	490	440	449	380	3,219	6,376
Less: Amounts expected to be realised in the current year	(852)	–	–	–	–	–	–	(852)
Add: Expected free surplus to be generated in year 2051*	–	–	–	–	–	–	–	–
Foreign exchange differences	–	4	4	3	4	3	23	41
New business	–	245	103	96	16	102	691	1,253
Operating movements	–	(8)	(2)	7	4	16		
Non-operating and other movements	–	(107)	(110)	(96)	7	(17)	(499)	(805)
2011 expected free surplus generation for years 2012 to 2051	–	680	485	450	480	484	3,434	6,013

UK	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Other £m	Total £m
2010 expected free surplus generation for years 2011 to 2050	436	407	516	451	443	433	8,847	11,533
Less: Amounts expected to be realised in the current year	(436)	–	–	–	–	–	–	(436)
Add: Expected free surplus to be generated in year 2051*	–	–	–	–	–	–	38	38
New business	–	20	21	23	18	20	500	602
Operating movements	–	23	18	15	14	8		
Non-operating and other movements	–	(27)	(53)	(17)	(38)	(33)	(1,300)	(1,390)
2011 expected free surplus generation for years 2012 to 2051	–	423	502	472	437	428	8,085	10,347

* Excluding 2011 new business.

At 31 December 2011, the total free surplus expected to be generated over the next five years (years 2012-2016 inclusive), using the same assumptions and methodology as underpin our embedded-value reporting was £8.0 billion, an increase of £0.6 billion from the £7.4 billion expected over the same period at the end of 2010.

This increase reflected the new business written in 2011, which is expected to generate £1,194 million of free surplus over the next five years. Operating movements were positive £56 million, less than 1 per cent of our 2012 to 2016 free surplus expectation at the end of 2010. Market effects and foreign exchange movements reduced expected free surplus generation for the next five years by £609 million and £52 million respectively.

Market movements in Asia include the effect of lower fund-earned rates in Indonesia, Singapore and Hong Kong where government yields have fallen by 165 bps, 110 bps and 140 bps respectively. In the US, lower US treasury bond yields have led to a reduction in the assumed variable annuity separate return, which has had a consequential negative impact on the level of projected future fees. Market movements in the UK primarily reflect the adverse effect on with-profits bonus rates of lower assumed investment returns.

At 31 December 2011, the total free surplus expected to be generated on an undiscounted basis in the next 40 years is £34 billion. Notwithstanding the drag on future earnings caused by the market effects on fee and with-profits business referred to above, the expected free surplus generation over the next 40 years has increased. This reflects both our ability to write new business on very attractive economics and the robust management of the in-force book.

Actual underlying free surplus generated in 2011 from life business in-force at the end of 2010 was £2.2 billion, inclusive of £0.2 billion of changes in operating assumption and experience variances. This compares with the expected 2011 realisation at the end of 2010 of £1.9 billion. This can be analysed further as follows:

	Asia £m	**US** £m	**UK** £m	**Total** £m
Transfer to free surplus in 2011	597	754	511	1,862
Expected return on free assets	58	42	10	110
Operating variances	52	154	(38)	168
RPI to CPI inflation measure change on defined benefit pension schemes	–	–	20	20
Underlying free surplus generated from in-force life business in 2011	707	950	503	2,160
2011 free surplus expected to be generated at 31 December 2010	635	852	436	1,923

Additional unaudited financial information continued

IV(a): Reconciliation of expected transfer of fair value of in-force (VIF) and required capital business of free surplus continued

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

	2011 £m							
	Discounted expected generation from all in-force business at 31 December				Discounted expected generation from long-term 2011 new business written			
Expected period of emergence	Asia	US	UK	Total	Asia	US	UK	Total
2012	639	656	397	1,692	99	237	19	355
2013	565	441	438	1,444	107	94	19	220
2014	512	385	381	1,278	96	82	19	197
2015	448	388	338	1,174	68	13	14	95
2016	418	371	310	1,099	61	75	15	151
2017	375	317	279	971	53	43	14	110
2018	348	287	254	889	51	35	11	97
2019	317	269	231	817	48	64	10	122
2020	289	228	210	727	41	51	10	102
2021	267	186	192	645	40	40	9	89
2022	238	153	176	567	35	34	8	77
2023	220	117	162	499	32	24	8	64
2024	200	85	149	434	28	19	7	54
2025	184	74	136	394	25	16	7	48
2026	170	61	120	351	29	13	7	49
2027	169	49	111	329	24	10	6	40
2028	158	41	100	299	22	8	6	36
2029	145	34	90	269	20	6	5	31
2030	135	27	81	243	18	5	5	28
2031	125	22	71	218	19	3	5	27
2032 to 2036	498	69	232	799	68	7	18	93
2037 to 2041	347	7	115	469	47	(3)	14	58
2042 to 2046	246	–	35	281	34	–	7	41
2047 to 2051	171	–	12	183	26	–	4	30
Total discounted free surplus expected to emerge in the next 40 years	7,184	4,267	4,620	16,071	1,091	876	247	2,214

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

	Total £m
Discounted expected generation from all in-force business for years 2012 to 2051	16,071
Discounted expected generation from all in-force business for years after 2051	211
Discounted expected generation from all in-force business at 31 December 2011	16,282
Add: Free surplus of life operations held at 31 December 2011	2,839
Less: Time value of guarantees	(685)
Other non-modelled items*	1,214
Total EEV of life operations	19,650

* These relate to items where there is no definitive timeframe for when the payments will be made or receipts received and are, consequently, excluded from the amounts incorporated into the tables above showing the expected generation of free surplus from in-force business at 31 December 2011. In particular, it excludes the value of the shareholders' interest in the estate.

IV(b): Funds under management

i Summary

	2011 £bn	2010 £bn
Business area:		
Asian operations	32.6	30.9
US operations	71.9	63.6
UK operations	146.3	145.2
Internal funds under management	250.8	239.7
External funds note (i)	99.8	100.4
Total funds under management	350.6	340.1

Note
(i) External funds shown above for 2011 of £99.8 billion (2010: £100.4 billion) comprise £111.2 billion (2011: £111.4 billion) in respect of investment products, as published in the New Business schedules (see schedule 7) less £11.4 billion (2010: £11.0 billion) that are classified within internal funds.

ii Internal funds under management – analysis by business area

	Asian operations		US operations		UK operations		Total	
	2011 £bn	2010 £bn	2011 £bn	2010 £bn	2011 £bn	2010 £bn	2011 £bn	2010 £bn
Investment properties note (i)	–	–	–	0.1	10.7	11.5	10.7	11.6
Equity securities	12.0	14.5	38.1	31.5	37.3	40.7	87.4	86.7
Debt securities	17.7	14.1	27.1	26.4	79.8	75.9	124.6	116.4
Loans and receivables	2.4	1.3	4.3	4.2	13.7	3.8	20.4	9.3
Other investments	0.5	1.0	2.4	1.4	4.8	13.3	7.7	15.7
Total	32.6	30.9	71.9	63.6	146.3	145.2	250.8	239.7

Note
(i) As included in the investments section of the consolidated statement of financial position at 31 December 2011, except for £0.2 billion (2010: £0.4 billion) investment properties which are held-for-sale or occupied by the Group and, accordingly under IFRS, are included in other statement of financial position captions.

IV(c): Effect of foreign currency rate movements on results

i Rates of exchange

The profit and loss accounts of foreign subsidiaries are translated at average exchange rates for the year. Assets and liabilities of foreign subsidiaries are translated at closing exchange rates. Foreign currency borrowings that have been used to provide a hedge against Group equity investments in overseas subsidiaries are also translated at closing exchange rates. The impact of these translations is recorded as a component of the movement in shareholders' equity.

	Closing	Average	Closing	Average
Local currency: £	2011	2011	2010	2010
Hong Kong	12.07	12.48	12.17	12.01
Indonesia	14,091.80	14,049.41	14,106.51	14,033.41
Malaysia	4.93	4.90	4.83	4.97
Singapore	2.02	2.02	2.01	2.11
India	82.53	74.80	70.01	70.66
Vietnam	32,688.16	33,139.22	30,526.26	29,587.63
USA	1.55	1.60	1.57	1.55

Additional unaudited financial information continued

IV(c): Effect of foreign currency rate movements on results continued

ii Effect of rate movement on results

IFRS basis results

	As published 2011 note (i) £m	Memorandum 2010 note (i) £m
Asian operations:		
Long-term operations	709	533
Development expenses	(5)	(4)
Total Asian insurance operations after development costs	704	529
Eastspring Investments	80	73
Total Asia operations	784	602
US operations:		
Jackson	694	803
Broker-dealer, asset management and Curian operations	24	21
Total US operations	718	824
UK operations:		
Long-term business	683	673
General insurance commission	40	46
Total UK insurance operations	723	719
M&G	357	284
Total UK operations	1,080	1,003
Total segment profit	2,582	2,429
Other income and expenditure	(483)	(449)
RPI to CPI inflation measure change on defined benefit pension schemes	42	–
Solvency II implementation costs	(55)	(45)
Restructuring costs	(16)	(26)
Operating profit based on longer-term investment returns	2,070	1,909
Shareholders' funds	9,117	8,007

Note

(i) The 'as published' operating profit for 2011 and 'memorandum' operating profit for 2010 have been calculated by applying average 2011 exchange rates (CER).
The 'as published' shareholders' funds for 2011 and memorandum' shareholders' funds for 2010 have been calculated by applying closing period end 2011 exchange rates.

EEV basis results

	As published 2011 note (i) £m	Memorandum 2010 note (i) £m
Asian operations:		
New business:		
Excluding Japan	1,076	900
Japan	–	(1)
Total	1,076	899
Business in force	688	539
Long-term operations	1,764	1,438
Eastspring Investments	80	73
Development expenses	(5)	(4)
Total Asia operations	1,839	1,507
US operations:		
New business	815	734
Business in force	616	672
Jackson	1,431	1,406
Broker-dealer, asset management and Curian operations	24	21
Total US operations	1,455	1,427
UK operations:		
New business	260	365
Business in force	593	571
Long-term business	853	936
General insurance commission	40	46
Total insurance	893	982
M&G	357	284
Total UK operations	1,250	1,266
Other income and expenditure	(536)	(493)
RPI to CPI inflation measure change on defined benefit pension schemes	45	–
Solvency II implementation costs	(56)	(46)
Restructuring costs	(19)	(28)
Operating profit based on longer-term investment returns	3,978	3,633
Shareholders' funds	19,637	18,135

Note
(i) The 'as published' operating profit for 2011 and 'memorandum' operating profit for 2010 have been calculated by applying average 2011 exchange rates (CER).
The 'as published' shareholders' funds for 2011 and memorandum' shareholders' funds for 2010 have been calculated by applying closing period end 2011 exchange rates.

Additional unaudited financial information continued

IV(d): Option schemes

The Group maintains four share option schemes satisfied by the issue of new shares. UK-based executive directors are eligible to participate in the UK Savings Related Share Option Scheme, and Asia-based executives can participate in the International Savings Related Share Option Scheme. Dublin-based employees are eligible to participate in the Prudential International Assurance Sharesave Plan, and Hong Kong-based agents can participate in the Non-employee Savings Related Share Option Scheme. Further details of the schemes and accounting policies are detailed in Note I4 of the IFRS basis condensed consolidated financial statements.

All options were granted at £nil consideration. No options have been granted to substantial shareholders, suppliers of goods or services (excluding options granted to agents under the Non-employee Savings Related Share Option Scheme) or in excess of the individual limit for the relevant scheme.

The options schemes will terminate as follows, unless the directors resolve to terminate the plans at an earlier date:

- UK Savings Related Share Option Scheme: 8 May 2013,
- International Savings Related Share Option Scheme: 31 May 2021,
- Prudential International Assurance Sharesave Plan: 3 August 2019, and
- Non-employee Savings Related Share Option Scheme: 9 May 2012.

The weighted average share price of Prudential plc for the year ended 31 December 2011 was £6.86 (2010: £5.68).

Particulars of options granted to directors are included in the Directors' Remuneration Report on page 134.

The closing price of the shares immediately before the date on which the options were granted during the current period was £5.99.

The following analyses show the movement in options for each of the option schemes for the year ended 31 December 2011.

UK Savings Related Share Option Scheme

Date of grant	Exercise price £	Exercise period: Beginning	Exercise period: End	Number of options: Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
01 Oct 2003	3.62	01 Dec 2010	31 May 2011	2,775	–	1,850	–	–	925	–
15 Apr 2004	3.46	01 Jun 2011	30 Nov 2011	17,946	–	17,946	–	–	–	–
30 Sep 2004	3.43	01 Dec 2011	31 May 2012	8,430	–	4,522	–	–	56	3,852
12 Apr 2005	3.87	01 Jun 2012	30 Nov 2012	12,222	–	3,321	–	–	373	8,528
29 Sep 2005	4.07	01 Dec 2010	31 May 2011	10,597	–	10,597	–	–	–	–
29 Sep 2005	4.07	01 Dec 2012	31 May 2013	9,492	–	237	–	–	183	9,072
20 Apr 2006	5.65	01 Jun 2011	30 Nov 2011	13,884	–	13,771	–	–	113	–
20 Apr 2006	5.65	01 Jun 2013	30 Nov 2013	7,564	–	114	–	–	128	7,322
28 Sep 2006	4.75	01 Dec 2011	31 May 2012	48,003	–	35,810	–	–	1,164	11,029
28 Sep 2006	4.75	01 Dec 2013	31 May 2014	13,325	–	–	–	–	–	13,325
26 Apr 2007	5.72	01 Jun 2010	30 Nov 2010	3,558	–	495	–	–	198	2,865
26 Apr 2007	5.72	01 Jun 2012	30 Nov 2012	8,337	–	–	–	–	1,146	7,191
26 Apr 2007	5.72	01 Jun 2014	30 Nov 2014	503	–	–	–	–	–	503
27 Sep 2007	5.52	01 Dec 2010	31 May 2011	25,033	–	21,910	–	–	3,123	–
27 Sep 2007	5.52	01 Dec 2012	31 May 2013	17,870	–	86	121	–	399	17,264
27 Sep 2007	5.52	01 Dec 2014	31 May 2015	1,668	–	–	–	–	–	1,668
25 Apr 2008	5.51	01 Jun 2011	30 Nov 2011	50,952	–	45,633	682	–	4,637	–
25 Apr 2008	5.51	01 Jun 2013	30 Nov 2013	28,220	–	168	–	–	953	27,099
25 Apr 2008	5.51	01 Jun 2015	30 Nov 2015	1,670	–	73	–	–	53	1,544
25 Sep 2008	4.38	01 Dec 2011	31 May 2012	153,998	–	103,089	2,628	5,525	2,139	40,617
25 Sep 2008	4.38	01 Dec 2013	31 May 2014	49,036	–	401	–	765	517	47,353
25 Sep 2008	4.38	01 Dec 2015	31 May 2016	14,857	–	709	1,660	–	1,117	11,371
27 Apr 2009	2.88	01 Jun 2012	30 Nov 2012	3,138,322	–	185,439	24,356	60,965	99,908	2,767,654
27 Apr 2009	2.88	01 Jun 2014	30 Nov 2014	1,993,530	–	61,175	17,362	26,585	98,560	1,789,848
27 Apr 2009	2.88	01 Jun 2016	30 Nov 2016	202,734	–	4,560	7,960	1,137	10,109	178,968
25 Sep 2009	4.25	01 Dec 2012	31 May 2013	264,812	–	13,167	14,601	2,348	10,401	224,295
25 Sep 2009	4.25	01 Dec 2014	31 May 2015	101,327	–	955	5,928	731	2,848	90,865
28 Sep 2010	4.61	01 Dec 2013	31 May 2014	314,557	–	2,996	12,636	11,310	15,646	271,969
28 Sep 2010	4.61	01 Dec 2015	31 May 2016	134,638	–	–	334	–	–	134,304
16 Sep 2011	4.66	01 Dec 2014	31 May 2015	–	491,329	–	4,828	1,081	–	485,420
16 Sep 2011	4.66	01 Dec 2016	31 May 2017	–	202,210	–	4,573	–	–	197,637
				6,649,860	693,539	529,024	97,669	110,447	254,696	6,351,563

The total number of securities available for issue under the scheme is 6,351,563, which represents 0.249 per cent of the issued share capital at 31 December 2011.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £6.65.

The fair value of options granted under the Plan in the period was £2.63.

Additional unaudited financial information continued

IV(d): Option schemes continued

International Savings Related Share Option Scheme

		Exercise period		Number of options						
Date of grant	Exercise price £	Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
12 Apr 2005	3.87	01 Jun 2010	30 Nov 2010	758	–	–	–	–	758	–
20 Apr 2006	5.65	01 Jun 2011	30 Nov 2011	820	–	–	–	–	–	820
28 Sep 2006	4.75	01 Dec 2011	31 May 2012	709	–	–	–	–	–	709
26 Apr 2007	5.72	01 Jun 2010	30 Nov 2010	88,610	–	–	–	854	87,756	–
26 Apr 2007	5.72	01 Jun 2012	30 Nov 2012	17,847	–	–	–	–	–	17,847
27 Sep 2007	5.52	01 Dec 2010	31 May 2011	40,465	–	9,891	4,185	–	4,204	22,185
25 Apr 2008	5.51	01 Jun 2011	30 Nov 2011	27,068	–	16,323	822	256	739	8,928
25 Apr 2008	5.51	01 Jun 2013	30 Nov 2013	4,192	–	–	–	–	–	4,192
25 Sep 2008	4.38	01 Dec 2011	31 May 2012	236,700	–	24,571	15,989	251	–	195,889
25 Sep 2008	4.38	01 Dec 2013	31 May 2014	6,951	–	–	–	–	–	6,951
27 Apr 2009	2.88	01 Jun 2012	30 Nov 2012	1,906,105	–	8,966	111,432	44,927	–	1,740,780
27 Apr 2009	2.88	01 Jun 2014	30 Nov 2014	90,029	–	–	–	8,811	–	81,218
25 Sep 2009	4.25	01 Dec 2012	31 May 2013	132,837	–	979	16,508	4,928	–	110,422
25 Sep 2009	4.25	01 Dec 2014	31 May 2015	2,682	–	–	–	–	–	2,682
28 Sep 2010	4.61	01 Dec 2013	31 May 2014	175,050	–	–	16,735	1,208	–	157,107
28 Sep 2010	4.61	01 Dec 2015	31 May 2016	6,501	–	–	371	–	–	6,130
16 Sep 2011	4.66	01 Dec 2014	31 May 2015	–	422,073	–	9,386	1,931	–	410,756
16 Sep 2011	4.66	01 Dec 2016	31 May 2017	–	25,739	–	–	–	–	25,739
				2,737,324	447,812	60,730	175,428	63,166	93,457	2,792,355

The total number of securities available for issue under the scheme is 2,792,355, which represents 0.110 per cent of the issued share capital at 31 December 2011.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £6.61.

The fair value of options granted under the Plan in the period was £2.63.

Prudential International Assurance Sharesave Plan

		Exercise period		Number of options						
Date of grant	Exercise price £	Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
27 Sep 2007	5.52	01 Dec 2010	31 May 2011	618	–	618	–	–	–	–
25 Sep 2008	4.38	01 Dec 2011	31 May 2012	1,520	–	–	–	–	829	691
27 Apr 2009	2.88	01 Jun 2012	30 Nov 2012	30,320	–	–	–	–	–	30,320
27 Apr 2009	2.88	01 Jun 2014	30 Nov 2014	6,567	–	–	–	–	–	6,567
25 Sep 2009	4.25	01 Dec 2012	31 May 2013	2,426	–	–	–	–	–	2,426
				41,451	–	618	–	–	829	40,004

The total number of securities available for issue under the scheme is 40,004, which represents 0.002 per cent of the issued share capital at 31 December 2011.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £7.10.

Non-employee Savings Related Share Option Scheme

		Exercise period		Number of options						
Date of grant	Exercise price £	Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
28 Sep 2006	4.75	01 Dec 2011	31 May 2012	8,577	–	3,191	–	–	–	5,386
26 Apr 2007	5.72	01 Jun 2010	30 Nov 2010	13,533	–	–	–	–	13,533	–
26 Apr 2007	5.72	01 Jun 2012	30 Nov 2012	15,557	–	–	–	–	–	15,557
27 Sep 2007	5.52	01 Dec 2010	31 May 2011	19,595	–	11,988	–	–	–	7,607
27 Sep 2007	5.52	01 Dec 2012	31 May 2013	5,748	–	–	2,778	–	–	2,970
25 Apr 2008	5.51	01 Jun 2011	30 Nov 2011	20,951	–	14,723	1,639	–	–	4,589
25 Apr 2008	5.51	01 Jun 2013	30 Nov 2013	4,195	–	–	361	–	–	3,834
25 Sep 2008	4.38	01 Dec 2011	31 May 2012	42,741	–	666	1,587	–	–	40,488
25 Sep 2008	4.38	01 Dec 2013	31 May 2014	17,135	–	–	3,427	–	–	13,708
27 Apr 2009	2.88	01 Jun 2012	30 Nov 2012	897,848	–	–	23,647	–	–	874,201
27 Apr 2009	2.88	01 Jun 2014	30 Nov 2014	749,908	–	–	35,582	–	–	714,326
25 Sep 2009	4.25	01 Dec 2012	31 May 2013	50,612	–	–	4,166	–	–	46,446
25 Sep 2009	4.25	01 Dec 2014	31 May 2015	11,717	–	–	–	–	–	11,717
28 Sep 2010	4.61	01 Dec 2013	31 May 2014	1,136,477	–	–	17,902	–	–	1,118,575
28 Sep 2010	4.61	01 Dec 2015	31 May 2016	379,253	–	–	3,901	–	–	375,352
16 Sep 2011	4.66	01 Dec 2014	31 May 2015	–	649,598	–	5,191	–	–	644,407
16 Sep 2011	4.66	01 Dec 2016	31 May 2017	–	266,624	–	–	–	–	266,624
				3,373,847	916,222	30,568	100,181	–	13,533	4,145,787

The total number of securities available for issue under the scheme is 4,145,787, which represents 0.163 per cent of the issued share capital at 31 December 2011.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £6.58.

The fair values of options granted under the Plan in the period was £2.63.