Prudential plc 2013 Half Year Financial Report

Delivering long-term value

HK Stock Code: 2378

PRUDENTIAL

A good performance across key metrics

Prudential has delivered a good performance in the first half of 2013 across the Group's key financial metrics of IFRS operating profit, new business profit and net cash remittances. We have now achieved four of our six 2013 'Growth and Cash' objectives and continue to make good progress towards achieving the remaining two objectives by the end of the financial year.

The Group's profitable growth has again been led by Asia, where we remain on course to achieve our objective of doubling 2009 new business profit in 2013. The disciplined execution of our strategy, underpinned by our four clear operating principles – focus on customers, balanced financial metrics, proactive risk management and disciplined capital allocation – has continued to drive both our profitable growth and cash generation.

Overview

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www.prudential.co.uk

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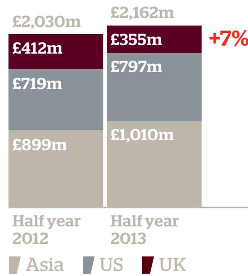
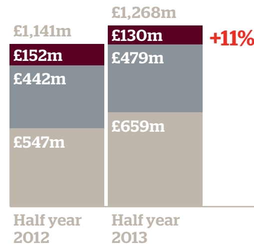
Financial highlights

Life APE new business sales, profits and investment in new business

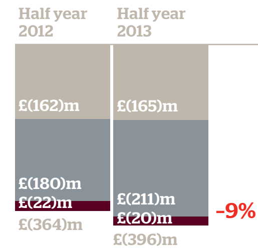
Life APE new business sales



New business profit

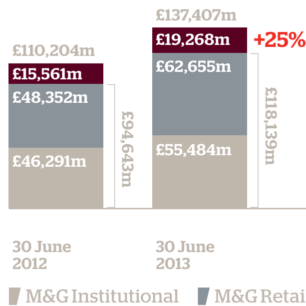


Free surplus investment in new business

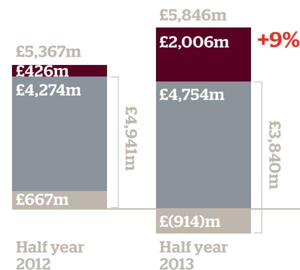


Asset management net inflows and external funds under management[1]

External funds under management



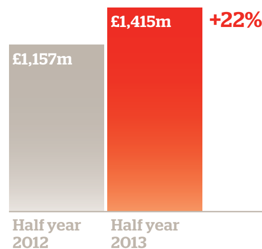
Total asset management net inflows



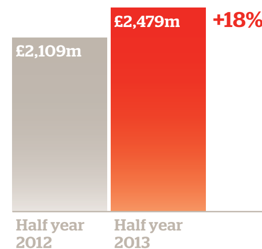
M&G Institutional M&G Retail Eastspring[2]

Operating profit and profit before tax

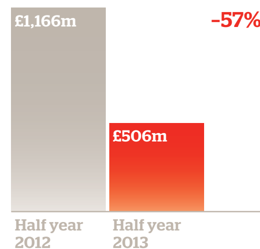
IFRS operating profit[3]



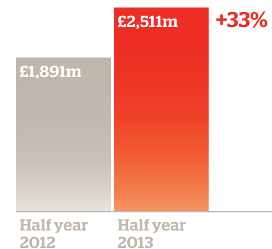
EEV operating profit[3]



IFRS profit before tax[3]



EEV profit before tax[3]



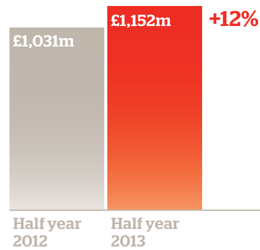
Notes

1 Includes Group's proportionate share in PPM South Africa and the Asia asset management joint ventures.
2 Net inflows exclude Asia Money Market Fund (MMF) inflows of £107 million (2012: net outflows £103 million).
3 For IFRS reporting purposes, the Group adopted new and amended accounting standards in 2013. Accordingly, the IFRS elements and EEV basis shareholders' interest for the comparative results have been adjusted for the retrospective application of this adoption of IFRS accounting policies, as discussed in note B of the IFRS financial statements and note 1 of the EEV basis results. In addition, following its reclassification as held for sale at 30 June 2013, operating results exclude the result of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis.
4 Underlying free surplus generated comprises underlying free surplus generated from the Group's long-term business (net of investment in new business) and that generated from asset management operations. In addition, following its reclassification as held for sale at 30 June 2013, operating results exclude the result of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis.
5 Estimated. As disclosed in full year 2012 results, from March 2013 the basis of calculating Jackson's contribution to the Group's IGD surplus was changed, further detail can be found in the section 'C.1 Regulatory Capital (IGD)' of Risk and capital management. The 2012 comparative is as previously reported and does not reflect the new basis.
6 Includes Group's proportionate share of the liabilities and associated flows of the insurance joint ventures in Asia.
7 REALIC was acquired in September 2012. The US policyholder liabilities at full year 2012 were £92 billion.
8 Defined as movements in shareholder-backed policyholder liabilities arising from premiums (net of charges), surrenders/withdrawals, maturities and deaths.

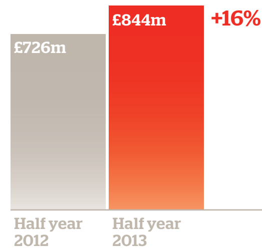
Overview

Free surplus, capital and cash

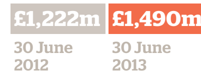
Underlying free surplus generated[4]



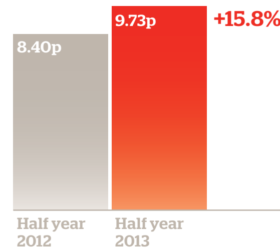
Business unit net remittances



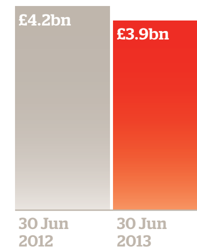
Holding company cash and short-term investments:



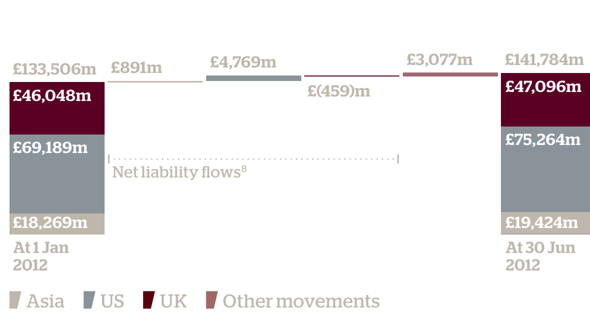
Dividend per share relating to the reporting period

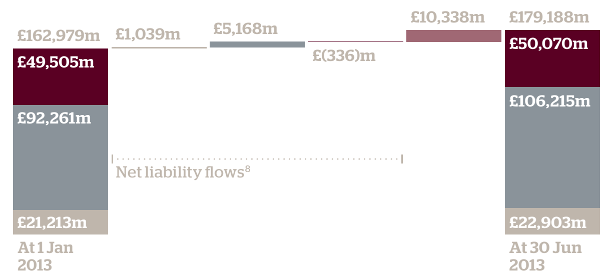


IGD capital before final dividend[5]



Shareholder-backed policyholder liabilities[6,7]

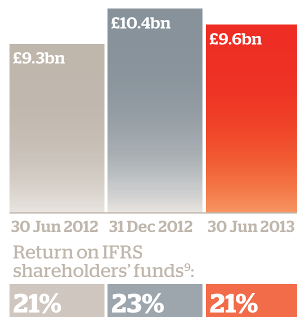




Asia US UK Other movements

Group shareholders' funds (including goodwill attributable to shareholders)

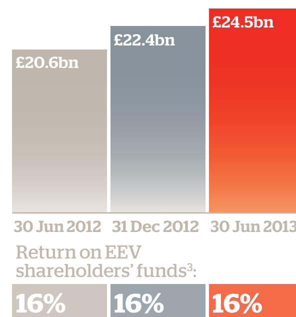
IFRS shareholders' funds



Return on IFRS shareholders' funds[9]:

21%	23%	21%

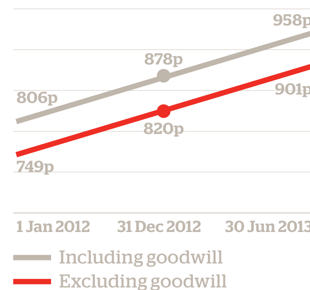
EEV shareholders' funds



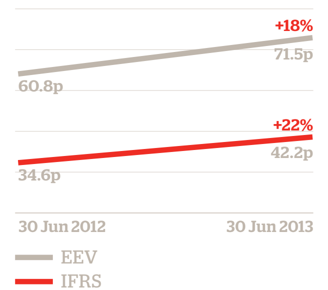
Return on EEV shareholders' funds[3]:

16%	16%	16%

EEV shareholders' funds per share



Basic earnings per share – based on operating profit after tax and non-controlling interest[10]



9 Annualised operating profit after tax and non-controlling interests as percentage of opening shareholders' funds. For IFRS reporting purposes, the Group adopted amended accounting standards in 2013. Accordingly, the IFRS elements and EEV basis shareholders' interest for the comparative results have been adjusted for the retrospective application of this adoption of IFRS accounting policies for the purpose of the calculation above as discussed in note B of the IFRS financial statements and in note 1 of the EEV basis results. In addition, following its reclassification as held for sale at 30 June 2013, operating results exclude the result of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis. For the purpose of the calculation above Japan has been removed from opening shareholders' funds.

10 The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards as discussed in note B of the IFRS financial statements. In addition, following its reclassification as held for sale at 30 June 2013, operating results exclude the result of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis.

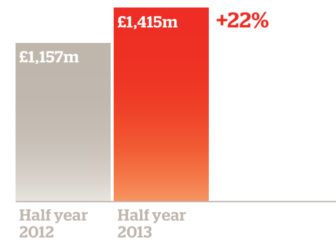
Group Chief Executive's report

Good performance based on disciplined execution of strategy

'We have now achieved four of our six 2013 "Growth and Cash" objectives and continue to make good progress towards achieving the remaining two objectives by the end of the financial year.'

Tidjane Thiam
Group Chief Executive

IFRS operating profit based on longer-term investment returns[1]



I am pleased to report a continued good performance in the first half of 2013 across the Group's key financial metrics of IFRS operating profit, new business profit and net cash remittances. We have now achieved four of our six 2013 'Growth and Cash' objectives and continue to make good progress towards achieving the remaining two objectives by the end of the financial year.

The Group's profitable growth has again been led by Asia, where we remain on course to achieve our objective of doubling 2009 new business profit in 2013. The disciplined execution of our strategy, underpinned by our four clear operating principles – focus on customers, balanced financial metrics, proactive risk management and disciplined capital allocation – has continued to drive both our profitable growth and cash generation.

Group performance

Our Group IFRS operating profit[1] based on longer-term investment returns increased by 22 per cent during the first six months of the year to £1,415 million (2012: £1,157 million). Asia life operating profit[1] was up 18 per cent to £474 million, with strong contributions from our four largest operations of Hong Kong, Indonesia, Malaysia and Singapore and growing contributions from some of our smaller but well-performing businesses such as the Philippines and Thailand. US life operating profit increased 32 per cent to £582 million (2012: £442 million), reflecting our strategic focus on fee income generated by our variable annuity sales and higher insurance income following the acquisition of REALIC in 2012. UK life operating profit increased 1 per cent to £341 million (2012: £336 million), but was up 7 per cent on a like-for-like basis, ie excluding the large bulk annuity transaction we entered in the first half of 2012 as we did not enter any bulk transactions in the first half of 2013. M&G delivered record operating profit of £204 million, an increase of 17 per cent, reflecting continued strong net inflows combined with favourable market movements in the period.

New business profit was up 11 per cent to £1,268 million (2012: £1,141 million), driven by 20 per cent growth in Asia including strong contributions from both agency and bancassurance channels. APE sales increased 7 per cent to £2,162 million (2012: £2,030 million), led mainly again by our Asia business, which saw double-digit growth in eight markets, for example China up 42 per cent, Hong Kong up 21 per cent, the Philippines up 38 per cent, Singapore up 21 per cent and Thailand up 32 per cent. Jackson achieved growth of 11 per cent in the US, reflecting the excellent progress of our Elite Access product. M&G has delivered strong net inflows of £3.8 billion (2012: £4.9 billion) as it benefits from record levels of retail sales from continental Europe, while Eastspring Investments, our Asia asset management business, reported significantly higher levels of net sales[2] at £2.0 billion (2012: £426 million).

Free surplus generation[1] from our life and asset management businesses – an important metric for us as it is a good indication of the actual cash generation from our life in-force book and from our large asset management activities – was 11 per cent higher at £1,548 million, before reinvestment in new business, reflecting the increased scale of our in-force life portfolio and a larger contribution from our asset management businesses. Investment in new business has increased to £396 million (2012: £364 million), primarily as a result of growth in new business volumes.

Net cash remittances from our businesses to the Group increased by 16 per cent to £844 million (2012: £726 million). Our balance sheet continues to be defensively positioned and at the end of the period our IGD surplus[3] was estimated at £3.9 billion, equating to coverage of 2.3 times.

2013 'Growth and Cash' objectives

The Group continues to focus on delivering the 'Growth and Cash' objectives we set out at our 2010 investor conference. At this point in time, the half year 2013, we have achieved four of these objectives. We have delivered cumulative net cash remittances of almost £4.1 billion over the three-and-a-half-year period from 2010 to date against our target level of £3.8 billion. In addition, in remitting £294 million to the Group, our US business has exceeded its 2013 cash remittance objective of £260 million. At the full year 2012, we more than doubled Asia's 2009 IFRS operating profit from £465 million to £988 million and we also exceeded Asia's 2013 cash objective of £300 million, delivering £341 million. In the first half of 2013 we have maintained our progress on these two objectives, with Asia IFRS operating profit and net cash remittance increasing by 18 per cent and 51 per cent respectively compared to the same period in 2012, when they had already reached their expected 2013 level.

We have made further progress towards the last two 2013 objectives that have not been met yet – doubling Asia's 2009 new business profit by 2013 and delivering more than £350 million of net remittances from the UK. We are on track to achieve them by the end of the year.

Notes

1 The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards as discussed in note B of the IFRS financial statements. In addition, following its reclassification as held for sale at 30 June 2013, operating results exclude the result of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis.

2 Excluding Money Market Funds.

3 As disclosed in full year 2012 results, from March 2013 the basis of calculating Jackson's contribution to the Group's IGD surplus was changed. Further detail can be found in the section 'C.1 Regulatory capital (IGD)' of Risk and capital management.

Group Chief Executive's report continued

Our operating performance by business unit

Asia

Prudential's businesses in Asia delivered a strong set of results in the first half of 2013. This performance is evidence of the disciplined execution of our strategy to drive both profitable growth and cash, building on our distribution and product suite in the region, which allow us to cater successfully and profitably to the needs of a growing and increasingly wealthy Asian middle class.

As a result, Asia's life new business profit increased 20 per cent to £659 million (2012: £547 million), outpacing APE sales growth of 12 per cent in part due to the positive impact of higher interest rates, primarily in Hong Kong, and a more favourable geographic mix. The second quarter saw record sales for seven local business units, with sales at the half year for Hong Kong up 21 per cent, China up 42 per cent, Indonesia up 17 per cent, Singapore up 21 per cent, Thailand up 32 per cent, the Philippines up 38 per cent, Korea up 38 per cent and Vietnam up 28 per cent. Total sales of health and protection products comprised 30 per cent of the mix of business. This contributed to a regional internal rate of return in excess of 20 per cent and a payback period of four years.

Life IFRS operating profit[1] was £474 million, up 18 per cent, driven by the increasing scale of the in-force book.

EEV operating profit[1] grew by 24 per cent to £1,077 million, supported by three factors: (i) our strong new business growth; (ii) the increasing scale and intrinsic profitability of the in-force book; and (iii) the positive impact of higher interest rates.

Highlights of our performance in Asia during the first half of 2013 include the continued success of our agency distribution channel, where APE sales growth of 15 per cent was driven by strong increases in agency activity. We remain focused on both building the scale of our agency force and improving the productivity of our agents through initiatives aimed at enhancing quality and performance. During the first half, we have seen particularly good growth in active agent numbers in Indonesia, Hong Kong and Singapore. We have also been very successful in growing our active agency force in the Philippines, which combined with ongoing progress in partnership distribution, was a major factor in driving strong APE sales growth of 38 per cent in that market.

We have continued to drive agent productivity gains in Hong Kong and Singapore. In Hong Kong, this partly results from the success of sales of participating products and the launch of a new medical product, PRUmyhealth lifelong crisis protector. Singapore benefited from the success of new product campaigns including a revised health and protection product. Vietnam and China have also benefited from a large improvement in productivity, reflecting enhancements in agency training and management. In Malaysia, we remain focused on deepening our presence in the Bumi sector and building the share of health and protection product sales through our agency force. Excluding Taiwan, where we chose not to provide low-margin guaranteed products, bancassurance APE sales growth was 21 per cent, with broad-based growth across our major partners, especially in Singapore and China, which has continued its excellent start to the year. Sales performance in Korea was boosted by increased volumes in the first quarter ahead of a one-off regulatory change in February that restricted some of the policyholder tax benefits associated with life insurance policies.

We continue to 'invest to grow' in markets where we have not been as strong in the past. In Thailand, the integration of Thanachart Life is going well. Effective preparation between the signing of the agreement in quarter four 2012 and its completion on 3 May 2013 enabled us to commence sales through Thanachart Bank immediately and performance is currently running ahead of our plans.

In Cambodia, where we started operating in January 2013, our new life business is progressing well, thanks to our partnership with the largest bank in the country, Acleda. We also opened a representative office in Myanmar during the first half of 2013, starting to plant the seeds of what we believe will be a significant presence in that promising market.

In parallel to these growth initiatives, we continue to manage the business with discipline, focusing on exceeding our target returns and payback periods. This strategy led us to closing our traditional life business in Japan to new business on 15 February 2010 and to put the in-force book in run-off. We have now taken a further step on 16 July 2013 when we announced our intention to sell our closed-book life insurance business in Japan for US$85 million, subject to regulatory approvals. We remain committed to our well-performing asset management business in this country, Eastspring Investments Japan.

Note

1 For IFRS reporting purposes, the Group adopted new and amended accounting standards. Accordingly, the IFRS elements and EEV basis shareholders' interest for the comparative results have been adjusted for the retrospective application of this adoption of IFRS accounting policies, as discussed in note B of the IFRS financial statements and note 1 of the EEV basis results. In addition, following its reclassification as held for sale at 30 June 2013, operating results exclude the results of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis.

Eastspring Investments saw net third-party inflows[1] of £2.0 billion, 371 per cent higher than last year, mainly due to the appeal of Taiwan's US high-yield bond funds, Japan's Asia Oceania equity fund, bond funds in India and new bond funds in China. Given these high net flows and positive market movements, funds under management at 30 June 2013 were £62 billion, 15 per cent higher than at the same time last year. IFRS operating profit[2] grew 19 per cent to £38 million (2012: £32 million).

Eastspring Investments was awarded the 'Best Asset Management Company of the Year – South-east Asia' at The Asset Triple A Investor and Fund Management Awards 2013. We are also making good progress with our strategy to broaden our distribution reach into the US and Europe.

We have a long-standing presence in Asia and, in line with our values, we wish to make a positive contribution to the countries and communities where we operate. Therefore, in April 2013, the Prudence Foundation, our Asian CSR platform, announced a series of multi-country programmes in partnership with Save the Children and Plan International with two main objectives: to enable communities to better cope with disasters and to help children receive a better start to their education through the First Read initiative. More than 170,000 people in Cambodia, Indonesia, the Philippines, Thailand and Vietnam are expected to benefit from these programmes over a three-year period.

I am pleased to report that the long-running project to domesticate our Hong Kong insurance business is approaching the closing stages. This will better align the legal entity structure with our management structure. We continue to work very closely with our regulators in both the UK and Hong Kong in order to achieve a satisfactory conclusion for all affected stakeholders, with whom we will be engaging in due course. We will also be reorganising our Asia businesses under a single new entity, the Board of which I will chair. Ultimately this will bring all our Asian geographies under one umbrella company and give us a simpler, more effective corporate structure.

Notes

1 Excluding Money Market Funds.

2 The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards as discussed in note B of the IFRS financial statements. In addition, following its reclassification as held for sale at 30 June 2013, operating results exclude the result of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis.

US

In the first half of 2013, there was a considerable amount of activity in the variable annuity (VA) market as insurers continued to make changes to their product offerings to ensure that they are fit for the current economic environment, characterised by historically low long-term interest rates. Several insurers with challenging legacy books have launched buyout offers to their existing policyholders. Following a prolonged period of successive increases in VA pricing and the adoption of less and less attractive product features for customers across the market, there are early signs of movement in the opposite direction by some VA providers who are starting to make their products more attractive to customers. This should lead, after a long period of increasing concentration among the three largest providers, to a period where players lower in the league table are likely to gain market share.

Towards the end of the first half, comments from the Federal Reserve Chairman in relation to a potential tapering of quantitative easing resulted in significant movements in US bond markets. This led to a strengthening of the US dollar and an increase in the 10-year treasury rate to end the period at 2.5 per cent. While interest rates remain well below historic averages, this recent move upwards in long-term yields, if sustained, would be beneficial to the financial performance of the VA industry.

In the first half of 2013, beyond these market considerations, Jackson achieved APE retail sales of £758 million, an 8 per cent increase compared to the first half of 2012. These sales levels were achieved while maintaining pricing discipline and we continued to write new business at aggregate internal rates of return in excess of 20 per cent and payback period of two years. Including institutional sales, total APE sales were £797 million, an 11 per cent increase over the same period in 2012.

In that context, total variable annuity APE sales increased to £665 million (2012: £611 million). This growth was exclusively driven by the rapid progress of Elite Access, our variable annuity without guarantees, which contributed £127 million of APE sales in the period (2012: £14 million). Excluding Elite Access, VA sales actually declined 10 per cent to £538 million, reflecting the actions we took in the final quarter of 2012 to control sales of VAs with living benefit guarantees to match the Group's risk appetite. Of our total VA sales in the first half of 2013, 29 per cent do not feature living benefit guarantees (2012: 14 per cent) and this change in product mix is in line with the strategy we outlined for the US business at our investor conference held in New York in November 2012. Net inflows for variable annuities' separate accounts continue to be strongly positive at £4,054 million (2012: £3,842 million), reflecting the growth in new business sales and low, stable levels of policy surrenders.

Group Chief Executive's report continued

Fixed annuity APE sales of £30 million remained relatively flat compared to 2012, while fixed index annuity APE sales of £62 million increased 24 per cent. We have seen a moderate increase in demand for fixed index annuities as consumers seek to increase their exposure to equity markets following the recent strong performance of the S&P 500.

Jackson's new business profit increased 8 per cent to £479 million, driven by higher sales as well as the positive effects of pricing and product actions and rising interest rates.

Life IFRS operating profit was £582 million during the first half of 2013, up 32 per cent from £442 million in 2012. This result reflects strong underlying growth in fee income, which was partially offset by higher expenses. In addition, the performance benefited from the inclusion of operating profit totalling £56 million from REALIC. REALIC was acquired in the third quarter of 2012 and continues to both perform in line with expectations and deliver the objective of improving the diversity of Jackson's earnings.

EEV operating profit increased by 26 per cent to £1,016 million (2012: £805 million) as we continue to grow the underlying book, including REALIC. We have maintained our discipline of managing our in-force business for value and Jackson has generated large positive contributions from operating experience variances and assumption changes.

Our US asset management businesses, PPM America and Curian, increased IFRS operating profit to £8 million (2012: £2 million) and £14 million (2012: £7 million) respectively, largely reflecting higher average assets under management due to market accretion. IFRS operating profit from our broker-dealer network, National Planning Holdings, was up 50 per cent to £12 million (2012: £8 million).

Jackson's strong earnings progress has enabled it to remit £294 million to Group while supporting its balance sheet growth and maintaining adequate capital. We continue to price new business on a conservative basis, targeting value over volume, and our financial market hedging remains focused on the economics of our exposures rather than the accounting. This approach has enabled Jackson to deliver significant profitable growth since the financial crisis while maintaining a strong balance sheet. Over the last three years Jackson has remitted £945 million of cash to Group, demonstrating that Jackson's recent growth is quickly translating into profits and cash, the ultimate metric for us over time of a successful strategy.

UK

The UK life and pensions industry has continued to undergo considerable regulatory and market change in the first half of 2013 with the appointment of two new industry regulatory bodies, the phasing in of auto-enrolment for company pensions and the introduction of the ABI Code on Retirement Choices. The distribution landscape continues to be in transition, post the implementation of the recommendations of the Retail Distribution Review (RDR). These combined developments, as anticipated, have presented a series of challenges in a number of our key activities. The competitive landscape across the UK life and pensions sector remains in a state of flux as providers, distributors, advisers and their clients adjust to the new environment.

In the second quarter, the effects of the transition to adviser charging triggered by the RDR have started to reduce and monthly sales levels have settled to a more steady pattern compared to the first quarter of the year. However, advisers are still working through the impact of the RDR on their business models and the bancassurance market has continued to contract. The experience for many customers is that in the short term their access points to advice are reduced. As a result, we anticipate that a degree of market dislocation will persist and that this will dampen particularly our sales of investment bonds in 2013, compared to the unusually high level of sales achieved in 2012. Looking at with-profit bonds, it appears that the impact of the anticipated fall in adviser numbers post-RDR has been less severe in the first half than expected, with volumes 25 per cent down on the first half of 2012 but in line with the first half of 2011. This was partly due to the fact that there was a significant pipeline of business advised ahead of the date of implementation of the RDR.

Our small direct advice channel, Prudential Financial Planning (PFP) continues to establish its presence, with a deliberately limited ambition of focusing primarily on our existing direct customer base. By the end of 2013, two years from launch, PFP adviser numbers should reach around 200.

In the first half of 2013, we have commenced sales operations in Poland, one of Europe's fastest-growing economies, which has an expanding middle class and high savings rates.

We continue to manage our UK business by focusing on our strengths in individual annuities and with-profits products. The strength of our with-profits proposition continues to drive strong demand for our Income Choice Annuity, which offers customers attractive returns with a potential for income growth even in the current sustained low interest rate environment. Customers also continue to be attracted to our Additional Voluntary Contribution plans where, despite a challenging market environment, Prudential UK remains the largest provider within the public sector, with arrangements in place with 68 of the 99 public sector authorities in the UK.

Total APE sales of £355 million were 14 per cent lower than the first half of 2012. In the wholesale market, we did not complete any significant bulk annuity transactions in the first half of 2013 (2012: single deal APE £27 million). Retail APE sales of £355 million were 8 per cent lower than the first half of 2012, as a result of the decrease in with-profits bonds sales that was caused by the implementation of the RDR, lower corporate pensions sales and the cessation of Department of Work and Pensions rebate business, which contributed APE sales of £9 million in the first half of 2012.

Individual annuities APE sales increased 6 per cent to £111 million. External annuities APE sales increased 13 per cent to £44 million, while internal vestings were 2 per cent higher at £67 million. In terms of product mix, the half year saw higher sales of with-profits annuities, offset by lower conventional annuity sales. Corporate pensions APE sales of £93 million were 11 per cent lower, mainly due to reduced levels of new scheme sales.

Total new business profit of £130 million was lower than the £152 million earned in the first half of 2012 which included a £22 million contribution from the bulk annuity transaction that has not been repeated. Retail new business profit was in line with the first half of 2012, as lower sales volumes were offset by positive effects of mix and pricing activity.

Life IFRS operating profit was up 1 per cent at £341 million (2012: £336 million), with £133 million (2012: £146 million) from with-profits and the balance from shareholder-backed business. During the first half of 2013, Prudential UK remitted cash of £226 million to the Group, including £206 million from the annual with-profits transfer to shareholders.

In April 2013, we announced the appointment of Jackie Hunt as Chief Executive, Prudential UK and Europe and to the Board of Prudential plc. Jackie will succeed Rob Devey, who will leave the Group at the end of October 2013. Jackie will join Prudential from Standard Life plc where she has been Chief Financial Officer. I would like to thank Rob for the contribution he has made towards the progress of Prudential UK and Europe over the past four years and I look forward to working with Jackie.

M&G

Our European-based asset management business, M&G, has continued to focus on delivering superior investment performance for our customers while expanding the reach of its distribution capabilities. It has pursued business diversification across asset classes and geographies and its retail funds are now registered for sale in 21 jurisdictions, with offices in 16 countries.

Net retail fund flows remained strong during the first half of 2013 at £4.8 billion, principally through increased sales in Continental Europe, where net inflows totalled £5.6 billion (2012: £2.2 billion). Funds under management (FUM) from outside of the UK have doubled to £21.2 billion over the past 12 months and now represent 34 per cent of retail FUM, up from 22 per cent a year ago. During the period, eight funds attracted net sales of at least £150 million each, with the majority of new money going into the M&G Optimal Income Fund, a flexible bond portfolio, and into the M&G Global Dividend Fund. In the UK, after four consecutive calendar years and 15 consecutive quarters as the number one house for both net and gross sales, an unprecedented achievement, new business has slowed. We have proactively decided to slow contributions to two of our market-leading corporate bond funds in the UK to protect their investment performance. M&G's sales in the UK stabilised during the second quarter with overall net outflows of £1.2 billion in the first six months (2012: inflows of £2.8 billion). The implementation of the RDR at the start of the year has also contributed to dampening activity across the industry. Total retail FUM now stand at £62.7 billion, up 30 per cent compared to 30 June 2012.

M&G's institutional business incurred total net outflows of £0.9 billion during the year to June. This largely reflects the start of scheduled withdrawals from a single large but low-margin mandate of £7.6 billion received during 2012. Despite the net outflows in the period, institutional FUM increased to £55.5 billion, up 20 per cent compared to 30 June 2012.

M&G currently has a strong pipeline of higher-margin institutional business. In particular, M&G has used its investment expertise to develop a number of products that allow institutional investors to take advantage of the gap created by the decline in long-term commercial bank loans. These opportunities include lending to medium-sized companies, housing association-registered providers, commercial real estate borrowers and infrastructure projects. Our property business, formerly known as PRUPIM, was rebranded as M&G Real Estate during the period. Recent activity includes a return to the residential property market in the UK with a £104 million investment in London housing.

Fund sales, combined with a 14 per cent increase in equity market levels and 8 per cent rise in bond markets, pushed total FUM to £234.3 billion, 15 per cent higher than a year ago. External client assets of £118.1 billion now account for over half of the total, compared to a third five years ago.

Group Chief Executive's report continued

Underlying profits[1] rose by 16 per cent to a new half-year record of £195 million. Over the past five years, underlying profits have grown at an annualised rate of 15 per cent, principally reflecting very strong net sales over the period.

The strong growth in FUM over the first half of the year has helped the business achieve a cost/income ratio of 54 per cent (2012: 53 per cent) despite a larger cost base as a result of increased headcount and continued investment in the operational infrastructure of the business. Following the addition of performance-related fees and profit from our associate investment in South Africa, total operating profit at the half year stands at a record level of £204 million. This is an increase of 17 per cent on the 2012 position of £175 million.

Given the strength of its financial performance, M&G continues to provide capital-efficient profits and cash generation for the Group and remitted cash totalling £109 million in the first half of 2013 (2012: £98 million).

M&G has been recognised for its investment performance with numerous awards, including the European Pensions Awards of 2013 Investment Manager of the Year, Fixed Income Manager of the Year and Property Manager of the Year.

Looking ahead, M&G will continue to seek diversification by both asset class and geography, while remaining focused on delivering excellent investment performance and service to its clients.

Capital and risk management

We take a disciplined approach to capital management and have continued to implement a number of measures over the last few years to enable us to make our capital work more efficiently and more effectively for the Group. Using the regulatory measure of the Insurance Groups Directive (IGD), our Group capital surplus[2] position at 30 June 2013 was estimated at £3.9 billion, before allowing for the interim dividend, equating to coverage of 2.3 times.

In July 2013, Prudential plc was listed by the Financial Stability Board (FSB) as one of nine companies to be designated as a Global Systemically Important Insurer (G-SII). Prudential is monitoring the development of and the potential impact of the framework of policy measures and engaging with the Prudential Regulation Authority on the implication of this designation.

Solvency II remains subject to delays in policy development and therefore the outlook continues to be uncertain. Despite this uncertainty we remain focused on preparing for implementation of the new regime.

Dividend

In view of the progress that the Group had made in improving the IFRS operating profitability and free surplus generation of the business, the Board decided to rebase the 2012 dividend upwards by 4 pence to a full-year dividend of 29.19 pence, representing an increase of 15.9 per cent over 2011. As in previous years, the interim dividend for 2013 has been calculated formulaically as one third of the prior year's full-year dividend. Therefore, the Board has approved a 2013 interim dividend of 9.73 pence per share, which equates to an increase of 15.8 per cent over the 2012 interim dividend.

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

Outlook

During the first six months of 2013, initial strength in equity markets gave way to a more volatile environment with rising yields, driven by concerns related to quantitative easing in the US. Against this backdrop, our first-half performance highlights the resilience of our earnings and cash generation to challenging operating conditions.

Asia remains a significant opportunity for the Group, underpinned by favourable structural trends of faster economic growth, leading to higher wealth combined with high savings rates and rising demand for protection. This is particularly true of the rapidly growing and increasingly wealthy Asian middle class. These opportunities are most evident in our sweet-spot markets of South-east Asia, including Hong Kong, where the combination of long-term structural trends and the breadth and depth of the Prudential franchise and distribution allow us to achieve long-term sustainable and profitable growth. Our business units in the US and UK will continue to focus on generating earnings and cash. We will continue to execute with discipline while maintaining a robust balance sheet and proactively managing risks. We have by the half year of 2013 been able to achieve four of the six challenging objectives we had set ourselves in November 2010.

We look forward to the rest of the year with confidence as we progress towards completing the 'Growth and Cash' objectives we set for 2013.

Tidjane Thiam
Group Chief Executive

Notes
1 Excluding performance fee and share of profits from PPM South Africa.
2 As disclosed in full year 2012 results, from March 2013 the basis of calculating Jackson's contribution to the Group's IGD surplus was changed. Further detail can be found in the section 'C.1 Regulatory capital (IGD)' of risk and capital management.

Section 2

Business review

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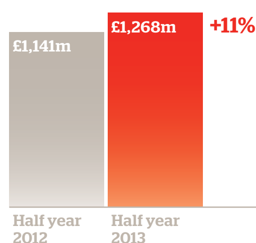
Chief Financial Officer's overview

A resilient business model which delivers profitable growth

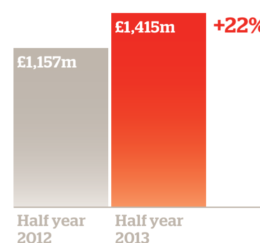
'Our disciplined approach to new business, proactive management of the in-force portfolio and diversification by product and geography allow us to deliver high-quality, well-balanced earnings across a wide range of economic conditions.'

Nic Nicandrou
Chief Financial Officer

EEV new business profit



IFRS operating profit based on longer-term investment returns[1]



Prudential has delivered a strong first half performance, continuing the positive momentum of 2012 and making further progress towards its 2013 financial objectives. The return in the latter part of the period of more volatile equity markets and ongoing uncertainty regarding the financial operating environment in the world's major economies have again served to highlight the resilience of our business model. Our disciplined approach to new business, proactive management of the in-force portfolio and diversification by product and geography allow us to deliver high-quality, well-balanced earnings across a wide range of economic conditions.

The combination of disciplined execution and prudent management of balance sheet risks, coupled with higher equity market levels and rising long-term interest rates, have benefited all of our key operating profit and underlying capital generation financial metrics. As a result, total EEV new business profit rose by 11 per cent, IFRS operating profit[1] by 22 per cent, EEV operating profit[1] by 18 per cent, underlying free surplus generated[1] by 12 per cent and cash remittances from businesses to Group by 16 per cent. Having taken pricing and product actions to defend the economics of our business when markets fell, our business performance is now positively geared to higher investment returns as markets recover.

We, nevertheless, continue to take steps to protect ourselves from the downside risks to the Group's financial position associated with the guarantees that we have offered to our customers, which in times of rising equity markets will generally generate negative investment variances. These are compounded by the negative value movements on our holdings of fixed income securities which accompany higher interest rates. The impact of these short-term movements in investment values, reported outside the operating result, contributed to a lower profit before tax[1] attributable to shareholders on an IFRS basis of £506 million in the first half of 2013 (2012: £1,166 million). On an EEV basis, which recognises the economic benefit of movements in investment markets, profit before tax[1] attributable to shareholders actually increased 33 per cent to £2,511 million (2012: £1,891 million).

In the remainder of my report, I comment on the Group's operating performance excluding these short-term market effects. Total IFRS operating profit[1] increased by 22 per cent in 2013 to £1,415 million (2012: £1,157 million), driven by higher contributions from both life insurance and asset management. Asia life operating profit was up 18 per cent and US life operating profit increased by 32 per cent, partly reflecting the inclusion of REALIC following its acquisition in 2012. M&G (including Prudential Capital), our UK-based asset management business and Eastspring Investments, our Asia asset manager, delivered growth of 13 per cent and 19 per cent, respectively.

EEV new business profit ('new business profit') increased by 11 per cent to £1,268 million (2012: £1,141 million). Asia new business profit was 20 per cent higher, reflecting volume growth and management actions to improve product mix, geographic mix and pricing. We are particularly encouraged by the progress of some of our smaller businesses such as the Philippines (new business profit up 80 per cent), Thailand (up 25 per cent) and China (up 21 per cent), as well as further growth in our larger markets of Hong Kong (up 60 per cent, benefiting from higher interest rates as well as pricing actions) and Indonesia (up 27 per cent). US new business profit improved significantly in the second quarter to deliver first half growth of 8 per cent. This increase reflected the positive effect of pricing and product actions taken in the period, the contribution from Elite Access and the beneficial impact of the 75 basis points rise in 10-year treasury yields since the end of 2012, which more than offset the effect of lower sales of variable annuities (VA) with living benefit guarantees. UK new business profit declined 14 per cent in the first half, as we did not write any wholesale business in the first half of 2013. In UK retail, we maintained our new business profit despite the anticipated reduction in sales following the implementation of the RDR, reflecting the positive effects of business mix and pricing activity.

On an EEV basis, Group operating profit[1] increased by 18 per cent to £2,479 million (2012: £2,109 million) driven by higher new business profit and higher in-force contributions. In Asia, EEV life operating profit was up 24 per cent to £1,077 million (2012: £871 million), with in-force profits benefiting from increased scale and the recent rise in interest rates. Jackson's EEV operating profit increased by 26 per cent to £1,016 million (2012: £805 million) mainly due to improved new business profits and higher profits from our existing book as we continue to manage the business for value. In the UK, EEV life operating earnings decreased by 18 per cent to £404 million (2012: £490 million), with 2012 benefiting from the positive effect on our profits stemming from a reduction in UK corporate tax rates substantively enacted in the first half of that year. The half year 2013 result did not include a similar benefit. The recently announced further reductions to UK tax rates were enacted in July 2013, therefore, in accordance with our long-established reporting practice, the benefits arising from these changes will be recognised in the second half of 2013.

Profitability and sources of earnings

IFRS operating profit[1] from our life insurance operations in Asia, the US and the UK increased 18 per cent to £1,397 million (2012: £1,181 million). In 2013, we have continued to focus on improving the quality of our life earnings, by maintaining our bias in favour of less market-sensitive sources of income such as insurance margin and fee income, ahead of spread income. Our emphasis on risk products such as health and protection, together with the acquisition of REALIC, a closed book of traditional US life business, has driven 46 per cent growth in our insurance margin, increasing the proportion of earnings that is least sensitive to economic conditions. In addition, fee income is up 31 per cent, reflecting both a modest improvement in annual management charges and a 26 per cent increase in the average account balances that we manage on behalf of our customers. In contrast, the contribution to our profits from spread income has increased by a much smaller 1 per cent. The fact that a higher proportion of our overall income now comprises insurance margin and fee income represents a healthy evolution in both the quality and the balance of our earnings.

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

Note

1 For IFRS reporting purposes, the Group adopted new and amended accounting standards in 2013. Accordingly, the IFRS elements and EEV basis shareholders' interest for the comparative results have been adjusted for the retrospective application of this adoption of IFRS accounting policies, as discussed in note B of the IFRS financial statements and in note 1 of the EEV basis results. In addition, following its reclassification as held for sale at 30 June 2013, operating results exclude the result of the Japan Life insurance business. Profit before tax continues to include these results. 2012 comparatives have been retrospectively adjusted on a comparable basis.

Chief Financial Officer's overview continued

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

	Half year 2013			Half year 2012*		
	Operating profit £m	Average liability £m	Margin bps	Operating profit £m	Average liability £m	Margin bps
Spread income	535	65,424	164	529	60,320	175
Fee income	667	93,512	143	509	74,422	137
With-profits	155	97,336	32	164	94,103	35
Insurance margin	613			420		
Margin on revenues	858			696		
Expenses:						
Acquisition costs	(1,021)	2,162	(47)%	(972)	2,030	(48)%
Administration expenses	(682)	166,130	(82)	(548)	134,742	(81)
DAC adjustments	175			253		
Expected return on shareholder assets	97			130		
Operating profit based on longer-term investment returns	1,397			1,181		

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

Note
For basis of preparation see note I(a) of Additional financial information on page 178.

Our Asia life insurance business continues to benefit from the growth of the in-force portfolio and our focus on building the proportion of our business that is health and protection, with IFRS operating profit[1] of £474 million (2012: £403 million) up 18 per cent. The principal driver of our profitability in the region is our health and protection business which delivered 64 per cent or £303 million (2012: £256 million) of total life profits. In geographic terms our largest markets of Indonesia, Hong Kong, Singapore and Malaysia continue to generate good levels of growth, with IFRS operating profit up 13 per cent collectively. We are also encouraged by the progress of two of our smaller but fast-growing businesses in Thailand and the Philippines. Their combined IFRS operating profit of £20 million has increased fivefold compared to the same period last year, while also increasing APE sales by 35 per cent.

In the US, long-term business IFRS operating profit was up 32 per cent in 2013 to £582 million (2012: £442 million), which includes a contribution of £56 million from REALIC. Jackson's total income increased by 27 per cent to £1,197 million (2012: £945 million) outpacing the growth in total expenses net of deferred acquisition cost adjustments totalling £615 million (2012: £503 million). Fee income has become Jackson's main source of earnings and has grown by 36 per cent to £554 million (2012: £408 million). The uplift in fee income is in line with the 37 per cent growth in average separate account assets in the period to £57 billion (2012: £41 billion), reflecting the benefit of VA premium inflows and the rise in US equity markets since June 2012. Insurance margin at £262 million (2012: £153 million) is now a more significant contributor to Jackson's earnings following the acquisition of REALIC's seasoned book of term insurance business. Spread income has grown more modestly by 8 per cent to £377 million (2012: £349 million). We continue to focus on improving the balance of Jackson's profits and diversifying its sources of earnings and we are making good progress in delivering the targeted returns from REALIC.

UK long-term business IFRS operating profit was 1 per cent higher at £341 million (2012: £336 million). The comparative result included an £18 million profit from writing a wholesale contract, with no such business being written in the first half of 2013. UK retail IFRS operating profit increased 7 per cent, reflecting the positive impact of a longevity swap entered into this year to further optimise the capital position of the business.

Our asset management businesses also had a successful first half. M&G's IFRS operating profit of £204 million (2012: £175 million), increased 17 per cent, reflecting the 15 per cent uplift in funds under management to a record £234 billion (2012: £204 billion), following a period of strong net inflows and positive market movements. M&G's average fee income across all the funds it manages was stable at 36 basis points, with higher income helping to absorb the current phase of infrastructure investment and maintain a cost/income ratio only marginally higher than the prior period at 54 per cent (2012: 53 per cent). The cost run rate of the business is typically higher over the second half of the year so the cost/income ratio is expected to increase by the end of 2013.

Prudential Capital produced IFRS operating profit of £21 million in the first half of 2013 (2012: £24 million). Our Asia asset management business, Eastspring Investments, has also seen the combination of net inflows and more favourable investment conditions contribute to a 19 per cent increase in IFRS operating profit[1] to £38 million (2012: £32 million).

Note
1 The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards as discussed in note B of the IFRS financial statements. In addition, following its reclassification as held for sale at 30 June 2013, operating results exclude the result of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis.

Capital generation

Our ongoing focus on disciplined capital allocation to new business opportunities that offer the most attractive mix of returns and short payback periods, means we have continued to produce significant amounts of free capital, which we measure as free surplus generated[1].

In the first half of 2013, we generated £1,548 million of underlying free surplus (before reinvestment in new business) from our life in-force and asset management businesses. This is 11 per cent higher than the £1,395 million generated in 2012, reflecting increases from all four business operations.

We reinvested £396 million of the free surplus generated in the period into writing new business (2012: £364 million) equivalent to a reinvestment rate of 26 per cent, which is in line with recent periods. The amount of free surplus we reinvested in Asia increased 2 per cent to £165 million (2012: £162 million), while new business profit increased 20 per cent. This reflects improvements in mix as a result of our strategic focus on more capital efficient products and the impact of higher interest rates in the period. In the US, new business investment increased to £211 million (2012: £180 million), primarily due to higher volumes of new business and the increase in capital requirements from 235 per cent of the US Risk Based Capital Company Action Level to 250 per cent (see section 'C.1 Regulatory capital (IGD)' of Risk and capital management). Reinvestment levels in the UK remained low at £20 million (2012: £22 million). The IRRs on invested capital were more than 20 per cent in Asia, the US and the UK, with payback periods of four years, two years and four years respectively, consistent with recent trends.

Of the remaining free surplus generated[2] after reinvestment in new business, totalling £1,152 million (2012: £1,031 million), £844 million was remitted from the business units to Group. This cash was used to meet central costs of £132 million (2012: £148 million), and meet dividend payments of £532 million (2012: £440 million). The total free surplus stock deployed across our life and asset management operations at the end of June was £4,144 million. We retain capital in the businesses both to finance future growth and to enable them to withstand future economic 'shocks'. As the business grows in size, so does the level of capital needed to meet these objectives, leading to an increase in the absolute value of free surplus held at 30 June 2013 compared to the £3,689 million held at 31 December 2012.

	2013 £m[2]	**2012** £m[2]	
	Half year	**Half year**	**Full year**
Free surplus generation			
Asia	457	363	827
US	612	591	1,054
UK	304	291	532
M&G	175	150	285
Underlying free surplus generated from in-force business	1,548	1,395	2,698
Investment in new business	(396)	(364)	(618)
Underlying free surplus generated	1,152	1,031	2,080
Market-related movements, timing differences and other movements	147	(277)	(612)
Net cash remitted by business units	(844)	(726)	(1,200)
Total movement in free surplus	455	28	268
Free surplus at 1 January	3,689	3,421	3,421
Free surplus at end of period	4,144	3,449	3,689
Holding company cash flow			
Net cash remitted by business units:			
Asia	190	126	341
US	294	247	249
UK	226	230	313
M&G	134	123	297
Net cash remitted by business units	844	726	1,200
Net central outflows	(132)	(148)	(289)
Corporate activities/other (including foreign exchange)	(70)	(116)	(76)
Dividend paid	(532)	(440)	(655)
Net movement in holding company cash flow	110	22	180
Holding company cash at 1 January	1,380	1,200	1,200
Holding company cash at end of period	1,490	1,222	1,380

Notes

1 Free surplus generated is defined on page 160 of this document.

2 Following its reclassification as held for sale at 30 June 2013, operating results exclude the results of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis.

Chief Financial Officer's overview continued

'Growth and Cash' financial objectives

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

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

(i) Asia growth and profitability objectives[1]:

To double the 2009 value of IFRS life and asset management pre-tax operating profit in 2013 (2009: £465 million); and

To double the 2009 value of new business profits in 2013 (2009: £713 million).

(ii) Business unit cash remittance objectives[1]:

Asia to deliver £300 million of net cash remittance to the Group in 2013 (2009: £40 million);

Jackson to deliver £260 million[2] of net cash remittance to the Group in 2013 (2009: £39 million); and

UK to deliver £350 million of net cash remittance to the Group in 2013 (2009: £284 million[3]).

(iii) Cumulative net cash remittances[1]:

All business units in aggregate to deliver cumulative net cash remittances of at least £3.8 billion over the period 2010 to end 2013. These net remittances are to be underpinned by a targeted level of cumulative underlying free surplus generation of £6.5 billion over the same period.

As mentioned in the Group Chief Executive's report we remain focused on these objectives and have continued to make progress towards them. In the first half of 2013, we have achieved four of these objectives and are on track to achieve the remaining two by the end of the year. We set out in more detail below our progress towards these objectives based on our results for the first half of 2013.

Asia profitability objectives

	Actual (2009 to 2012 as originally reported)							Objective
	2009 £m	2010 £m	2011 £m	2012 £m	Half year 2013 £m	Change (since half year 2012) %	Change (since 2009) %	2013 £m
Value of new business:								
Full year	713	901	1,076	1,266			78	1,426
Half year	277	395	465	547	659	20	138	
IFRS operating profit[4]:								
Full year	465	604	784	988			112	930
Half year	228	295	367	440	512	16	125	

Notes

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

2 The net remittance objective for Jackson was increased from £200 million to £260 million to reflect the positive impact of the acquisition of REALIC.

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

4 Total Asia operating profit from long-term business and Eastspring Investments after development costs. For the purposes of this analysis the 2009 to 2012 comparatives represent results as reported in the respective periods and excludes adjustment for adoption of new standards as discussed in note B to the IFRS financial statements or other changes to the presentation of operating profit. In contrast, the 2013 result is shown inclusive of the effect of these changes.

Business unit net cash remittance objectives

	Actual					Objective
	2009 £m	2010 £m	2011 £m	2012 £m	Half year 2013 £m	2013 £m
Asia[1]	40	233	206	341	190	300
Jackson[2]	39	80	322	249	294	260
UK[3]	434	420	297	313	226	350
M&G[4]	175	202	280	297	134	
Full year	688	935	1,105	1,200		
Half year	375	460	690	726	844	

Objectives for cumulative period 1 January 2010 to 31 December 2013

	Actual 1 Jan 2010 to 30 Jun 2013 £m	Objective 1 Jan 2010 to 31 Dec 2013 £m	Percentage achieved At 30 Jun 2013 %
Cumulative net cash remittances from 2010 onwards	4,084	3,800	107
Cumulative underlying Group free surplus generation (which is net of investment in new business)	6,931	6,500	107

Cash remitted to the Group in the first half of 2013 increased by 16 per cent to £844 million (2012: £726 million), with well-balanced contributions from across the Group. Asia's remittances increased 51 per cent to £190 million (2012: £126 million), demonstrating the highly cash-generative signature of recent growth, driven by the focus on health and protection products. Asia's 2013 remittance also includes a stronger first half bias than in 2012, due to timing differences. The 2013 remittance of £294 million from the US exceeds the full year 2013 cash remittance objective of £260 million and represents an increase of 19 per cent on the first half of 2012, reflecting both growth in the size of the in-force portfolio and an additional contribution from REALIC following its acquisition in 2012. The UK insurance operations have continued to make sizeable remittances at £226 million (2012: £230 million), supported by shareholder transfers from the with-profits fund. M&G (including Prudential Capital) delivered net remittances of £134 million (2012: £123 million), reflecting its relatively capital-light business model that facilitates a high dividend payout ratio from earnings.

By 30 June 2013, cumulative net remittances of over £4.1 billion have been delivered by business operations since the beginning of 2010, exceeding the cumulative 2010 to 2013 net remittance objective of £3.8 billion. The remittances have been supported by strong underlying free surplus generated across the four business operations. By 30 June 2013, cumulative free surplus of over £6.9 billion has been generated since the start of 2010, exceeding the cumulative 2010 to 2013 objective of £6.5 billion.

We remain confident of achieving our remaining 2013 objectives to double the Asia 2009 new business profit by 2013 and for the UK to remit £350 million in 2013.

Capital position, financing and liquidity

We continue to operate with a strong solvency position, while maintaining high levels of liquidity and capital generation. At 30 June 2013, our IGD surplus[5] is estimated at £3.9 billion after deducting the 2012 final dividend, generating strong coverage of 2.3 times the requirement. This is testament to our capital discipline, the effectiveness of our hedging activities, our low direct Eurozone exposure, the minimal level of credit impairments and our comparatively low interest rate sensitivity.

Notes

1 Remittances from Asia in 2012 include net remittance of £27 million, representing cash from sale of Group's holding in China Life Insurance Company in Taiwan offset by repayment of funding contingent on future profits of the Hong Kong life insurance operations. 2010 remittances included a one-off remittance of £130 million, representing the accumulation of historic distributable reserves.

2 Net remittances from Jackson in 2011 include releases of excess surplus to Group.

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

4 Including Prudential Capital.

5 Estimated. As disclosed in full year 2012 results, from March 2013 the basis of calculating Jackson's contribution to the Group's IGD surplus was changed, further detail can be found in the section 'C.1 Regulatory capital (IGD)' of Risk and capital management.

Chief Financial Officer's overview continued

All of our subsidiaries continue to hold strong capital positions on a local regulatory basis. In particular, at 30 June 2013, the value of the estate of our UK with-profits funds is estimated at £7.8 billion (31 December 2012: £7.0 billion). Jackson's risk-based capital ratio level at the end of 2012 was 423 per cent and since then it was able to remit £294 million to Group while supporting its balance sheet growth and maintaining adequate capital.

Furthermore, on a statutory (Pillar 1) basis the total credit default reserve for the UK shareholder annuity funds also contributes to protecting our capital position in excess of the IGD surplus. Notwithstanding the absence of defaults in the period, at 30 June 2013 we have broadly maintained our credit default reserves at £2.0 billion (31 December 2012: £2.1 billion), representing 41 per cent of the portfolio spread over swaps, compared with 40 per cent at 31 December 2012.

Our financing and liquidity position also remained strong throughout the period. The issue of US$0.7 billion (£0.4 billion) of subordinated debt (perpetual tier 1 notes) in January 2013 further supports the financial flexibility of the Group, while taking advantage of very favourable market conditions. Our central cash resources amounted to £1.5 billion at 30 June 2013, up from £1.4 billion at 31 December 2012, and we retain a further £2.1 billion of untapped committed liquidity facilities.

As previously mentioned, Prudential plc has been listed by the Financial Stability Board (FSB) to be designated as a global systemically important insurer (G-SII). At the same time, the International Association of Insurance Supervisors (IAIS) announced details of its assessment methodology and proposed policy measures for G-SIIs, covering enhanced supervision, effective resolution and higher loss absorption capacity. We continue to monitor these developments.

Solvency II remains subject to delays in policy development and therefore the outlook continues to be uncertain. Despite this uncertainty we remain focused on preparing for implementation of the new regime.

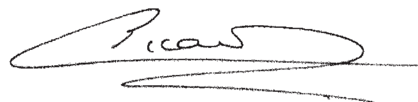
Shareholders' funds

During the first half of 2013, most equity markets recorded strong positive movements, although volatility increased towards the end of the period as fears of a global economic slowdown returned when the Federal Reserve Chairman guided markets to expect an end to quantitative easing. This also led to a sharp rise in US yields to 2.5 per cent at 30 June 2013, compared to 1.8 per cent at the end of 2012, with yields in most other markets following higher. Higher yields generate adverse value movements on our holdings of fixed income securities which have given rise to negative short-term investment variances in some of our operations. However, these higher yields are also expected to generate higher investment returns going forward, whose estimated positive future value is also included within the non-operating results on the EEV basis of reporting and offsets the effect of the negative short-term investment variances. Consequently, the Group's EEV shareholders' funds increased by 9 per cent during 2013 to £24.5 billion (31 December 2012: £22.4 billion). On a per share basis EEV at the end of 30 June 2013 stood at 958 pence, up from 878 pence at 31 December 2012.

An equivalent offset against negative short-term investment variances is not available under IFRS as the effect of potential higher future returns will only be recognised as these are earned. IFRS shareholders' funds at £9.6 billion were, therefore, 7 per cent lower than at full year 2012 (31 December 2012: £10.4 billion) and 4 per cent higher than at half year 2012 (30 June 2012: £9.3 billion).

Summary

The financial progress we have reported in 2013 to date demonstrates both the quality and the resilience of our business model and our earnings. This is a direct consequence of the strategy we have continued to execute, focusing on growing the more stable sources of income, diversifying our business by geography, product and distribution channel and maintaining our disciplined approach to cash generation and capital management. We look forward to the remainder of the year with confidence.



Nic Nicandrou
Chief Financial Officer

Financial review

Results summary

International Financial Reporting Standards (IFRS) basis results

	2013	2012	
	Half year	Half year	Full year
Profit after tax attributable to equity holders of the Company[note]	£365m	£887m	£2,163m
Basic earnings per share[note]	14.3p	35.0p	85.1p
Shareholders' equity, excluding non-controlling interests	£9.6bn	£9.3bn	£10.4bn

European Embedded Value (EEV) basis results

	2013	2012	
	Half year	Half year	Full year
Profit after tax attributable to shareholders[note]	£1,924m	£1,364m	£3,769m
Basic earnings per share[note]	75.5p	53.8p	148.3p
Shareholders' equity, excluding non-controlling interests	£24.5bn	£20.6bn	£22.4bn

Note
For IFRS reporting purposes, the Group adopted new and amended accounting standards in 2013. Accordingly, the IFRS elements and EEV basis shareholders' interest for the comparative results have been adjusted for the retrospective application of this adoption of IFRS accounting policies, as discussed in note B of the IFRS financial statement and note 1 of the EEV basis results.

Basis of preparation

Results bases
The IFRS basis results have been prepared in accordance with the accounting policies discussed in note A of the IFRS financial statements.

Life insurance products are, by their nature, long term and the profit on this business is generated over a significant number of years. Accounting under IFRS alone does not, in Prudential's opinion, fully reflect the value of future profit streams. Prudential considers that embedded value reporting provides investors with a measure of the future profit streams of the Group's in-force long-term businesses and is a valuable supplement to statutory accounts. The EEV basis results have been prepared in accordance with the EEV principles discussed in note 1 of the EEV basis supplementary information.

Operating profit based on longer-term investment returns
The Group provides supplementary analysis of profit before tax attributable to shareholders so as to distinguish operating profit based on longer-term investment returns from the other elements of total profit shown. Operating profit per share is calculated using operating profits based on longer-term investment returns, after related tax and non-controlling interests. In 2013, operating profit excludes the results of the Japan Life insurance business, together with effect of it being classified as held for sale and written down to fair value less costs to sell at 30 June 2013. 2012 comparatives have been retrospectively adjusted on a comparable basis.

Exchange translation – Actual Exchange Rate (AER) and Constant Exchange Rate (CER)
The comparative results have been prepared using previously reported exchange rates (AER basis) except where otherwise stated. Results on a CER basis are also shown for the analysis of IFRS and EEV operating profit based on longer-term investment returns.

Financial review continued

IFRS profits

	AER			CER	
	Half year 2013 £m	Half year 2012 note £m	Change %	Half year 2012 note £m	Change %
Insurance business					
Long-term business:					
Asia	476	406	17	409	16
US	582	442	32	452	29
UK	341	336	1	336	1
Development expenses	(2)	(3)	33	(3)	33
Long-term business operating profit	1,397	1,181	18	1,194	17
UK general insurance commission	15	17	(12)	17	(12)
Asset management business:					
M&G (including Prudential Capital)	225	199	13	199	13
Eastspring Investments	38	32	19	32	19
Curian	14	7	100	7	100
US broker-dealer and asset management	20	10	100	11	82
	1,709	1,446	18	1,460	17
Other income and expenditure	(270)	(255)	(6)	(255)	(6)
Solvency II implementation costs	(13)	(27)	52	(27)	52
Restructuring costs	(11)	(7)	(57)	(7)	(57)
Total IFRS basis operating profit based on longer-term investment returns	1,415	1,157	22	1,171	21
Short-term fluctuations in investment returns:					
Insurance operations	(725)	(94)			
Other operations	(30)	47			
	(755)	(47)			
(Loss) profit attaching to held for sale Japan Life business	(124)	14			
Gain on dilution of Group holdings	–	42			
Amortisation of acquisition accounting adjustments	(30)	–			
Profit before tax attributable to shareholders	506	1,166			
Tax charge attributable to shareholders' returns	(141)	(279)			
Profit for the period attributable to shareholders	365	887			

Note
The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards as discussed in note B of the IFRS financial statements. In addition, following its reclassification as held for sale at 30 June 2013, operating results exclude the result of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis.

In the first half of 2013, the Group's IFRS operating profit based on longer-term investment returns was £1,415 million, an increase of 22 per cent from the first half of 2012. The improvement predominantly reflects the strong growth in total contributions from Asia and the US, which were up 18 per cent and 34 per cent respectively, reflecting the continuing growth of the in-force portfolio.

The total profit before tax attributable to shareholders was £506 million in the first half of 2013 compared to £1,166 million in the first half of 2012. As well as the improvement in operating profit discussed above, profit before tax is impacted by:

Short-term fluctuations in investment returns

IFRS operating profit is based on longer-term investment return assumptions. The difference between actual investment returns recorded in the income statement and these longer-term returns is shown as short-term fluctuations in investment returns. In 2013, for our insurance operations these total negative £725 million, comprising negative £137 million for Asia, negative £441 million in the US and negative £147 million in the UK.

In Asia, the negative short-term fluctuations of £137 million primarily reflect net unrealised movements on bond holdings following a rise in bond yields during the period. Negative fluctuations of £441 million in the US mainly represent the net unrealised value movement on derivatives held to manage the Group's exposure to market movements following rises in equity values. Jackson hedges its variable annuity book on an economic basis and, thus, accepts a degree of variability in its IFRS results in the short term in order to achieve the appropriate economic result. The negative fluctuations of £147 million in the UK relate to net unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business.

Short-term fluctuations for other operations were negative £30 million (2012: positive £47 million) representing net unrealised movements on centrally held derivatives to manage foreign exchange and certain macroeconomic exposures of the Group.

Amortisation of acquisition accounting adjustments

The amortisation primarily comprises the difference between the yield on the acquired investments on purchase of REALIC in 2012 based on market values at acquisition and historic investment income on book yields recognised in IFRS operating profit. Movement in the fair value acquisition adjustments on the value of in-force business acquired is also included.

Agreement to sell Japan Life business

On 16 July 2013, the Group reached an agreement to sell its closed book life insurance business in Japan, PCA Life Insurance Company Limited, to SBI Holdings Inc. for US$85 million (£56 million at 30 June 2013 closing exchange rate). The transaction is subject to regulatory approval. Consistent with the classification of the business as held for sale, the IFRS carrying value has been set to £53 million, representing the estimated proceeds, net of related expenses of £3 million. The loss of £124 million (2012: profit of £14 million) comprises the 2013 reduction on remeasuring the carrying value of the business and its trading results.

Effective tax rates

The 2013 effective rate of tax on operating profit based on longer-term investment returns was 24 per cent (2012: 24 per cent).

The 2013 effective rate of tax on the total IFRS profit was 28 per cent (2012: 24 per cent). The 2013 effective tax rate reflects the inclusion of items in the overall result (such as the loss on the held for sale Japan business) which attracts no tax relief.

Financial review continued

EEV profits

	AER			CER	
	Half year 2013 £m	Half year 2012 note £m	Change %	Half year 2012 note £m	Change %
Insurance business					
Long-term business:					
Asia	1,079	874	23	880	23
US	1,016	805	26	822	24
UK	404	490	(18)	490	(18)
Development expenses	(2)	(3)	33	(3)	33
Long-term business operating profit	2,497	2,166	15	2,189	14
UK general insurance commission	15	17	(12)	17	(12)
Asset management business:					
M&G (including Prudential Capital)	225	199	13	199	13
Eastspring Investments	38	32	19	32	19
Curian	14	7	100	7	100
US broker-dealer and asset management	20	10	100	11	82
	2,809	2,431	16	2,455	14
Other income and expenditure	(304)	(285)	(7)	(285)	(7)
Solvency II implementation costs	(14)	(29)	52	(29)	52
Restructuring costs	(12)	(8)	(50)	(8)	(50)
Total EEV basis operating profit	2,479	2,109	18	2,133	16
Short-term fluctuations in investment returns:					
Insurance operations	(778)	162			
Other operations	(30)	47			
	(808)	209			
Mark to market value movements on core borrowings	203	(113)			
Effect of changes in economic assumptions	684	(361)			
(Loss) profit attaching to held for sale Japan Life business	(47)	5			
Gain on dilution of Group holdings	–	42			
Profit before tax attributable to shareholders	2,511	1,891			
Tax charge attributable to shareholders' profit	(587)	(527)			
Profit for the year attributable to shareholders	1,924	1,364			

Note
For IFRS reporting purposes, the Group adopted new and amended accounting standards in 2013. Accordingly, the IFRS elements and EEV basis shareholders' interest for the comparative results have been adjusted for the retrospective application of this adoption of IFRS accounting policies, as discussed in note 1 of the EEV basis results. In addition, following its reclassification as held for sale at 30 June 2013, operating results exclude the result of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis.

Prudential Group's EEV operating profit based on longer-term investment returns was £2,479 million in the first half of 2013, 18 per cent higher than the £2,109 million earned in the first half of 2012. The improvement reflects higher profits generated from new business (up 11 per cent to £1,268 million) and increased profitability from our growing in-force portfolio.

Long-term business operating profit generated by the Group was £2,497 million (2012: £2,166 million). This profit comprises:

- New business profit of £1,268 million (2012: £1,141 million);
- In-force profit of £1,231 million (2012: £1,028 million); and
- Negative £2 million for development expenses (2012: negative £3 million).

The contribution to operating profit from life in-force business increased by 20 per cent to £1,231 million (2012: £1,028 million), reflecting our focus on managing our existing book of business for value. This result comprises £954 million (2012: £761 million) from the unwind of the discount on the opening embedded value and other expected returns and £277 million (2012: £267 million) from the effect of operating assumption changes, experience variances and other items. The unwind of discount and other expected returns is £193 million higher than 2012, primarily reflecting the recent growth in the business and the positive effect of higher long-term interest rates.

Asia continues to be the highest contributor to the Group's life profit, contributing £1,079 million in the first half of 2013 (2012: £874 million). Included in Asia's result is £420 million of profit from in-force business (2012: £327 million), comprising £400 million (2012: £318 million) from the unwind of the discount rate and operating assumption changes and experience variances which netted to an overall modest positive of £20 million (2012: positive £9 million). This evidences the resilience of our portfolio of businesses in the region.

US life in-force profit was higher at £537 million in the first half of 2013 compared to £363 million in the first half of 2012, with the first half of 2013 including £23 million of profit from REALIC. Overall experience and operating assumption changes contributed positive £250 million towards in-force profits compared to £165 million in the first half of 2012. Within these amounts, beneficial spread gains were £125 million (2012: £98 million) with the remaining £125 million (2012: £67 million) profit representing Jackson's focus on managing its in-force book of business with discipline.

UK life in-force profit was lower for the first six months of 2013 at £274 million (2012: £338 million). The unwind of the discount increased to £267 million for 2013 (2012: £245 million), primarily reflecting the growth of the in-force portfolio. Despite the market disruptions that accompanied the introduction of a number of regulatory developments, the UK life in-force business has delivered a positive overall experience result of £7 million (2012: £93 million). The 2012 result benefited from sizeable trading profits which did not recur and, among other items, included a positive £43 million, representing the effects on future profits arising from the reduction in UK corporation taxes enacted during that period. Recently announced further reductions to UK tax rates were not enacted until July 2013, so the benefit of these will be recognised in the second half of 2013.

In the first half of 2013, total profits before tax attributable to shareholders were 33 per cent higher at £2,511 million (2012: £1,891 million). As well as the increase in operating profit discussed above, this profit before tax is impacted by:

EEV short-term fluctuations in investment returns

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

Short-term fluctuations in investment returns for insurance operations of negative £778 million comprised of negative £282 million for Asia, negative £404 million for our US operations and negative £92 million in the UK.

In Asia, negative short-term fluctuations of £282 million principally reflect unrealised movements on bond holdings in the period. In the US, the favourable impact of market movements on the expected level of future fee income from the variable annuity separate accounts is more than offset by the net value movements on derivatives held to manage Group's equity and interest rate exposure, to give overall negative fluctuations of £404 million in the first half of 2013. In the UK, negative fluctuations of £92 million includes the impact of rising bond yields on the unrealised value movements on the fixed income assets supporting the shareholder-backed annuity business.

Effect of changes in economic assumptions

The effect of changes in economic assumptions of positive £684 million comprises positive £333 million for Asia, positive £62 million for the US and positive £289 million for the UK. These reflect the aggregate net benefit of the increase in long-term yields in the first half of 2013 on future in-force profits across all of these businesses.

Agreement to sell Japan Life business

On 16 July 2013, the Group reached an agreement to sell its closed book life insurance business in Japan, PCA Life Insurance Company Limited, to SBI Holdings Inc. for US$85 million (£56 million at 30 June 2013 closing exchange rate). The transaction is subject to regulatory approval. Consistent with the classification of the business as held for sale, the EEV carrying value has been set to £53 million, representing the estimated proceeds, net of related expenses of £3 million. The loss of £47 million (2012: profit of £5 million) comprises the 2013 reduction on remeasuring the carrying value of the business and its trading results.

Effective tax rates

The 2013 effective rate of tax on operating profit based on longer-term investment returns was 27 per cent (2012: 27 per cent).

The 2013 effective rate of tax on total EEV profit of 23 per cent was lower than the equivalent rate in the previous year (2012: 28 per cent), reflecting changes in the composition of non-operating items and non-tax effective mark to market value adjustments.

Financial review continued

Movement on shareholders' funds

	AER					
	IFRS £m			EEV £m		
	Half year 2013	Half year 2012 note (a)	Full year 2012 note (a)	Half year 2013	Half year 2012 note (a)	Full year 2012 note (a)
Operating profit based on longer-term investment returns	1,415	1,157	2,520	2,479	2,109	4,313
Items excluded from operating profit	(909)	9	227	32	(218)	644
Total profit before tax	506	1,166	2,747	2,511	1,891	4,957
Tax and non-controlling interests	(141)	(279)	(584)	(587)	(527)	(1,188)
Profit for the period	365	887	2,163	1,924	1,364	3,769
Exchange movements, net of related tax	232	(54)	(216)	693	(125)	(469)
Unrealised gains and losses on Jackson securities classified as available-for-sale note (b)	(837)	196	387	–	–	–
Shareholders' share of actuarial and other gains and losses on defined pension schemes	(21)	65	34	(26)	77	44
Dividends	(532)	(440)	(655)	(532)	(440)	(655)
New share capital subscribed	1	14	17	1	14	17
Other	58	60	65	19	78	100
Net (decrease) increase in shareholders' funds	(734)	728	1,795	2,079	968	2,806
Shareholders' funds at beginning of the period	10,359	8,564	8,564	22,443	19,637	19,637
Shareholders' funds at end of the period	9,625	9,292	10,359	24,522	20,605	22,443
Comprising:						
Long-term business:						
Free surplus				3,278	2,778	2,957
Required capital				4,263	3,623	3,898
Net worth				7,541	6,401	6,855
Value of in-force				17,114	14,001	15,411
Total				24,655	20,402	22,266
Other business				(133)	203	177
Total note (c)				24,522	20,605	22,443
Net asset value per share	376p	364p	405p	958p	806p	878p

Notes
(a) For IFRS reporting purposes, the Group adopted new and amended accounting standards in 2013. Accordingly, the IFRS elements and EEV basis shareholders' interest for the comparative results have been adjusted for the retrospective application of this adoption of IFRS accounting policies, as discussed in note B of the IFRS financial statement and note 1 of the EEV basis results.
(b) Net of related changes to deferred acquisition costs and tax.
(c) EEV shareholders' funds excluding goodwill attributable to shareholders at 30 June 2013 is £23,048 million (30 June 2012: £19,138 million; 31 December 2012: £20,974 million).

IFRS

IFRS shareholders' funds at 30 June 2013 were £9.6 billion. This compares to £10.4 billion at 31 December 2012, a decrease of £0.8 billion.

This decrease of £0.8 billion mainly reflect the profit after tax of £365 million and positive foreign exchange movements of £232 million, following the strengthening of the US dollar and certain Asian currencies, being more than offset by dividend payments of £532 million and the unrealised loss of £837 million arising in the first half of 2013 on Jackson's debt securities. For debt securities in Jackson which are classified as 'available-for-sale', unless impaired, fair value movements are recognised in other comprehensive income while realised gains and losses, including impairments, are recorded in income statement. At 30 June 2013, the cumulative unrealised gain on Jackson's 'available-for-sale' debt securities included in the shareholders' funds was a positive £588 million, net of DAC and tax (31 December 2012: £1,425 million).

EEV

On an EEV basis, which recognises the shareholders' interest in long-term business, shareholders' funds at 30 June 2013 were £24.5 billion, an increase of £2.1 billion from 31 December 2012 (£22.4 billion). This increased level of shareholders' funds primarily reflects the profit after tax of £1,924 million, the positive exchange movements of £693 million as a result of the strengthening of the US dollar and certain Asian currencies, offset by dividend payments of £532 million.

Free surplus and holding company cash flow

Overview

The Group manages its internal cash flow by focusing on the free surplus generated by the life and asset management businesses. Remittances are, however, made as and when required by the holding company with excess surplus being left in the businesses where it can be redeployed most profitably.

Free surplus generation

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

The Group's free surplus at the end of the period comprises free surplus for the insurance businesses, representing the excess of the net worth over the required capital included in the EEV results, and IFRS net assets for the asset management businesses excluding goodwill.

The free surplus generation for the insurance business represents amounts maturing from the in-force operations during the period less the investment in new business. For asset management operations we have defined free surplus generation to be the total post-tax IFRS profit for the period.

The Group's free surplus generated also includes the general insurance commission earned during the period and excludes foreign exchange, capital movements, shareholders' other income and expenditure and centrally arising restructuring and Solvency II implementation costs.

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

	2013 £m	2012 £m note (a)	
	Half year	Half year	Full year
Free surplus generation			
Expected in-force cash flows (including expected return on net assets):	1,345	1,270	2,405
Life operations	1,106	1,079	2,019
Asset management and other operations	239	191	386
Changes in operating assumptions and experience variances	203	125	293
Underlying free surplus generated in the period from in-force business	1,548	1,395	2,698
Investment in new business	(396)	(364)	(618)
Underlying free surplus generated in the period	1,152	1,031	2,080
Market-related items	(294)	(201)	(104)
Increase in EEV assumed level of required capital	(59)	–	–
Gain on dilution of Group holdings	–	42	42
Acquisition of REALIC	–	–	(169)
(Loss) profit attaching to held for sale Japan Life business	(56)	25	31
Free surplus generated in the period	743	897	1,880
Net cash remitted by the business units	(844)	(726)	(1,200)
Other movements (including foreign exchange effects) and timing differences note (b)	556	(143)	(412)
Total movement during the period	455	28	268
Free surplus at 1 January	3,689	3,421	3,421
Free surplus at end of the period	4,144	3,449	3,689
Comprised of:			
Free surplus relating to long-term insurance business	3,278	2,778	2,957
Free surplus of other insurance business	11	13	25
IFRS net assets of asset management businesses excluding goodwill	855	658	707
Total free surplus	4,144	3,449	3,689

Notes

(a) For IFRS reporting purposes, the Group adopted the amended accounting standard on pension accounting. Accordingly, the IFRS elements and EEV basis shareholders' interest for the comparative results have been adjusted for the retrospective application of this adoption of IFRS accounting policy as discussed in note 1 of the EEV basis results. In addition, following its reclassification as held for sale at 30 June 2013, operating results exclude the result of the Japan Life insurance business. 2012 comparatives have been retrospectively adjusted on a comparable basis.

(b) Other movements and timing differences includes £365 million arising on the acquisition of Thanachart Life.

Financial review continued

During the first half of 2013, Prudential generated underlying free surplus from the in-force book of £1,548 million (2012: £1,395 million), reflecting the progress we have made in growing the portfolio of business and our focus on managing the in-force book for value. Changes in operating assumptions and experience variances were £203 million in the first half of 2013 compared with £125 million in 2012. These variances included positive £32 million from Asia (2012: negative £6 million), £38 million from the UK (2012: £14 million) and £133 million from the US (2012: £117 million), principally driven by favourable spread experience in the period.

Underlying free surplus generated from in-force business has been used by our life businesses to invest in new business. Investment in new business has increased by 9 per cent to £396 million in the first half of 2013. This compares to a 7 per cent increase in APE sales and an 11 per cent increase in new business profit.

Market-related movements of negative £294 million in the first half of 2013, principally represents negative £395 million arising in the US, offset by positive £146 million from the UK. The US movement is principally driven by the net unrealised value movement on derivatives held to manage the Group's exposure to market movements following rises in equity values. The increase in the US's required capital of £59 million arises from the increase in capital from 235 per cent of US Risk-Based Capital Company Action level to 250 per cent in line with the changes made to IGD reporting, see section 'C.1 Regulatory capital (IGD)' of Risk and capital management.

Value created through investment in new business by life operations

	Half year 2013 £m			
	Asia insurance operations	US insurance operations	UK insurance operations	Group total
Free surplus invested in new business	(165)	(211)	(20)	(396)
Increase in required capital	57	172	32	261
Net worth invested in new business	(108)	(39)	12	(135)
Value of in-force created by new business	610	350	88	1,048
Post-tax new business profit for the period	502	311	100	913
Tax	157	168	30	355
Pre-tax new business profit for the period	659	479	130	1,268
New business sales (APE)	1,010	797	355	2,162
Internal rate of return[note]	>20%	>20%	>20%	
Undiscounted payback period for shareholder-backed business	4	2	4	

	AER Half year 2012 £m			
	Asia insurance operations	US insurance operations	UK insurance operations	Group total
Free surplus invested in new business	(162)	(180)	(22)	(364)
Increase in required capital	48	151	44	243
Net worth invested in new business	(114)	(29)	22	(121)
Value of in-force created by new business	528	317	94	939
Post-tax new business profit for the period	414	288	116	818
Tax	133	154	36	323
Pre-tax new business profit for the period	547	442	152	1,141
New business sales (APE)	899	719	412	2,030
Internal rate of return[note]	>20%	>20%	>20%	
Undiscounted payback period for shareholder-backed business	4	2	3	

Value created through investment in new business by life operations continued

	CER			
	Half year 2012 £m			
	Asia insurance operations	US insurance operations	UK insurance operations	Group total
Free surplus invested in new business	(165)	(184)	(22)	(371)
Increase in required capital	49	154	44	247
Net worth invested in new business	(116)	(30)	22	(124)
Value of in-force created by new business	533	323	94	950
Post-tax new business profit for the period	417	293	116	826
Tax	134	158	36	328
Pre-tax new business profit for the period	551	451	152	1,154
New business sales (APE)	910	734	412	2,056
Internal rate of return[note]	>20%	>20%	>20%	
Undiscounted payback period for shareholder-backed business	4	2	3	

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

In Asia, we utilised capital of £165 million (2012: £162 million) to invest in new business in 2013, an increase of 2 per cent, and generated £659 million of new business profits, an increase of 20 per cent from the same period in 2012. This improved capital efficiency reflects, in part, higher interest rates in Hong Kong and the beneficial impact they have on the level of reserves established on policy inception.

In the US, investment in new business was £211 million (2012: £180 million), an increase of 17 per cent, and compares to 8 per cent increase in new business profit in the period. The higher new business strain primarily reflects the increase in capital requirement from 235 per cent of the US Risk Based Capital Company Action level to 250 per cent, higher sales volumes and changes in business mix.

In the UK, investment in new business was broadly comparable to the prior year at £20 million (2012: £22 million). The fall in capital investment as a result of lower sales in 2013 has been partly offset by a change in product mix.

Financial review continued

Holding company cash flow

	2013 £m	2012 £m	
	Half year	Half year	Full year
Net cash remitted by business units:			
UK net remittances to the Group			
UK Life fund paid to the Group	206	216	216
Shareholder-backed business:			
Other UK paid to the Group	20	14	101
Group invested in UK	–	–	(4)
Total shareholder-backed business	20	14	97
Total UK net remittances to the Group	226	230	313
US remittances to the Group	294	247	249
Asia net remittances to the Group			
Asia paid to the Group:			
Long-term business	228	170	491
Other operations	33	31	60
	261	201	551
Group invested in Asia:			
Long-term business	(3)	–	(107)
Other operations (including funding of Regional Head Office costs)	(68)	(75)	(103)
	(71)	(75)	(210)
Total Asia net remittances to the Group	190	126	341
M&G remittances to the Group	109	98	206
PruCap remittances to the Group	25	25	91
Net remittances to the Group from business units	844	726	1,200
Net interest paid	(142)	(136)	(278)
Tax received	114	89	194
Corporate activities	(89)	(70)	(158)
Solvency II costs	(15)	(31)	(47)
Total central outflows	(132)	(148)	(289)
Operating holding company cash flow before dividend[note]	712	578	911
Dividend paid	(532)	(440)	(655)
Operating holding company cash flow after dividend[note]	180	138	256
Issue of hybrid debt, net of costs	429	–	–
Acquisition of Thanachart Life	(397)	–	–
Hedge purchase cost (equity tail risks)	–	(48)	(32)
Other net cash payments	(97)	(68)	(43)
Total holding company cash flow	115	22	181
Cash and short-term investments at beginning of period	1,380	1,200	1,200
Foreign exchange movements	(5)	–	(1)
Cash and short-term investments at end of period	1,490	1,222	1,380

Note
Including central finance subsidiaries.

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

Operating holding company cash flow for half year 2013 before the shareholder dividend was £712 million, £134 million higher than 2012. After deducting the shareholder dividend the operating holding company cash flow was £180 million (2012: £138 million).

Cash remittances to the Group from business units

The holding company received £844 million of net cash remittances from the business units in the first half of 2013, an increase of £118 million from the £726 million received in the first half of 2012.

Asia remitted £190 million to the Group in the first half of 2013, an increase of £64 million from the first half of 2012. Asia's 2013 remittance includes a stronger first half bias than in 2012, due to timing differences.

As in prior years, the Jackson full-year dividend of £294 million (2012: £247 million) has been received in the first half of the year.

The UK insurance operations remitted £226 million in the first half of 2013 (2012: £230 million). Cash from the annual with-profits transfer to shareholders contributed £206 million (2012: £216 million).

M&G and Prudential Capital collectively remitted £134 million in the first half of 2013 (2012: £123 million), as the asset management businesses continue to remit significant portions of their annual post-tax earnings to the Group.

Net central outflows and other movements

Net central outflows improved to £132 million in the first half of 2013 (2012: £148 million), with higher corporate costs and higher net interest payments offset by lower Solvency II costs and higher tax receipts.

After central costs, there was a net cash inflow before dividend of £712 million in the first half of 2013 compared to £578 million in 2012. The dividend paid was £532 million in the first half of 2013 compared to £440 million in the same period in 2012.

Outside of the normal recurring central cash flow items, the holding company issued US$700 million (£429 million) of hybrid debt in January 2013 and paid £397 million for the acquisition of Thanachart Life. The holding company incurred £97 million of other cash payments in the first half of 2013, including payments in respect of amounts due to the UK tax authorities following the settlement reached in 2010 on historic tax issues, and amounts totalling £30 million paid to the Financial Services Authority over issues related to the terminated AIA transaction.

The overall holding company cash and short-term investment balance at 30 June 2013 was £1,490 million, £110 million higher than the balance held at the end of 2012. The Company seeks to maintain a central cash balance in excess of £1 billion.

Financial review continued

Balance sheet and associated information

Balance sheet summary

	2013 £m	2012 £m[1]	
	30 Jun	30 Jun	31 Dec
Goodwill attributable to shareholders	1,474	1,467	1,469
Investments	294,705	258,145	281,260
Holding company cash and short-term investments	1,490	1,222	1,380
Other	28,168	19,038	23,535
Total assets	325,837	279,872	307,644
Less: liabilities			
Policyholder liabilities	272,728	233,507	257,674
Unallocated surplus of with-profits funds	11,434	9,802	10,589
	284,162	243,309	268,263
Less: shareholders' accrued interest in the long-term business	(14,897)	(11,313)	(12,084)
	269,265	231,996	256,179
Core structural borrowings of shareholders' financed operations (IFRS book value basis)	4,149	3,596	3,554
Other liabilities including non-controlling interest	27,901	23,675	25,468
Total liabilities and non-controlling interest	301,315	259,267	285,201
EEV basis net assets	24,522	20,605	22,443
Share capital and premium	2,018	2,014	2,017
IFRS basis shareholders' reserves	7,607	7,278	8,342
IFRS basis shareholders' equity (excluding non-controlling interest)	9,625	9,292	10,359
Additional EEV basis retained profit	14,897	11,313	12,084
EEV basis shareholders' equity (excluding non-controlling interest)	24,522	20,605	22,443

Net asset value per share (in pence)

	2013	2012	
	30 Jun	30 Jun	31 Dec
EEV	958p	806p	878p
IFRS	376p	364p	405p

Total assets[1] of the Group at £325.8 billion were 6 per cent higher than at 31 December 2012 (£307.6 billion) driven by the growth in our business and improved equity markets (policyholder liabilities were up 6 per cent at £272.7 billion). In January 2013, Prudential issued a new US$700 million 5.25 per cent perpetual Tier 1 notes which increased the core structural borrowings from £3.6 billion to £4.1 billion. EEV shareholder equity has increased by 9 per cent from £22.4 billion as at 31 December 2012 to £24.5 billion as at 30 June 2013.

Acquisition of Thanachart Life

On 3 May 2013, the agreement we entered into in November 2012 to establish an exclusive 15-year partnership with Thanachart Bank Public Company Limited (Thanachart Bank) to develop jointly their bancassurance business in Thailand was launched. At the same time, Prudential Thailand completed the acquisition of Thanachart Life Assurance Company Limited (Thanachart Life), a wholly-owned life insurance subsidiary of Thanachart Bank. This transaction builds on Prudential's strategy of focusing on the highly attractive markets of South-east Asia and is in line with the Group's multichannel distribution strategy.

The consideration for the transaction is THB 18.981 billion (£412 million), of which THB 17.500 billion (£380 million) was settled in cash on completion in May 2013 with a further payment of THB 0.946 billion (£20 million), for adjustments to reflect net asset value as at completion date, payable in July 2013. In addition, a deferred payment of THB 0.535 billion (£12 million) is payable 12 months after completion. The THB 18.981 billion (£412 million), includes the amounts attributable to the acquisition of the distribution rights associated with the exclusive 15-year bancassurance partnership agreement with Thanachart Bank. No goodwill arose on this acquisition.

Note

1 For IFRS reporting purposes, the Group adopted new and amended accounting standards in 2013. Accordingly, the IFRS elements and EEV basis shareholders' interest for the comparative results have been adjusted for the retrospective application of this adoption of IFRS accounting policies, as discussed in note 1 of the EEV basis results and note B of the IFRS financial statements.

Policyholder liabilities and unallocated surplus of with-profits funds

	Half year 2013 £m				Half year 2012 £m
Shareholder-backed business	**Asia**	**US**	**UK**	**Total**	**Total**
At 1 January	21,213	92,261	49,505	162,979	133,506
Premiums	2,379	8,208	2,090	12,677	11,259
Surrenders	(1,194)	(2,420)	(1,252)	(4,866)	(4,339)
Maturities/deaths	(146)	(620)	(1,174)	(1,940)	(1,719)
Net cash flowsnote (i)	1,039	5,168	(336)	5,871	5,201
Investment-related items and other movements	549	2,038	901	3,488	3,910
Acquisition of subsidiaries	487	–	–	487	–
Reclassification of Japan Life business as held for salenote (ii)	(970)	–	–	(970)	–
Foreign exchange translation differences	585	6,748	–	7,333	(833)
At 30 June	22,903	106,215	50,070	179,188	141,784
With-profits funds:					
– Policyholder liabilities				96,877	94,635
– Unallocated surplus				11,434	9,802
Total at 30 June				108,311	104,437
Total policyholder liabilities at 30 June				287,499	246,221
Comprising:					
– Policyholder liabilities included on statement of financial position				272,728	233,507
– Unallocated surplus of with-profits funds on statement of financial position				11,434	9,802
– Group's share of policyholder liabilities of insurance joint ventures				3,337	2,912

Notes
(i) Including net flows of the Group's insurance joint ventures.
(ii) The reclassification of Japan Life business as held for sale reflects the value of policyholder liabilities reclassified at 30 June 2013. Asia net flows includes negative £45 million for half year 2013 (half year 2012: negative £42 million) in respect of the Japan Life business.

Policyholder liabilities and unallocated surplus of with-profits funds

Policyholder liabilities relating to shareholder-backed business grew by £16 billion from £163 billion at 31 December 2012 to £179 billion at 30 June 2013, demonstrating the ongoing growth of our business.

The increase reflects positive net flows (premiums net of upfront charges less surrenders, withdrawals, maturities and deaths) of £5.9 billion in the first half of 2013 (2012: £5.2 billion), driven by strong inflows in the US £5.2 billion and Asia £1.0 billion. Net flows in Asia have increased by 17 per cent to £1,039 million in the first half of 2013 (2012: £891 million). The surrenders for shareholder-backed business in the first half of 2013 is broadly consistent with the equivalent period in 2012 once an allowance is made for the movements in investment markets and foreign exchange.

Other movements include positive foreign exchange effect of £7.3 billion (2012: negative £0.8 billion) together with investment-related items and other movements of £3.5 billion (2012: £3.9 billion), which is principally driven by increases in equity markets in the period offset by the movement in bond values following an increase in bond yields. The acquisition of subsidiaries reflects the liabilities of Thanachart Life at the date of acquisition.

During the first half of 2013, the unallocated surplus, which represents the excess of assets over policyholder liabilities for the Group's with-profits funds on an IFRS basis, increased by 8 per cent from £10.6 billion at 31 December 2012 to £11.4 billion at 30 June 2013.

Financial review continued

Shareholders' net borrowings and ratings

Shareholders' net borrowings at 30 June 2013:

	30 Jun 2013 £m			31 Dec 2012 £m		
	IFRS basis	Mark to market value	EEV basis	IFRS basis	Mark to market value	EEV basis
Perpetual subordinated capital securities (Innovative Tier 1)	2,327	60	2,387	1,746	120	1,866
Subordinated notes (Lower Tier 2)	834	187	1,021	831	258	1,089
	3,161	247	3,408	2,577	378	2,955
Senior debt:						
2023	300	71	371	300	94	394
2029	249	42	291	249	64	313
Holding company total	3,710	360	4,070	3,126	536	3,662
Prudential Capital	275	–	275	275	–	275
Jackson surplus notes (Lower Tier 2)	164	25	189	153	43	196
Total	4,149	385	4,534	3,554	579	4,133
Less: Holding company cash and short-term investments	(1,490)	–	(1,490)	(1,380)	–	(1,380)
Net core structural borrowings of shareholder-financed operations	2,659	385	3,044	2,174	579	2,753

Shareholders' net borrowings and ratings

In addition to its core structural borrowings set out above, Prudential also has in place an unlimited global commercial paper programme. As at 30 June 2013, we had issued commercial paper under this programme totalling £555 million, US$2,154 million, €165 million and AU$9 million. The central treasury function also manages our £5 billion medium term note (MTN) programme, covering both core and non-core borrowings. In January 2013, Prudential issued a new US$700 million 5.25 per cent perpetual Innovative Tier 1 hybrid under this programme, primarily to Asian retail investors. Under the same programme at 30 June 2013, the outstanding subordinated debt was £835 million, US$2 billion and €20 million. In addition, Prudential's holding company has access to £2.1 billion of syndicated and bilateral committed revolving credit facilities, provided by 17 major international banks, expiring between 2015 and 2018. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 30 June 2013. The commercial paper programme, the MTN programme and the committed revolving credit facilities are all available for general corporate purposes and to support the liquidity needs of Prudential's holding company and are intended to maintain a strong and flexible funding capacity.

Prudential manages the Group's core debt within a target level consistent with its current debt ratings. At 30 June 2013, the gearing ratio (debt, net of cash and short-term investments, as a proportion of EEV shareholders' funds plus net debt) was 9.8 per cent, compared with 8.8 per cent at 31 December 2012. Prudential plc has strong debt ratings from Standard & Poor's, Moody's and Fitch. Prudential's long-term senior debt is rated A+, A2 and A from Standard & Poor's, Moody's and Fitch, while short-term ratings are A-1, P-1 and F1 respectively. All ratings on Prudential and its subsidiaries are on stable outlook.

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

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

Financial strength of the UK Long-term Fund

On a UK regulatory Pillar I Peak 2 or 'realistic' valuation basis, ie with liabilities recorded on a market consistent basis, the free assets were valued at approximately £7.8 billion at 30 June 2013 (31 December 2012: £7.0 billion), before a deduction for the risk capital margin. The value of the shareholders' interest in future transfers from the UK with-profits fund is estimated at £2.4 billion (31 December 2012: £2.1 billion).

Despite the continued volatility in financial markets, Prudential UK's With-Profits fund performed well achieving a 3.3 per cent pre-tax investment return for policyholder asset shares during the first half of 2013. On an annualised basis this equates to 6.6 per cent.

Risk and capital management

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

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

Prudential generates shareholder value by selectively taking exposure to risks that are adequately rewarded and that can be appropriately quantified and managed. Material risks are retained only where consistent with Prudential's risk appetite and risk-taking philosophy, that is:

a. they contribute to value creation;
b. adverse outcomes can be withstood; and
c. Prudential has the capabilities, expertise, processes and controls to manage them.

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

Framework: to design, implement and maintain a capital management and risk oversight framework, which is consistent with the Group's risk appetite and philosophy towards risk taking;

Monitoring: to establish a 'no surprises' risk management culture by identifying the risk landscape, assessing and monitoring risk exposures and understanding change drivers;

Control: to implement suitable risk mitigation strategies and remedial actions where exposures are deemed inappropriate, and to manage the response to potentially extreme events;

Communication: to effectively communicate the Group risk, capital and profitability position to both internal and external stakeholders; and

Culture: to foster a risk management culture, providing quality assurance and facilitating the sharing of best practice.

A. Group Risk Framework

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

A.1 Risk governance

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

Primary responsibility for strategy, performance management and risk control lies with the Board, which has established the Group Risk Committee (GRC) to assist in providing leadership, direction and oversight in respect of the Group's significant risks, and with the Group Chief Executive and the chief executives of each of the Group's business units.

Risk taking and the management thereof forms the first line of defence and is facilitated through both the Group Executive Committee (GEC) and the Balance Sheet and Capital Management Committee (BSCMC).

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

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

Risk and capital management continued

A.2 Risk appetite and limits

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

Prudential defines and monitors aggregate risk limits based on financial and non-financial stresses for its earnings volatility, liquidity and capital requirements as follows:

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

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

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

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

Capital requirements: the limits aim to ensure that:

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

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

Prudential also defines risk appetite statements and measures (ie limits, triggers, indicators) for the major constituents of each risk type as categorised and defined in the GRF, where appropriate. These appetite statements and measures cover the most significant exposures to the Group, particularly those that could impact the Group's aggregate risk limits. The GRF risk categorisation is shown in the table below.

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

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

A.3 Risk policies

Risk policies set out specific requirements for the management, and articulate the risk appetite for, key risk types, including credit, market, insurance, liquidity and operational risk, as well as dealing controls. They form part of the Prudential Group Governance Manual (GGM), which was developed to make a key contribution to the sound system of internal control that the Group is expected to maintain under the UK Corporate Governance Code and the Hong Kong Code on Corporate Governance Practices. Group Head Office and business units confirm that they have implemented the necessary controls to evidence compliance with the GGM.

A.4 Risk culture

Prudential works to promote a responsible risk culture in three main ways:

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

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

A.5 Risk reporting

An annual 'top-down' identification of Prudential's top risks assesses the risks that have the greatest potential to impact the Group's operating results and financial condition. The management information received by the Group risk committees and the Board is tailored around these risks, and it also covers ongoing developments in other key and emerging risks. A discussion of the key risks, including how they affect Prudential's operations and how they are managed, follows in Section B.

B. Key risks

B.1 Market risk

(i) Equity risk

Prudential's UK business is exposed to equity risk predominantly through the with-profits fund. The fund's large inherited estate – estimated at £7.8 billion as at 30 June 2013 (31 December 2012: £7.0 billion) – can absorb market fluctuations and protect the fund's solvency. The inherited estate is partially protected against falls in equity markets through an active hedging policy.

In Asia, Prudential's shareholder exposure to equities relates to revenue from unit-linked products and, from a capital perspective, to the effect of falling equity markets on its with-profits businesses.

In Jackson, there are risks associated with the guarantees embedded in variable annuity products. Shareholders' exposure to the risks introduced by these embedded options is mitigated through a hedging programme, as well as reinsurance. Further measures have been undertaken including re-pricing initiatives and the introduction of variable annuities without guarantees. Furthermore, it is Prudential's philosophy not to compete on price; rather, we seek to sell at a price sufficient to fund the cost we incur to hedge or reinsure our risks and to achieve an acceptable return.

The Jackson IFRS shareholders' equity and US statutory capital are sensitive to the effects of policyholder behaviour on the valuation of GMWB guarantees, but to manageable levels.

Jackson hedges its variable annuity book on an economic basis and, thus, accepts a degree of variability in its statutory results in the short term in order to achieve the appropriate economic result.

(ii) Interest rate risk

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

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

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

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

Risk and capital management continued

(iii) Foreign exchange risk

Prudential principally operates in the UK, the US and in Asia. The geographical diversity of its businesses means that Prudential is inevitably subject to the risk of exchange rate fluctuations. Prudential's international operations in the US and Asia, which represent a significant proportion of its operating profit and shareholders' funds, generally write policies and invest in assets denominated in local currency. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential's consolidated financial statements when results are expressed in pounds sterling.

Prudential retains revenues locally to support the growth of its business and capital is held in the local currency of the business to meet local regulatory and market requirements, accepting the balance sheet translation risks this can produce. However, in cases where a surplus arising in an overseas operation supports Group capital or shareholders' interest (ie remittances), this exposure is hedged if it is economically optimal to do so. Prudential does not have appetite for significant shareholder exposures to foreign exchange risks in currencies outside the local territory. Currency borrowings, swaps and other derivatives are used to manage exposures.

B.2 Credit risk

Prudential invests in fixed income assets in order to match policyholder liabilities and enters into reinsurance and derivative contracts to mitigate various types of risk. As a result, Prudential is exposed to credit and counterparty credit risk across its business. A number of risk management tools are employed to manage credit risk, including limits defined on an issuer/counterparty basis as well as on average credit quality; and use of collateral arrangements in derivative transactions.

(i) Debt portfolio

Prudential's UK business is primarily exposed to credit risk in the shareholder backed portfolio, where fixed income assets represent 32 per cent or £26.5 billion of its exposure. Credit risk arising from £49.3 billion of fixed income assets is largely borne by the with-profits fund, although shareholder support may be required should the with-profits fund become unable to meet its liabilities. Prudential's UK business is exposed to a lesser extent to £6.9 billion of fixed income assets in its unit-linked business.

The debt portfolio at Prudential's Asia business totalled £20.1 billion at 30 June 2013. Of this, approximately 68 per cent was in unit-linked and with-profits funds with minimal shareholders' risk. The remaining 32 per cent is shareholder exposure and is invested predominantly (66 per cent) in investment grade bonds.

Credit risk arises in the general account of Prudential's US business, where £33.4 billion of fixed income assets back shareholder liabilities including those arising from fixed annuities, fixed index annuities and life insurance. Included in the portfolio are £2.6 billion of commercial mortgage-backed securities and £2.2 billion of residential mortgage-backed securities, of which £1.2 billion (53.6 per cent) are issued by US government sponsored agencies.

Further details of the composition of Prudential's debt portfolio, including exposure to loans, can be found in the IFRS financial statements.

(ii) Group sovereign debt exposure

Sovereign debt represented 15 per cent or £10.4 billion of the debt portfolio backing shareholder business at 30 June 2013 (31 December 2012: 15 per cent or £10.2 billion). 39 per cent of this was rated AAA and 90 per cent investment grade (31 December 2012: 38 per cent AAA, 92 per cent investment grade). At 30 June 2013, the Group's total holding in continental Europe shareholder sovereign debt fell from £564 million at 31 December 2012 to £544 million, principally due to a reduction in the level of German debt held from £444 million to £427 million. Of the total £544 million debt, 78 per cent was AAA rated (31 December 2012: 79 per cent AAA rated). Shareholder exposure to the Eurozone sovereigns of Italy and Spain is £52 million (31 December 2012: £52 million). The Group does not have any sovereign debt exposure to Greece, Cyprus, Portugal or Ireland.

	30 Jun 2013 £m[note]		31 Dec 2012 £m[note]	
	Shareholder sovereign debt	With-profits sovereign debt	Shareholder sovereign debt	With-profits sovereign debt
Continental Europe:				
Italy	51	58	51	59
Spain	1	18	1	31
	52	76	52	90
Germany	427	427	444	469
Other Europe (principally Isle of Man and Belgium)	65	40	68	41
	544	543	564	600
United Kingdom	3,533	2,495	3,432	2,306
United States	3,434	1,010	3,585	1,169
Other, predominantly Asia	2,848	291	2,638	271
Total	10,359	4,339	10,219	4,346

Note
2013 excludes Group's proportionate share in joint ventures. 2012 comparatives have been retrospectively adjusted on a comparable basis.

Holdings of UK government debt accounted for £3.5 billion of the shareholder sovereign debt portfolio at 30 June 2013. The UK no longer has a unanimous AAA rating, as Moody's on 22 February 2013 lowered its rating to Aa1 and Fitch lowered its rating to AA+ on 19 April 2013. However, given that the vast majority of the debt backs sterling liabilities, that the downgrade has not resulted in large price fluctuations in the gilt market and that the rating remains relatively strong, the downgrade has not significantly impacted the Group's balance sheet and earnings.

(iii) Exposure to bank debt securities

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

Prudential has a range of controls and processes to manage credit exposure. In addition to the control frameworks that cover shareholder and policyholder credit risk within each business unit, the Group Credit Risk Committee oversees shareholder credit risk across the Group. Aided by comprehensive management information, the Committee deploys a range of risk management tools, including a comprehensive system of limits, to ensure that exposure to the banking sector remains within risk appetite. Of the £68.3 billion of debt securities backing shareholder business, excluding holdings attributable to external holders of consolidated unit trusts, 3 per cent or £2.0 billion was in Tier 1 and Tier 2 hybrid bank debt. A further £3.0 billion was in the form of senior debt.

Shareholder exposure to the debt of banks in the European periphery was £238 million at 30 June 2013 (31 December 2012: £260 million). This comprised £102 million of covered bonds, £102 million senior debt and £34 million Tier 2 debt. There was no direct exposure to Greek or Cypriot banks.

The Group held direct exposures to banks' debt securities of shareholder-backed business in the following countries at 30 June 2013.

	Bank debt securities – shareholder-backed business[note] £m						
	Senior debt			Subordinated debt			
	Covered	Senior	Total senior debt	Tier 2	Tier 1	Total subordinated debt	30 Jun 2013 Total
Portugal	–	42	42	–	–	–	42
Ireland	–	18	18	–	–	–	18
Italy	–	30	30	11	–	11	41
Greece	–	–	–	–	–	–	–
Spain	102	12	114	23	–	23	137
Cyprus	–	–	–	–	–	–	–
	102	102	204	34	–	34	238
Austria	–	–	–	12	–	12	12
Belgium	–	–	–	–	–	–	–
France	18	64	82	71	25	96	178
Germany	–	4	4	18	–	18	22
Luxembourg	–	–	–	–	–	–	–
Netherlands	–	14	14	68	80	148	162
United Kingdom	440	189	629	656	111	767	1,396
Total Europe	560	373	933	859	216	1,075	2,008
United States	–	1,754	1,754	462	18	480	2,234
Other, predominantly Asia	21	311	332	338	90	428	760
Total	581	2,438	3,019	1,659	324	1,983	5,002

Note
Excludes Group's proportionate share in joint ventures and Japan Life insurance business.

Risk and capital management continued

In addition to the exposures held by the shareholder-backed business, the Group held banks' securities in the following countries at 30 June 2013 within its with-profits funds.

	Bank debt securities – participating funds[note] £m						
	Senior debt			Subordinated debt			
	Covered	Senior	Total senior debt	Tier 2	Tier 1	Total subordinated debt	30 Jun 2013 Total
Portugal	–	6	6	–	–	–	6
Ireland	6	–	6	–	–	–	6
Italy	8	74	82	–	–	–	82
Greece	–	–	–	–	–	–	–
Spain	159	13	172	–	–	–	172
Cyprus	–	–	–	–	–	–	–
	173	93	266	–	–	–	266
Austria	–	–	–	–	–	–	–
Belgium	–	–	–	–	–	–	–
France	15	78	93	55	8	63	156
Germany	–	12	12	–	–	–	12
Luxembourg	–	–	–	–	–	–	–
Netherlands	–	154	154	10	–	10	164
United Kingdom	709	422	1,131	665	9	674	1,805
Total Europe	897	759	1,656	730	17	747	2,403
United States	–	1,720	1,720	279	2	281	2,001
Other, predominantly Asia	44	335	379	196	125	321	700
Total	941	2,814	3,755	1,205	144	1,349	5,104

Note
Excludes Group's proportionate share in joint ventures and Japan Life insurance business.

(iv) Other possible impacts of a Eurozone crisis

Other knock on impacts of a Eurozone crisis may represent some risk to the Group, both in terms of financial market impact and potential operational issues. These third order exposures are intrinsically more difficult to quantify. However, Prudential has also developed tools to identify the Group's exposure to counterparties at risk (including contingent credit exposures), and has in place Group-wide processes to facilitate the management of such risks should they materialise.

In respect of operational risks, Prudential has strong investment operations, counterparty risk and change management capabilities that enable it to manage the transition to a new Eurozone regime if events require it to do so.

(v) Counterparty credit risk

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

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

Prudential's exposure to derivative counterparty and reinsurance counterparty credit risk is managed using an array of risk management tools, including a comprehensive system of limits. Where appropriate, Prudential reduces its exposure, purchases credit protection or makes use of additional collateral arrangements to control its levels of counterparty credit risk.

B.3 Insurance risk

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

Prudential continues to conduct research into longevity risk using data from its substantial annuity portfolio. The assumptions that Prudential makes about future expected levels of mortality are particularly relevant in its UK annuity business. The attractiveness of transferring longevity risk (via reinsurance and other external solutions) is regularly evaluated. These are used as risk management tools where it is appropriate and attractive to do so.

Prudential's morbidity risk is mitigated by appropriate underwriting and use of reinsurance and the morbidity assumptions reflect recent experience and expectation of future trends for each relevant line of business.

Prudential's persistency assumptions reflect recent experience for each relevant line of business, and any expectations of future persistency. Persistency risk is mitigated by appropriate training and sales processes and managed proactively post sale. Where appropriate, allowance is also made for the relationship – either assumed or historically observed – between persistency and investment returns, and for the resulting additional risk.

B.4 Liquidity risk

The parent company has significant internal sources of liquidity which are sufficient to meet all of its expected requirements for the foreseeable future without having to make use of external funding. In aggregate the Group has £2.1 billion of undrawn committed facilities, expiring between 2015 and 2018. In addition, the Group has access to liquidity via the debt capital markets. Prudential also has in place an unlimited commercial paper programme and has maintained a consistent presence as an issuer in this market for the last decade. Liquidity uses and sources have been assessed at the Group and at a business unit level under base case and stressed assumptions. The liquidity resources available and the subsequent Liquidity Coverage Ratio are regularly monitored and have been assessed to be sufficient.

B.5 Operational risk

Prudential is exposed to operational risk through the course of running its business. It is dependent on the successful processing of a large and complex number of transactions, utilising various IT applications and platforms, across numerous and diverse products. It also operates under the ever evolving requirements set out by different regulatory and legal regimes (including tax), as well as utilising a significant number of third parties to distribute products and to support business operations.

Prudential's systems and processes incorporate controls that are designed to manage and mitigate the operational risks associated with its activities.

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

B.6 Global regulatory risk

Global regulatory risk is considered a key risk and is classified as a business environment risk under the GRF risk categorisation.

The European Union (EU) is developing a solvency framework for insurance companies, referred to as 'Solvency II'. The Solvency II Directive, which sets out the new framework, was formally approved by the Economic and Financial Affairs Council in November 2009. The approach is based on the concept of three pillars – minimum capital requirements, supervisory review of firms' assessments of risk, and enhanced disclosure requirements.

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

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

Risk and capital management continued

Representatives from the European Parliament, the European Commission and the Council of the European Union are currently discussing the Omnibus II Directive which, once approved, will amend certain aspects of the original Solvency II Directive. These negotiations are taking into account output from a 'Long Term Guarantees Assessment', which was requested by the European Parliament to quantify the impact of a range of possible measures to remove artificial volatility from the Solvency II balance sheet.

In addition the European Commission is continuing to develop the detailed rules that will complement the high-level principles of the Solvency II Directive, referred to as 'implementing measures'. The Omnibus II Directive is not currently scheduled to be finalised before late 2013, while the implementing measures cannot be finalised until after Omnibus II is finalised.

There is significant uncertainty regarding the final outcome from this process. In particular, the Solvency II rules relating to the determination of the liability discount rate and the treatment of US business remain unclear and Prudential's capital position is sensitive to these outcomes. With reference to the liability discount rate, solutions to remove artificial volatility from the balance sheet have been suggested by policymakers as the regulations continue to evolve. These solutions, along with transitional arrangements for the treatment of the US business, are continuing to be considered by policymakers as part of the process to reach agreement on the Omnibus II Directive. There is a risk that the effect of the measures finally adopted could be adverse for Prudential, including potentially a significant increase in capital may be required to support its business and that Prudential may be placed at a competitive disadvantage to other European and non-European financial services groups. Prudential is actively participating in shaping the outcome through our involvement in industry bodies and trade associations, including the Chief Risk Officer and Chief Financial Officer Forums, together with the Association of British Insurers and Insurance Europe.

The delays in finalising the Omnibus II Directive and implementing measures are expected to result in a deferral of the Solvency II implementation date for firms beyond the previously anticipated date of 1 January 2014. At this stage, it remains unclear exactly when Solvency II will come into force, although a deferral until 1 January 2016 or beyond appears likely.

Having assessed the requirements of Solvency II, an implementation programme was initiated with dedicated teams to manage the required work across the Group. The activity of the local Solvency II teams is being coordinated centrally to achieve consistency in the understanding and application of the requirements. Prudential is continuing its preparations to adopt the regime when it eventually comes into force and is undertaking in parallel an evaluation of the possible actions to mitigate its effects. Prudential regularly reviews its range of options to maximise the strategic flexibility of the Group. This includes consideration of optimising the Group's domicile as a possible response to an adverse outcome on Solvency II.

Over the coming months Prudential will remain in regular contact with the PRA as it continues to engage in the 'pre-application' stage of the approval process for the internal model. In addition, Prudential is engaged in the initial stage of the PRA's proposed 'Individual Capital Adequacy Standards Plus (ICAS+)' regime, which will ultimately enable its UK insurance entities to leverage the developments made in relation to the Solvency II internal model for the purpose of meeting the existing ICAS regime.

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

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

In July 2013, the FSB announced the initial list of nine insurance groups that have been designated as G-SIIs. This list included Prudential as well as a number of its competitors. The designation as a G-SII is likely to lead to additional policy measures being applied to the designated group including enhanced Group-wide supervision, which is intended to commence immediately and which will include the development by July 2014 of a Systemic Risk Management Plan; recovery and reduction planning requirements; and higher loss absorption (HLA) capacity for conducting non-traditional and non-insurance activities. As a foundation for HLA requirements, backstop capital requirements (ie loss absorption (LA) requirements) for all group activities will first be finalised. Prudential is monitoring the development, and the potential impact, of the framework of policy measures and engaging with the PRA on the implications of the designation. The IAIS currently expects to finalise LA and HLA proposals in 2014 and 2015 respectively. Implementation of the regime is likely to be phased in over a period of years with LA expected to be introduced between 2015 and 2019 and HLA not expected to be applied to G-SIIs until 2019.

ComFrame is also being developed by the IAIS to provide common global requirements for the supervision of insurance groups. The framework is designed to develop common principles for supervision and so may increase the focus of regulators in some jurisdictions. It is also currently expected that some prescriptive requirements, including group capital requirements will be included in the framework. A revised draft ComFrame proposal is expected in October 2013.

B.7 Risk factors

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

C. Capital management

C.1 Regulatory capital (IGD)

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

Prudential's capital position remains strong. Prudential has continued to place emphasis on maintaining the Group's financial strength through optimising the balance between writing profitable new business, conserving capital and generating cash. Prudential estimates that its IGD capital surplus is £3.9 billion at 30 June 2013 (before taking into account the 2013 interim dividend), with available capital covering its capital requirements 2.3 times. This compares to a capital surplus of £5.1 billion at the end of 2012 (before taking into account the 2012 final dividend).

The movements in the first half of 2013 mainly comprise:

- Net capital generation mainly through operating earnings (in-force releases less investment in new business, net of tax) of £1.0 billion;
- Sub-debt issue of £0.4 billion; and
- Positive impact arising from foreign exchange movements of £0.1 billion.

Offset by:

- Negative impact of Thanachart acquisition cost, net of IGD contribution, £0.3 billion;
- Reduction in respect of Jackson IGD[1] of £1.2 billion, as discussed below;
- Reduction in SHIFT asset allowance of £0.2 billion;
- Negative impact arising from market movements estimated at £0.2 billion;
- Final 2012 dividend payment of £0.5 billion; and
- External financing costs and other central costs, net of tax, of £0.3 billion.

IGD surplus represents the accumulation of surpluses across all of our operations based on local regulatory minimum capital requirements with some adjustments, pursuant to the requirements of Solvency I. The calculation does not fully adjust capital requirements for risk nor does it capture the true economic value of assets. Global regulatory developments, such as Solvency II and ComFrame, aim to ensure that the calculation of regulatory surplus continues to evolve over time into a more meaningful economic measure.

There is broad agreement that ultimately it would be beneficial to replace the IGD regime with a regime that would be more risk based. Solvency II was supposed to provide such a framework but we now know that it will not be implemented before 1 January 2016. The structure of the Group and the approach we have taken to managing our risks, with a sizeable credit reserve in the UK annuity book, a strong inherited estate in UK with profits and the relatively low risk nature of our asset management and Asian operations, together with a high level of IGD surplus and a high level of economic capital coverage means we have positioned ourselves well for future regulatory developments and stresses to our business.

In March 2013, Prudential agreed with the PRA to amend the calculation of the contribution Jackson makes to the Group's IGD surplus. Until then, the contribution of Jackson to the reported IGD was based on an intervention level set at 75 per cent of US Risk Based Capital Company Action Level (CAL). Post this change, the contribution of Jackson to IGD surplus now equals the surplus in excess of 250 per cent of CAL. This is more in line with the level at which we have historically reported free surplus, which had been set at 235 per cent of CAL. This has been raised to 250 per cent in the first half of 2013 to align with IGD. In the absence of an agreed Solvency II approach, we believe that this change makes the IGD surplus a more meaningful measure and one that is more closely aligned with economic reality. The revised IGD surplus calculation has no impact on the way that the US business is managed or regulated locally. The impact of this change is a reduction in IGD surplus of £1.2 billion.

Prudential continues to have further options available to manage available and required capital. These could take the form of increasing available capital (for example, through financial reinsurance) or reducing required capital (for example, through the mix and level of new business) and the use of other risk mitigation measures such as hedging and reinsurance. A number of such options were utilised through the last financial crisis in 2008 and 2009 to enhance the Group's IGD surplus. One such arrangement allowed the Group to recognise a proportion of the shareholders' interest in future transfers from the UK's with-profits business and this remained in place, contributing £0.36 billion to the IGD at 31 December 2012. We are phasing this out in two equal steps, reducing the credit taken to £0.18 billion from January 2013 and we expect to take zero credit from January 2014.

In addition to its strong capital position, on a statutory (Pillar 1) basis, the total credit reserve for the UK shareholder annuity funds also protects its capital position in excess of the IGD surplus. This credit reserve as at 30 June 2013 was £2.0 billion. This credit risk allowance represents 41 per cent of the bond portfolio spread over swap rates, compared to 40 per cent as at 31 December 2012.

Note

1 Jackson previously reported IGD on an intervention level set at 75 per cent of US Risk Based Capital Company Action level (CAL). In March 2013 agreed with the PRA to 250 per cent of CAL.

Risk and capital management continued

Stress testing

As at 30 June 2013, stress testing of our IGD capital position to various events has the following results:

- An instantaneous 20 per cent fall in equity markets from 30 June 2013 levels would reduce the IGD surplus by £250 million;
- A 40 per cent fall in equity markets (comprising an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period) would reduce the IGD surplus by £850 million;
- A 100 basis points reduction (subject to a floor of zero) in interest rates would reduce the IGD surplus by £350 million[1]; and
- Credit defaults of ten times the expected level would reduce IGD surplus by £700 million.

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

Prudential also uses an economic capital assessment to monitor its capital requirements across the Group, allowing for realistic diversification benefits and continues to maintain a strong position. This assessment provides valuable insights into its risk profile.

C.2 Capital allocation

Prudential's approach to capital allocation is to attain a balance between risk and return, investing in those businesses that create shareholder value. In order to efficiently allocate capital, Prudential measures the use of, and the return on, capital.

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

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

C.3 Risk mitigation and hedging

Prudential manages its actual risk profile against its tolerance of risk. To do this, Prudential maintains risk registers that include details of the risks Prudential has identified and of the controls and mitigating actions it employs in managing them. Any mitigation strategies involving large transactions such as a material derivative transaction involving shareholder business are subject to review at Group level before implementation.

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

Note

1 The impact of the 100 basis points reduction in interest rates is exacerbated by the current regulatory permitted practice used by Jackson, which values all interest rate swaps at book value rather than fair value for regulatory purposes. At 30 June 2013, removing the permitted practice would have increased reported IGD surplus to £4.0 billion. As at 30 June 2013, it is estimated that a 100 basis point reduction in interest rates (subject to a floor of zero) would have resulted in an IGD surplus of £4.0 billion, excluding the permitted practice.

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

Condensed consolidated income statement

	Note	2013 £m	2012* £m	
		Half year	Half year	Full year
Earned premiums, net of reinsurance		14,763	13,703	28,622
Investment return		6,528	8,720	23,931
Other income		1,100	939	1,885
Total revenue, net of reinsurance		22,391	23,362	54,438
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		(18,143)	(19,343)	(45,144)
Acquisition costs and other expenditure	G	(3,315)	(2,745)	(6,032)
Finance costs: interest on core structural borrowings of shareholder-financed operations		(152)	(140)	(280)
Remeasurement of carrying value of Japan Life business classified as held for sale	AB	(135)	–	–
Total charges, net of reinsurance		(21,745)	(22,228)	(51,456)
Share of profits from joint ventures and associates, net of related tax		74	62	135
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*†		720	1,196	3,117
Less tax charge attributable to policyholders' returns		(214)	(30)	(370)
Profit before tax attributable to shareholders	C	506	1,166	2,747
Total tax charge attributable to policyholders and shareholders	H	(355)	(309)	(954)
Adjustment to remove tax charge attributable to policyholders' returns		214	30	370
Tax charge attributable to shareholders' returns	H	(141)	(279)	(584)
Profit for the period attributable to equity holders of the Company		365	887	2,163

Earnings per share (in pence)

	Note	2013 Half year	2012* Half year	2012* Full year
Based on profit attributable to the equity holders of the Company:	I			
Basic		14.3p	35.0p	85.1p
Diluted		14.3p	34.9p	85.0p

* The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefits accounting standard, from 1 January 2013 as described in note B. Accordingly, the 2012 comparative results and related notes have been adjusted retrospectively from those previously published.

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

Dividends per share (in pence)

	Note	2013	2012	
		Half year	Half year	Full year
Dividends relating to reporting period:	J			
Interim dividend (2013 and 2012)		9.73p	8.40p	8.40p
Final dividend (2012)		–	–	20.79p
Total		9.73p	8.40p	29.19p
Dividends declared and paid in reporting period:	J			
Current year interim dividend		–	–	8.40p
Final dividend for prior year		20.79p	17.24p	17.24p
Total		20.79p	17.24p	25.64p

Condensed consolidated statement of comprehensive income

	Note	2013 £m	2012* £m	
		Half year	Half year	Full year
Profit for the period		365	887	2,163
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss				
Exchange movements on foreign operations and net investment hedges:				
Exchange movements arising during the period		227	(53)	(214)
Related tax		5	(1)	(2)
		232	(54)	(216)
Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:				
Net unrealised holding (losses) gains arising during the period		(1,665)	470	930
Deduct net (gains) or add back net losses included in the income statement on disposal and impairment		(42)	12	(68)
Total	R	(1,707)	482	862
Related change in amortisation of deferred acquisition costs	N	419	(181)	(270)
Related tax		451	(105)	(205)
		(837)	196	387
Total		(605)	142	171
Items that will not be reclassified to profit or loss				
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes:	U			
Actuarial and other (losses) and gains on defined benefit pension schemes		(67)	212	145
Related tax		10	(29)	(17)
		(57)	183	128
Add (deduct) amount attributable to PAC with-profits fund transferred to unallocated surplus of with-profits funds, net of related tax		36	(118)	(94)
		(21)	65	34
Other comprehensive (loss) income for the period, net of related tax		(626)	207	205
Total comprehensive (loss) income for the period attributable to the equity holders of the Company		(261)	1,094	2,368

* The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefits accounting standard, from 1 January 2013 as described in note B. Accordingly, the 2012 comparative results and related notes have been adjusted retrospectively from those previously published.

Condensed consolidated statement of changes in equity

	Note	Period ended 30 June 2013 £m							
	Note	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Shareholders' equity	Non-controlling interests	Total equity
Reserves									
Profit for the period		–	–	365	–	–	365	–	365
Other comprehensive (loss) income		–	–	(21)	232	(837)	(626)	–	(626)
Total comprehensive income (loss) for the period		–	–	344	232	(837)	(261)	–	(261)
Dividends		–	–	(532)	–	–	(532)	–	(532)
Reserve movements in respect of share-based payments		–	–	31	–	–	31	–	31
Change in non-controlling interests arising principally from purchase and sale of property partnerships of PAC with-profits fund and other consolidated investment funds		–	–	–	–	–	–	1	1
Share capital and share premium									
New share capital subscribed	W	–	1	–	–	–	1	–	1
Treasury shares									
Movement in own shares in respect of share-based payment plans		–	–	25	–	–	25	–	25
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		–	–	2	–	–	2	–	2
Net increase (decrease) in equity		–	1	(130)	232	(837)	(734)	1	(733)
At beginning of period		128	1,889	6,851	66	1,425	10,359	5	10,364
At end of period		128	1,890	6,721	298	588	9,625	6	9,631

Condensed consolidated statement of changes in equity continued

	Note	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Shareholders' equity	Non-controlling interests	Total equity
		Period ended 30 June 2012* £m							
Reserves									
Profit for the period		–	–	887	–	–	887	–	887
Other comprehensive income (loss)		–	–	65	(54)	196	207	–	207
Total comprehensive income (loss) for the period		–	–	952	(54)	196	1,094	–	1,094
Dividends		–	–	(440)	–	–	(440)	–	(440)
Reserve movements in respect of share-based payments		–	–	52	–	–	52	–	52
Change in non-controlling interests arising principally from purchase and sale of property partnerships of PAC with-profits fund and other consolidated investment funds		–	–	–	–	–	–	(9)	(9)
Share capital and share premium									
New share capital subscribed	W	–	14	–	–	–	14	–	14
Treasury shares									
Movement in own shares in respect of share-based payment plans		–	–	5	–	–	5	–	5
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		–	–	3	–	–	3	–	3
Net increase (decrease) in equity		–	14	572	(54)	196	728	(9)	719
At beginning of period		127	1,873	5,244	282	1,038	8,564	43	8,607
At end of period		127	1,887	5,816	228	1,234	9,292	34	9,326

* The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefits accounting standard, from 1 January 2013 as described in note B. Accordingly, the 2012 comparative results and related notes have been adjusted retrospectively from those previously published.

	Note	Year ended 31 December 2012* £m							
		Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Shareholders' equity	Non-controlling interests	Total equity
Reserves									
Profit for the year		–	–	2,163	–	–	2,163	–	2,163
Other comprehensive income (loss)		–	–	34	(216)	387	205	–	205
Total comprehensive income (loss) for the year		–	–	2,197	(216)	387	2,368	–	2,368
Dividends		–	–	(655)	–	–	(655)	–	(655)
Reserve movements in respect of share-based payments		–	–	42	–	–	42	–	42
Change in non-controlling interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds		–	–	–	–	–	–	(38)	(38)
Share capital and share premium									
New share capital subscribed	**W**	1	16	–	–	–	17	–	17
Treasury shares									
Movement in own shares in respect of share-based payment plans		–	–	(13)	–	–	(13)	–	(13)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		–	–	36	–	–	36	–	36
Net increase (decrease) in equity		1	16	1,607	(216)	387	1,795	(38)	1,757
At beginning of year		127	1,873	5,244	282	1,038	8,564	43	8,607
At end of year		128	1,889	6,851	66	1,425	10,359	5	10,364

* The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefits accounting standard, from 1 January 2013 as described in note B. Accordingly, the 2012 comparative results and related notes have been adjusted retrospectively from those previously published.

Condensed consolidated statement of financial position
Assets

	Note	2013 £m	2012* £m	
		30 Jun	30 Jun	31 Dec
Intangible assets attributable to shareholders:				
Goodwill	M	1,474	1,467	1,469
Deferred acquisition costs and other intangible assets	N	5,538	4,237	4,177
Total		7,012	5,704	5,646
Intangible assets attributable to with-profits funds:				
In respect of acquired subsidiaries for investment purposes		178	178	178
Deferred acquisition costs and other intangible assets		79	84	78
Total		257	262	256
Total intangible assets		7,269	5,966	5,902
Other non-investment and non-cash assets:				
Property, plant and equipment		868	787	754
Reinsurers' share of insurance contract liabilities†		7,204	1,698	6,854
Deferred tax assets	H	2,637	2,169	2,306
Current tax recoverable		191	302	248
Accrued investment income		2,726	2,686	2,771
Other debtors		2,318	1,784	1,325
Total		15,944	9,426	14,258
Investments of long-term business and other operations:				
Investment properties		10,583	10,532	10,554
Investments in joint ventures and associates accounted for using the equity method		696	587	635
Financial investments‡:				
Loans	P	13,230	10,800	12,743
Equity securities and portfolio holdings in unit trusts		112,258	89,098	98,626
Debt securities	Q	138,256	127,349	138,907
Other investments		6,140	7,828	7,547
Deposits		13,542	11,951	12,248
Total		294,705	258,145	281,260
Assets held for sale§	AB	1,079	–	98
Cash and cash equivalents		6,840	6,335	6,126
Total assets	K	325,837	279,872	307,644

* The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, from 1 January 2013 as described in note B. Accordingly, the 2012 comparative results and related notes have been adjusted retrospectively from those previously published for the application of these standards.

† The increase of reinsurers' share of insurance contract liabilities and other liabilities from 30 June 2012 to 31 December 2012 and 30 June 2013 is attributed to amounts due to the reinsurance arrangements attaching to the purchase by Jackson of REALIC in September 2012.

‡ Included within financial investments are £5,076 million of lent securities as at 30 June 2013 (30 June 2012: £5,273 million; 31 December 2012: £3,015 million), and £2,206 million of loans and debt securities covering liabilities for funds withheld under reinsurance arrangements of the Group's US operations from the purchase of REALIC in the second half of 2012 (31 December 2012: £2,012 million).

§ The Group agreed in July 2013 to sell, subject to regulatory approval, its closed book life assurance business in Japan. As at 30 June 2013, the business was classified as held for sale.

Condensed consolidated statement of financial position
Equity and liabilities

	Note	2013 £m	2012* £m	
		30 Jun	30 Jun	31 Dec
Equity				
Shareholders' equity		9,625	9,292	10,359
Non-controlling interests		6	34	5
Total equity		9,631	9,326	10,364
Liabilities				
Policyholder liabilities and unallocated surplus of with-profits funds:				
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	V	272,728	233,507	257,674
Unallocated surplus of with-profits funds	V	11,434	9,802	10,589
Total		284,162	243,309	268,263
Core structural borrowings of shareholder-financed operations:				
Subordinated debt		3,161	2,638	2,577
Other		988	958	977
Total	S	4,149	3,596	3,554
Other borrowings:				
Operational borrowings attributable to shareholder-financed operations	T	2,530	2,794	2,245
Borrowings attributable to with-profits operations	T	924	895	968
Other non-insurance liabilities:				
Obligations under funding, securities lending and sale and repurchase agreements		2,889	2,563	2,381
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		5,394	4,186	5,145
Deferred tax liabilities	H	4,102	3,909	3,964
Current tax liabilities		325	625	443
Accruals and deferred income		538	544	751
Other creditors		3,743	2,955	2,701
Provisions		537	403	591
Derivative liabilities		2,226	3,453	2,832
Other liabilities†		3,661	1,314	3,442
Total		23,415	19,952	22,250
Liabilities held for sale§	AB	1,026	–	–
Total liabilities		316,206	270,546	297,280
Total equity and liabilities	K	325,837	279,872	307,644

* The Group has adopted new accounting standards on consolidated financial statements and joint arrangements from 1 January 2013 as described in note B. Accordingly, the 2012 comparative results and related notes have been adjusted retrospectively from those previously published.

† The increase of reinsurers' share of insurance contract liabilities and other liabilities from 30 June 2012 to 31 December 2012 and 30 June 2013 is attributed to amounts due to the reinsurance arrangements attaching to the purchase by Jackson of REALIC in September 2012.

§ The Group agreed in July 2013 to sell, subject to regulatory approval, its closed book life assurance business in Japan. As at 30 June 2013, the business was classified as held for sale.

Condensed consolidated statement of cash flows

	Note	2013 £m	2012* £m	
		Half year	Half year	Full year
Cash flows from operating activities				
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*note (i)		720	1,196	3,117
Non-cash movements in operating assets and liabilities reflected in profit before taxnote (ii)		533	(1,150)	(1,916)
Other itemsnote (iii)		70	254	(496)
Net cash inflows from operating activities		1,323	300	705
Cash flows from investing activities				
Net cash outflows from purchases and disposals of property, plant and equipment		(140)	(108)	(125)
Acquisition of subsidiaries, net of cash balancenote (iv)	X	(376)	–	(224)
Change to Group's holdings, net of cash balance		–	23	23
Net cash outflows from investing activities		(516)	(85)	(326)
Cash flows from financing activities				
Structural borrowings of the Group:				
Shareholder-financed operations:note (v)	S			
Issue of subordinated debt, net of costs		429	–	–
Bank loan		–	–	25
Interest paid		(148)	(139)	(270)
With-profits operations:note (vi)	T			
Interest paid		(4)	(4)	(9)
Equity capital:				
Issues of ordinary share capital	W	1	14	17
Dividends paid		(532)	(440)	(655)
Net cash outflows from financing activities		(254)	(569)	(892)
Net increase (decrease) in cash and cash equivalents		553	(354)	(513)
Cash and cash equivalents at beginning of period		6,126	6,741	6,741
Effect of exchange rate changes on cash and cash equivalents		161	(52)	(102)
Cash and cash equivalents at end of period		6,840	6,335	6,126

* The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefits accounting standard, from 1 January 2013 as described in note B. Accordingly, the 2012 comparative results and related notes have been adjusted retrospectively from those previously published for the application of these standards.

Notes

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

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

	2013 £m	2012* £m	
	Half year	Half year	Full year
Other non-investment and non-cash assets	(1,140)	(1,223)	(774)
Investments	(8,074)	(9,228)	(26,993)
Policyholder liabilities (including unallocated surplus)	7,295	10,622	26,362
Other liabilities (including operational borrowings)	2,452	(1,321)	(511)
Non-cash movements in operating assets and liabilities reflected in profit before tax	533	(1,150)	(1,916)

* The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefits accounting standard, from 1 January 2013 as described in note B. Accordingly, the 2012 comparative results and related notes have been adjusted retrospectively from those previously published for the application of these standards.

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

(iv) The acquisition of Thanachart Life in the first half of 2013, resulted in a net cash outflow of £376 million. The acquisition of REALIC in the second half of 2012, resulted in a net cash outflow of £224 million. See note X for further details.

(v) Structural borrowings of shareholder-financed operations comprise core debt of the parent company, Prudential Capital bank loan and Jackson surplus notes. Core debt excludes borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.

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

Notes on the IFRS basis results

A: Basis of preparation and audit status

These condensed consolidated interim financial statements for the six months ended 30 June 2013 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). The Group's policy for preparing this interim financial information is to use the accounting policies adopted by the Group in its last consolidated financial statements, as updated by any changes in accounting policies it intends to make in its next consolidated financial statements as a result of new or amended IFRSs that are applicable or available for early adoption for the next annual financial statements and other policy improvements. EU-endorsed IFRSs may differ from IFRSs issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 30 June 2013, there were no unendorsed standards effective for the period ended 30 June 2013 affecting the condensed consolidated financial statements of the Group, and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Group.

The IFRS basis results for the 2013 and 2012 half years are unaudited. Except for the effect of the adoption of the new and amended accounting standards for Group IFRS reporting as explained in note B, the 2012 full year IFRS basis results have been derived from the 2012 statutory accounts. The auditors have reported on the 2012 statutory accounts which have been delivered to the Registrar of Companies. The auditors' report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Except for the adoption of the new and amended accounting standards for Group IFRS reporting as described below, the accounting policies applied by the Group in determining the IFRS basis results in this report are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2012.

B: Adoption of new and amended accounting standards in 2013

The following accounting standards and amendments issued and endorsed for use in the EU have been adopted for half year 2013:

Standards on joint arrangements and disclosures: IFRS 11, 'Joint arrangements', IFRS 12, 'Disclosures of interest in other entities' and IAS 28, 'Investments in associates and joint ventures'

In May 2011, the IASB issued IFRS 11, 'Joint arrangements' to replace IAS 31, 'Interests in Joint Ventures'. The standard also incorporates the guidance contained in related interpretation in SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 requires a joint venture to be recognised as an investment and be accounted for using the equity method in accordance with IAS 28. The attaching changes to disclosure requirements for parties to joint arrangements are specified in IFRS 12, 'Disclosures of interest in other entities', which replaces the disclosure requirements of IAS 28, 'Investments in associates and joint ventures' and IAS 31, 'Interests in Joint Ventures'.

The standards are effective from annual periods beginning on or after 1 January 2014 for IFRSs as endorsed by the EU and have been early adopted by the Group from 1 January 2013. The Group has applied the standards for interests occurring on or after 1 January 2012 in accordance with the transition provisions of IFRS 11. The Group's investments in joint ventures affected by these standards are as described in note Y and there is no change to the classification of these investments as joint ventures under IFRS 11. The Group has recognised its investment in joint ventures at 1 January 2012, as the aggregate of the carrying amounts of the assets and liabilities that were previously proportionately consolidated by the Group. This determines the deemed cost of the Group's investments in joint ventures for applying equity accounting.

As a consequence, the standards have an impact on the individual assets and liabilities in the statement of financial position and the Group's investment in joint ventures is accounted for by applying a single line equity method, resulting in a reduction of £3,639 million in reported total assets and total liabilities (half year 2012: £3,179 million; full year 2012: £3,435 million) with no impact on shareholders' equity. There is a reduction of £10 million in reported profit before tax attributable to shareholders (half year 2012: £7 million; full year 2012: £18 million). This arises as the tax on the profits of the joint ventures are no longer presented in the tax line; instead the tax charges are required to be netted against the Group's share of joint ventures' income included in profit before tax. Adoption of the standard has no impact on profit after tax.

Disclosures required by IFRS 12 for interests in joint arrangements will be included in the Group's full year 2013 Annual Report.

Standards on consolidation and disclosures: IFRS 10, 'Consolidated financial statements', IFRS 12, 'Disclosures of interest in other entities', and IAS 27, 'Separate financial statements'

In May 2011, the IASB issued these three standards to replace IAS 27, 'Consolidated and separate financial statements' and SIC-12 Consolidation – Special Purpose Entities.

The standards are effective for annual periods beginning on or after 1 January 2014 for IFRSs as endorsed by the EU and have been early adopted by the Group for half year 2013. The Group has assessed whether the investment holdings as at 1 January 2013 that need to be consolidated differ under IFRS 10 compared with IAS 27 or SIC-12. If the consolidation conclusion under IFRS 10 differs as at 1 January 2013, the immediately preceding comparative period is adjusted to be consistent with the accounting conclusion under IFRS 10.

Where there is a difference between the IFRS 10 and IAS 27/SIC-12 diagnosis so as to require consolidation, the principal effect has been to 'gross up' the consolidated statement of financial position for:

- The difference between the net value of the newly consolidated assets and liabilities (including those attributable to external parties) and the previous carrying value for the Group's interest; and
- The equal and opposite liability or non-controlling interest for the external parties' interests in the funds.

Application of the standards resulted in an increase of £1,416 million in total assets and total liabilities (half year 2012: £426 million; full year 2012: £826 million) with no impact on shareholders' equity and profit for the period.

Disclosures required by IFRS 12 for interests in other entities will be included in the Group's full year 2013 Annual Report.

IFRS 13, 'Fair value measurement'

In May 2011, the IASB issued IFRS 13, 'Fair value measurement' standard which creates a uniform framework to explain how to measure fair value and aims to enhance fair value disclosures, but it does not change when to measure fair value or require additional fair value measurements. The standard requires additional disclosure on the fair value of non-financial assets and liabilities and enhanced disclosures of recurring Level 3 fair value measurements.

The standard is effective from annual periods beginning on or after 1 January 2013, with no adjustment to comparative results. The Group has adopted the standard for half year 2013 and there is no material impact on the fair value measurement of the Group's assets and liabilities. Disclosures in note O are enhanced in providing detail of the methodology and underlying assumptions used to determine fair value of Group's financial instruments, in line with the new requirements for interim reporting.

Amendments to IAS 19, 'Employee benefits'

These amendments are effective from annual periods beginning on or after 1 January 2013 and have been adopted by the Group for 2013 half year reporting. The key revisions to the standard on accounting for pensions and other post-employment benefits are:

- Presentation of actuarial gains and losses.
  Following the adoption of the amendment, the Group presents actuarial gains and losses in 'other comprehensive income' instead of the 'income statement'. This adoption had no impact on the Group's total comprehensive income and shareholders' equity.
- The replacement of the expected return on plan assets with an amount based on the liability discount rate in the determination of pension costs.
  This revision altered the pension costs included in the Group's income statement with a corresponding equal and opposite effect on the actuarial gains and losses included in other comprehensive income. The effect of this change for Prudential is insignificant.
- Enhanced disclosures, specifically on risks arising from defined benefit plans. The enhanced disclosures will be included in the Group's full year 2013 Annual Report.
- The removal of the corridor option for actuarial gains and losses.
  The Group did not previously apply the corridor option, therefore its removal had no impact to the Group.

Application of the amendment resulted in an increase of £28 million in profit before tax attributable to shareholders (half year 2012: a decrease of £86 million; full year 2012: a decrease of £45 million) and an increase of £21 million in profit for the period (half year 2012: a decrease of £65 million; full year 2012: a decrease of £34 million) with an equal and opposite effect in other comprehensive income and therefore no impact on shareholders' equity.

Amendments to IAS 1, 'Presentation of financial statements'

These amendments, effective from annual periods beginning 1 January 2013, require items in other comprehensive income to be presented separately based on whether or not they may be recycled to profit or loss in the future.

The Group has adopted these amendments for half year 2013 and amended the presentation of statement of other comprehensive income, with no impact on the Group's results and financial position.

Offsetting Financial Assets and Financial Liabilities (Amendment to IFRS 7, 'Financial Instruments: Disclosures')

The disclosure as required by this amendment in respect of all recognised financial instruments that have been offset in accordance with IAS 32 will be included in the Group's full year 2013 Annual Report if applicable.

Additional information on the quantitative effect of the adoption of the new and amended accounting standards on the Group's primary financial statements and supplementary analysis of profit is provided in note AC.

Notes on the IFRS basis results continued

C: Segment disclosure – profit before tax

		2013 £m	2012* £m	
	Note	Half year	Half year	Full year
Asia operations				
Insurance operations:†	E(i)			
Operating results before gain on sale of stake in China Life of Taiwan		476	406	862
Gain on sale of stake in China Life of Taiwan		–	–	51
Total Asia insurance operations before development expenses		476	406	913
Development expenses		(2)	(3)	(7)
Total Asia insurance operations after development expenses		474	403	906
Eastspring Investments		38	32	69
Total Asia operations		512	435	975
US operations				
Jackson (US insurance operations)	E(ii)	582	442	964
Broker-dealer and asset management		34	17	39
Total US operations		616	459	1,003
UK operations				
UK insurance operations:				
Long-term business	E(iii)	341	336	703
General insurance commission note (i)		15	17	33
Total UK insurance operations		356	353	736
M&G (including Prudential Capital)		225	199	371
Total UK operations		581	552	1,107
Total segment profit		1,709	1,446	3,085
Other income and expenditure				
Investment return and other income		10	5	13
Interest payable on core structural borrowings		(152)	(140)	(280)
Corporate expenditure	G	(128)	(120)	(231)
Total		(270)	(255)	(498)
Solvency II implementation costs		(13)	(27)	(48)
Restructuring costs note (ii)		(11)	(7)	(19)
Operating profit based on longer-term investment returns		1,415	1,157	2,520
Short-term fluctuations in investment returns on shareholder-backed business†	F	(755)	(47)	187
Amortisation of acquisition accounting adjustments		(30)	–	(19)
Gain on dilution of Group holdings note (iii)		–	42	42
(Loss) profit attaching to held for sale Japan Life business†	AB	(124)	14	17
Profit before tax attributable to shareholders		506	1,166	2,747

		2013	2012*	
	Note	Half year	Half year	Full year
Basic EPS based on operating profit based on longer-term investment returns after tax and non-controlling interests†	I	42.2p	34.6p	76.9p
Basic EPS based on total profit after tax and non-controlling interests	I	14.3p	35.0p	85.1p

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note B.

† To facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the held for sale Japan Life business are included separately within the supplementary analysis of profit above.

Notes

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

(ii) Restructuring costs are incurred in the UK and represent one-off expenses incurred in securing expense savings.

(iii) During 2012, M&G reduced its holdings in PPM South Africa resulting in a reclassification from a subsidiary to an associate giving rise to a gain on dilution of £42 million.

Determining operating segments and performance measure of operating segments

Operating segments

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

Insurance operations:
- Asia
- US (Jackson)
- UK

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

The Group's operating segments are also its reportable segments for the purposes of internal management reporting with the exception of Prudential Capital (PruCap) which has been incorporated into the M&G operating segment for the purposes of segment reporting.

Performance measure

The performance measure of operating segments utilised by the Company is IFRS operating profit attributable to shareholders based on longer-term investment returns. This measure excludes the recurrent items of short-term fluctuations in investment returns, the amortisation of the acquisition accounting adjustments arising on the purchase of businesses and for 2012, the gain arising upon the dilution of the Group's holding in PPM South Africa. As explained further in note AB, in July 2013, the Group announced that it has agreed to sell its Japan Life business to SBI Holdings, Inc. As the sale of the business was highly probable at 30 June 2013, the Japan Life business has been classified as 'held for sale' in these condensed consolidated financial statements. In order to facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the remeasurement of the held for sale Japan Life business at 30 June 2013 to fair value less costs to sell, together with the half year 2013 results of this business and those for the 2012 comparatives are shown separately within the supplementary analysis of profit. Operating earnings per share is calculated on operating profit based on longer-term investment returns, after tax and non-controlling interests.

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

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 and associated policyholder liability 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 the profit on this basis, the following key elements are applied to the results of the Group's shareholder-financed operations.

(a) Debt, equity-type securities and loans

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

In principle, for debt securities and loans, 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.

Notes on the IFRS basis results continued

C: Segment disclosure – profit before tax continued

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

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

At 30 June 2013, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £522 million (30 June 2012: £441 million; 31 December 2012: £495 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, unit-linked and US variable annuity are of significance for the US and Asia insurance operations. Different rates apply to different categories of equity-type securities.

As at 30 June 2013, the equity-type securities for US insurance non-separate account operations amounted to £1,188 million (30 June 2012: £1,017 million; 31 December 2012: £1,004 million). For these operations, the longer-term rates of return for income and capital applied in half year 2013 are as follows:

	2013	2012	
	Half year	Half year	Full year
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	5.7% to 6.5%	5.6% to 6.2%	5.5% to 6.2%
Other equity-type securities such as investments in limited partnerships and private equity funds	7.7% to 8.5%	7.6% to 8.2%	7.5% to 8.2%

For Asia insurance operations, excluding assets of the Japan Life held for sale business, investments in equity securities held for non-linked shareholder-financed operations amounted to £526 million as at 30 June 2013 (30 June 2012: £574 million; 31 December 2012: £474 million). The rates of return applied in the periods 2013 and 2012 for these investments ranged from 1.3 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 economists 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.

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

(b) US variable and fixed index annuity business

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

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

Note: US operations – Embedded derivatives for variable annuity guarantee features

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

(c) Other derivative value movements

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

(d) Other liabilities to policyholders and embedded derivatives for product guarantees

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

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

Examples where such bifurcation is necessary are:

Asia – Hong Kong

For certain non-participating business, the economic features are more akin to asset management products with policyholder liabilities reflecting asset shares over the contract term. For these products, the charge for policyholder benefits in the operating results should reflect the asset share feature rather than volatile movements that would otherwise be reflected if the local regulatory basis (which is applied for IFRS balance sheet purposes) was used.

For other Hong Kong non-participating business, longer-term interest rates are used to determine the movement in policyholder liabilities for determining operating results. Similar principles apply for other Asia operations.

UK shareholder-backed annuity business

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

- The impact on credit risk provisioning of actual upgrades and downgrades during the period;
- Credit experience compared to assumptions; and
- Short-term value movements on assets backing the capital of the business.

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

(e) Fund management and other non-insurance businesses

For these businesses, the particular features applicable for life assurance noted above do not apply. For these businesses it is inappropriate to include returns in the operating result on the basis described above. Instead, it is appropriate to generally include realised gains and losses (including impairments) in the operating result with unrealised gains and losses being included in short-term fluctuations in investment returns. 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.

(f) Amortisation of acquisition accounting adjustments

The amortisation of acquisition accounting adjustments comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012.

Notes on the IFRS basis results continued

C: Segment disclosure – profit before tax continued

Additional segmental analysis of revenue

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

	Half year 2013 £m				
	Asia	US	UK	Intra-group	Total
Revenue from external customers:					
Insurance operations	4,276	7,858	2,786	–	14,920
Asset management	122	421	562	(172)	933
Unallocated corporate	–	–	10	–	10
Intra-group revenue eliminated on consolidation	(49)	(43)	(80)	172	–
Total revenue from external customers	4,349	8,236	3,278	–	15,863

	Half year 2012* £m				
	Asia	US	UK	Intra-group	Total
Revenue from external customers:					
Insurance operations	3,419	7,063	3,374	–	13,856
Asset management	111	357	462	(154)	776
Unallocated corporate	–	–	10	–	10
Intra-group revenue eliminated on consolidation	(42)	(36)	(76)	154	–
Total revenue from external customers	3,488	7,384	3,770	–	14,642

	Full year 2012* £m				
	Asia	US	UK	Intra-group	Total
Revenue from external customers:					
Insurance operations	7,339	14,465	7,098	–	28,902
Asset management	222	725	972	(333)	1,586
Unallocated corporate	–	–	19	–	19
Intra-group revenue eliminated on consolidation	(84)	(77)	(172)	333	–
Total revenue from external customers	7,477	15,113	7,917	–	30,507

Revenue from external customers is made up of the following:

	2013 £m	2012* £m	
	Half year	Half year	Full year
Earned premiums, net of reinsurance	14,763	13,703	28,622
Fee income from investment contract business and asset management (presented as 'Other income')	1,100	939	1,885
Total revenue from external customers	15,863	14,642	30,507

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

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

	2013 £m	2012* £m	
	Half year	**Half year**	**Full year**
Intra-group revenue generated by:			
M&G	80	76	172
Eastspring Investments	49	42	84
US broker-dealer and asset management (including Curian)	43	36	77
Total intra-group fees included within asset management segment	172	154	333

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

Revenue from external customers of Asia, US and UK insurance operations shown above are net of outwards reinsurance premiums of £96 million, £172 million and £92 million respectively (half year 2012: £85 million, £38 million and £67 million respectively; full year 2012: £163 million, £193 million and £135 million respectively).

D: Profit before tax - asset management operations

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

	2013 £m				2012* £m	
	M&G	**US**	**Eastspring Investments**	**Half year Total**	**Half year Total**	**Full year Total**
Revenue (excluding NPH broker-dealer fees)	612	181	123	916	831	1,739
NPH broker-dealer fees[note (i)]	–	249	–	249	215	435
Gross revenue	612	430	123	1,165	1,046	2,174
Charges (excluding NPH broker-dealer fees)	(401)	(147)	(96)	(644)	(513)	(1,144)
NPH broker-dealer fees[note (i)]	–	(249)	–	(249)	(215)	(435)
Gross charges	(401)	(396)	(96)	(893)	(728)	(1,579)
Share of profit from joint ventures and associates, net of related tax	5	–	11	16	14	24
Profit before tax	216	34	38	288	332	619
Comprising:						
Operating profit based on longer-term investment returns[note (ii)]	225	34	38	297	248	479
Short-term fluctuations in investment returns[note (iii)]	(9)	–	–	(9)	42	98
Gain on dilution of Group holdings	–	–	–	–	42	42
Profit before tax	216	34	38	288	332	619

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new and amended accounting standards described in note B. One of the new accounting standards adopted was IFRS 11 which requires joint ventures to be equity accounted. Accordingly, share of profit from joint ventures and associates is disclosed as a separate line.

Notes

(i) Under IFRS, disclosure details of segment revenue are required. The segment revenue of the Group's asset management operations is required to include NPH broker-dealer fees which represent commissions received, that are then paid on to the writing brokers on the sale of investment products. This item is for amounts which, reflecting their commercial nature, are also wholly reflected as charges within the income statement. After allowing for these charges, there is no effect on profit from this item.

The presentation in the table above shows the amounts attributable to this item so that the underlying revenue and charges can be seen.

Notes on the IFRS basis results continued

D: Profit before tax – asset management operations continued

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

	2013 £m	2012 £m	
	Half year	Half year	Full year
Asset management fee income	418	351	728
Other income	3	3	6
Staff costs	(149)	(120)	(289)
Other costs	(77)	(66)	(147)
Underlying profit before performance-related fees	195	168	298
Share of associate results	5	6	13
Performance-related fees	4	1	9
Operating profit from asset management operations	204	175	320
Operating profit from Prudential Capital	21	24	51
Total M&G operating profit based on longer-term investment returns	225	199	371

The difference between the fees and other income shown above in respect of asset management operations, and the revenue figure for M&G shown (excluding consolidated investment funds) in the main table primarily relates to total revenue of Prudential Capital (including short-term fluctuations in investment returns) of £51 million (half year 2012: £99 million; full year 2012: £218 million) and commissions which have been netted off in arriving at the fee income of £418 million (half year 2012: £351 million; full year 2012: £728 million) in the table above. The difference in the presentation of commission is aligned with how management reviews the business.

(iii) Short-term fluctuations in investment returns for M&G are primarily in respect of unrealised fair value movements on Prudential Capital's bond portfolio.

E: Insurance assets and liabilities – key results features

In addition to the effect of the new accounting pronouncements for 2013 as disclosed in note B, the following features are of particular relevance to the determination of the 2013 results in respect of the measurement of insurance assets and liabilities.

i Asia insurance operations – non-recurrent items

In half year 2013, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net £31 million credit (half year 2012: £17 million credit; full year 2012: £48 million credit) representing a small number of non-recurring items that are not anticipated to reoccur in subsequent periods. The full year 2012 operating profit also included the £51 million gain on sale of the stake in China Life of Taiwan.

ii US insurance operations – amortisation of deferred acquisition costs

Under the Group's basis of applying IFRS 4, the insurance assets and liabilities of Jackson's life and annuity business are accounted for under US GAAP. In line with industry practice, Jackson applies the mean reversion technique for amortisation of deferred acquisition costs on variable annuity business which dampens the effects of short-term market movements on expected gross profits against which deferred acquisition costs are amortised. To the extent that the mean reversion methodology does not fully dampen the effects of market returns there is a charge or credit for accelerated or decelerated amortisation. For half year 2013, reflecting the positive market returns in the period, there was a credit for decelerated amortisation of £20 million (half year 2012: £25 million; full year 2012: £56 million, as explained in note N).

iii UK insurance operations – allowance for credit risk of the annuity business

For IFRS reporting, the results for UK shareholder-backed annuity business are sensitive to the allowances made for credit risk. The allowance is reflected in the deduction from the valuation rate of interest for discounting projected future annuity payments to policyholders that would have otherwise applied. Since mid-2007 there has been a significant increase in the actual and perceived credit risk associated with corporate bonds as reflected in the significant widening that has occurred in corporate bond spreads. Although bond spreads over swap rates have narrowed from their peak in March 2009, they are still high compared with the levels seen in the years immediately preceding the start of the dislocated markets in 2007. The allowance that should therefore be made for credit risk remains a particular area of judgement.

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

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

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

The allowance for credit risk comprises (i) an amount for long-term best estimate defaults, and (ii) additional provisions for credit risk premium, downgrade resilience and short-term defaults.

Prudential Retirement Income Limited (PRIL) is the principal company which writes the UK's shareholder-backed business.

The weighted components of the bond spread over swap rates for shareholder-backed fixed and linked annuity business for PRIL at 30 June 2013, 30 June 2012 and 31 December 2012, based on the asset mix at the relevant balance sheet date are shown below.

	30 Jun 2013 bps		
	Pillar 1 regulatory basis	Adjustment from regulatory to IFRS basis	IFRS basis
Bond spread over swap rates note (i)	157	–	157
Credit risk allowance:			
Long-term expected defaults note (ii)	15	–	15
Additional provisions note (iii)	49	(22)	27
Total credit risk allowance	64	(22)	42
Liquidity premium	93	22	115

	30 Jun 2012 bps		
	Pillar 1 regulatory basis	Adjustment from regulatory to IFRS basis	IFRS basis
Bond spread over swap rates note (i)	191	–	191
Credit risk allowance:			
Long-term expected defaults note (ii)	16	–	16
Additional provisions note (iii)	50	(23)	27
Total credit risk allowance	66	(23)	43
Liquidity premium	125	23	148

	31 Dec 2012 bps		
	Pillar 1 regulatory basis	Adjustment from regulatory to IFRS basis	IFRS basis
Bond spread over swap rates note (i)	161	–	161
Credit risk allowance:			
Long-term expected defaults note (ii)	15	–	15
Additional provisions note (iii)	50	(23)	27
Total credit risk allowance	65	(23)	42
Liquidity premium	96	23	119

Notes

(i) Bond spread over swap rates reflect market observed data.

(ii) Long-term expected defaults are derived by applying Moody's data from 1970 to 2009 and the definition of the credit rating used is the second highest credit rating published by Moody's, Standard & Poor's and Fitch.

(iii) Additional provisions comprise credit risk premium, which is derived from Moody's data from 1970 to 2009, an allowance for a one notch downgrade of the portfolio subject to credit risk, and an additional allowance for short-term defaults.

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

Notes on the IFRS basis results continued

E: Insurance assets and liabilities – key results features continued

The movement in the first half of 2013 of the average basis points allowance for PRIL on the IFRS basis is as follows:

	Pillar 1 regulatory basis bps	IFRS basis bps
	Total	Total
Total allowance for credit risk at 31 December 2012	65	42
Credit rating changes	1	1
Asset trading	(1)	(1)
Asset mix (effect of market value movements)	–	–
New business and other	(1)	–
Total allowance for credit risk at 30 June 2013	64	42

The methodology applied is to retain favourable credit experience in short-term allowances for credit risk on the IFRS basis but such surplus experience is not retained in the Pillar 1 credit provisions.

Overall the movement has led to the credit allowance for Pillar 1 purposes to be 41 per cent (30 June 2012: 35 per cent; 31 December 2012: 40 per cent) of the bond spread over swap rates. For IFRS purposes it represents 27 per cent (30 June 2012: 22 per cent; 31 December 2012: 26 per cent) of the bond spread over swap rates.

The reserves for credit risk allowance at 30 June 2013 for the UK shareholder annuity fund were as follows:

	Pillar 1 regulatory basis £bn	IFRS basis £bn
	Total	Total
PRIL	1.8	1.1
PAC non-profit sub-fund	0.2	0.1
Total - 30 June 2013	2.0	1.2
Total – 31 December 2012	2.1	1.3
Total – 30 June 2012	2.1	1.3

F: Short-term fluctuations in investment returns on shareholder-backed business

	2013 £m	2012* £m	
	Half year	Half year	Full year
Insurance operations:			
Asia note (ii)	(137)	26	54
US note (iii)	(441)	(125)	(90)
UK notes (iv)	(147)	5	136
Other operations:			
Economic hedge value movements note (v)	–	(15)	(32)
Other note (vi)	(30)	62	119
Total note (i)	(755)	(47)	187

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new and amended accounting standards described in note B. In addition, to facilitate comparisons of results that reflect the Group's retained operations, the short-term fluctuations in investment returns attributable to the held for sale Japan Life business are included separately within the supplementary analysis of profit.

Notes

(i) **General overview of defaults**
The Group did not experience any defaults on its shareholder-backed debt securities portfolio in half year 2013 and 2012.

(ii) **Asia insurance operations**
In Asia, the negative short-term fluctuations of £(137) million (half year 2012: positive £26 million; full year 2012: positive £54 million) primarily reflect net unrealised movements on bond holdings following a rise in bond yields during the period.

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

	2013 £m	2012 £m	
	Half year	Half year	Full year
Charges in the period in investment returns:			
Defaults	–	–	–
Losses on sales of impaired and deteriorating bonds	(2)	(16)	(23)
Bond write downs	(5)	(25)	(37)
Recoveries/reversals	6	8	13
Total charges in the period note (a)	(1)	(33)	(47)
Less: risk margin charge included in operating profit based on longer-term investment returns note (b)	44	38	79
	43	5	32
Interest-related realised gains (losses):			
Arising in the period	34	29	94
Less: amortisation of gains and losses arising in current and prior periods to operating profit based on longer-term investment returns	(45)	(44)	(91)
	(11)	(15)	3
Related change to amortisation of deferred acquisition costs	(8)	2	(3)
Total short-term fluctuations in investment returns related to debt securities	24	(8)	32
Derivatives (other than equity-related): market value movement (net of related change to amortisation of deferred acquisition costs) note (c)	(380)	179	135
Net equity hedge results (net of related change to amortisation of deferred acquisition costs) note (d)	(166)	(320)	(302)
Equity type investments: actual less longer-term return (net of related change to amortisation of deferred acquisition costs) note C	63	22	23
Other items (net of related change to amortisation of deferred acquisition costs)	18	2	22
Total	(441)	(125)	(90)

The short-term fluctuations in investment returns shown in the table above are stated net of the related change to amortisation of deferred acquisition costs of £242 million (half year 2012: £80 million; full year 2012: £76 million). See note N.

Notes on the IFRS basis results continued

F: Short-term fluctuations in investment returns on shareholder-backed business continued

Notes

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

	2013 £m	2012 £m	
	Half year	Half year	Full year
Prime (including agency)	2	1	(4)
Alt-A	–	1	(1)
Sub-prime	(1)	(3)	(3)
Total residential mortgage-backed securities	1	(1)	(8)
Corporate debt securities	(2)	(12)	(14)
Other	–	(20)	(25)
Total	(1)	(33)	(47)

(b) The risk margin reserve (RMR) charge for longer-term credit-related losses included in operating profit based on longer-term investment returns of Jackson for half year 2013 is based on an average annual RMR of 25 basis points (half year 2012: 27 basis points; full year 2012: 26 basis points) on average book values of US$54.3 billion (half year 2012: US$44.2 billion; full year 2012: US$47.6 billion) as shown below:

	Half year 2013			
			Annual expected loss†	
Moody's rating category (or equivalent under NAIC ratings of MBS)	Average book value US$m	RMR %	US$m	£m
A3 or higher	27,411	0.11	(31)	(20)
Baa1, 2 or 3	24,187	0.25	(61)	(40)
Ba1, 2 or 3	1,633	1.14	(19)	(12)
B1, 2 or 3	608	2.73	(17)	(11)
Below B3	423	2.15	(9)	(6)
Total	54,262	0.25	(137)	(89)
Related change to amortisation of deferred acquisition costs			26	17
Risk margin reserve charge to operating profit for longer-term credit related losses			(111)	(72)

	Half year 2012			
			Annual expected loss†	
Moody's rating category (or equivalent under NAIC ratings of MBS)	Average book value US$m	RMR %	US$m	£m
A3 or higher	21,149	0.11	(23)	(15)
Baa1, 2 or 3	20,655	0.26	(54)	(34)
Ba1, 2 or 3	1,616	1.11	(18)	(11)
B1, 2 or 3	560	2.97	(17)	(11)
Below B3	174	3.77	(6)	(4)
Total	44,154	0.27	(118)	(75)
Related change to amortisation of deferred acquisition costs			18	11
Risk margin reserve charge to operating profit for longer-term credit related losses			(100)	(64)

† Annual expected loss as shown in the summary table above. The charge for the half year 2013 was £(44) million (half year 2012: £(38) million).

	Full year 2012			
			Annual expected loss	
Moody's rating category (or equivalent under NAIC ratings of MBS)	Average book value US$m	RMR %	US$m	£m
A3 or higher	23,129	0.11	(26)	(16)
Baa1, 2 or 3	21,892	0.26	(56)	(36)
Ba1, 2 or 3	1,604	1.12	(18)	(11)
B1, 2 or 3	597	2.82	(17)	(11)
Below B3	342	2.44	(8)	(5)
Total	47,564	0.26	(125)	(79)
Related change to amortisation of deferred acquisition costs			21	13
Risk margin reserve charge to operating profit for longer-term credit related losses			(104)	(66)

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

(c) Derivatives (other than equity-related): loss of £(380) million (half year 2012: gain of £179 million; full year 2012: gain of £135 million) net of related change to amortisation of deferred acquisition costs.

These losses and gains are in respect of duration lengthening interest rate swaps and swaptions and for the GMIB reinsurance. The swaps and swaptions are undertaken to manage interest rate exposures and durations within the general account and the variable annuity and fixed index annuity guarantees (as described in note (d) below). The GMIB reinsurance is in place so as to fully insulate Jackson from the GMIB exposure.

The amounts principally reflect the fair value movement on these instruments, net of related changes to amortisation of deferred acquisition costs.

Under the Group's IFRS reporting of Jackson's derivatives (other than equity-related) programme significant accounting mismatches arise. This is because:

- The derivatives are required to be fair valued with the value movements booked in the income statement;
- As noted above, part of the derivative value movements arises in respect of interest rate exposures within Jackson's guarantee liabilities for variable annuity and fixed index annuity business which are only partially fair valued under IFRS (see below);
- The GMIB liability is valued under the US GAAP insurance measurement basis applied for IFRS in a way that substantially does not recognise the effect of market movements. However, notwithstanding that the liability is fully reinsured, as the reinsurance asset is net settled it is deemed a derivative under IAS 39 which requires fair valuation; and
- Fair value movements on Jackson's debt securities are booked in other comprehensive income rather than the income statement.

(d) Net equity hedge result: loss of £(166) million (half year 2012: loss of £(320) million; full year 2012: loss of £(302) million).

These amounts are in respect of the equity-based derivatives and associated guarantee liabilities of Jackson's variable and fixed index annuity business. The equity-based derivatives are undertaken to manage the equity risk exposure of the guarantee liabilities. The economic exposure of these guarantee liabilities also includes the effects of changes in interest rates which are managed through the swaps and swaptions programmes described in note (c) above.

The amounts reflect the net effect of:

- Fair value movements on free-standing equity derivatives;
- The accounting value movements on the variable annuity and fixed index annuity guarantee liabilities;
- Fee assessments and claim payments in respect of guarantee liabilities; and
- Related changes to DAC amortisation.

Under the Group's IFRS reporting of Jackson's equity-based derivatives and associated guarantee liabilities significant accounting mismatches arise. This is because:

- The free standing derivatives and GMWB 'not for life' embedded derivative liabilities are required to be fair valued. These fair value movements include the effects of changes to levels of equity markets, implied volatility and interest rates. The interest rate exposure is managed through the derivative programme explained above in note (c); and
- The GMDB and GMWB 'for life' guarantees are valued under the US GAAP insurance measurement basis applied for IFRS in a way that substantially does not recognise the effect of equity market and interest rate changes.

In addition to the items discussed above, for US insurance operations, included within the statement of Other Comprehensive Income is a decrease in net unrealised gains on debt securities classified as available-for-sale of £1,707 million (half year 2012: increase in net unrealised gains of £482 million; full year 2012: an increase in net unrealised gains of £862 million). Temporary market value movements do not reflect defaults or impairments. Additional details on the movement in the value of the Jackson portfolio are included in note R.

(iv) **UK insurance operations**

The negative short-term fluctuations for UK insurance operations of £(147) million (half year 2012: positive £5 million; full year 2012: positive £136 million) reflect net investment movements arising in the period on fixed income assets backing the capital of the annuity business following the rise in bond yields during the period.

(v) **Economic hedge value movements**

This item represented the costs on short-dated hedge contracts taken out in first half of 2012 to provide downside protection against severe equity market falls through a period of particular uncertainty with respect to the Eurozone. The hedge contracts were terminated in the second half of 2012.

(vi) **Other**

Short-term fluctuations in investment returns of other operations, in addition to the previously discussed economic hedge value movement, were negative £(30) million (half year 2012: positive £62 million; full year 2012: positive £119 million) representing unrealised value movements on investments, including centrally held swaps to manage foreign exchange and certain macroeconomic exposures of the Group.

Notes on the IFRS basis results continued

G: Acquisition costs and other expenditure

	2013 £m	2012* £m	
	Half year	Half year	Full year
Acquisition costs incurred	(1,185)	(1,147)	(2,557)
Acquisition costs deferred less amortisation of acquisition costs	419	376	595
Administration costs and other expenditure	(2,127)	(1,957)	(3,863)
Movements in amounts attributable to external unit holders	(422)	(17)	(207)
Total acquisition costs and other expenditure	(3,315)	(2,745)	(6,032)

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note B.

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

Included within total acquisition costs and other expenditure is depreciation of property plant and equipment of £(45) million (half year 2012: £(44) million; full year 2012: £(90) million).

The total amounts for acquisition costs and other expenditure shown above includes corporate expenditure shown in note C. The charge for corporate expenditure comprises:

	2013 £m	2012 £m	
	Half year	Half year	Full year
Group Head Office	(87)	(86)	(168)
Asia Regional Office:			
Gross costs	(58)	(45)	(99)
Recharges to Asia operations	17	11	36
	(41)	(34)	(63)
Total	(128)	(120)	(231)

H: Tax

i Tax charge

The total tax charge comprises:

	2013 £m			2012* £m	
	Half year			Half year	Full year
Tax charge	Current tax	Deferred tax	Total	Total	Total
UK tax	(77)	(82)	(159)	(55)	(421)
Overseas tax	(68)	(128)	(196)	(254)	(533)
Total tax charge	(145)	(210)	(355)	(309)	(954)

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new and amended accounting standards described in note B.

The current tax charge of £145 million includes £8 million for half year 2013 (half year 2012: charge of £7 million; full year 2012: charge of £17 million) in respect of the tax charge for Hong Kong. The 2012 comparative Hong Kong tax charges have been adjusted retrospectively for the application of the new joint venture accounting standards. The Hong Kong current tax charge is calculated as 16.5 per cent for all periods on either (i) 5 per cent of the net insurance premium or (ii) the estimated assessable profits, depending on the nature of the business written.

Until the end of 2012 for the Group's UK life insurance companies, shareholders' profits were calculated using regulatory surplus as a starting point, with appropriate deferred tax adjustments for IFRS. Beginning in 2013, under new UK life tax rules, shareholders' profits are calculated using accounting profit or loss as a starting point.

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

	2013 £m			2012* £m	
	Half year			Half year	Full year
Tax charge	Current tax	Deferred tax	Total	Total	Total
Tax charge to policyholders' returns	(80)	(134)	(214)	(30)	(370)
Tax charge attributable to shareholders' returns	(65)	(76)	(141)	(279)	(584)
Total tax charge	(145)	(210)	(355)	(309)	(954)

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new and amended accounting standards described in note B.

The principal reason for the increase in the tax charge attributable to policyholders' returns compared to the six-month period ended June 2012 is tax on an increase in unrealised investment gains. An explanation of the tax charge attributable to shareholders is shown in note (iii) below.

ii Deferred tax

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

	2013 £m		2012* £m			
	30 Jun		30 Jun		31 Dec	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Unrealised gains and losses on investments	261	(1,610)	204	(1,628)	100	(1,812)
Balances relating to investment and insurance contracts	10	(466)	22	(966)	1	(428)
Short-term timing differences	2,283	(2,019)	1,816	(1,307)	2,092	(1,715)
Capital allowances	16	(7)	12	(8)	15	(9)
Unused tax losses	67	–	115	–	98	–
Total	2,637	(4,102)	2,169	(3,909)	2,306	(3,964)

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new consolidation accounting standards described in note B.

Notes on the IFRS basis results continued

H: Tax continued

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

The taxation regimes applicable across the Group often apply separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. Accordingly, for the 2013 half year results and financial position at 30 June 2013, the possible tax benefit of approximately £164 million (30 June 2012: £156 million; 31 December 2012: £158 million), which may arise from capital losses valued at approximately £0.8 billion (30 June 2012: £0.7 billion; 31 December 2012: £0.8 billion), is sufficiently uncertain that it has not been recognised. In addition, a potential deferred tax asset of £82 million (30 June 2012: £122 million; 31 December 2012: £122 million), which may arise from tax losses and other potential temporary differences totalling £0.4 billion (30 June 2012: £0.5 billion; 31 December 2012: £0.5 billion) is sufficiently uncertain that it has not been recognised. Of these, losses of £67 million will expire within the next 10 years. The remaining losses have no expiry date.

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

Short-term timing differences	Half year 2013 £m	Expected period of recoverability
Asia	31	1 to 3 years
JNL	1,984	With run-off of in-force book
UK long-term business	154	1 to 10 years
Other	114	3 to 10 years
Total	2,283	

Unused tax losses	Half year 2013 £m	Expected period of recoverability
Asia	23	3 to 5 years
UK long-term business	14	1 to 3 years
Other	30	1 to 3 years
Total	67	

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

As part of the Finance Act 2012, the UK government enacted a corporation tax rate change to 23 per cent with effect from 1 April 2013. Additionally, the reduction in the UK corporation tax rate to 21 per cent from 1 April 2014 and a further reduction to 20 per cent from 1 April 2015 was substantively enacted on 2 July 2013 in the 2013 Finance Bill, however, the effect of these changes has not been recognised in the half year 2013 financial results.

The subsequent proposed phased rate changes to 20 per cent is expected to have the effect of reducing the UK with-profits and shareholder-backed business element of the net deferred tax balances as at 30 June 2013 by £50 million.

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

	Half year 2013 £m				
	Asia insurance operations*	US insurance operations	UK insurance operations	Other operations	Total*
Operating profit based on longer-term investment returns	474	582	356	3	1,415
Non-operating loss	(264)	(468)	(147)	(30)	(909)
Profit (loss) before tax attributable to shareholders	210	114	209	(27)	506
Expected tax rate†	17%	35%	23%	23%	23%
Tax at the expected tax rate	36	40	48	(6)	118
Effects of:					
Adjustment to tax charge in relation to prior years	4	–	1	6	11
Movement in provisions for open tax matters	1	–	–	(10)	(9)
Income not taxable or taxable at concessionary rates	(26)	(37)	–	–	(63)
Deductions not allowable for tax purposes	51	–	–	3	54
Deferred tax adjustments	(2)	–	–	–	(2)
Effect of results of joint ventures and associates	(14)	–	–	(3)	(17)
Irrecoverable withholding taxes	–	–	–	6	6
Other	8	24	11	–	43
Total actual tax charge (credit)	58	27	60	(4)	141
Analysed into:					
Tax charge on operating profit based on longer-term investment returns	79	166	92	3	340
Tax credit on non-operating profit	(21)	(139)	(32)	(7)	(199)
Actual tax rate:					
Operating profit based on longer-term investment returns	17%	29%	26%	100%	24%
Total profit	28%	24%	29%	15%	28%

* For half year 2013, the expected and actual tax rates as shown includes the impact of the held for sale Japan Life business. The tax rates for Asia insurance operations and Group, excluding the impact of the held for sale Japan Life business are as follows:

	Asia insurance operations	Total Group
Expected tax rate	25%	26%
Actual tax rate:		
Operating profit based on longer-term investment returns	17%	24%
Total profit	17%	22%

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

Notes on the IFRS basis results continued

H: Tax continued

	Half year 2012* £m				
	Asia insurance operations	US insurance operations	UK insurance operations	Other operations	Total
Operating profit (loss) based on longer-term investment returns	403	442	353	(41)	1,157
Non-operating profit (loss)	40	(125)	5	89	9
Profit before tax attributable to shareholders	443	317	358	48	1,166
Expected tax rate†	24%	35%	24.5%	24.5%	27%
Tax at the expected tax rate	106	111	88	12	317
Effects of:					
Adjustment to tax charge in relation to prior years	7	–	4	7	18
Movement in provisions for open tax matters	–	1	–	–	1
Income not taxable or taxable at concessionary rates	(11)	(37)	9	–	(39)
Deductions not allowable for tax purposes	6	–	–	–	6
Impact of changes in local statutory tax rates	–	–	(16)	7	(9)
Deferred tax adjustments	(2)	–	–	3	1
Effect of results of joint ventures and associates	(12)	–	–	(2)	(14)
Irrecoverable withholding taxes	–	–	–	5	5
Other	2	(4)	(4)	(1)	(7)
Total actual tax charge	96	71	81	31	279
Analysed into:					
Tax charge on operating profit based on longer-term investment returns	75	115	74	16	280
Tax charge (credit) on non-operating profit	21	(44)	7	15	(1)
Actual tax rate:					
Operating profit (loss) based on longer-term investment returns	19%	26%	21%	(39)%	24%
Total profit	22%	22%	23%	65%	24%

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new and amended accounting standards described in note B.

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

	Full year 2012* £m				
	Asia insurance operations	US insurance operations	UK insurance operations	Other operations	Total
Operating profit (loss) based on longer-term investment returns	906	964	736	(86)	2,520
Non-operating profit (loss)	71	(109)	136	129	227
Profit before tax attributable to shareholders	977	855	872	43	2,747
Expected tax rate†	23%	35%	24.5%	24.5%	27%
Tax at the expected tax rate	225	300	214	11	750
Effects of:					
Adjustment to tax charge in relation to prior years	(14)	10	(26)	(10)	(40)
Movement in provisions for open tax matters	–	(3)	–	32	29
Income not taxable or taxable at concessionary rates	(68)	(68)	–	(2)	(138)
Deductions not allowable for tax purposes	29	–	–	3	32
Impact of changes in local statutory tax rates	–	–	(39)	9	(30)
Deferred tax adjustments	(5)	–	8	–	3
Effect of results of joint ventures and associates	(24)			(5)	(29)
Irrecoverable withholding taxes	–	–	–	14	14
Other	3	(5)	7	(12)	(7)
Total actual tax charge	146	234	164	40	584
Analysed into:					
Tax charge on operating profit based on longer-term investment returns	133	272	126	36	567
Tax charge (credit) on non-operating profit	13	(38)	38	4	17
Actual tax rate:					
Operating profit (loss) based on longer-term investment returns	15%	28%	17%	(42)%	23%
Total profit	15%	27%	19%	93%	21%

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new and amended accounting standards described in note B.

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

iv Taxes paid

During half year 2013, Prudential remitted £0.9 billion (30 June 2012: £1.0 billion; 31 December 2012: £2.2 billion) of tax to revenue authorities, this includes £182 million (30 June 2012: £348 million; 31 December 2012: £925 million) of corporation tax, £96 million of other taxes and £634 million collected on behalf of employees, customers and third parties.

The geographical split of taxes remitted by Prudential is as follows:

	2013 £m				2012 £m	
	Corporation taxes*	Other taxes†	Taxes collected‡	Half year Total	Half year Total	Full year Total
Asia§	27	15	59	101	194	410
US§	(92)	9	186	103	126	470
UK	247	72	387	706	693	1,304
Other	–	–	2	2	–	2
Total tax paid	182	96	634	912	1,013	2,186

* In certain countries such as the UK, the corporation tax payments for our life insurance businesses are based on taxable profits which include policyholder investment returns on certain life insurance products.

† Other taxes paid includes property taxes, withholding taxes, customs duties, stamp duties, employer payroll taxes and irrecoverable indirect taxes.

‡ Taxes collected are other taxes that Prudential remits to tax authorities which it is obliged to collect from employees, customers and third parties which includes sales/VAT/GST taxes, employee and annuitant payroll taxes.

§ In the first half of 2013, Asia and the US received refunds of overpaid tax in relation to prior period tax returns.

Notes on the IFRS basis results continued

I: Supplementary analysis of earnings per share

	Half year 2013					
	Before tax note C £m	**Tax** note H £m	**Non-controlling interests** £m	**Net of tax and non-controlling interests** £m	**Basic earnings per share** pence	**Diluted earnings per share** pence
Based on operating profit based on longer-term investment returns	1,415	(340)	–	1,075	42.2p	42.1p
Short-term fluctuations in investment returns on shareholder-backed business[note F]	(755)	189	–	(566)	(22.2)p	(22.1)p
Amortisation of acquisition accounting adjustments	(30)	10	–	(20)	(0.8)p	(0.8)p
Loss attaching to held for sale Japan Life business[note AB]	(124)	–	–	(124)	(4.9)p	(4.9)p
Based on profit for the period	506	(141)	–	365	14.3p	14.3p

	Half year 2012*					
	Before tax note C £m	**Tax** note H £m	**Non-controlling interests** £m	**Net of tax and non-controlling interests** £m	**Basic earnings per share** pence	**Diluted earnings per share** pence
Based on operating profit based on longer-term investment returns	1,157	(280)	–	877	34.6p	34.5p
Short-term fluctuations in investment returns on shareholder-backed business[note F]	(47)	1	–	(46)	(1.8)p	(1.8)p
Gain on dilution of holding in PPMSA	42	–	–	42	1.7p	1.7p
Profit attaching to held for sale Japan Life business[note AB]	14	–	–	14	0.5p	0.5p
Based on profit for the period	1,166	(279)	–	887	35.0p	34.9p

	Full year 2012*					
	Before tax note C £m	**Tax** note H £m	**Non-controlling interests** £m	**Net of tax and non-controlling interests** £m	**Basic earnings per share** pence	**Diluted earnings per share** pence
Based on operating profit based on longer-term investment return	2,520	(567)	–	1,953	76.9p	76.8p
Short-term fluctuations in investment returns on shareholder-backed business[note F]	187	(24)	–	163	6.4p	6.4p
Gain on dilution of holding in PPMSA	42	–	–	42	1.7p	1.7p
Amortisation of acquisition accounting adjustments	(19)	7	–	(12)	(0.5)p	(0.5)p
Profit attaching to held for sale Japan Life business[note AB]	17	–	–	17	0.6p	0.6p
Based on profit for the year	2,747	(584)	–	2,163	85.1p	85.0p

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new and amended accounting standards described in note B. The tables above therefore exclude actuarial and other gains and losses on defined benefit pension schemes which are now reported in Other Comprehensive Income. Further, in order to facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the held for sale Japan Life business are included separately within the supplementary analysis of profit.

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

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

	2013	2012	
	Half year (in millions)	Half year (in millions)	Full year (in millions)
Weighted average number of shares for calculation of:			
Basic earnings per share	2,548	2,536	2,541
Diluted earnings per share	2,553	2,539	2,544

J: Dividends

	2013	2012	
Dividends per share (in pence)	Half year	Half year	Full year
Dividends relating to reporting period:			
Interim dividend (2013 and 2012)	9.73p	8.40p	8.40p
Final dividend (2012)	–	–	20.79p
Total	9.73p	8.40p	29.19p
Dividends declared and paid in reporting period:			
Current year interim dividend	–	–	8.40p
Final dividend for prior year	20.79p	17.24p	17.24p
Total	20.79p	17.24p	25.64p

Dividend per share

Interim dividends are recorded in the period in which they are paid. Final dividends are recorded in the period in which they are approved by shareholders. The final dividend for the year ended 31 December 2012 of 20.79 pence per ordinary share was paid to eligible shareholders on 23 May 2013.

The 2013 interim dividend of 9.73 pence per ordinary share will be paid on 26 September 2013 in sterling to shareholders on the principal register and the Irish branch register at 6.00pm BST on Friday, 23 August 2013 (Record Date), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30pm Hong Kong time on the Record Date (HK Shareholders). Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about 4 October 2013. The interim dividend will be paid on or about 3 October 2013 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte.) Limited (CDP) at 5.00pm Singapore time on the Record Date (SG Shareholders). The dividend payable to the HK Shareholders will be translated using the exchange rate quoted by the WM Company at the close of business on 9 August 2013. The exchange rate at which the dividend payable to the SG Shareholders will be translated into SG$, will be determined by CDP. The dividend will distribute an estimated £249 million of shareholders' funds.

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

Notes on the IFRS basis results continued

K: Statement of financial position – analysis of Group position by segment and business type

i Group statement of financial position analysis

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

	2013 £m								2012* £m	
	Insurance operations			Total insurance operations	Asset manage-ment operations	Unallo-cated to a segment (central operations)	Intra-group elimina-tions	30 Jun Group Total	30 Jun Group Total	31 Dec Group Total
By operating segment	UK	US	Asia							
Assets										
Intangible assets attributable to shareholders:										
Goodwill note M	–	–	244	244	1,230	–	–	1,474	1,467	1,469
Deferred acquisition costs and other intangible assets note N	98	4,300	1,103	5,501	15	22	–	5,538	4,237	4,177
Total	98	4,300	1,347	5,745	1,245	22	–	7,012	5,704	5,646
Intangible assets attributable to with-profits funds:										
In respect of acquired subsidiaries for venture fund and other investment purposes	178	–	–	178	–	–	–	178	178	178
Deferred acquisition costs and other intangible assets	6	–	73	79	–	–	–	79	84	78
Total	184	–	73	257	–	–	–	257	262	256
Total intangible assets	282	4,300	1,420	6,002	1,245	22	–	7,269	5,966	5,902
Deferred tax assets note H	181	2,232	68	2,481	118	38	–	2,637	2,169	2,306
Other non-investment and non-cash assets note (i)	5,641	7,255	1,164	14,060	1,995	4,060	(6,808)	13,307	7,257	11,952
Investment of long-term business and other operations:										
Investment properties	10,551	30	2	10,583	–	–	–	10,583	10,532	10,554
Investments in joint ventures and associates accounted for using the equity method	274	–	328	602	94	–	–	696	587	635
Financial investments:										
Loans note P	4,313	6,691	1,004	12,008	1,222	–	–	13,230	10,800	12,743
Equity securities and portfolio holdings in unit trusts	37,713	60,385	14,101	112,199	59	–	–	112,258	89,098	98,626
Debt securities note Q	82,854	33,368	20,081	136,303	1,953	–	–	138,256	127,349	138,907
Other investments	4,098	1,867	76	6,041	69	30	–	6,140	7,828	7,547
Deposits	12,365	–	1,141	13,506	36	–	–	13,542	11,951	12,248
Total investments	152,168	102,341	36,733	291,242	3,433	30	–	294,705	258,145	281,260
Assets held for sale note AB	–	–	1,079	1,079	–	–	–	1,079	–	98
Cash and cash equivalents	2,755	678	1,644	5,077	968	795	–	6,840	6,335	6,126
Total assets	161,027	116,806	42,108	319,941	7,759	4,945	(6,808)	325,837	279,872	307,644

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

By operating segment	2013 £m								2012* £m	
	Insurance operations									
	UK	US	Asia	Total insurance operations	Asset management operations	Unallocated to a segment (central operations)	Intra-group eliminations	30 Jun Group Total	30 Jun Group Total	31 Dec Group Total
Equity and liabilities										
Equity										
Shareholders' equity	3,044	3,598	3,003	9,645	2,085	(2,105)	–	9,625	9,292	10,359
Non-controlling interests	2	–	4	6	–	–	–	6	34	5
Total equity	3,046	3,598	3,007	9,651	2,085	(2,105)	–	9,631	9,326	10,364
Liabilities										
Policyholder liabilities and unallocated surplus of with-profits funds:										
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) note V	133,290	106,215	33,223	272,728	–	–	–	272,728	233,507	257,674
Unallocated surplus of with-profits funds note V	11,350	–	84	11,434	–	–	–	11,434	9,802	10,589
Total policyholder liabilities and unallocated surplus of with-profits funds	144,640	106,215	33,307	284,162	–	–	–	284,162	243,309	268,263
Core structural borrowings of shareholder-financed operations:										
Subordinated debt	–	–	–	–	–	3,161	–	3,161	2,638	2,577
Other	–	164	–	164	275	549	–	988	958	977
Total note S	–	164	–	164	275	3,710	–	4,149	3,596	3,554
Operational borrowings attributable to shareholder-financed operations note T	76	23	5	104	4	2,422	–	2,530	2,794	2,245
Borrowings attributable to with-profits operations note T	924	–	–	924	–	–	–	924	895	968
Deferred tax liabilities note H	1,278	2,155	641	4,074	17	11	–	4,102	3,909	3,964
Other non-insurance liabilities note (ii)	11,063	4,651	4,122	19,836	5,378	907	(6,808)	19,313	16,043	18,286
Liabilities held for sale note AB	–	–	1,026	1,026	–	–	–	1,026	–	–
Total liabilities	157,981	113,208	39,101	310,290	5,674	7,050	(6,808)	316,206	270,546	297,280
Total equity and liabilities	161,027	116,806	42,108	319,941	7,759	4,945	(6,808)	325,837	279,872	307,644

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

Notes

(i) Of the other non-investment and non-cash assets of £13,307 million (30 June 2012: £ 7,257 million; 31 December 2012: £11,952 million) the principal component comprises reinsurers' share of contract liabilities of £7,204 million (30 June 2012: £1,698 million; 31 December 2012: £6,854 million). As set out in note L(ii) this primarily relates to US insurance operation's acquisition of the REALIC business.

Within other non-investment and non-cash assets are premiums receivable of £310 million (30 June 2012: £257 million; 31 December 2012: £304 million) of which approximately two-thirds are due within one year. The remaining one-third, due after one year, relates to products where charges are levied against premiums in future years.

Also included within other non-investment and non-cash assets are property, plant and equipment of £868 million (30 June 2012: £787 million; 31 December 2012: £754 million). The Group made additions to property, plant and equipment of £146 million in the half year ended 30 June 2013 (half year 2012: £119 million; full year 2012: £139 million).

(ii) Within other non-insurance liabilities are other creditors of £3,743 million (30 June 2012: £2,955 million; 31 December 2012: £2,701 million) of which £3,487 million (30 June 2012: £2,649 million; 31 December 2012: £2,447 million) are due within one year.

Notes on the IFRS basis results continued

K: Statement of financial position – analysis of Group position by segment and business type continued

ii Group statement of financial position – additional analysis by business type

	2013 £m							2012* £m	
		Shareholder-backed business							
	Participating funds	Unit-linked and variable annuity	Non-linked business	Asset management operations	Unallocated to a segment (central operations)	Intra-group eliminations	30 Jun Group Total	30 Jun Group Total	31 Dec Group Total
Assets									
Intangible assets attributable to shareholders:									
Goodwill[note M]	–	–	244	1,230	–	–	1,474	1,467	1,469
Deferred acquisition costs and other intangible assets[note N]	–	–	5,501	15	22	–	5,538	4,237	4,177
Total	–	–	5,745	1,245	22	–	7,012	5,704	5,646
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes	178	–	–	–	–	–	178	178	178
Deferred acquisition costs and other intangible assets	79	–	–	–	–	–	79	84	78
Total	257	–	–	–	–	–	257	262	256
Total intangible assets	257	–	5,745	1,245	22	–	7,269	5,966	5,902
Deferred tax assets[note H]	114	2	2,365	118	38	–	2,637	2,169	2,306
Other non-investment and non-cash assets	3,401	644	10,015	1,995	4,060	(6,808)	13,307	7,257	11,952
Investment of long-term business and other operations:									
Investment properties	8,400	600	1,583	–	–	–	10,583	10,532	10,554
Investments in joint ventures and associates accounted for using the equity method	209	–	393	94	–	–	696	587	635
Financial investments:									
Loans[note P]	3,566	–	8,442	1,222	–	–	13,230	10,800	12,743
Equity securities and portfolio holdings in unit trusts	25,957	85,342	900	59	–	–	112,258	89,098	98,626
Debt securities[note Q]	60,372	9,617	66,314	1,953	–	–	138,256	127,349	138,907
Other investments	3,836	25	2,180	69	30	–	6,140	7,828	7,547
Deposits	10,599	1,247	1,660	36	–	–	13,542	11,951	12,248
Total investments	112,939	96,831	81,472	3,433	30	–	294,705	258,145	281,260
Assets held for sale[note AB]	–	393	686	–	–	–	1,079	–	98
Cash and cash equivalents	1,769	1,240	2,068	968	795	–	6,840	6,335	6,126
Total assets	118,480	99,110	102,351	7,759	4,945	(6,808)	325,837	279,872	307,644

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

	2013 £m							2012* £m	
		Shareholder-backed business							
	Participating funds	Unit-linked and variable annuity	Non-linked business	Asset management operations	Unallocated to a segment (central operations)	Intra-group eliminations	30 Jun Group Total	30 Jun Group Total	31 Dec Group Total
Equity and liabilities									
Equity									
Shareholders' equity	–	–	9,645	2,085	(2,105)	–	9,625	9,292	10,359
Non-controlling interests	2	–	4	–	–	–	6	34	5
Total equity	2	–	9,649	2,085	(2,105)	–	9,631	9,326	10,364
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) note V	96,877	96,080	79,771	–	–	–	272,728	233,507	257,674
Unallocated surplus of with-profits funds note V	11,434	–	–	–	–	–	11,434	9,802	10,589
Total policyholder liabilities and unallocated surplus of with-profits funds	108,311	96,080	79,771	–	–	–	284,162	243,309	268,263
Core structural borrowings of shareholder-financed operations:									
Subordinated debt	–	–	–	–	3,161	–	3,161	2,638	2,577
Other	–	–	164	275	549	–	988	958	977
Total note S	–	–	164	275	3,710	–	4,149	3,596	3,554
Operational borrowings attributable to shareholder-financed operations note T	–	–	104	4	2,422	–	2,530	2,794	2,245
Borrowings attributable to with-profits operations note T	924	–	–	–	–	–	924	895	968
Deferred tax liabilities note H	1,221	62	2,791	17	11	–	4,102	3,909	3,964
Other non-insurance liabilities	8,022	2,575	9,239	5,378	907	(6,808)	19,313	16,043	18,286
Liabilities held for sale note AB	–	393	633	–	–	–	1,026	–	–
Total liabilities	118,478	99,110	92,702	5,674	7,050	(6,808)	316,206	270,546	297,280
Total equity and liabilities	118,480	99,110	102,351	7,759	4,945	(6,808)	325,837	279,872	307,644

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

Notes on the IFRS basis results continued

L: Statement of financial position – analysis of segment by business type

i UK insurance operations

Overview

- In order to show the statement of financial position by reference to the differing degrees of policyholder and shareholder economic interest of the different types of fund and business, the analysis below is structured to show separately assets and liabilities of the Scottish Amicable Insurance Fund (SAIF), the Prudential Assurance Company Limited (PAC) with-profits sub-fund (WPSF), unit-linked assets and liabilities and annuity (principally PRIL) and other long-term business.
- £97 billion of the £152 billion of investments are held by SAIF and the PAC WPSF. Shareholders are exposed only indirectly to value movements on these assets.

	2013 £m						2012* £m	
			Other funds and subsidiaries					
By operating segment	**Scottish Amicable Insurance Fund** note (iii)	**PAC with-profits fund** notes (i), (ii)	**Unit-linked assets and liabilities**	**Annuity and other long-term business**	**Total**	**30 Jun Total**	**30 Jun Total**	**31 Dec Total**
Assets								
Intangible assets attributable to shareholders:								
Deferred acquisition costs and other intangible assets	–	–	–	98	98	98	109	105
Total	–	–	–	98	98	98	109	105
Intangible assets attributable to with-profits funds:								
In respect of acquired subsidiaries for investment purposes	–	178	–	–	–	178	178	178
Deferred acquisition costs	–	6	–	–	–	6	6	6
Total	–	184	–	–	–	184	184	184
Total intangible assets	–	184	–	98	98	282	293	289
Deferred tax assets	1	113	–	67	67	181	243	183
Other non-investment and non-cash assets	468	2,604	489	2,080	2,569	5,641	5,443	5,448
Investments of long-term business and other operations:								
Investment properties	453	7,947	600	1,551	2,151	10,551	10,501	10,528
Investments in joint ventures and associates accounted for using the equity method	–	209	–	65	65	274	236	259
Financial investments:								
Loans note P	114	2,866	–	1,333	1,333	4,313	4,265	4,303
Equity securities and portfolio holdings in unit trusts	2,048	20,435	15,187	43	15,230	37,713	34,090	36,281
Debt securities note Q	3,605	45,737	6,944	26,568	33,512	82,854	80,049	84,008
Other investments note (iv)	283	3,511	4	300	304	4,098	4,418	4,256
Deposits	814	9,385	801	1,365	2,166	12,365	11,105	11,131
Total investments	7,317	90,090	23,536	31,225	54,761	152,168	144,664	150,766
Properties held for sale	–	–	–	–	–	–	–	98
Cash and cash equivalents	132	1,180	890	553	1,443	2,755	2,593	2,668
Total assets	7,918	94,171	24,915	34,023	58,938	161,027	153,236	159,452

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

By operating segment	2013 £m						2012* £m	
			Other funds and subsidiaries					
	Scottish Amicable Insurance Fund note (iii)	PAC with-profits fund notes (i), (ii)	Unit-linked assets and liabilities	Annuity and other long-term business	Total	30 Jun Total	30 Jun Total	31 Dec Total
Equity and liabilities								
Equity								
Shareholders' equity	–	–	–	3,044	3,044	3,044	2,722	3,033
Non-controlling interests	–	2	–	–	–	2	29	1
Total equity	–	2	–	3,044	3,044	3,046	2,751	3,034
Liabilities								
Policyholder liabilities and unallocated surplus of with-profits funds:								
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) note V	7,445	75,775	23,243	26,827	50,070	133,290	128,387	133,912
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds) note V	–	11,350	–	–	–	11,350	9,750	10,526
Total	7,445	87,125	23,243	26,827	50,070	144,640	138,137	144,438
Operational borrowings attributable to shareholder-financed operations	–	–	–	76	76	76	42	127
Borrowings attributable to with-profits funds	11	913	–	–	–	924	895	968
Deferred tax liabilities	51	945	2	291	293	1,289	1,258	1,185
Other non-insurance liabilities	411	5,186	1,670	3,785	5,455	11,052	10,153	9,700
Total liabilities	7,918	94,169	24,915	30,979	55,894	157,981	150,485	156,418
Total equity and liabilities	7,918	94,171	24,915	34,023	58,938	161,027	153,236	159,452

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note B.

Notes

(i) The WPSF mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). The WPSF's profits are apportioned 90 per cent to its policyholders and 10 per cent to shareholders as surplus for distribution is determined via the annual actuarial valuation. For the purposes of this table and subsequent explanation, references to the WPSF also include, for convenience, the amounts attaching to the Defined Charges Participating Sub-fund which comprises 3.4 per cent of the total assets of the WPSF and includes the with-profits annuity business transferred to Prudential from the Equitable Life Assurance Society on 1 December 2007 (with assets of approximately £1.7 billion). Profits to shareholders on this with-profits annuity business emerge on a 'charges less expenses' basis and policyholders are entitled to 100 per cent of the investment earnings. Included in the PAC with-profits fund is £13.5 billion (2012: £13.3 billion) of non-profits annuities liabilities.

(ii) Excluding policyholder liabilities of the Hong Kong branch of PAC.

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

(iv) Other investments comprise:

	2013 £m	2012* £m	
	30 Jun	30 Jun	31 Dec
Derivative assets†	894	1,318	1,349
Partnerships in investment pools and other‡	3,204	3,100	2,907
	4,098	4,418	4,256

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note B.

† After including derivative liabilities of £1,289 million (30 June 2012: £1,340 million; 31 December 2012: £1,010 million), which are also included in the statement of financial position, the overall derivative position was a net liability of £395 million (30 June 2012: net liability of £22 million; 31 December 2012: net asset of £339 million).

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

Notes on the IFRS basis results continued

L: Statement of financial position – analysis of segment by business type continued

ii US insurance operations

	2013 £m			2012 £m	
	Variable annuity separate account assets and liabilities note (i)	Fixed annuity, GIC and other business note (i)	30 Jun Total*	30 Jun Total	31 Dec Total*
Assets					
Intangible assets attributable to shareholders:					
Deferred acquisition costs and other intangibles	–	4,300	4,300	3,203	3,222
Total	–	4,300	4,300	3,203	3,222
Deferred tax assets	–	2,232	2,232	1,633	1,889
Other non-investment and non-cash assets note (v)	–	7,255	7,255	1,536	6,792
Investments of long-term business and other operations:					
Investment properties	–	30	30	25	24
Financial investments:					
Loans note P	–	6,691	6,691	4,168	6,235
Equity securities and portfolio holdings in unit trusts note (iv)	60,054	331	60,385	43,874	49,551
Debt securities notes Q, R	–	33,368	33,368	27,061	32,993
Other investments note (ii)	–	1,867	1,867	2,634	2,296
Deposits	–	–	–	228	211
Total investments	60,054	42,287	102,341	77,990	91,310
Cash and cash equivalents	–	678	678	293	513
Total assets	60,054	56,752	116,806	84,655	103,726
Equity and liabilities					
Equity					
Shareholders' equity note (iii)	–	3,598	3,598	3,919	4,343
Total equity	–	3,598	3,598	3,919	4,343
Liabilities					
Policyholder:					
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) note V	60,054	46,161	106,215	75,264	92,261
Total	60,054	46,161	106,215	75,264	92,261
Core structural borrowings of shareholder-financed operations note S	–	164	164	159	153
Operational borrowings attributable to shareholder-financed operations	–	23	23	91	26
Deferred tax liabilities	–	2,155	2,155	2,069	2,168
Other non-insurance liabilities note (v)	–	4,651	4,651	3,153	4,775
Total liabilities	60,054	53,154	113,208	80,736	99,383
Total equity and liabilities	60,054	56,752	116,806	84,655	103,726

* The statements of financial position at 30 June 2013 and 31 December 2012 include the assets and liabilities of the acquired REALIC business. See note X(b).

Notes

(i) Assets and liabilities attaching to variable annuity business that are not held in the separate account are shown within other business.

(ii) Other investments comprise:

	2013 £m	2012 £m	
	30 Jun	30 Jun	31 Dec
Derivative assets†	1,010	1,866	1,546
Partnerships in investment pools and other‡	857	768	750
	1,867	2,634	2,296

† In the US, Prudential uses derivatives to reduce interest rate risk, to facilitate efficient portfolio management to match liabilities under annuity policies and for certain equity-based product management activities. After taking account of derivative liabilities of £555 million (30 June 2012: £1,046 million; 31 December 2012: £645 million), which are also included in the statement of financial position, the overall derivative position is a net asset of £455 million (30 June 2012: net asset of £820 million; 31 December 2012: net asset of £901 million).

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

(iii) Changes in shareholders' equity.

	2013 £m	2012 £m	
	30 Jun	30 Jun	31 Dec
Short-term fluctuations in investment returns[noteF]	(441)	(125)	(90)
Amortisation of acquisition accounting adjustments arising on the purchase of REALIC	(27)	–	(19)
Profit before shareholder tax	114	317	855
Tax[noteH]	(27)	(71)	(234)
Profit for the period	87	246	621

	2013 £m	2012 £m	
	30 Jun	30 Jun	31 Dec
Profit for the period (as above)	87	246	621
Items recognised in other comprehensive income:			
Exchange movements	293	(34)	(181)
Unrealised valuation movements on securities classified as available-for-sale:			
Unrealised holding (losses) gains arising during the period	(1,665)	470	930
Deduct net (gains)/add back net losses included in income statement	(42)	12	(68)
Total unrealised valuation movements	(1,707)	482	862
Related change in amortisation of deferred income and acquisition costs[noteN]	419	(181)	(270)
Related tax	451	(105)	(205)
Total other comprehensive (loss) income	(544)	162	206
Total comprehensive (loss) income for the period	(457)	408	827
Dividends, interest payments to central companies and other movements	(288)	(250)	(245)
Net (decrease) increase in equity	(745)	158	582
Shareholders' equity at beginning of period	4,343	3,761	3,761
Shareholders' equity at end of period	3,598	3,919	4,343

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

(v) Reinsurance balances relating to REALIC

Included within other non-investment and non-cash assets of £7,255 million (full year 2012: £6,792 million) were balances of £6,360 million (full year 2012: £6,076 million) for reinsurers' share of insurance contract liabilities. Of the £6,360 million as at 30 June 2013 (31 December 2012: £6,076 million), £5,550 million (31 December 2012: £5,234 million) related to the reinsurance ceded by the newly acquired REALIC business. REALIC holds collateral for certain of these reinsurance arrangements with a corresponding funds withheld liability. As of 30 June 2013, the funds withheld liability of £2,206 million (31 December 2012: £2,021 million) was recorded within other non-insurance liabilities.

Notes on the IFRS basis results continued

L: Statement of financial position – analysis of segment by business type continued

iii Asia insurance operations

	2013 £m				2012* £m	
	With-profits business note (i)	Unit-linked assets and liabilities	Other	30 Jun Total	30 Jun Total	31 Dec Total
Assets						
Intangible assets attributable to shareholders:						
Goodwill	–	–	244	244	237	239
Deferred acquisition costs and other intangible assets	–	–	1,103	1,103	892	819
Total	–	–	1,347	1,347	1,129	1,058
Intangible assets attributable to with-profits funds:						
Deferred acquisition costs and other intangible assets	73	–	–	73	78	72
Deferred tax assets	–	2	66	68	86	76
Other non-investment and non-cash assets	329	155	680	1,164	970	1,023
Investments of long-term business and other operations:						
Investment properties	–	–	2	2	6	2
Investments accounted for using the equity method	–	–	328	328	259	284
Financial investments:						
Loans note P	586	–	418	1,004	1,160	1,006
Equity securities and portfolio holdings in unit trusts	3,474	10,101	526	14,101	11,060	12,730
Debt securities note Q	11,030	2,673	6,378	20,081	18,372	20,067
Other investments	42	21	13	76	669	927
Deposits	400	446	295	1,141	594	851
Total investments	15,532	13,241	7,960	36,733	32,120	35,867
Assets held for sale note AB	–	393	686	1,079	–	–
Cash and cash equivalents	457	350	837	1,644	1,797	1,545
Total assets	16,391	14,141	11,576	42,108	36,180	39,641
Equity and liabilities						
Equity						
Shareholders' equity	–	–	3,003	3,003	2,403	2,529
Non-controlling interests	–	–	4	4	5	4
Total equity	–	–	3,007	3,007	2,408	2,533
Liabilities						
Policyholder liabilities and unallocated surplus of with-profits funds:						
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) note V	13,657	12,783	6,783	33,223	29,856	31,501
Unallocated surplus of with-profits funds notes (ii), V	84	–	–	84	52	63
Total	13,741	12,783	6,783	33,307	29,908	31,564
Operational borrowings attributable to shareholder-financed operations	–	–	5	5	93	7
Deferred tax liabilities	425	62	154	641	546	582
Other non-insurance liabilities	2,225	903	994	4,122	3,225	4,955
Liabilities held for sale note AB	–	393	633	1,026	–	–
Total liabilities	16,391	14,141	8,569	39,101	33,772	37,108
Total equity and liabilities	16,391	14,141	11,576	42,108	36,180	39,641

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note B.

Notes

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

(ii) For the purposes of the presentation of unallocated surplus of with-profits within the statement of financial position, the Hong Kong branch balance is reported within the unallocated surplus of the PAC with-profits sub-fund of the UK insurance operations.

iv Asset management operations

	2013 £m				2012* £m	
	M&G note (i)	US	Eastspring Investments	30 Jun Total	30 Jun Total	31 Dec Total
Assets						
Intangible assets:						
Goodwill[note M]	1,153	16	61	1,230	1,230	1,230
Deferred acquisition costs	12	2	1	15	14	13
Total intangible assets	1,165	18	62	1,245	1,244	1,243
Other non-investment and non-cash assets	1,844	198	71	2,113	1,198	1,142
Investments accounted for using the equity method	37	–	57	94	92	92
Financial investments:						
Loans[note P]	1,222	–	–	1,222	1,207	1,199
Equity securities and portfolio holdings in unit trusts	45	–	14	59	74	64
Debt securities[note Q]	1,953	–	–	1,953	1,867	1,839
Other investments	56	13	–	69	56	41
Deposits	–	16	20	36	24	55
Total investments	3,313	29	91	3,433	3,320	3,290
Cash and cash equivalents	793	53	122	968	1,269	918
Total assets	7,115	298	346	7,759	7,031	6,593
Equity and liabilities						
Equity						
Shareholders' equity	1,664	143	278	2,085	1,888	1,937
Total equity	1,664	143	278	2,085	1,888	1,937
Liabilities						
Core structural borrowing of shareholder-financed operations[note S]	275	–	–	275	250	275
Intra-group debt represented by operational borrowings at Group level[notes (ii), T]	2,422	–	–	2,422	2,568	2,084
Other non-insurance liabilities[note (iii)]	2,754	155	68	2,977	2,325	2,297
Total liabilities	5,451	155	68	5,674	5,143	4,656
Total equity and liabilities	7,115	298	346	7,759	7,031	6,593

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note B.

Notes

(i) The M&G statement of financial position includes the assets and liabilities in respect of Prudential Capital.

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

	2013 £m	2012 £m	
	30 Jun	30 Jun	31 Dec
Commercial paper	2,123	2,318	1,535
Medium term notes	299	250	549
Total intra-group debt represented by operational borrowings at Group level	2,422	2,568	2,084

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

Notes on the IFRS basis results continued

M: Goodwill attributable to shareholders

	2013 £m	2012 £m	
	Half year	Half year	Full year
Cost			
At beginning of period	1,589	1,585	1,585
Additional consideration paid on previously acquired business	–	–	2
Exchange differences	5	2	2
At end of period	1,594	1,587	1,589
Aggregate impairment	(120)	(120)	(120)
Net book amount at end of period	1,474	1,467	1,469

The amounts shown above at 30 June 2013 and for 2012 include £1,153 million in respect of the purchase of M&G in 1999.

Goodwill, other than for M&G, of £321 million at 30 June 2013 (30 June 2012: £314 million; 31 December 2012: £316 million) represents amounts allocated to entities in Asia and the US operations in respect of acquisitions made prior to 2012. There was no goodwill attached to the purchase of REALIC and Thanachart Life as discussed in note X. Other goodwill amounts by acquired operations are not individually material.

N: Deferred acquisition costs and other intangible assets attributable to shareholders

Except for acquisition costs of with-profits contracts of the UK regulated with-profits funds, which are accounted for under the realistic Prudential Regulation Authority (PRA) regime, costs of acquiring new insurance business are accounted for with deferral and amortisation against margins in future revenues on the related insurance policies. Costs of acquiring new insurance business, principally commissions, marketing and advertising and certain other costs associated with policy insurance and underwriting that are not reimbursed by policy charges, are specifically identified and capitalised as part of deferred acquisition costs (DAC). In general, this deferral is presentationally shown by an explicit carrying value for DAC in the balance sheet. However, in some Asia operations the deferral is implicit through the reserving methodology. The recoverability of the explicitly and implicitly deferred acquisition costs is measured, and the capitalised costs are deemed impaired if the projected margins are less than the carrying value. To the extent that the future margins differ from those anticipated, then an adjustment to the carrying value will be necessary.

For UK regulated with-profits funds where the realistic PRA regime is applied, the basis of setting liabilities is such that it would be inappropriate for acquisition costs to be deferred, therefore these costs are expensed as incurred. The majority of the UK shareholder-backed business is individual and Group annuity business where the incidence of acquisition costs is negligible.

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

	2013 £m	2012* £m	
	30 Jun	30 Jun	31 Dec
Deferred acquisition costs related to insurance contracts as classified under IFRS 4	4,851	3,824	3,776
Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	97	103	100
	4,948	3,927	3,876
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF)	85	62	64
Other intangibles	505	248	237
	590	310	301
Total of deferred acquisition costs and other intangible assets	5,538	4,237	4,177

* The 2012 comparative results have been retrospectively adjusted from those previously published for the application of IFRS 11 described in note B whereby equity presentation rather than proportionate consolidation for joint venture operations applies.

	2013 £m						2012* £m	
	Deferred acquisition costs				PVIF and other intan-gibles†	Total 30 Jun	Total 30 Jun	Total 31 Dec
	UK	US note (i)	Asia	Asset manage-ment				
Balance at beginning of period:								
As previously reported	103	3,199	654	10	301	4,267	4,234	4,234
Effect of change in accounting policy[note B]	–	–	(90)	–	–	(90)	(90)	(90)
After effect of change	103	3,199	564	10	301	4,177	4,144	4,144
Additions[note (ii)]	1	372	92	4	288	757	535	1,059
Acquisition of subsidiaries[note (ii)]	–	–	–	–	21	21	–	5
Amortisation to the income statement:								
Operating profit	(8)	(199)	(83)	(2)	(19)	(311)	(308)	(682)
Non-operating profit	–	242	–	–	(3)	239	80	76
	(8)	43	(83)	(2)	(22)	(72)	(228)	(606)
Exchange differences	–	244	18	–	2	264	(33)	(155)
Change in amortisation of DAC related to net unrealised valuation movement on Jackson's available-for-sale securities recognised as Other Comprehensive Income	–	419	–	–	–	419	(181)	(270)
Reclassification of Japan Life as held for sale	–	–	(28)	–	–	(28)	–	–
Balance at end of period	96	4,277	563	12	590	5,538	4,237	4,177

* The 2012 comparative results have been retrospectively adjusted from those previously published for the application of IFRS 11 described in note B whereby equity presentation rather than proportionate consolidation for joint venture operations applies.

† PVIF and Other intangibles includes software rights of £62 million at 30 June 2013 (31 December 2012: £60 million) with additions of £11 million, amortisation of £10 million and exchange gains of £1 million.

Notes

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

	2013 £m	2012 £m	
	30 Jun	30 Jun	31 Dec
Variable annuity business	3,917	3,287	3,330
Other business	953	794	821
Cumulative shadow DAC (for unrealised gains/losses booked in other comprehensive income)	(593)	(896)	(952)
Total DAC for US operations	4,277	3,185	3,199

(ii) The additions of £288 million for PVIF and other intangibles in half year 2013 include the amount advanced to secure the exclusive 15-year bancassurance partnership agreement entered with Thanachart Bank in Thailand.

The additions of £21 million for acquisitions of subsidiaries for PVIF and other intangibles in half year 2013 is for the acquisition of Thanachart Life. The amount of £5 million for the full year 2012 was for the acquisition of REALIC.

See note X for further details.

Notes on the IFRS basis results continued

N: Deferred acquisition costs and other intangible assets attributable to shareholders continued

Overview of the deferral and amortisation of acquisition costs for Jackson

Under IFRS 4, the Group applies 'grandfathered' US GAAP for measuring the insurance assets and liabilities of Jackson. In the case of Jackson term business, acquisition costs are deferred and amortised in line with expected profits. 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.

The Company adopted the US Financial Accounting Standards Board requirements in the Emerging Issues Task Force EITF Update No 2010-26 on 'Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts' from 1 January 2012 into Prudential's Group IFRS reporting for the results of Jackson and those Asia operations whose IFRS insurance assets and liabilities are measured principally by reference to US GAAP principles. Under the Update insurers are required to capitalise only those incremental costs directly relating to successfully acquiring a contract from 1 January 2012. For Group IFRS reporting the Company chose to apply this new basis retrospectively for the results of these operations.

Mean reversion technique

For variable annuity products, 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 period, 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.

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 profit; and

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

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

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

In half year 2013, the DAC amortisation charge for operating profit was determined after including a credit for decelerated amortisation of £20 million (half year 2012: £25 million; full year 2012: £56 million). The half year 2013 amount primarily reflects the separate account performance of 5 per cent, net of all fees, over the assumed level for the period.

The application of the mean reversion formula has the effect of dampening the impact of equity market movements on DAC amortisation while the mean reversion assumption lies within the corridor. It would take a very significant movement in equity markets in 2013 (outside the range of negative 25 per cent to positive 50 per cent) for the mean reversion assumption to move outside the corridor.

O: Valuation bases for Group assets

The accounting carrying values of the Group's assets reflect the requirements of IFRS. For financial investments the basis of valuation reflects the Group's application of IAS 39 'Financial Instruments: Recognition and Measurement' as described further below. Where assets have been valued at fair value, the Group has followed the principles under IFRS 13 'Fair value measurement'. The basis applied for the assets section of the statement of financial position at 30 June 2013 is summarised below:

	2013 £m			2012* £m					
	At fair value	Cost/ Amortised cost note (i)	30 Jun Total	At fair value	Cost/ Amortised cost note (i)	30 Jun Total	At fair value	Cost/ Amortised cost note (i)	31 Dec Total
Intangible assets attributable to shareholders:									
Goodwill note M	–	1,474	1,474	–	1,467	1,467	–	1,469	1,469
Deferred acquisition costs and other intangible assets note N	–	5,538	5,538	–	4,237	4,237	–	4,177	4,177
Total	–	7,012	7,012	–	5,704	5,704	–	5,646	5,646
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes	–	178	178	–	178	178	–	178	178
Deferred acquisition costs and other intangible assets	–	79	79	–	84	84	–	78	78
Total	–	257	257	–	262	262	–	256	256
Total intangible assets	–	7,269	7,269	–	5,966	5,966	–	5,902	5,902
Other non-investment and non-cash assets:									
Property, plant and equipment	–	868	868	–	787	787	–	754	754
Reinsurers' share of insurance contract liabilities	–	7,204	7,204	–	1,698	1,698	–	6,854	6,854
Deferred tax assets note H	–	2,637	2,637	–	2,169	2,169	–	2,306	2,306
Current tax recoverable	–	191	191	–	302	302	–	248	248
Accrued investment income	–	2,726	2,726	–	2,686	2,686	–	2,771	2,771
Other debtors	–	2,318	2,318	–	1,784	1,784	–	1,325	1,325
Total	–	15,944	15,944	–	9,426	9,426	–	14,258	14,258
Investments of long-term business and other operations: note (ii)									
Investment properties	10,583	–	10,583	10,532	–	10,532	10,544	–	10,544
Investments accounted for using the equity method	–	696	696	–	587	587	–	635	635
Loans note P	2,268	10,962	13,230	285	10,515	10,800	2,068	10,675	12,743
Equity securities and portfolio holdings in unit trusts	112,258	–	112,258	89,098	–	89,098	98,626	–	98,626
Debt securities note Q	138,256	–	138,256	127,349	–	127,349	138,907	–	138,907
Other investments	6,140	–	6,140	7,828	–	7,828	7,547	–	7,547
Deposits	–	13,542	13,542	–	11,951	11,951	–	12,248	12,248
Total investments	269,505	25,200	294,705	235,092	23,053	258,145	257,702	23,558	281,260
Assets held for sale	1,079	–	1,079	–	–	–	98	–	98
Cash and cash equivalents	–	6,840	6,840	–	6,335	6,335	–	6,126	6,126
Total assets	270,584	55,253	325,837	235,092	44,780	279,872	257,800	49,844	307,644
Percentage of Group total assets	83%	17%	100%	84%	16%	100%	84%	16%	100%

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note B.

Notes on the IFRS basis results continued

O: Valuation bases for Group assets continued

Notes

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

(ii) Realised gains and losses on the Group's investments for the half year 2013 recognised in the income statement amounted to a net gain of £0.8 billion (half year 2012: £3.6 billion; full year 2012: £6.8 billion).

i Financial instruments – designation and fair values

The tables below show the fair values of financial assets and liabilities (including those that are not presented in the statement of financial position at fair value).

	30 Jun 2013 £m note (ii)	
	Total carrying value	Fair value
Financial assets		
Cash and cash equivalents	6,840	6,840
Deposits	13,542	13,542
Equity securities and portfolio holdings in unit trusts	112,258	112,258
Debt securities[note Q]	138,256	138,256
Loans[note P]	13,230	13,404
Other investments	6,140	6,140
Accrued investment income	2,726	2,726
Other debtors	2,318	2,318
	295,310	

	30 Jun 2013 £m note (ii)	
	Total carrying value	Fair value
Financial liabilities		
Core structural borrowings of shareholder-financed operations[note S]	4,149	4,534
Operational borrowings attributable to shareholder-financed operations[note T]	2,530	2,530
Borrowings attributable to the with-profits fund held at fair value[note T]	924	924
Obligations under funding, securities lending and sale and repurchase agreements	2,889	2,899
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	5,394	5,394
Investment contract with discretionary participation features held at fair value[note (i)]	33,402	n/a
Investment contract without discretionary participation features held at fair value	19,865	19,872
Other creditors	3,743	3,743
Derivative liabilities	2,226	2,226
Other liabilities	3,661	3,661
	78,783	

Notes

(i) It is impractical to determine the fair value of investment contracts with discretionary participation features due to the lack of a reliable basis to measure such features.

(ii) Following the adoption of IFRS 13, 'Fair Value Measurement', and in accordance with the corresponding amendments to IAS 34, 'Interim Financial Reporting', the tables above show a comparison of the fair value of financial assets and liabilities compared to their carrying amounts. Under IFRS 13, this disclosure has been provided on a prospective basis.

ii Determination of fair value

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

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

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

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

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

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

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

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

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

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

Level 2 – inputs other than quoted prices included within level 1 that are observable either directly (ie as prices) or indirectly (ie derived from prices)

Level 2 includes investments where a direct link to an actively traded price is not readily apparent, but which are valued using inputs which are largely observable either directly (ie as prices) or indirectly (ie derived from prices).

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

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

Notes on the IFRS basis results continued

O: Valuation bases for Group assets continued

iii Fair value hierarchy of financial instruments measured at fair value on recurring basis

	30 Jun 2013 £m			
	Level 1	Level 2	Level 3	Total
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Equity securities and portfolio holdings in unit trusts	23,525	1,807	625	25,957
Debt securities	15,241	44,609	522	60,372
Other investments (including derivative assets)	155	757	2,924	3,836
Derivative liabilities	(156)	(883)	–	(1,039)
Total financial investments, net of derivative liabilities	38,765	46,290	4,071	89,126
Percentage of total	43%	52%	5%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	85,014	265	63	85,342
Debt securities	3,683	5,932	2	9,617
Other investments (including derivative assets)	4	21	–	25
Derivative liabilities	(2)	(5)	–	(7)
Total financial investments, net of derivative liabilities	88,699	6,213	65	94,977
Percentage of total	93%	7%	0%	100%
Non-linked shareholder-backed				
Loans	–	242	2,026	2,268
Equity securities and portfolio holdings in unit trusts	879	33	47	959
Debt securities	13,551	54,559	157	68,267
Other investments (including derivative assets)	72	1,331	876	2,279
Derivative liabilities	–	(974)	(206)	(1,180)
Total financial investments, net of derivative liabilities	14,502	55,191	2,900	72,593
Percentage of total	20%	76%	4%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	–	242	2,026	2,268
Equity securities and portfolio holdings in unit trusts	109,418	2,105	735	112,258
Debt securities	32,475	105,100	681	138,256
Other investments (including derivative assets)	231	2,109	3,800	6,140
Derivative liabilities	(158)	(1,862)	(206)	(2,226)
Total financial investments, net of derivative liabilities	141,966	107,694	7,036	256,696
Borrowings attributable to the with-profits fund held at fair value	–	(22)	–	(22)
Investment contract liabilities without discretionary participation features held at fair value	–	(17,342)	–	(17,342)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(3,696)	(357)	(1,341)	(5,394)
Other financial liabilities held at fair value	–	(256)	(2,206)	(2,462)
Total	138,270	89,717	3,489	231,476
Percentage of total	59%	39%	2%	100%

In addition to the financial instruments shown above, the assets and liabilities held for sale on the condensed consolidated statement of financial position at 30 June 2013 in respect of Japan Life business included a net financial instruments balance of £1,140 million, primarily for equity securities and debt securities. Of this amount, £1,038 million has been classified as level 1, £74 million as level 2 and £28 million as level 3.

	30 Jun 2012* £m			
	Level 1	Level 2	Level 3	Total
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Equity securities and portfolio holdings in unit trusts	21,466	1,389	475	23,330
Debt securities	14,698	43,849	532	59,079
Other investments (including derivative assets)	295	1,412	2,692	4,399
Derivative liabilities	(41)	(1,413)	–	(1,454)
Total financial investments, net of derivative liabilities	36,418	45,237	3,699	85,354
Percentage of total	43%	53%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	64,581	176	22	64,779
Debt securities	3,742	4,955	9	8,706
Other investments (including derivative assets)	24	80	–	104
Derivative liabilities	(8)	(9)	–	(17)
Total financial investments, net of derivative liabilities	68,339	5,202	31	73,572
Percentage of total	93%	7%	0%	100%
Non-linked shareholder-backed				
Loans	–	285	–	285
Equity securities and portfolio holdings in unit trusts	904	12	73	989
Debt securities	11,822	47,591	151	59,564
Other investments (including derivative assets)	21	2,530	774	3,325
Derivative liabilities	(132)	(1,649)	(201)	(1,982)
Total financial investments, net of derivative liabilities	12,615	48,769	797	62,181
Percentage of total	20%	79%	1%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	–	285	–	285
Equity securities and portfolio holdings in unit trusts	86,951	1,577	570	89,098
Debt securities	30,262	96,395	692	127,349
Other investments (including derivative assets)	340	4,022	3,466	7,828
Derivative liabilities	(181)	(3,071)	(201)	(3,453)
Total financial investments, net of derivative liabilities	117,372	99,208	4,527	221,107
Borrowings attributable to the with-profits fund held at fair value	–	(41)	–	(41)
Investment contract liabilities without discretionary participation features held at fair value	–	(15,221)	–	(15,221)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(2,936)	(152)	(1,098)	(4,186)
Other financial liabilities held at fair value	–	(311)	–	(311)
Total	114,436	83,483	3,429	201,348
Percentage of total	57%	41%	2%	100%

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

Notes on the IFRS basis results continued

O: Valuation bases for Group assets continued

	31 Dec 2012* £m			
	Level 1	Level 2	Level 3	Total
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Equity securities and portfolio holdings in unit trusts	22,057	2,496	480	25,033
Debt securities	16,056	45,550	542	62,148
Other investments (including derivative assets)	108	1,743	2,574	4,425
Derivative liabilities	(61)	(1,075)	–	(1,136)
Total financial investments, net of derivative liabilities	38,160	48,714	3,596	90,470
Percentage of total	42%	54%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	72,488	183	39	72,710
Debt securities	3,660	5,409	2	9,071
Other investments (including derivative assets)	26	10	–	36
Derivative liabilities	–	(1)	–	(1)
Total financial investments, net of derivative liabilities	76,174	5,601	41	81,816
Percentage of total	93%	7%	0%	100%
Non-linked shareholder-backed				
Loans	–	226	1,842	2,068
Equity securities and portfolio holdings in unit trusts	827	7	49	883
Debt securities	13,357	54,146	185	67,688
Other investments (including derivative assets)	24	2,301	761	3,086
Derivative liabilities	(16)	(1,484)	(195)	(1,695)
Total financial investments, net of derivative liabilities	14,192	55,196	2,642	72,030
Percentage of total	20%	76%	4%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	–	226	1,842	2,068
Equity securities and portfolio holdings in unit trusts	95,372	2,686	568	98,626
Debt securities	33,073	105,105	729	138,907
Other investments (including derivative assets)	158	4,054	3,335	7,547
Derivative liabilities	(77)	(2,560)	(195)	(2,832)
Total financial investments, net of derivative liabilities	128,526	109,511	6,279	244,316
Borrowings attributable to the with-profits fund held at fair value	–	(40)	–	(40)
Investment contract liabilities without discretionary participation features held at fair value	–	(16,309)	–	(16,309)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(3,653)	(268)	(1,224)	(5,145)
Other financial liabilities held at fair value	–	(259)	(2,021)	(2,280)
Total	124,873	92,635	3,034	220,542
Percentage of total	57%	42%	1%	100%

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

iv Valuation approach for level 2 fair valued financial instruments

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

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

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

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

Of the total level 2 debt securities of £105,100 million at 30 June 2013 (30 June 2012: £96,395 million; 31 December 2012: £105,105 million), £8,645 million are valued internally (30 June 2012: £7,287 million; 31 December 2012: £8,248 million). The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

Notes on the IFRS basis results continued

O: Valuation bases for Group assets continued

v Fair value measurements for level 3 fair valued financial instruments

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

The following table reconciles the value of level 3 fair valued financial instruments at 1 January 2013 to that presented at 30 June 2013.

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

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

	Half year 2013 £m										
	At 1 Jan	Total gains/ losses in income statement	Total gains/ losses recorded in other compre-hensive income	Purchases	Sales	Settled	Issued	Reclassi-fication of Japan Life as held for sale	Transfers into level 3	Transfers out of level 3	At 30 Jun
Loans	1,842	67	36	–	–	(37)	118	–	–	–	2,026
Equity securities and portfolio holdings in unit trusts	568	52	4	13	(11)	–	25	–	87	(3)	735
Debt securities	729	27	9	20	(77)	–	–	(26)	29	(30)	681
Other investments (including derivative assets)	3,335	373	137	177	(272)	–	–	–	50	–	3,800
Derivative liabilities	(195)	(14)	–	–	2	–	–	–	–	1	(206)
Total financial investments, net of derivative liabilities	6,279	505	186	210	(358)	(37)	143	(26)	166	(32)	7,036
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,224)	(80)	(2)	26	–	–	(61)	–	–	–	(1,341)
Other financial liabilities	(2,021)	(54)	(146)	–	–	50	(35)	–	–	–	(2,206)
Total	3,034	371	38	236	(358)	13	47	(26)	166	(32)	3,489

Of the total net gains and losses in the income statement of £371 million, £333 million relates to net unrealised gains relating to financial instruments still held at the end of the period, which can be analysed as follows:

	30 Jun 2013 £m
Equity securities	50
Debt securities	10
Other investments	355
Derivative liabilities	(14)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(80)
Other financial liabilities	12
Total	333

Valuation approach for level 3 fair valued financial instruments

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

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

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

At 30 June 2013 the Group held £3,489 million (30 June 2012: £3,429 million; 31 December 2012: £3,034 million), 2 per cent of the total fair valued financial assets net of fair valued financial liabilities (30 June 2012: 2 per cent; 31 December 2012: 1 per cent), within level 3.

Included within these amounts were loans of £2,026 million at 30 June 2013 (30 June 2012: £nil; 31 December 2012: £1,842 million), measured at the loan outstanding balance, attached to REALIC acquired in 2012 and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of £2,206 million at 30 June 2013 (30 June 2012: £nil; 31 December 2012: £2,021 million) was also classified within level 3, accounted for on a fair value basis being equivalent to the carrying value of the underlying assets.

Excluding the loans and funds withheld liability under REALIC's reinsurance arrangements as described above, which amounted to a net liability of £(180) million (30 June 2012: £nil; 31 December 2012: £(179) million), the level 3 fair valued financial assets net of financial liabilities were £3,669 million (30 June 2012: £3,429 million; 31 December 2012: £3,213 million). Of this amount, a net liability of £(272) million (30 June 2012: £(177) million; 31 December 2012: £(213) million) were internally valued, representing 0.1 per cent of the total fair valued financial assets net of financial liabilities (30 June 2012: 0.1 per cent; 31 December 2012: 0.1 per cent). Internal valuations are inherently more subjective than external valuations. Included within these internally valued net liabilities were:

- Debt securities of £80 million (30 June 2012: £105 million; 31 December 2012: £75 million), which were either valued on a discounted cash flow method with an internally developed discount rate or on external prices adjusted to reflect the specific known conditions relating to these securities (eg distressed securities or securities which were being restructured);
- Private equity and venture investments of £955 million (30 June 2012: £800 million; 31 December 2012: £904 million) which were valued internally based on management information available for these investments. These investments were principally held by consolidated investment funds which are managed on behalf of third parties;
- Liabilities of £(1,311) million (30 June 2012: £(1,111) million; 31 December 2012: £(1,199) million) for the net asset value attributable to external unit holders in respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities are valued by reference to the underlying assets; and
- Other sundry individual financial investments of £4 million (30 June 2012: £29 million; 31 December 2012: £7 million).

Of the internally valued net liabilities referred to above of £(272) million (30 June 2012: £(177) million; 31 December 2012: £(213) million):

- A net liability of £(313) million (30 June 2012: £(232) million; 31 December 2012: £(240) million) was held by the Group's participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments;
- A net asset of £nil (30 June 2012: £13 million; 31 December 2012: £3 million) was held by the Group's unit-linked funds for which the investment return is wholly attributable to policyholders; and
- A net asset of £41 million (30 June 2012: £42 million; 31 December 2012: £24 million) was held to support non-linked shareholder-backed business. If the value of all the level 3 instruments held to support non-linked shareholder-backed business valued internally was varied downwards by 10 per cent, the change in valuation would be £4 million (30 June 2012: £4 million; 31 December 2012: £2 million), which would reduce shareholders' equity by this amount before tax. Of this amount, a decrease of less than £1 million (30 June 2012: a decrease of £1 million; 31 December 2012: an increase of £1 million) would pass through the income statement substantially as part of short-term fluctuations in investment returns outside of operating profit and a £4 million decrease (30 June 2012: a £3 million decrease; 31 December 2012: a £3 million decrease) would be included as part of other comprehensive income, being unrealised movements on assets classified as available-for-sale.

Valuation processes applied by the Group

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

vi Transfers into and transfers out of levels

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

During half year 2013, the transfers between levels within the Group's portfolio were primarily transfers from level 1 to 2 of £178 million and transfers from level 2 to level 1 of £243 million. These transfers which relate to equity securities and debt securities arose to reflect the change in the observability of the inputs used in valuing these securities.

In addition, as shown in the table in section v above, the transfers into and out of level 3 in half year 2013 were £166 million and £(32) million, respectively. These transfers were between levels 3 and 2 and primarily for equity securities and debt securities.

Notes on the IFRS basis results continued

P: Loans portfolio

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

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

	2013 £m	2012* £m	
	30 Jun	30 Jun	31 Dec
Insurance operations:			
UK note (i)	4,313	4,265	4,303
US note (ii)	6,691	4,168	6,235
Asia note (iii)	1,004	1,160	1,006
Asset management operations:			
M&G note (iv)	1,222	1,207	1,199
Total	13,230	10,800	12,743

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

Notes

(i) UK insurance operations
The loans of the Group's UK insurance operations comprise

	2013 £m	2012* £m	
	30 Jun	30 Jun	31 Dec
SAIF and PAC WPSF:			
Mortgage loans†	1,379	1,282	1,311
Policy loans	13	18	16
Other loans‡	1,588	1,670	1,712
Total PAC WPSF loans	2,980	2,970	3,039
Shareholder-backed:			
Mortgage loans†	1,328	1,290	1,259
Other loans	5	5	5
Total shareholder-backed loans	1,333	1,295	1,264
Total UK insurance operations loans	4,313	4,265	4,303

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note B.
† The mortgage loans are collateralised by properties. By carrying value, 84 per cent of the £1,328 million held for shareholder-backed business relate to lifetime (equity release) mortgage business which have an average loan to property value of 30 per cent.
‡ Other loans held by the PAC with-profits fund are all commercial loans and comprise mainly syndicated loans.

(ii) US insurance operations

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

	2013 £m	2012 £m	
	30 Jun	30 Jun	31 Dec
Mortgage loans†	3,905	3,623	3,543
Policy loans‡	2,786	545	2,692
Total US insurance operations loans	6,691	4,168	6,235

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

	2013 %	2012 %	
	30 Jun	30 Jun	31 Dec
Industrial	28	27	29
Multi-family residential	28	24	25
Office	18	19	19
Retail	17	19	17
Hotel	9	11	10
	100	100	100

The US insurance operations' commercial mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the risk of defaults associated with residential sub-prime mortgage loans. The average loan size is £6.6 million (30 June 2012: £6.7 million; 31 December 2012: £6.3 million). The portfolio has a current estimated average loan to value of 62 per cent (30 June 2012: 66 per cent; 31 December 2012: 65 per cent) which provides significant cushion to withstand substantial declines in value.

At 30 June 2013, Jackson had mortgage loans with a carrying value of £49 million where the contractual terms of the agreements had been restructured. In addition to the regular impairment review afforded all loans in the portfolio, restructured loans are also reviewed for impairment. An impairment will be recorded if the expected cash flows under the newly restructured terms discounted at the original yield (the pre-structured interest rate) are below the carrying value of the loan.

‡ The policy loans are fully secured by individual life insurance policies or annuity policies. The purchase of REALIC in the second half of 2012 included policy loans which are accounted for at fair value through profit and loss. These policy loans are valued at £2,026 million and £1,842 million as at 30 June 2013 and 31 December 2012 respectively. All other policy loans are accounted for at amortised cost, less any impairment.

(iii) Asia insurance operations

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

	2013 £m	2012 £m	
	30 Jun	30 Jun	31 Dec
Mortgage loans‡	54	34	43
Policy loans‡	640	586	602
Other loans§	310	540	361
Total Asia insurance operations loans	1,004	1,160	1,006

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

§ The majority of the other loans are commercial loans held by the Malaysia operation and which are all investment graded by two local rating agencies.

(iv) M&G

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

	2013 £m	2012 £m	
	30 Jun	30 Jun	31 Dec
Loans and receivables internal ratings:			
AAA	112	–	–
A+ to A-	–	108	–
BBB+ to BBB-	667	980	836
BB+ to BB-	419	89	339
B+ to B- and below	24	30	24
Total M&G (including Prudential Capital) loans	1,222	1,207	1,199

Notes on the IFRS basis results continued

Q: Debt securities portfolio

Debt securities are carried at fair value. The amounts included in the statement of financial position are analysed as follows, with further information relating to the credit quality of the Group's debt securities at 30 June 2013 provided in the notes below.

	2013 £m	2012* £m	
	30 Jun	30 Jun	31 Dec
Insurance operations:			
UK note (i)	82,854	80,049	84,008
US note (ii)	33,368	27,061	32,993
Asia note (iii)	20,081	18,372	20,067
Asset management operations note (iv)	1,953	1,867	1,839
Total notes (v), (vi)	138,256	127,349	138,907

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

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

Notes

(i) UK insurance operations

			Other funds and subsidiaries			UK insurance operations		
	Scottish Amicable Insurance Fund	PAC with-profits fund	Unit-linked assets	PRIL	Other annuity and long-term business	2013 £m 30 Jun Total	2012* £m 30 Jun Total	2012* £m 31 Dec Total
S&P – AAA	385	4,381	738	2,884	337	8,725	9,222	9,200
S&P – AA+ to AA-	522	4,773	1,099	2,983	383	9,760	9,174	9,688
S&P – A+ to A-	919	11,492	1,752	6,552	820	21,535	22,276	23,000
S&P – BBB+ to BBB-	853	10,000	1,642	4,287	670	17,452	16,424	17,720
S&P – Other	257	2,847	115	324	57	3,600	2,920	3,043
	2,936	33,493	5,346	17,030	2,267	61,072	60,016	62,651
Moody's – Aaa	100	1,602	208	355	73	2,338	8,288	8,446
Moody's – Aa1 to Aa3	110	2,576	966	2,163	544	6,359	1,087	1,420
Moody's – A1 to A3	59	911	88	889	121	2,068	1,107	927
Moody's – Baa1 to Baa3	46	786	104	351	31	1,318	1,216	1,385
Moody's – Other	16	256	–	8	–	280	268	307
	331	6,131	1,366	3,766	769	12,363	11,966	12,485
Fitch	21	372	31	162	19	605	520	527
Other	317	5,741	201	2,388	167	8,814	7,547	8,345
Total debt securities	3,605	45,737	6,944	23,346	3,222	82,854	80,049	84,008

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

Where no external ratings are available, internal ratings produced by the Group's asset management operation, which are prepared on the Company's assessment of a comparable basis to external ratings, are used where possible. The £8,814 million total debt securities held at 30 June 2013 (30 June 2012: £7,547 million; 31 December 2012: £8,345 million) which are not externally rated are either internally rated or unrated. These are analysed as follows:

	2013 £m	2012* £m	
	30 Jun	30 Jun	31 Dec
Internal ratings or unrated:			
AAA to A-	3,438	2,871	3,173
BBB to B-	3,778	3,649	3,810
Below B- or unrated	1,598	1,027	1,362
Total	8,814	7,547	8,345

The majority of unrated debt security investments were held in SAIF and the PAC with-profits fund and relate to convertible debt and other investments which are not covered by ratings analysts nor have an internal rating attributed to them. Of the £2,555 million for PRIL and other annuity and long-term business investments for non-linked shareholder-backed business which are not externally rated, £nil were internally rated AAA, £503 million AA, £831 million A, £901 million BBB, £112 million BB and £208 million were internally rated B+ and below or unrated.

(ii) US insurance operations

	2013 £m	2012 £m	
Summary	**30 Jun**	**30 Jun**	**31 Dec**
Corporate and government security and commercial loans:			
Government	**4,017**	2,107	4,126
Publicly traded and SEC Rule 144A securities*	**20,376**	16,724	19,699
Non-SEC Rule 144A securities	**3,584**	3,263	3,542
Total	**27,977**	22,094	27,367
Residential mortgage-backed securities	**2,175**	2,282	2,400
Commercial mortgage-backed securities	**2,591**	2,129	2,639
Other debt securities	**625**	556	587
Total debt securities	**33,368**	27,061	32,993

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

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

	2013 £m	2012 £m	
	30 Jun	**30 Jun**	**31 Dec**
S&P – AAA	**148**	71	187
S&P – AA+ to AA-	**6,162**	4,187	6,343
S&P – A+ to A-	**8,308**	6,767	7,728
S&P – BBB+ to BBB-	**10,195**	8,516	10,230
S&P – Other	**1,223**	954	1,173
	26,036	20,495	25,661
Moody's – Aaa	**62**	69	55
Moody's – Aa1 to Aa3	**25**	17	18
Moody's – A1 to A3	**65**	24	21
Moody's – Baa1 to Baa3	**36**	63	56
Moody's – Other	**4**	21	13
	192	194	163
Implicit ratings of MBS based on NAIC* valuations (see below):			
NAIC 1	**2,873**	2,577	2,934
NAIC 2	**252**	114	207
NAIC 3-6	**268**	289	321
	3,393	2,980	3,462
Fitch	**72**	220	184
Other†	**3,675**	3,172	3,523
Total debt securities	**33,368**	27,061	32,993

* The Securities Valuation Office of the National Association of Insurance Commissioners (NAIC) classifies debt securities into six quality categories ranging from Class 1 (the highest) to Class 6 (the lowest). Performing securities are designated as Classes 1 to 5 and securities in or near default are designated Class 6.
† The amounts within 'Other' which are not rated by S&P, Moody's nor Fitch, nor are MBS securities using the revised regulatory ratings, have the following NAIC classifications:

	2013 £m	2012 £m	
	30 Jun	**30 Jun**	**31 Dec**
NAIC 1	**1,506**	1,279	1,453
NAIC 2	**2,098**	1,823	2,022
NAIC 3-6	**71**	70	48
	3,675	3,172	3,523

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

Notes on the IFRS basis results continued

Q: Debt securities portfolio continued

(iii) Asia insurance operations

	2013 £m				2012* £m	
	With-profits business	Unit-linked assets	Other business	30 Jun Total	30 Jun Total	31 Dec Total
S&P – AAA	659	12	49	720	665	785
S&P – AA+ to AA-	2,875	390	1,736	5,001	4,813	5,523
S&P – A+ to A-	2,210	196	1,241	3,647	3,490	3,272
S&P – BBB+ to BBB-	1,504	280	460	2,244	1,642	1,906
S&P – Other	402	559	995	1,956	2,424	3,132
	7,650	1,437	4,481	13,568	13,034	14,618
Moody's – Aaa	843	219	412	1,474	1,399	1,389
Moody's – Aa1 to Aa3	128	36	10	174	142	271
Moody's – A1 to A3	82	13	81	176	303	147
Moody's – Baa1 to Baa3	192	309	132	633	389	375
Moody's – Other	73	16	29	118	100	112
	1,318	593	664	2,575	2,333	2,294
Fitch	277	62	119	458	66	533
Other	1,785	581	1,114	3,480	2,939	2,622
Total debt securities	11,030	2,673	6,378	20,081	18,372	20,067

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

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

	2013 £m	2012* £m	
	30 Jun	30 Jun	31 Dec
Government bonds	387	164	58
Corporate bonds rated as investment grade by local external ratings agencies	542	393	428
Other	185	40	123
	1,114	597	609

(iv) Asset management operations
The debt securities are all held by M&G (Prudential Capital).

	2013 £m	2012 £m	
	30 Jun	30 Jun	31 Dec
M&G:			
AAA to A- by S&P or Aaa to A3 rated by Moody's	1,597	1,620	1,529
Other	356	247	310
Total M&G (including Prudential Capital)	1,953	1,867	1,839

(v) Group's holdings in asset-backed securities

The Group's holdings in asset-backed securities (ABS), which comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralised debt obligations (CDO) funds and other asset-backed securities, at 30 June 2013 are as follows:

	2013 £m	2012 £m	
	30 Jun	30 Jun	31 Dec
Shareholder-backed operations (excluding assets held in unit-linked funds):			
UK insurance operations[note (a)]	1,623	1,538	1,408
US insurance operations[note (b)]	5,391	4,967	5,626
Asia insurance operations[note (c)]	144	172	144
Other operations[note (d)]	584	622	566
	7,742	7,299	7,744
With-profits operations:			
UK insurance operations[note (a)]	5,815	5,743	5,850
Asia insurance operations[note (c)]	319	407	241
	6,134	6,150	6,091
Total	13,876	13,449	13,835

Notes

(a) UK insurance operations

All of the holdings of the shareholder-backed business relates to the UK market and primarily relates to investments held by PRIL. Of the holdings of the with-profits operations, £1,615 million (30 June 2012: £1,683 million; 31 December 2012: £1,697 million) relates to exposure to the US markets and with the remaining exposure being primarily to the UK market.

(b) US insurance operations

US insurance operations' exposure to asset-backed securities at 30 June 2013 comprises:

	2013 £m	2012 £m	
	30 Jun	30 Jun	31 Dec
RMBS:			
Sub-prime (2013: 12% AAA, 6% AA)	283	213	261
Alt-A (2013: 0% AAA, 1% AA)	325	281	323
Prime including agency (2013: 0% AAA, 75% AA)	1,567	1,788	1,816
CMBS (2013: 39% AAA, 24% AA)	2,591	2,129	2,639
CDO funds (2013: 0% AAA, 25% AA), including £nil exposure to sub-prime	49	37	44
Other ABS (2013: 23% AAA, 21% AA), including £nil exposure to sub-prime	576	519	543
Total	5,391	4,967	5,626

(c) Asia insurance operations

The Asia insurance operations' exposure to asset-backed securities is primarily held by the with-profits operations. Of the £319 million, 91 per cent (30 June 2012: 61 per cent; 31 December 2012: 63 per cent) are investment graded.

(d) Asset management operations

Asset management operations' exposure to asset-backed securities is held by Prudential Capital with no sub-prime exposure. Of the £584 million, 80 per cent (30 June 2012: 80 per cent; 31 December 2012: 77 per cent) is graded AAA.

(vi) Group sovereign debt exposure

The exposures held by the shareholder-backed business and with-profits funds in sovereign debts and bank debt securities at 30 June 2013 are given within the Risk and Capital Management section of the Business review under Credit Risk.

Notes on the IFRS basis results continued

R: Debt securities of US insurance operations: valuation basis, accounting presentation of gains and losses and securities in an unrealised loss position

i Valuation basis

Under IAS 39, unless categorised as 'held to maturity' or 'loans and receivables' debt securities are required to be fair valued. Where available, quoted market prices are used. However, where securities do not have an externally quoted price based on regular trades or where markets for the securities are no longer active as a result of market conditions, IAS 39 requires that valuation techniques be applied. IFRS 7 requires classification of the fair values applied by the Group into a three-level hierarchy. At 30 June 2013, 0.1 per cent of Jackson's debt securities was classified as level 3 (30 June 2012: 0.1 per cent; 31 December 2012: 0.1 per cent) comprising of fair values where there are significant inputs which are not based on observable market data.

ii Accounting presentation of gains and losses

Except for certain assets covering liabilities that are measured at fair value, the debt securities of the US insurance operations are classified as 'available-for-sale'.

Unless impaired, fair value movements are recognised in other comprehensive income. Realised gains and losses, including impairments, recorded in the income statement are as shown in note F of this report.

iii Half year 2013 movements in unrealised gains and losses

In half year 2013 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 £2,807 million to a net unrealised gain of £1,270 million as analysed in the table below. This decrease reflects the effects of rising long-term interest rates.

	30 Jun 2013 £m			31 Dec 2012 £m
		Changes in unrealised appreciation†	Foreign exchange translation	
Available-for-sale securities		Reflected as part of movement in other comprehensive income		
Assets fair valued at below book value:				
Book value*	10,595			4,551
Unrealised loss notes (iv)(a),(b)	(747)	(546)	(23)	(178)
Fair value (as included in statement of financial position)	9,848			4,373
Assets fair valued at or above book value:				
Book value*	21,348			25,467
Unrealised gain	2,017	(1,161)	193	2,985
Fair value (as included in statement of financial position)	23,365			28,452
Total:				
Book value*	31,943			30,018
Net unrealised gain (loss)	1,270	(1,707)	170	2,807
Fair value (as included in statement of financial position)‡	33,213			32,825

* Book value represents cost/amortised cost of the debt securities.
† Translated at the average rate of US$1.5439:£1.
‡ Debt securities for US operations included in the statement of financial position at 30 June 2013 and as referred to in note Q, comprise:

	2013 £m	2012 £m	
	30 Jun	30 Jun	31 Dec
Available-for-sale	33,213	27,055	32,825
Fair value through profit and loss:			
Securities of consolidated investment funds	–	6	–
Securities held to back liabilities for funds withheld under reinsurance arrangement	155	–	168
	33,368	27,061	32,993

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

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

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

	30 Jun 2013 £m		30 Jun 2012 £m		31 Dec 2012 £m	
	Fair value	Unrealised loss	Fair value	Unrealised loss	Fair value	Unrealised loss
Between 90% and 100%	7,510	(317)	1,160	(27)	4,214	(112)
Between 80% and 90%	2,214	(369)	190	(31)	85	(13)
Below 80%	124	(61)	163	(99)	74	(53)
Total	9,848	(747)	1,513	(157)	4,373	(178)

(b) Unrealised losses by maturity of security

	2013 £m	2012 £m	
	30 Jun	30 Jun	31 Dec
Less than 1 year	–	–	–
1 year to 5 years	(6)	(2)	(1)
5 years to 10 years	(215)	(18)	(9)
More than 10 years	(440)	(11)	(91)
Mortgage-backed and other debt securities	(86)	(126)	(77)
Total	(747)	(157)	(178)

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

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

	30 Jun 2013 £m			30 Jun 2012 £m			31 Dec 2012 £m		
	Non-investment grade	Investment grade	Total	Non-investment grade	Investment grade	Total	Non-investment grade	Investment grade	Total
Less than 6 months	(16)	(326)	(342)	(7)	(15)	(22)	(5)	(101)	(106)
6 months to 1 year	(1)	(345)	(346)	(4)	(6)	(10)	(1)	(1)	(2)
1 year to 2 years	(3)	–	(3)	(5)	(3)	(8)	(2)	–	(2)
2 years to 3 years	(2)	–	(2)	(3)	–	(3)	(1)	–	(1)
More than 3 years	(23)	(31)	(54)	(52)	(62)	(114)	(31)	(36)	(67)
Total	(45)	(702)	(747)	(71)	(86)	(157)	(40)	(138)	(178)

(d) Securities whose fair value were below 80 per cent of the book value

As shown in the table (a) above, £61 million of the £747 million of gross unrealised losses at 30 June 2013 (30 June 2012: £99 million of the £157 million; 31 December 2012: £53 million of the £178 million of gross unrealised losses) related to securities whose fair value was below 80 per cent of the book value. The analysis of the £61 million (30 June 2012: £99 million; 31 December 2012: £53 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 Jun 2013 £m		30 Jun 2012 £m		31 Dec 2012 £m	
Category analysis	Fair value	Unrealised loss	Fair value	Unrealised loss	Fair value	Unrealised loss
Residential mortgage-backed securities:						
Prime (including agency)	5	(2)	27	(10)	5	(2)
Alt-A	–	–	11	(3)	–	–
Sub-prime	7	(2)	51	(22)	18	(8)
	12	(4)	89	(35)	23	(10)
Commercial mortgage-backed securities	13	(21)	8	(29)	10	(23)
Other asset-backed securities	24	(13)	53	(31)	41	(20)
Total structured securities	49	(38)	150	(95)	74	(53)
Corporates	75	(23)	13	(4)	–	–
Total	124	(61)	163	(99)	74	(53)

Notes on the IFRS basis results continued

R: Debt securities of US insurance operations: valuation basis, accounting presentation of gains and losses and securities in an unrealised loss position continued

The following table shows the age analysis as at 30 June 2013, of the securities whose fair value were below 80 per cent of the book value:

	30 Jun 2013 £m		30 Jun 2012 £m		31 Dec 2012 £m	
Age analysis	**Fair value**	**Unrealised loss**	**Fair value**	**Unrealised loss**	**Fair value**	**Unrealised loss**
Less than 3 months	79	(25)	32	(10)	7	(2)
3 months to 6 months	2	(1)	–	–	–	–
More than 6 months	43	(35)	131	(89)	67	(51)
	124	(61)	163	(99)	74	(53)

S: Net core structural borrowings of shareholder-financed operations

	2013 £m	2012 £m	
	30 Jun	**30 Jun**	**31 Dec**
Core structural borrowings of shareholder-financed operations: note (i)			
Perpetual subordinated capital securities (Innovative Tier 1) notes (ii), (vi)	2,327	1,808	1,746
Subordinated notes (Lower Tier 2) note (ii)	834	830	831
Subordinated debt total	3,161	2,638	2,577
Senior debt: note (iii)			
2023	300	300	300
2029	249	249	249
Holding company total	3,710	3,187	3,126
PruCap bank loan note (iv)	275	250	275
Jackson surplus notes (Lower Tier 2) note (ii)	164	159	153
Total (per condensed consolidated statement of financial position)	4,149	3,596	3,554
Less: Holding company cash and short-term investments (recorded within the condensed consolidated statement of financial position) note (v)	(1,490)	(1,222)	(1,380)
Net core structural borrowings of shareholder-financed operations	2,659	2,374	2,174

Notes

(i) The maturity profile, currency and interest rates applicable to the core structural borrowings of shareholder-financed operations of the Group are as detailed in note H13 of the Group's consolidated financial statements for the year ended 31 December 2012. Other than the changes described in notes (iv) and (vi) below, there are no further changes affecting these core structural borrowings in half year 2013.

(ii) These debt classifications are consistent with the treatment of capital for regulatory purposes, as defined in the Prudential Regulation Authority handbook. The Group has designated US$3.55 billion (30 June 2012 and 31 December 2012: US$2.85 billion) of its Tier 1 subordinated debt as a net investment hedge under IAS 39 to hedge the currency risks related to the net investment in Jackson.

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

(iv) The PruCap bank loan of £275 million has been made in two tranches: a £160 million loan maturing in June 2014, currently drawn at a cost of 12 month £LIBOR plus 0.6 per cent and a £115 million loan maturing on 20 December 2017 and currently drawn at a cost of 12 month £LIBOR plus 0.79 per cent.

(v) Including central finance subsidiaries.

(vi) In January 2013, the Company issued core structural borrowings of US$700 million 5.25 per cent Tier 1 perpetual subordinated capital securities primarily to Asian retail investors. The proceeds, net of costs, were US$689 million.

T: Other borrowings

	2013 £m	2012* £m	
	30 Jun	30 Jun	31 Dec
Operational borrowings attributable to shareholder-financed operations note (i)			
Borrowings in respect of short-term fixed income securities programmes note (ii)	2,422	2,568	2,084
Non-recourse borrowings of US operations	20	20	20
Other borrowings note (iii)	88	206	141
Total	2,530	2,794	2,245
Borrowings attributable to with-profits operations			
Non-recourse borrowings of consolidated investment funds	727	682	759
£100m 8.5% undated subordinated guaranteed bonds of Scottish Amicable Finance plc	100	100	100
Other borrowings (predominantly obligations under finance leases)	97	113	109
Total	924	895	968

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

Notes

(i) In addition to the debt listed above, £200 million floating rate notes were issued by Prudential plc in April 2013 which will mature in October 2013. These Notes have been wholly subscribed by a Group subsidiary and accordingly have been eliminated on consolidation in the Group financial statements. These Notes were originally issued in October 2008 and have been reissued upon their maturity.

(ii) In January 2013 the Company repaid on maturity, £250 million medium term notes included within borrowings in respect of short-term fixed income securities in the table above.

(iii) Other borrowings mainly include amounts whose repayment to the lender is contingent upon future surplus emerging from certain contracts specified under the arrangement. If insufficient surplus emerges on those contracts, there is no recourse to other assets of the Group and the liability is not payable to the degree of shortfall.

In addition, other borrowings include senior debt issued through the Federal Home Loan Bank of Indianapolis (FHLB), secured by collateral posted with the FHLB by Jackson.

U: Defined benefit pension schemes

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

Summary Group position

	2013 £m			2012 £m	
	PSPS	Other schemes	30 Jun	30 Jun	31 Dec
Underlying economic surplus (deficit) note (ii)	939	(45)	894	1,425	1,138
Less: unrecognised surplus and adjustment for obligation for deficit funding note (ii)	(821)	–	(821)	(1,249)	(1,010)
Economic surplus (deficit) (including investment in Prudential insurance policies) note (ii)	118	(45)	73	176	128
Attributable to:					
PAC with-profits fund	83	(41)	42	98	78
Shareholder-backed operations	35	(4)	31	78	50
Consolidation adjustment against policyholder liabilities for investment in Prudential insurance policies	–	(172)	(172)	(169)	(169)
IAS 19 pension asset (liability) on the Group statement of financial position*	118	(217)	(99)	7	(41)

* At 30 June 2013, the PSPS' pension asset of £118 million (30 June 2012: £167 million; 31 December 2012: £164 million) and the other schemes' pension liability of £217 million (30 June 2012: £160 million; 31 December 2012: £205 million) were included within 'Other debtors' and 'Provisions', respectively on the condensed consolidated statement of financial position.

Notes on the IFRS basis results continued

U: Defined benefit pension schemes continued

The Group's businesses operate a number of pension schemes. The specific features of these plans vary in accordance with the regulations of the country in which the employees are located, although they are, in general, funded by the Group and based either on a cash balance formula or on years of service and salary earned in the last year or years of employment. The largest defined benefit scheme is the principal UK scheme, namely the Prudential Staff Pension Scheme (PSPS), which accounts for 85 per cent (30 June 2012: 87 per cent; 31 December 2012: 86 per cent) of the underlying scheme liabilities of the Group defined benefit schemes.

The Group also operates two smaller defined benefit schemes for UK employees in respect of Scottish Amicable and M&G. For all three schemes, the projected unit method was used for the most recent full actuarial valuations. There are also small defined benefit schemes in Taiwan with a negligible deficit.

Triennial actuarial valuations

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

The last completed actuarial valuation of PSPS was as at 5 April 2011. This valuation was finalised in the first half of 2012 and demonstrated the scheme to be 111 per cent funded by reference to the Scheme Solvency Target that forms the basis of the scheme's funding objective. As a result of this valuation, future contributions into the scheme have been reduced to the minimum level of contributions required under the scheme rules effective from July 2012.

Excluding expenses, the contributions are now payable at approximately £6 million per annum. The contributions are only for ongoing service of current employees that are active members of the scheme. No deficit type funding is required. Deficit funding for PSPS, where applicable, as applied prior to 2012, is apportioned in the ratio of 70/30 between the PAC with-profits fund and shareholder-backed operations following detailed consideration in 2005 of the sourcing of previous contributions. Employer contributions for ongoing service of current employees are apportioned in the ratio relevant to current activity.

The last completed actuarial valuation of the Scottish Amicable Pension Scheme (SAPS) was as at 31 March 2011. This valuation was finalised in the second half of 2012 and demonstrated the scheme to be 85 per cent funded. Based on this valuation, it was agreed with the Trustees that the existing level of deficit funding of £13.1 million per annum continues to be paid into the scheme over the next six years, to eliminate the actuarial deficit.

The last completed actuarial valuation of the M&G pension scheme was as at 31 December 2011. This valuation was finalised in the second half of 2012 and demonstrated the scheme to be 83 per cent funded. Based on this valuation, deficit funding amounts designed to eliminate the actuarial deficit over a three-year period are being made from January 2013 of £18.6 million per annum for the first two years and £9.3 million in the third year.

Summary economic and IAS 19 financial positions

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

The underlying IAS 19 surplus for PSPS at 30 June 2013 was £939 million. Following the finalisation of the 5 April 2011 triennial valuation, the Trustees agreed that additional deficit type funding would no longer be necessary. Furthermore, the level of contributions for ongoing service of current employees was reduced to the minimum level required by the scheme rules and is now lower than actuarial cost of service. As a consequence, a portion of the surplus, being £118 million, is now recognised as recoverable. The £118 million represents the present value of the economic benefit to the Company from the reductions to future ongoing contributions to the scheme. Accordingly, a surplus of £118 million gross of deferred tax was recognised at 30 June 2013. Of this amount, £83 million was allocated to the PAC with-profits fund and £35 million was allocated to the shareholders' fund.

The IAS 19 deficit of the Scottish Amicable Pension Scheme at 30 June 2013 was a deficit of £82 million (30 June 2012: deficit of £35 million; 31 December 2012: deficit of £74 million) and has been allocated approximately 50 per cent to the PAC with-profits fund and 50 per cent to the shareholders' fund.

The IAS 19 surplus of the M&G pension scheme on an economic basis at 30 June 2013 was a surplus of £37 million (30 June 2012: surplus of £44 million; 31 December 2012: surplus of £38 million) and is wholly attributable to shareholders. The underlying position on an economic basis reflects the assets (including investments in Prudential insurance policies that are offset against liabilities to policyholders on the Group consolidation) and the liabilities of the schemes. As at 30 June 2013, the M&G pension scheme has invested £172 million in Prudential insurance policies (30 June 2012: £169 million; 31 December 2012: £169 million). After excluding these investments that are offset against liabilities to policyholders, the IAS 19 basis position of the M&G pension scheme is a deficit of £135 million (30 June 2012: deficit of £125 million; 31 December 2012: deficit of £131 million).

i Assumptions

The actuarial assumptions used in determining benefit obligations and the net periodic benefit costs for the period ended 30 June 2013 were as follows:

	2013 %	2012 %	
	30 Jun	30 Jun	31 Dec
Discount rate*	4.6	4.6	4.4
Rate of increase in salaries	3.2	2.6	2.7
Rate of inflation:†			
Retail Prices Index (RPI)	3.2	2.6	2.7
Consumer Prices Index (CPI)	2.2	1.6	2.0
Rate of increase of pensions in payment for inflation:			
Guaranteed (maximum 5%)	2.5	2.5	2.5
Guaranteed (maximum 2.5%)‡	2.5	2.5	2.5
Discretionary	2.5	2.5	2.5

* The discount rate has been determined by reference to an 'AA' corporate bond index, adjusted where applicable, to allow for the difference in duration between the index and the pension liabilities.
† The rate of inflation reflects the long-term assumption for the UK RPI or CPI depending on the tranche of the schemes.
‡ The rates of 2.5 per cent are those for PSPS. Assumed rates of increase of pensions in payments for inflation for all other schemes are 3.2 per cent in 2013 (30 June 2012: 2.6 per cent; 31 December 2012: 2.7 per cent).

The calculations are based on current actuarially calculated mortality estimates with a specific allowance made for future improvements in mortality. The specific allowance made is in line with a custom calibration and has been updated in half year 2013 to reflect the 2011 mortality model from the Continuous Mortality Investigation Bureau of the Institute and Faculty of Actuaries (CMI).

The tables used for PSPS immediate annuities in payment at 30 June 2013 were:

Male: 112.0 per cent PNMA00 with improvements in line with a custom calibration of the CMI's 2011 mortality model, with a long-term mortality improvement rate of 1.75 per cent per annum; and
Female: 108.5 per cent PNFA00 with improvements in line with a custom calibration of the CMI's 2011 mortality model, with a long-term mortality improvement rate of 1.25 per cent per annum.

The tables used for PSPS immediate annuities in payment at 30 June 2012 and 31 December 2012 were:

Male: 108.6 per cent PNMA00 with improvements in line with a custom calibration of the CMI's 2009 mortality model, with a long-term mortality improvement rate of 1.75 per cent per annum; and
Female: 103.4 per cent PNFA00 with improvements in line with a custom calibration of the CMI's 2009 mortality model, with a long-term mortality improvement rate of 1.00 per cent per annum.

Using external actuarial advice provided by the independent scheme actuaries being Towers Watson for the valuation of PSPS, Xafinity Consulting for SAPS and Aon Hewitt Limited for the M&G scheme, the most recent full valuations have been updated to 30 June 2013, applying the principles prescribed by IAS 19.

Notes on the IFRS basis results continued

U: Defined benefit pension schemes continued

ii Estimated pension schemes' surpluses and deficits – economic basis

Movements on the surpluses and deficits of the Group's defined benefit pension schemes (determined on the economic basis) are as follows, with the effect of the application of IFRIC 14 being shown separately:

	Half year 2013 £m				
		(Charge) credit to income statement or other comprehensive income note (a)			
	Surplus (deficit) in schemes at 1 January 2013	Operating results (based on longer-term investment returns)	Actuarial and other gains and losses note (a)(v)	Contributions paid	Surplus (deficit) in schemes at 30 June 2013 note (b)
All schemes					
Underlying position (without the effect of IFRIC 14)					
Surplus (deficit)	1,138	5	(278)	29	894
Less: amount attributable to PAC with-profits fund	(787)	(8)	183	(8)	(620)
Shareholders' share:					
Gross of tax surplus (deficit)	351	(3)	(95)	21	274
Related tax	(81)	1	22	(5)	(63)
Net of shareholders' tax	270	(2)	(73)	16	211
Effect of IFRIC 14					
Derecognition of surplus and set up of additional funding obligation	(1,010)	(18)	207	–	(821)
Less: amount attributable to PAC with-profits fund	709	13	(144)	–	578
Shareholders' share:					
Gross of tax (deficit) surplus	(301)	(5)	63	–	(243)
Related tax	69	1	(14)	–	56
Net of shareholders' tax	(232)	(4)	49	–	(187)
With the effect of IFRIC 14					
Surplus (deficit)	128	(13)	(71)	29	73
Less: amount attributable to PAC with-profits fund	(78)	5	39	(8)	(42)
Shareholders' share:					
Gross of tax surplus (deficit)	50	(8)	(32)	21	31
Related tax	(12)	2	8	(5)	(7)
Net of shareholders' tax	38	(6)	(24)	16	24

Notes

(a) (Charge) credit to the income statement or other comprehensive income

The components of the credit (charge) for the pension cost and actuarial and other gains and losses (comprising amounts attributable to the PAC with-profits fund and shareholder-backed operations) are as follows:

	2013 £m	2012* £m	
	Half year	Half year	Full year
Pension cost – (charge) credit to income statement			
Current service cost	(14)	(15)	(29)
Past service cost:			
Exceptional discretionary pension increase for PSPS in 2012 note (i)	–	(106)	(106)
Other	(3)	–	–
Administration cost paid out by the schemes	(2)	(2)	(3)
Net interest on net defined benefit liability (asset) – economic basis	24	35	69
Total credit (charge) without the effect of IFRIC 14	5	(88)	(69)
Effect of the application of IFRIC 14	(18)	70	39
Pension cost – economic basis table above and note (ii)	(13)	(18)	(30)
Adjustment for investments in Prudential insurance policies note (iv)	(7)	(6)	(8)
Pension cost – IAS 19 basis (pre-tax and pre-allocation to PAC with-profits fund)	(20)	(24)	(38)
Actuarial and other gains and losses – other comprehensive income			
Return on the scheme assets less amount included in interest income	(304)	(81)	(131)
Gains (losses) on changes of assumptions for plan liabilities	27	10	(273)
Experience losses on scheme liabilities	(1)	(4)	(4)
Total charge without the effect of IFRIC 14	(278)	(75)	(408)
Effect of the application of IFRIC 14	207	288	558
Actuarial and other gains and losses – economic basis table above and notes (iii), (v)	(71)	213	150
Adjustment for investments in Prudential insurance policies notes (iv), (v)	4	(1)	(5)
Actuarial and other gains and losses – IAS 19 basis (pre-tax and pre-allocation to PAC with-profits fund) note (v)	(67)	212	145

* The presentation of the 2012 comparatives in the table above has been altered for the application of the amended IAS 19 principally for the presentation of actuarial gains and losses in other comprehensive income rather than the income statement as described in note B.

Notes

(i) Exceptional discretionary pension increase for PSPS in 2012
During the first half of 2012, an exceptional discretionary increase to pensions in payment of PSPS was awarded which resulted in a past service cost of £106 million. As the PSPS scheme surplus is substantially not recognised for accounting purposes, this item had no impact on the Group's results.

(ii) Consistent with the derecognition of a substantial portion of the Company's interest in the underlying IAS 19 surplus of PSPS, the charge to operating profit based on longer-term investment returns for PSPS reflects the cash cost of contributions for ongoing service of active members and expenses (30 June 2013: £6 million; 30 June 2012: £10 million; 31 December 2012: £17 million).

(iii) The net (charge) credit for actuarial and other gains and losses is recorded within the statement of other comprehensive income.
The half year 2013 actuarial losses without the effect of IFRIC 14 primarily reflect the investment return of PSPS being lower than the interest income included in the pension cost. After the derecognition of a substantial portion of PSPS surplus under IFRIC 14, the actuarial losses primarily reflect the impact of assumption changes on the other schemes' liabilities and the movement in the amount of surplus recognised in PSPS as described above.

(iv) The adjustments for investments in Prudential insurance policies are consolidation adjustments with no impact to operating results.

(v) The amounts for actuarial and other gains and losses presented within the condensed consolidated statement of comprehensive income comprise the following:

	2013 £m	2012* £m	
	Half year	Half year	Full year
Actuarial and other gains and losses – economic basis			
Total (Pre-allocation to the PAC with-profits funds):			
Gross of tax	(71)	213	150
Related tax	11	(29)	(18)
	(60)	184	132
Amount attributable to the PAC with-profits funds (with offsetting effect to movement in unallocated surplus):			
Gross of tax	(39)	126	100
Related tax	3	(8)	(6)
	(36)	118	94
Shareholders' share of actuarial and other gains and losses (after allocation to PAC with-profits funds) – economic basis: table above			
Gross of tax	(32)	87	50
Related tax	8	(21)	(12)
	(24)	66	38
Consolidation adjustment for investments in Prudential insurance policies by a Group pension scheme:			
Gross of tax	4	(1)	(5)
Related tax	(1)	–	1
	3	(1)	(4)
Shareholders' share of actuarial and other gains and losses, net of related tax – IAS 19 basis (as recognised in other comprehensive income)	(21)	65	34

Notes on the IFRS basis results continued

U: Defined benefit pension schemes continued

(b) Underlying investments and liabilities of the schemes
On the 'economic basis', after including the underlying assets represented by the investments in Prudential insurance policies as scheme assets, the plan's net assets at 30 June 2013 comprise the following investments and liabilities:

	2013 £m	2012* £m	
	30 Jun	30 Jun	31 Dec
Equities	409	512	364
Bonds	5,696	5,852	5,858
Properties	339	327	330
Other assets	506	485	645
Total value of assets	6,950	7,176	7,197
Present value of benefit obligations	(6,056)	(5,751)	(6,059)
	894	1,425	1,138
Effect of the application of IFRIC 14 for pension schemes:			
Derecognition of PSPS surplus	(821)	(1,247)	(1,010)
Adjust for additional funding for PSPS	–	(2)	–
Pre-tax surplus	73	176	128

iii Sensitivity of the pension scheme liabilities to key variables

The total underlying Group pension scheme liabilities of £6,056 million (30 June 2012: £5,751 million; 31 December 2012: £6,059 million) comprise £5,158 million (30 June 2012: £5,007 million; 31 December 2012: £5,226 million) for PSPS and £898 million (30 June 2012: £744 million; 31 December 2012: £833 million) for the other schemes. The table below shows the sensitivity of the underlying PSPS and the other scheme liabilities at 30 June 2013, 30 June 2012 and 31 December 2012 to changes in discount rate, inflation rates and mortality rates.

	Assumption applied				Impact of sensitivity on scheme liabilities on IAS 19 basis			
	2013	2012				2013	2012	
	Half year	Half year	Full year	Sensitivity change in assumption		Half year	Half year	Full year
Discount rate	4.6%	4.6%	4.4%	Decrease by 0.2%	Increase in scheme liabilities by:			
					PSPS	3.4%	3.0%	3.3%
					Other schemes	5.0%	4.8%	4.9%
Discount rate	4.6%	4.6%	4.4%	Increase by 0.2%	Decrease in scheme liabilities by:			
					PSPS	3.2%	2.9%	3.1%
					Other schemes	4.7%	4.5%	4.6%
Rate of inflation	RPI: 3.2% CPI: 2.2%	RPI: 2.6% CPI: 1.6%	RPI: 2.7% CPI: 2.0%	RPI: Decrease by 0.2% CPI: Decrease by 0.2% with consequent reduction in salary increases	Decrease in scheme liabilities by:			
					PSPS	0.7%	1.5%	0.6%
					Other schemes	4.3%	4.3%	4.3%
Mortality rate				Increase life expectancy by 1 year	Increase in scheme liabilities by:			
					PSPS	2.6%	2.7%	2.6%
					Other schemes	2.5%	2.3%	2.4%

The sensitivity of the underlying pension scheme liabilities to changes in discount, inflation and mortality rates as shown above does not directly equate to the impact on shareholders' equity due to the effect of the application of IFRIC 14 on PSPS and the allocation of a share of the interest in financial position of the PSPS and Scottish Amicable schemes to the PAC with-profits fund as described above.

The sensitivity to the changes in the key variables as shown in the table above has no significant impact on the pension costs included in the Group's operating results. This is due to the pension costs charged in each of the periods presented being derived largely from market conditions at the beginning of the period. After applying IFRIC 14 and to the extent attributable to shareholders, any residual impact from the changes to these variables is reflected as actuarial gains and losses on defined benefit pension schemes as other comprehensive income.

V: Policyholder liabilities

Analysis of movement in policyholder liabilities and unallocated surplus of with-profits funds

Group insurance operations

	Insurance operations £m			
Half year 2013 movements	**UK**	**US**	**Asia**	**Total**
Comprising:				
*– Policyholder liabilities on the condensed consolidated statement of financial position**	133,912	92,261	31,501	257,674
– Unallocated surplus of with-profits funds on the condensed consolidated statement of financial position	10,526	–	63	10,589
– Group's share of policyholder liabilities of joint ventures‡	–	–	3,100	3,100
At 1 January 2013	144,438	92,261	34,664	271,363
Premiums	3,880	8,208	3,266	15,354
Surrenders	(2,315)	(2,420)	(1,652)	(6,387)
Maturities/Deaths	(3,883)	(620)	(430)	(4,933)
Net flows	(2,318)	5,168	1,184	4,034
Shareholders' transfers post tax	(102)	–	(18)	(120)
Investment-related items and other movements	2,411	2,038	5	4,454
Foreign exchange translation differences	211	6,748	1,292	8,251
Reclassification of Japan Life business as held for sale	–	–	(970)	(970)
Acquisition of Thanachart Life	–	–	487	487
At 30 June 2013	144,640	106,215	36,644	287,499
Comprising:				
– Policyholder liabilities on the condensed consolidated statement of financial position	133,290	106,215	33,223	272,728
– Unallocated surplus of with-profits funds on the condensed consolidated statement of financial position	11,350	–	84	11,434
– Group's share of policyholder liabilities of joint ventures‡	–	–	3,337	3,337
Half year 2012 movements*				
Comprising:				
*– Policyholder liabilities on the condensed consolidated statement of financial position**	127,024	69,189	28,110	224,323
– Unallocated surplus of with-profits funds on the condensed consolidated statement of financial position	9,165	–	50	9,215
– Group's share of policyholder liabilities of joint ventures‡	–	–	2,752	2,752
At 1 January 2012	136,189	69,189	30,912	236,290
Premiums	4,062	7,303	2,641	14,006
Surrenders	(2,378)	(2,083)	(1,252)	(5,713)
Maturities/Deaths	(3,819)	(451)	(294)	(4,564)
Net flows	(2,135)	4,769	1,095	3,729
Shareholders' transfers post tax	(110)	–	(15)	(125)
Investment-related items and other movements	4,276	1,906	1,055	7,237
Foreign exchange translation differences	(83)	(600)	(227)	(910)
At 30 June 2012	138,137	75,264	32,820	246,221
Comprising:				
*– Policyholder liabilities on the condensed consolidated statement of financial position**	128,387	75,264	29,856	233,507
– Unallocated surplus of with-profits funds on the condensed consolidated statement of financial position	9,750	–	52	9,802
– Group's share of policyholder liabilities of joint ventures‡	–	–	2,912	2,912
Average policyholder liability balances†				
Half year 2013	133,601	99,238	35,993	268,832
Half year 2012	127,705	72,227	31,815	231,747

* The 2012 comparative results in the consolidated statement of financial position have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

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

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

Notes on the IFRS basis results continued

V: Policyholder liabilities continued

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

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

UK insurance operations

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of UK insurance operations is as follows:

		Other shareholder-backed funds and subsidiaries		
Half year 2013 movements	**SAIF and PAC with-profits sub-fund** £m	**Unit-linked liabilities** £m	**Annuity and other long-term business** £m	**Total** £m
Comprising:				
– Policyholder liabilities	84,407	22,197	27,308	133,912
– Unallocated surplus of with-profits funds	10,526	–	–	10,526
At 1 January 2013	94,933	22,197	27,308	144,438
Premiums	1,790	1,428	662	3,880
Surrenders	(1,063)	(1,227)	(25)	(2,315)
Maturities/Deaths	(2,709)	(326)	(848)	(3,883)
Net flows[note (a)]	(1,982)	(125)	(211)	(2,318)
Shareholders' transfers post tax	(102)	–	–	(102)
Switches	(104)	104	–	–
Investment-related items and other movements[note (b)]	1,614	1,067	(270)	2,411
Foreign exchange translation differences	211	–	–	211
At 30 June 2013	94,570	23,243	26,827	144,640
Comprising:				
– Policyholder liabilities	83,220	23,243	26,827	133,290
– Unallocated surplus of with-profits funds	11,350	–	–	11,350
Half year 2012 movements				
Comprising:				
– Policyholder liabilities	80,976	21,281	24,767	127,024
– Unallocated surplus of with-profits funds	9,165	–	–	9,165
At 1 January 2012	90,141	21,281	24,767	136,189
Premiums	2,044	1,064	954	4,062
Surrenders	(1,071)	(1,247)	(60)	(2,378)
Maturities/Deaths	(2,649)	(314)	(856)	(3,819)
Net flows[note (a)]	(1,676)	(497)	38	(2,135)
Shareholders' transfers post tax	(110)	–	–	(110)
Switches	(131)	131	–	–
Investment-related items and other movements[note (b)]	2,900	343	1,033	4,276
Foreign exchange translation differences	(83)	–	–	(83)
At 30 June 2012	91,041	21,258	25,838	138,137
Comprising:				
– Policyholder liabilities	81,291	21,258	25,838	128,387
– Unallocated surplus of with-profits funds	9,750	–	–	9,750
Average policyholder liability balances*				
Half year 2013	83,814	22,720	27,067	133,601
Half year 2012	81,134	21,269	25,302	127,705

* Averages have been based on opening and closing balances and exclude the unallocated surplus of the with-profits funds.

Notes

(a) Net outflows increased from £2,135 million in the first half of 2012 to £2,318 million for the same period in 2013, driven by an increase in the net outflows of the with-profits business reflecting lower sales of with-profits bonds in the period. The levels of inflows/outflows for unit-linked business is driven by corporate pension schemes with transfers in or out from one or two schemes influencing the level of flows in the year. Excluding these transactions, the net flow in the unit-linked business for the first half of 2013 is broadly consistent to the same period in 2012.

(b) Investment-related items and other movements of £2,411 million across fund types reflected the strong growth in the equity market in the first half of 2013, partly offset by the impact on liabilities of rising long-term bond yields.

US insurance operations

Half year 2013 movements	Variable annuity separate account liabilities £m	Fixed annuity, GIC and other business £m	Total £m
At 1 January 2013	49,298	42,963	92,261
Premiums	5,665	2,543	8,208
Surrenders	(1,352)	(1,068)	(2,420)
Maturities/Deaths	(259)	(361)	(620)
Net flows[note (b)]	4,054	1,114	5,168
Transfers from general to separate account	715	(715)	–
Investment-related items and other movements[note (c)]	2,323	(285)	2,038
Foreign exchange translation differences[note (a)]	3,664	3,084	6,748
At 30 June 2013	60,054	46,161	106,215
Half year 2012 movements			
At 1 January 2012	37,833	31,356	69,189
Premiums	5,060	2,243	7,303
Surrenders	(1,024)	(1,059)	(2,083)
Maturities/Deaths	(194)	(257)	(451)
Net flows[note (b)]	3,842	927	4,769
Transfers from general to separate account	708	(708)	–
Investment-related items and other movements[note (c)]	1,557	349	1,906
Foreign exchange translation differences[note (a)]	(315)	(285)	(600)
At 30 June 2012	43,625	31,639	75,264
Average policyholder liability balances*			
Half year 2013	54,676	44,562	99,238
Half year 2012	40,729	31,498	72,227

* Averages have been based on opening and closing balances.

Notes

(a) Movements in the period have been translated at an average rate of US$1.54/£1.00 (30 June 2012: US$1.58/£1.00). The closing balance has been translated at a closing rate of US$1.52/£1.00 (30 June 2012: US$1.57/£1.00; 31 December 2012: US$1.63/£1.00). Differences upon retranslation are included in foreign exchange translation differences.

(b) Net flows in the first half of 2013 were £5,168 million compared with £4,769 million in the first half of 2012, driven largely by increased new business volumes in the US business.

(c) The £2,323 million of investment-related items and other movements for variable annuity separate account liabilities for the first six months in 2013 reflects the increase in US equity market and partly offset by the reduction in bond values during the period. Fixed annuity, GIC and other business investment and other movements primarily reflects interest credited to the policyholder account in the period net of falls in technical provisions held for the guarantees issued with variable annuity business.

Notes on the IFRS basis results continued

V: Policyholder liabilities continued

Asia insurance operations

Half year 2013 movements	With-profits business £m	Unit-linked liabilities £m	Other £m	Total £m
Comprising:				
*– Policyholder liabilities on the condensed consolidated statement of financial position**	13,388	11,969	6,144	31,501
– Unallocated surplus of with-profits funds on the condensed consolidated statement of financial position	63	–	–	63
– Group's share of policyholder liabilities of joint ventures‡	–	2,059	1,041	3,100
At 1 January 2013	13,451	14,028	7,185	34,664
Premiums:				
New business	144	883	334	1,361
In-force	743	664	498	1,905
	887	1,547	832	3,266
Surrenders[note (c)]	(458)	(1,043)	(151)	(1,652)
Maturities/Deaths[note (c)]	(284)	(22)	(124)	(430)
Net flows[note (b)]	145	482	557	1,184
Shareholders' transfers post tax	(18)	–	–	(18)
Investment-related items and other movements[note (d)]	(544)	341	208	5
Reclassification of Japan business held for sale[note (f)]	–	(377)	(593)	(970)
Acquisition of Thanachart Life[note (e)]	–	–	487	487
Foreign exchange translation differences[note (a)]	707	370	215	1,292
At 30 June 2013	13,741	14,844	8,059	36,644
Comprising:				
– Policyholder liabilities on the condensed consolidated statement of financial position	13,657	12,783	6,783	33,223
– Unallocated surplus of with-profits funds on the condensed consolidated statement of financial position	84	–	–	84
– Group's share of policyholder liabilities of joint ventures‡	–	2,061	1,276	3,337
Half year 2012 movements*				
Comprising:				
*– Policyholder liabilities on the condensed consolidated statement of financial position**	12,593	10,101	5,416	28,110
– Unallocated surplus of with-profits funds on the condensed consolidated statement of financial position	50	–	–	50
– Group's share of policyholder liabilities of joint ventures‡	–	1,914	838	2,752
At 1 January 2012	12,643	12,015	6,254	30,912
Premiums:				
New business	110	638	297	1,045
In-force	593	617	386	1,596
	703	1,255	683	2,641
Surrenders[note (c)]	(303)	(819)	(130)	(1,252)
Maturities/Deaths	(196)	(16)	(82)	(294)
Net flows	204	420	471	1,095
Shareholders' transfers post tax	(15)	–	–	(15)
Investment-related items and other movements	558	325	172	1,055
Foreign exchange translation differences[note (a)]	6	(167)	(66)	(227)
At 30 June 2012	13,396	12,593	6,831	32,820
Comprising:				
*– Policyholder liabilities on the condensed consolidated statement of financial position**	13,344	10,643	5,869	29,856
– Unallocated surplus of with-profits funds on the condensed consolidated statement of financial position	52	–	–	52
– Group's share of policyholder liabilities of joint ventures‡	–	1,950	962	2,912

Average policyholder liability balances†	With-profits business £m	Unit-linked liabilities £m	Other £m	Total £m
Half year 2013	13,522	14,625	7,846	35,993
Half year 2012	12,969	12,304	6,542	31,815

* The 2012 comparative results in the consolidated statement of financial position have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

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

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

Notes

(a) Movements in the period have been translated at the average exchange rate for the six months ended 30 June 2013. The closing balance has been translated at the closing spot rates as at 30 June 2013. Differences upon retranslation are included in foreign exchange translation differences.
(b) Net flows have increased to £1,184 million in the first half of 2013 reflecting increased premium flows from new business and growth in the in-force books offset by higher surrenders and maturities in the with-profits business.
(c) The surrenders for shareholder-backed business in the first half of 2013, are broadly consistent with the equivalent period in 2012 once allowance is made for the movements in investment markets and foreign exchange. For with-profits business, surrenders, maturities and deaths have increased from £499 million in half year 2012 to £742 million in half year 2013, primarily as a result of an increased number of policies within Hong Kong and Singapore reaching their five year anniversary and maturity, the point at which some product features trigger.
(d) Investment-related items and other movements for with-profits business for the first six months of 2013 principally represents unrealised losses on bonds, following the rise in long-term bond yields within the with-profits funds. This has been partly offset by gains in the unit-linked funds from the improvement in equity markets in the period.
(e) The acquisition of Thanachart Life reflects the liabilities acquired at the date of acquisition.
(f) The liabilities of the Japanese life operation at 30 June 2013 have been removed from policyholder liabilities following its reclassification as held for sale at that date.

W: Share capital, share premium and own shares

	Number of ordinary shares	Share capital £m	Share premium £m
Issued shares of 5p each fully paid:			
At 1 January 2012	2,548,039,330	127	1,873
Shares issued under share option schemes	8,209,568	–	14
At 30 June 2012	2,556,248,898	127	1,887
Issued shares of 5p each fully paid:			
At 1 January 2012	2,548,039,330	127	1,873
Shares issued under share option schemes	9,203,022	1	16
At 31 December 2012	2,557,242,352	128	1,889
Issued shares of 5p each fully paid:			
At 1 January 2013	2,557,242,352	128	1,889
Shares issued under share option schemes	2,036,258	–	1
At 30 June 2013	2,559,278,610	128	1,890

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

At 30 June 2013, there were options outstanding under Save As You Earn schemes to subscribe for shares as follows:

	Number of shares to subscribe for	Share price range from	Share price range to	Exercisable by year
30 June 2013	9,014,837	288p	629p	2018
30 June 2012	8,181,704	288p	572p	2017
31 December 2012	9,396,810	288p	629p	2018

Transactions by Prudential plc and its subsidiaries in Prudential plc shares

The Group buys and sells Prudential plc (own shares) either in relation to its share schemes or via transactions undertaken by authorised investment funds that the Group is deemed to control. Further information about these transactions is set out below.

The cost of own shares of £71 million as at 30 June 2013 (30 June 2012: £101 million; 31 December 2012: £97 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans and savings-related share option schemes. At 30 June 2013, 4.2 million (30 June 2012: 6.5 million; 31 December 2012: 8.0 million) Prudential plc shares with a market value of £45 million (30 June 2012: £49 million; 31 December 2012: £69 million) were held in such trusts all of which are for employee incentive plans.

In half year 2013, the Company purchased the following number of shares in respect of employee incentive plans.

	Number of shares purchased* (in millions)	Cost £m
Half year 2013	2.9	31.4
Half year 2012	5.8	44.2
Full year 2012	9.4	76.1

* The maximum number of shares held during half year 2013 was 8.0 million which was at the beginning of the period.

Notes on the IFRS basis results continued

W: Share capital, share premium and own shares continued

None of the shares were held by a qualifying employee share ownership trust at 30 June 2013 (30 June 2012: 0.1 million; 31 December 2012: none). The shares held by the trust at 30 June 2012 were subsequently fully distributed on maturity of savings-related share option schemes.

The Group has consolidated a number of authorised investment funds where it is deemed to control these funds under IFRS. Some of these funds hold shares in Prudential plc. The total number of shares held by these funds at 30 June 2013 was 4.2 million (30 June 2012: 8.3 million; 31 December 2012: 4.5 million) and the cost of acquiring these shares of £26 million (30 June 2012: £50 million; 31 December 2012: £27 million) is included in the cost of own shares. The market value of these shares as at 30 June 2013 was £46 million (30 June 2012: £56 million; 31 December 2012: £39 million).

During half year 2013 these funds made net disposals of 268,411 Prudential shares (30 June 2012: 357,340; 31 December 2012: 4,143,340) for a net decrease of £1.6 million to book cost (30 June 2012: net decrease of £2.6 million; 31 December 2012: net decrease of £25.1 million).

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

Other than set out above the Group did not purchase, sell or redeem any Prudential plc listed securities during half year 2013 or 2012.

X: Business acquisitions

(a) Acquisition of Thanachart Life Assurance Company Limited and bancassurance partnership agreement with Thanachart Bank

On 3 May 2013, the agreement Prudential plc, through its subsidiary Prudential Life Assurance (Thailand) Public Company Limited (Prudential Thailand), entered into in November 2012 to establish an exclusive 15-year partnership with Thanachart Bank Public Company Limited (Thanachart Bank) to develop jointly their bancassurance business in Thailand was launched. At the same time, Prudential Thailand completed the acquisition of 100 per cent of the voting interest in Thanachart Life Assurance Company Limited (Thanachart Life), a wholly-owned life insurance subsidiary of Thanachart Bank. This transaction builds on Prudential's strategy of focusing on the highly attractive markets of South-east Asia and is in line with the Group's multichannel distribution strategy.

The consideration for the transaction is THB 18.981 billion (£412 million), of which THB 17.500 billion (£380 million) was settled in cash on completion in May 2013 with a further payment of THB 0.946 billion (£20 million), for adjustments to reflect the net asset value as at completion date, paid in July 2013. In addition a deferred payment of THB 0.535 billion (£12 million) is payable 12 months after completion. Included in the total consideration of THB 18.981 billion (£412 million) was the cost of the distribution rights associated with the exclusive 15-year bancassurance partnership agreement with Thanachart Bank.

The purchase consideration paid was equivalent to the fair value of the acquired assets and liabilities assumed. No goodwill has been recognised.

In addition to the purchase consideration, the Group incurred £4 million of acquisition related costs, of which £3 million was recognised as an expense in the consolidated income statement in the second half of 2012 and the remaining £1 million recognised in half year 2013.

Assets acquired and liabilities assumed at the date of acquisition

The fair value of the acquired assets and liabilities are shown in the table below.

	Fair value recognised at acquisition date £m
Assets	
Acquired value of in-force business	21
Investments (principally debt securities)	642
Cash and cash equivalents	4
Other assets (including distribution rights)	293
Total assets	960
Liabilities	
Insurance contract liabilities	487
Other non-insurance liabilities	61
Total liabilities	548
Net assets acquired and liabilities assumed	412
Purchase consideration (including £32 million of deferred consideration)	412

Insurance contract liabilities were valued consistent with Prudential's existing IFRS valuation basis for the Thailand Life business, determined in accordance with methods prescribed by local GAAP adjusted to comply, where necessary, with UK GAAP. In accordance with IFRS 3 'Business Combinations', an acquired value of in-force business has been recognised.

Included within the identifiable assets as shown above are loans and other debtors acquired with fair values of £6 million. These values represent the gross contractual amounts all of which are expected to be collected.

The condensed consolidated statement of cash flows contains a £376 million net cash outflow in respect of the acquisition of Thanachart Life and the cost of the distribution rights representing cash consideration paid of £380 million less cash and cash equivalents acquired of £4 million.

Impact of the acquisition on the results of the Group

	Actual £m	**Proforma** £m
	Post-acquisition period from 3 May to 30 June 2013	**Estimated Half year 2013** note (i)
Revenue	15	102
Operating profit based on longer-term investment returns	6	18
Short-term fluctuations in investment returns	(1)	(1)
Amortisation of acquisition accounting adjustments[note (ii)]	(1)	(2)
Profit before tax	4	15

Notes

(i) The proforma shows the estimation of the Thanachart Life business' contribution to the Group's consolidated revenue and profit before tax for the period if the acquisition had occurred on 1 January 2013. In determining these amounts, it has been assumed that the fair value adjustments which arose on the date of acquisition would have been the same as if the acquisition had occurred on 1 January 2013. These amounts have been determined using actual results for the four-month period to 2 May 2013 and the post-acquisition results from 3 May to 30 June 2013.

(ii) The amortisation of acquisition accounting adjustments represents the amortisation of the acquired value of in-force business.

(b) Acquisition of Reassure America Life Insurance Company in 2012

On 4 September 2012, the Group through its indirect wholly-owned subsidiary, Jackson completed the acquisition of 100 per cent issued share capital of SRLC America Holding Corp. and its primary operating subsidiary, Reassure America Life Insurance Company (REALIC). REALIC is a US-based insurance company whose business model was to acquire, through purchase or reinsurance, closed blocks of insurance business, primarily life assurance risks. REALIC did not and does not write new business.

The purchase consideration, which remains subject to final agreement under the terms of the transaction with Swiss Re, is £370 million (US$587 million). At the date these condensed financial statements were approved the fair value of the identifiable acquired assets and liabilities and the consideration were subject to finalisation. In accordance with accounting guidance for business combinations, the Company will continue to review the balance sheet and record required adjustments, for up to a 12-month period following the acquisition close date, in order to reflect updated information. Any measurement period adjustments determined to be material will be applied retrospectively to the acquisition date in the Company's consolidated financial statements and depending on the nature of the adjustment, the Company's results subsequent to the acquisition period could be affected.

The condensed consolidated statement of cash flows contained a £224 million net cash outflow in full year 2012 in respect of this acquisition representing cash consideration of £371 million less cash and cash equivalents acquired of £147 million.

Notes on the IFRS basis results continued

Y: Joint ventures and associates

Joint ventures represent arrangements where control through contractual agreement with one or more parties which have rights to the net assets of the arrangements. As a consequence of adoption of IFRS 11 'Joint Arrangements' from 1 January 2013, the Group's joint ventures are accounted for using the equity method.

The Group has shareholder-backed joint venture insurance and asset management business in China with CITIC Group, and in India with ICICI Bank. In addition, there is an asset management joint venture in Hong Kong with BOCI and a Takaful general and life insurance joint venture in Malaysia.

The Group has two associates in respect of PruHealth and PPM South Africa throughout the periods reported that are also accounted for under the equity method.

For these operations the net of tax results are reflected in the Group's profit before tax.

Further, the Group has various joint ventures relating to property investments held by the PAC with-profits fund. The results of these joint ventures are reflected in the movement in the unallocated surplus of the PAC with-profits funds and therefore do not affect shareholders' results.

The Group's share of the profits from its equity accounted joint ventures and associates, net of related tax, as shown in the condensed consolidated income statement comprises the following:

	2013 £m	2012 £m	
	Half year	Half year	Full year
Shareholder-backed business	59	57	108
PAC with-profits fund (prior to offsetting effect in movement in unallocated surplus)	15	5	27
Total	74	62	135

In addition to the above, the Group has associates that are carried at fair value through profit and loss, as allowed under IAS 28, that comprise investment in Open-Ended Investment Companies, unit trusts, funds holding collateralised debt obligations, property unit trusts and venture capital investments of the PAC with-profits fund where the Group has significant influence.

Z: Related party transactions

There were no transactions with related parties during the six months ended 30 June 2013 which have had a material effect on the results or financial position of the Group.

The nature of the related party transactions of the Group has not changed from those described in the Group's consolidated financial statements for the year ended 31 December 2012.

Further, following the adoption of IFRS 11 in 2013 as described in note B, the Group's investment in joint ventures are now accounted for on a single line equity method. Previously, the assets and liabilities of these joint ventures were proportionately consolidated by the Group with any of their transactions with other Group companies eliminated on consolidation. There are no material transactions between these joint ventures and other Group companies.

AA: Contingencies and related obligations

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

There have been no material changes to the Group's contingencies and related obligations in the six-month period ended 30 June 2013.

AB: Post balance sheet events

Interim dividend

The 2013 interim dividend approved by the Board of directors after 30 June 2013 is as described in note J.

Japan Life business: held for sale classification at 30 June and post balance sheet agreement to sell

As at 30 June 2013, a sale of the Group's closed book life insurance business in Japan, PCA Life Insurance Company Limited, was highly probable. Accordingly this business has been classified as held for sale in the half year 2013 condensed consolidated financial statements in accordance with IFRS 5, 'Non-current assets held for sale and discontinued operations'. Consistent with its classification as held for sale, the IFRS carrying value of the Japan Life business has been set to £53 million at 30 June 2013, representing the estimated proceeds, net of related expenses. This has resulted in a charge as for 'Remeasurement of Japan Life business classified as held for sale' of £(135) million in the income statement.

In order to facilitate comparisons of the Group's retained businesses, the supplementary analysis of profit of the Group as shown in note C has been adjusted to show separately the results for the Japan Life business. Accordingly, the comparative results for half year and full year 2012 have been retrospectively adjusted. For half year 2013 the result for the period, including short-term fluctuations in investment returns, together with the adjustment to the carrying value have given rise to an aggregate loss of £(124) million (half year 2012: £14 million; full year 2012: £17 million). This comprises:

	2013 £m	2012 £m	
	Half year	Half year	Full year
Remeasurement of carrying value on classification as held for sale	(135)	–	–
Amounts previously classified within:			
– Operating profit based on longer-term investment returns	5	–	(2)
– Short-term fluctuations in investment returns	6	14	19
(Loss) profit attaching to held for sale Japan Life business	(124)	14	17
Related tax charge	–	–	–

The assets and liabilities of the Japan Life business classified as held for sale on the statement of financial position as at 30 June 2013 are as follows:

	2013 £m 30 Jun
Assets	
Investments	1,095
Other assets	119
	1,214
Adjustment for remeasurement of the carrying value to fair value less costs to sell	(135)
Assets held for sale	1,079
Liabilities	
Policyholder liabilities	970
Other liabilities	56
Liabilities held for sale	1,026
Net assets	53

On 16 July 2013 the Group reached an agreement to sell this business to SBI Holdings Inc. for US$85 million (£56 million at 30 June 2013 closing exchange rate). Completion of the transaction is dependent on regulatory approval.

Notes on the IFRS basis results continued

AC: Additional information on the effect of adoption of new and amended accounting standards

The new and amended accounting standards adopted by the Group in 2013 are explained in note B. The tables below show the quantitative effect of the adoption of these new and amended standards on the Group primary financial statements and supplementary analysis of profit.

(a) The aggregate effect of the adoption of the standards on the income statement, earnings per share, statement of comprehensive income, statement of changes in equity, statement of financial position and cash flow statement is shown in the tables below:

Condensed consolidated income statement

	Half year 2013 £m				
	Under previous accounting requirements	Effect of IFRS changes			As reported after IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Total revenue, net of reinsurance	23,070	65	(744)	–	22,391
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	(18,629)	–	522	(36)	(18,143)
Acquisition costs and other expenditure	(3,605)	(65)	136	67	(3,467)
Remeasurement of Japan Life business classified as held for sale	(135)	–	–	–	(135)
Share of profit from joint ventures and associates, net of related tax*	–	–	74	–	74
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*	701	–	(12)	31	720
Less tax charge attributable to policyholders' returns	(213)	–	2	(3)	(214)
Profit before tax attributable to shareholders	488	–	(10)	28	506
Total tax charge attributable to policyholders and shareholders	(357)	–	12	(10)	(355)
Adjustment to remove tax charge (credit) attributable to policyholders' returns	213	–	(2)	3	214
Tax charge attributable to shareholders' returns	(144)	–	10	(7)	(141)
Profit for the period attributable to equity holders of the Company	344	–	–	21	365
Earnings per share (in pence)					
Based on profit attributable to the equity holders of the Company:					
Basic	13.5p	–	–	0.8p	14.3p
Diluted	13.5p	–	–	0.8p	14.3p

* The effect of change from IFRS 11 in the table above includes the reclassification of the Group's share of profit from its investments in associates into the Share of profit from joint ventures and associates, net of related tax line. These investments were already on the equity method accounting prior to 2013 but their results were previously included within the Investment return line.

Condensed consolidated income statement continued

	Half year 2012 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Total revenue, net of reinsurance	23,881	38	(557)	–	23,362
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	(19,850)	–	389	118	(19,343)
Acquisition costs and other expenditure	(2,732)	(38)	97	(212)	(2,885)
Share of profit from joint ventures and associates, net of related tax*	–	–	62	–	62
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*	1,299	–	(9)	(94)	1,196
Less tax charge attributable to policyholders' returns	(40)	–	2	8	(30)
Profit before tax attributable to shareholders	1,259	–	(7)	(86)	1,166
Total tax charge attributable to policyholders and shareholders	(347)	–	9	29	(309)
Adjustment to remove tax charge attributable to policyholders' returns	40	–	(2)	(8)	30
Tax charge attributable to shareholders' returns	(307)	–	7	21	(279)
Profit for the period attributable to equity holders of the Company	952	–	–	(65)	887
Earnings per share (in pence)					
Based on profit attributable to the equity holders of the Company:					
Basic	37.5p	–	–	(2.5)p	35.0p
Diluted	37.5p	–	–	(2.6)p	34.9p

* The effect of change from IFRS 11 in the table above includes the reclassification of the Group's share of profit from its investments in associates into the Share of profit from joint ventures and associates, net of related tax line. These investments were already on the equity method accounting prior to 2013 but their results were previously included within the Investment return line.

Notes on the IFRS basis results continued

AC: Additional information on the effect of adoption of new and amended accounting standards continued

Condensed consolidated income statement continued

	Full year 2012 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Total revenue, net of reinsurance	55,476	52	(1,090)	–	54,438
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	(45,953)	–	715	94	(45,144)
Acquisition costs and other expenditure	(6,335)	(52)	220	(145)	(6,312)
Share of profit from joint ventures and associates, net of related tax*	–	–	135	–	135
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*	3,188	–	(20)	(51)	3,117
Less tax charge attributable to policyholders' returns	(378)	–	2	6	(370)
Profit before tax attributable to shareholders	2,810	–	(18)	(45)	2,747
Total tax charge attributable to policyholders and shareholders	(991)	–	20	17	(954)
Adjustment to remove tax charge (credit) attributable to policyholders' returns	378	–	(2)	(6)	370
Tax charge attributable to shareholders' returns	(613)	–	18	11	(584)
Profit for the year attributable to equity holders of the Company	2,197	–	–	(34)	2,163
Earnings per share (in pence)					
Based on profit attributable to the equity holders of the Company:					
Basic	86.5p	–	–	(1.4)p	85.1p
Diluted	86.4p	–	–	(1.4)p	85.0p

* The effect of change from IFRS 11 in the table above includes the reclassification of the Group's share of profit from its investments in associates into the Share of profit from joint ventures and associates, net of related tax line. These investments were already on the equity method accounting prior to 2013 but their results were previously included within the Investment return line.

Condensed consolidated statement of comprehensive income and statement of changes in equity

	Half year 2013 £m				
	Under previous accounting requirements	Effect of IFRS changes			As reported after IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Profit for the period	344	–	–	21	365
Exchange movements on foreign operations and net investment hedges, net of related tax	232	–	–	–	232
Unrealised valuation on securities of US insurance operations classified as available-for-sale net of amortisation of deferred acquisition costs and related tax	(837)	–	–	–	(837)
Shareholders' share of actuarial gains and losses on defined benefit pension schemes, net of related tax	–	–	–	(21)	(21)
Total comprehensive loss for the period	(261)	–	–	–	(261)
Net decrease in shareholders' equity	(734)	–	–	–	(734)
At beginning of period	10,359	–	–	–	10,359
At end of period	9,625	–	–	–	9,625

Condensed consolidated statement of comprehensive income and statement of changes in equity continued

	Half year 2012 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Profit for the period	952	–	–	(65)	887
Exchange movements on foreign operations and net investment hedges, net of related tax	(54)	–	–	–	(54)
Unrealised valuation on securities of US insurance operations classified as available-for-sale net of amortisation of deferred acquisition costs and related tax	196	–	–	–	196
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, net of related tax	–	–	–	65	65
Total comprehensive income for the period	1,094	–	–	–	1,094
Net increase in shareholders' equity	728	–	–	–	728
At beginning of period	8,564	–	–	–	8,564
At end of period	9,292	–	–	–	9,292

	Full year 2012 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Profit for the year	2,197	–	–	(34)	2,163
Exchange movements on foreign operations and net investment hedges, net of related tax	(216)	–	–	–	(216)
Unrealised valuation on securities of US insurance operations classified as available-for-sale net of amortisation of deferred acquisition costs and related tax	387	–	–	–	387
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, net of related tax	–	–	–	34	34
Total comprehensive income for the year	2,368	–	–	–	2,368
Net increase in shareholders' equity	1,795	–	–	–	1,795
At beginning of year	8,564	–	–	–	8,564
At end of year	10,359	–	–	–	10,359

Notes on the IFRS basis results continued

AC: Additional information on the effect of adoption of new and amended accounting standards continued

Condensed consolidated statement of financial position

	30 Jun 2013 £m				
	Under previous accounting requirements	Effect of IFRS changes			As reported after IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Assets					
Intangible assets attributable to shareholders	7,101	–	(89)	–	7,012
Intangible assets attributable to with-profits funds	257	–	–	–	257
Reinsurers' share of insurance contract liabilities	7,211	–	(7)	–	7,204
Other non-investment and non-cash assets	8,843	10	(113)	–	8,740
Investments of long-term business and other operations:					
Investment properties	10,936	–	(353)	–	10,583
Investments accounted for using the equity method	103	–	593	–	696
Financial investments:					
Loans	12,411	830	(11)	–	13,230
Equity securities and portfolio holdings in unit trusts	113,124	571	(1,437)	–	112,258
Debt securities	139,629	152	(1,525)	–	138,256
Other investments	6,178	(3)	(35)	–	6,140
Deposits	13,998	(3)	(453)	–	13,542
Total other assets	8,269	(141)	(209)	–	7,919
Total assets	328,060	1,416	(3,639)	–	325,837
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds	287,499	–	(3,337)	–	284,162
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	4,270	1,124	–	–	5,394
Total other liabilities	26,660	292	(302)	–	26,650
Total liabilities	318,429	1,416	(3,639)	–	316,206
Equity					
Shareholders' equity	9,625	–	–	–	9,625
Non-controlling interests	6	–	–	–	6
Total equity	9,631	–	–	–	9,631
Total equity and liabilities	328,060	1,416	(3,639)	–	325,837

Condensed consolidated statement of financial position continued

	30 Jun 2012 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Assets					
Intangible assets attributable to shareholders	5,800	–	(96)	–	5,704
Intangible assets attributable to with-profits funds	262	–	–	–	262
Reinsurers' share of insurance contract liabilities	1,703	–	(5)	–	1,698
Other non-investment and non-cash assets	7,825	28	(125)	–	7,728
Investments of long-term business and other operations:					
Investment properties	10,822	–	(290)	–	10,532
Investments accounted for using the equity method	112	–	475	–	587
Financial investments:					
Loans	9,981	830	(11)	–	10,800
Equity securities and portfolio holdings in unit trusts	90,542	(45)	(1,399)	–	89,098
Debt securities	128,269	149	(1,069)	–	127,349
Other investments	8,143	(280)	(35)	–	7,828
Deposits	12,429	(5)	(473)	–	11,951
Total other assets	6,737	(251)	(151)		6,335
Total assets	282,625	426	(3,179)	–	279,872
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds	246,221	–	(2,912)	–	243,309
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	3,778	408	–	–	4,186
Total other liabilities	23,300	18	(267)	–	23,051
Total liabilities	273,299	426	(3,179)	–	270,546
Equity					
Shareholders' equity	9,292	–	–	–	9,292
Non-controlling interests	34	–	–	–	34
Total equity	9,326	–	–	–	9,326
Total equity and liabilities	282,625	426	(3,179)	–	279,872

Notes on the IFRS basis results continued

AC: Additional information on the effect of adoption of new and amended accounting standards continued

Condensed consolidated statement of financial position continued

	31 Dec 2012 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Assets					
Intangible assets attributable to shareholders	5,736	–	(90)	–	5,646
Intangible assets attributable to with-profits funds	256	–	–	–	256
Reinsurers' share of insurance contract liabilities	6,859	–	(5)	–	6,854
Other non-investment and non-cash assets	7,492	25	(113)	–	7,404
Investments of long-term business and other operations:					
Investment properties	10,880	–	(326)	–	10,554
Investments accounted for using the equity method	113	–	522	–	635
Financial investments:					
Loans	11,821	930	(8)	–	12,743
Equity securities and portfolio holdings in unit trusts	99,958	172	(1,504)	–	98,626
Debt securities	140,103	146	(1,342)	–	138,907
Other investments	7,900	(323)	(30)	–	7,547
Deposits	12,653	(3)	(402)	–	12,248
Total other assets	6,482	(121)	(137)	–	6,224
Total assets	310,253	826	(3,435)	–	307,644
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds	271,363	–	(3,100)	–	268,263
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	4,345	800	–	–	5,145
Total other liabilities	24,181	26	(335)	–	23,872
Total liabilities	299,889	826	(3,435)	–	297,280
Equity					
Shareholders' equity	10,359	–	–	–	10,359
Non-controlling interests	5	–	–	–	5
Total equity	10,364	–	–	–	10,364
Total equity and liabilities	310,253	826	(3,435)	–	307,644

Condensed consolidated statement of cash flows

	30 Jun 2013 £m				
	Under previous accounting requirements	Effect of IFRS changes			As reported after IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Cash flows from operating activities					
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*	701	–	(12)	31	720
Non-cash movements in operating assets and liabilities reflected in profit before tax and other items	972	(141)	(197)	(31)	603
Net cash flows from operating activities	1,673	(141)	(209)	–	1,323
Cash flows from investing activities	(516)	–	–	–	(516)
Cash flows from financing activities	(254)	–	–	–	(254)
Net increase (decrease) in cash and cash equivalents	903	(141)	(209)	–	553
Cash and cash equivalents at beginning of period	6,126	–	–	–	6,126
Effect of exchange rate changes on cash and cash equivalents	161	–	–	–	161
Cash and cash equivalents at end of period	7,190	(141)	(209)	–	6,840

	30 Jun 2012 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Cash flows from operating activities					
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*	1,299	–	(9)	(94)	1,196
Non-cash movements in operating assets and liabilities reflected in profit before tax and other items	(1,111)	60	61	94	(896)
Net cash flows from operating activities	188	60	52	–	300
Cash flows from investing activities	(85)	–	–	–	(85)
Cash flows from financing activities	(569)	–	–	–	(569)
Net (decrease) increase in cash and cash equivalents	(466)	60	52	–	(354)
Cash and cash equivalents at beginning of period	7,257	(310)	(206)	–	6,741
Effect of exchange rate changes on cash and cash equivalents	(54)	–	2	–	(52)
Cash and cash equivalents at end of period	6,737	(250)	(152)	–	6,335

	31 Dec 2012 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Cash flows from operating activities					
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*	3,188	–	(20)	(51)	3,117
Non-cash movements in operating assets and liabilities reflected in profit before tax and other items	(2,742)	190	89	51	(2,412)
Net cash flows from operating activities	446	190	69	–	705
Cash flows from investing activities	(326)	–	–	–	(326)
Cash flows from financing activities	(892)	–	–	–	(892)
Net (decrease) increase in cash and cash equivalents	(772)	190	69	–	(513)
Cash and cash equivalents at beginning of year	7,257	(310)	(206)	–	6,741
Effect of exchange rate changes on cash and cash equivalents	(101)	–	(1)	–	(102)
Cash and cash equivalents at end of year	6,384	(120)	(138)	–	6,126

Notes on the IFRS basis results continued

AC: Additional information on the effect of adoption of new and amended accounting standards continued

(b) The effect of the adoption of the new and amended accounting standards in 2013 on the Group's supplementary analysis of profit is shown in the table below.

Segment disclosure - profit before tax

	Half year 2013 £m			
	Under previous accounting requirements	Effect of IFRS changes		As reported after IFRS changes
		IFRS 11	IAS 19R	
Operating profit based on longer-term investment returns				
Asia operations:				
Asia insurance operations:				
Before reclassification of held for sale Japan Life business	482	(3)	–	479
Reclassification of Japan Life business	(5)	–	–	(5)
	477	(3)	–	474
Eastspring Investments	42	(4)	–	38
Other operations	903	–	–	903
Total	1,422	(7)	–	1,415
Short-term fluctuations in investment returns:				
Before reclassification of held for sale Japan Life business	(742)	(3)	(4)	(749)
Reclassification of Japan Life business	(6)	–	–	(6)
	(748)	(3)	(4)	(755)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(32)	–	32	–
Amortisation of acquisition accounting adjustments	(30)	–	–	(30)
Loss attaching to held for sale Japan Life business:				
Reclassification from operating profit based on longer-term investment returns	5	–	–	5
Reclassification from short-term fluctuations in investment returns	6	–	–	6
Remeasurement of carrying value of Japan Life business classified as held for sale	(135)	–	–	(135)
	(124)	–	–	(124)
Profit before tax attributable to shareholders	488	(10)	28	506
Basic EPS based on operating profit based on longer-term investment returns after tax and non-controlling interests (in pence)	42.2p	–	–	42.2p
Basic EPS based on total profit after tax and non-controlling interests (in pence)	13.5p	–	0.8p	14.3p

Segment disclosure – profit before tax continued

	Half year 2012 £m			
	Under previous accounting requirements	Effect of IFRS changes		After IFRS changes
		IFRS 11	IAS 19R	
Operating profit based on longer-term investment returns				
Asia operations:				
Asia insurance operations*	406	(3)	–	403
Eastspring Investments	34	(2)	–	32
Other operations	722	–	–	722
Total	1,162	(5)	–	1,157
Short-term fluctuations in investment returns:				
Before reclassification of held for sale Japan Life business	(32)	(2)	1	(33)
Reclassification of Japan Life business	(14)	–	–	(14)
	(46)	(2)	1	(47)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	87	–	(87)	–
Gain on dilution of Group holdings	42	–	–	42
Profit attaching to held for sale Japan Life business:				
Reclassification from operating profit based on longer-term investment returns	–	–	–	–
Reclassification from short-term fluctuations in investment returns	14	–	–	14
	14	–	–	14
Profit before tax attributable to shareholders	1,259	(7)	(86)	1,166
Basic EPS based on operating profit based on longer-term investment returns after tax and non-controlling interests (in pence)	34.6p	–	–	34.6p
Basic EPS based on total profit after tax and non-controlling interests (in pence)	37.5p	–	(2.5)p	35.0p

* For the half year 2012, Japan Life business operating profit was £nil.

Notes on the IFRS basis results continued

AC: Additional information on the effect of adoption of new and amended accounting standards continued

Segment disclosure – profit before tax continued

	Full year 2012 £m			
	Under previous accounting requirements	Effect of IFRS changes		After IFRS changes
		IFRS 11	IAS 19R	
Operating profit based on longer-term investment returns				
Asia operations:				
Asia insurance operations:				
Before reclassification of held for sale Japan Life business	913	(9)	–	904
Reclassification of Japan Life business	2	–	–	2
	915	(9)	–	906
Eastspring Investments	75	(6)	–	69
Other operations	1,545	–	–	1,545
Total	2,535	(15)	–	2,520
Short-term fluctuations in investment returns:				
Before reclassification of held for sale Japan Life business	204	(3)	5	206
Reclassification of Japan Life business	(19)	–	–	(19)
	185	(3)	5	187
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	50	–	(50)	–
Amortisation of acquisition accounting adjustments	(19)	–	–	(19)
Gain on dilution of Group holdings	42	–	–	42
Profit attaching to held for sale Japan Life business:				
Reclassification from operating profit based on longer-term investment returns	(2)	–	–	(2)
Reclassification from short-term fluctuations in investment returns	19	–	–	19
	17	–	–	17
Profit before tax attributable to shareholders	2,810	(18)	(45)	2,747
Basic EPS based on operating profit based on longer-term investment returns after tax and non-controlling interests (in pence)	76.9p	–	–	76.9p
Basic EPS based on total profit after tax and non-controlling interests (in pence)	86.5p	–	(1.4)p	85.1p

Statement of directors' responsibilities

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

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

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

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the six months ended 30 June 2013, and their impact on the condensed consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place during the six months ended 30 June 2013 and that have materially affected the financial position or the performance of the Group during the period and changes in the related party transactions described in the Group's consolidated financial statements for the year ended 31 December 2012.

The directors of Prudential plc as at 12 August are as listed in the Group's 2012 Annual Report except for the retirement of Keki Dadiseth and the addition of Anthony Nightingale and Alice Schroeder in the first six months of 2013.

Combined IFRS basis results and EEV basis results report
Independent review report to Prudential plc

Introduction
We have been engaged by the company to review the International Financial Reporting Standards (IFRS) basis financial information in the Half Year Financial Report for the six months ended 30 June 2013 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Cash Flows and the related explanatory notes.

We have also been engaged by the company to review the European Embedded Value (EEV) basis supplementary financial information for the six months ended 30 June 2013 which comprises the Operating Profit Based on Longer-Term Investment Returns, the Summary Consolidated Income Statement, the Movement in Shareholders' Equity, the Summary Statement of Financial Position and the related explanatory notes and Total Insurance and Investment Products New Business information.

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

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

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

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

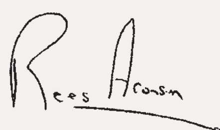
The EEV basis supplementary financial information has been prepared in accordance with the EEV principles using the methodology and assumptions set out in notes 1 and 15 to the EEV basis supplementary financial information. The EEV basis supplementary financial information should be read in conjunction with the IFRS basis financial information.

Our responsibility
Our responsibility is to express to the company a conclusion on the IFRS basis financial information in the Half Year Financial Report and the EEV basis supplementary financial information based on our reviews, as set out in our engagement letter with you dated 11 June 2013.

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the IFRS basis financial information in the Half Year Financial Report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Based on our review, nothing has come to our attention that causes us to believe that the EEV basis supplementary financial information for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with the EEV Principles, using the methodology and assumptions set out in notes 1 and 15 to the EEV basis supplementary financial information.



Rees Aronson

For and on behalf of KPMG Audit Plc
Chartered Accountants
London

12 August 2013

European Embedded Value (EEV) basis results

Operating profit based on longer-term investment returns[note (i)]

Results analysis by business area

	Note	2013 £m	2012 £m	
		Half year	Half year notes (iv),(v)	Full year notes (iv),(v)
Asia operations				
New business	2	659	547	1,266
Business in force	3	420	327	692
Long-term business		1,079	874	1,958
Eastspring investments[note (iv)]		38	32	69
Development expenses		(2)	(3)	(7)
Total		1,115	903	2,020
US operations				
New business	2	479	442	873
Business in force	3	537	363	737
Long-term business		1,016	805	1,610
Broker-dealer and asset management		34	17	39
Total		1,050	822	1,649
UK operations				
New business	2	130	152	313
Business in force	3	274	338	553
Long-term business		404	490	866
General insurance commission		15	17	33
Total UK insurance operations		419	507	899
M&G (including Prudential Capital)		225	199	371
Total		644	706	1,270
Other income and expenditure				
Investment return and other income		10	5	13
Interest payable on core structural borrowings		(152)	(140)	(280)
Corporate expenditure		(128)	(120)	(231)
Unwind of expected asset management margin[note (ii)]		(34)	(30)	(56)
Total		(304)	(285)	(554)
Solvency II implementation costs[note (iii)]		(14)	(29)	(50)
Restructuring costs[note (iii)]		(12)	(8)	(22)
Operating profit based on longer-term investment returns[note (i)]		2,479	2,109	4,313
Analysed as profits (losses) from:				
New business	2	1,268	1,141	2,452
Business in force	3	1,231	1,028	1,982
Long-term business		2,499	2,169	4,434
Asset management		297	248	479
Other results		(317)	(308)	(600)
Total		2,479	2,109	4,313

European Embedded Value (EEV) basis results continued

Notes

(i) EEV basis operating profit based on longer-term investment returns excludes the recurrent items of short-term fluctuations in investment returns, the mark to market value movements on core borrowings and the effect of changes in economic assumptions. In addition, for all reporting periods shown above, operating profit excludes the (loss) profit attaching to the held for sale Japan Life business. For half year and full year 2012, operating profit also excludes the dilution of the Group's holding in PPM South Africa and for full year 2012, the gain arising on the acquisition of REALIC. The amounts for these items are included in total EEV profit attributable to shareholders. The Company believes that operating profit, as adjusted for these items, better reflects underlying performance. Profit before tax and basic earnings per share include these items, together with actual investment returns.

(ii) The value of future profits or losses from asset management and service companies that support the Group's covered insurance businesses are included in the profits for new business and the in-force value of the Group's long-term business. The results of the Group's asset management operations include the profits from the management of internal and external funds. For EEV basis reporting, Group shareholders' other income is adjusted to deduct the unwind of the expected margin for the period arising from the management of the assets of the covered business (as defined in note 1(a)) by the Group's asset management businesses. The deduction is on a basis consistent with that used for projecting the results for covered insurance business. Group operating profit accordingly includes the variance between actual and expected profit in respect of management of the covered business assets.

(iii) Restructuring costs comprise the charge of £(11) million recognised on an IFRS basis and an additional £(1) million recognised on the EEV basis for the shareholders' share of restructuring costs incurred by the UK with-profits fund. Solvency II implementation costs comprise the charge of £(13) million recognised on an IFRS basis and an additional £(1) million recognised on the EEV basis.

(iv) The presentation of the comparative results for Eastspring investments for half year and full year 2012 have been adjusted retrospectively to reflect the adoption of IFRS 11 'Joint arrangements'. This has resulted in a reallocation of £(4) million in half year 2013 (half year 2012: £(2) million; full year 2012: £(6) million) from the tax charge on operating profit based on longer-term investment returns to the pre-tax result for Eastspring investments, with no effect on the net of tax EEV basis results (see note 1).

(v) The comparative results have been prepared using previously reported average exchange rates for the period.

Summarised consolidated income statement

	Note	2013 £m	2012 £m	
		Half year	Half year note (i)	Full year note (i)
Operating profit based on longer-term investment returns				
Asia operations		1,115	903	2,020
US operations		1,050	822	1,649
UK operations:				
UK insurance operations		419	507	899
M&G		225	199	371
		644	706	1,270
Other income and expenditure		(304)	(285)	(554)
Solvency II implementation costs		(14)	(29)	(50)
Restructuring costs		(12)	(8)	(22)
Operating profit based on longer-term investment returns		2,479	2,109	4,313
Short-term fluctuations in investment returns	5	(808)	209	510
Mark to market value movements on core borrowings	9	203	(113)	(380)
Effect of changes in economic assumptions	6	684	(361)	(2)
(Loss) profit attaching to held for sale Japan Life business	7	(47)	5	21
Gain on acquisition of REALIC	4	–	–	453
Gain on dilution of Group's holdings note (ii)		–	42	42
Profit before tax attributable to shareholders (including actual investment returns)		2,511	1,891	4,957
Tax attributable to shareholders' profit	11	(587)	(527)	(1,188)
Profit for the period attributable to equity holders of the Company		1,924	1,364	3,769

Notes

(i) The Group has adopted new accounting standards on 'Joint arrangements' (IFRS 11) and amendments to IAS 19 'Employee benefits', from 1 January 2013. In addition, the Group agreed in July 2013 to sell, dependent on regulatory approval, its closed book life insurance business in Japan. Accordingly, the presentation of the 2012 comparative EEV basis results and related notes have been adjusted from those previously published for the retrospective application of these standards and for the effect of the Japan Life business sale agreement, as described in note 1. This approach has been adopted consistently throughout this supplementary information.

(ii) During 2012, M&G reduced its holding in PPM South Africa, resulting in a reclassification from a subsidiary to an associate which gave rise to a gain on dilution of £42 million.

Earnings per share (in pence)

	Note	2013	2012*	
		Half year	Half year	Full year
Based on operating profit including longer-term investment returns, after related tax of £1,821 million (half year 2012: £1,541 million; full year 2012: £3,174 million)*	12	71.5p	60.8p	124.9p
Based on profit after tax of £1,924 million (half year 2012: £1,364 million; full year 2012: £3,769 million)*	12	75.5p	53.8p	148.3p

* As adjusted from 2012 results previously published for the adoption of IFRS 11 and revised IAS 19 – see note 1.

European Embedded Value (EEV) basis results continued

Dividends per share (in pence)

	2013	2012	
	Half year	Half year	Full year
Dividends relating to reporting period:			
Interim dividend (2013 and 2012)	9.73p	8.40p	8.40p
Final dividend (2012)	–	–	20.79p
Total	9.73p	8.40p	29.19p
Dividends declared and paid in reporting period:			
Current year interim dividend	–	–	8.40p
Final dividend for prior year	20.79p	17.24p	17.24p
Total	20.79p	17.24p	25.64p

Movement in shareholders' equity

		2013 £m	2012* £m	
	Note	Half year	Half year	Full year
Profit for the period attributable to equity shareholders		1,924	1,364	3,769
Items taken directly to equity:				
Exchange movements on foreign operations and net investment hedges:				
Exchange movements arising during the period		688	(124)	(467)
Related tax		5	(1)	(2)
Dividends		(532)	(440)	(655)
New share capital subscribed		1	14	17
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, net of related tax*		(26)	77	44
Reserve movements in respect of share-based payments		31	52	42
Treasury shares:				
Movement in own shares in respect of share-based payment plans		25	5	(13)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		2	3	36
Mark to market value movements on Jackson assets backing surplus and required capital:				
Mark to market value movements arising during the period		(60)	28	53
Related tax		21	(10)	(18)
Net increase in shareholders' equity	10	2,079	968	2,806
Shareholders' equity at beginning of period	10	22,443	19,637	19,637
Shareholders' equity at end of period	10	24,522	20,605	22,443

* As adjusted from 2012 results previously published for the adoption of revised IAS 19 - see note 1.

Comprising:	30 Jun 2013 £m Long-term business operations	30 Jun 2013 £m Asset management and other operations	30 Jun 2013 £m Total	30 Jun 2012 £m Long-term business operations	30 Jun 2012 £m Asset management and other operations	30 Jun 2012 £m Total	31 Dec 2012 £m Long-term business operations	31 Dec 2012 £m Asset management and other operations	31 Dec 2012 £m Total
Asia operations:									
Net assets of operations	10,921	217	11,138	8,849	202	9,051	9,462	207	9,669
Acquired goodwill	244	61	305	237	61	298	239	61	300
	11,165	278	11,443	9,086	263	9,349	9,701	268	9,969
US operations:									
Net assets of operations	6,638	127	6,765	5,257	108	5,365	6,032	108	6,140
Acquired goodwill	–	16	16	–	16	16	–	16	16
	6,638	143	6,781	5,257	124	5,381	6,032	124	6,156
UK insurance operations:									
Net assets of operations	7,096	11	7,107	6,296	13	6,309	6,772	25	6,797
M&G:									
Net assets of operations	–	511	511	–	348	348	–	392	392
Acquired goodwill	–	1,153	1,153	–	1,153	1,153	–	1,153	1,153
	–	1,664	1,664	–	1,501	1,501	–	1,545	1,545
	7,096	1,675	8,771	6,296	1,514	7,810	6,772	1,570	8,342
Other operations:									
Holding company net borrowings at market value	–	(2,580)	(2,580)	–	(2,258)	(2,258)	–	(2,282)	(2,282)
Other net assets	–	107	107	–	323	323	–	258	258
	–	(2,473)	(2,473)	–	(1,935)	(1,935)	–	(2,024)	(2,024)
Shareholders' equity at end of period	24,899	(377)	24,522	20,639	(34)	20,605	22,505	(62)	22,443
Representing:									
Net assets (liabilities)	24,655	(1,607)	23,048	20,402	(1,264)	19,138	22,266	(1,292)	20,974
Acquired goodwill	244	1,230	1,474	237	1,230	1,467	239	1,230	1,469
	24,899	(377)	24,522	20,639	(34)	20,605	22,505	(62)	22,443

Net asset value per share

	2013	2012	
	30 Jun	30 Jun	31 Dec
Based on EEV basis shareholders' equity of £24,522 million (half year 2012: £20,605 million; full year 2012: £22,443 million) (in pence)	958p	806p	878p
Number of issued shares at period end (millions)	2,559	2,556	2,557
Annualised return on embedded value†	16%	16%	16%

† Annualised return on embedded value is based on EEV operating profit after related tax, as shown in note 12, as a percentage of opening EEV basis shareholders' equity. Half year profits are annualised by multiplying by two.

European Embedded Value (EEV) basis results continued

Summary statement of financial position

		2013 £m	2012* £m	
	Note	30 Jun	30 Jun	31 Dec
Total assets less liabilities, before deduction for insurance funds†		286,583	250,903	271,768
Less insurance funds:†				
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds		(276,958)	(241,611)	(261,409)
Less shareholders' accrued interest in the long-term business		14,897	11,313	12,084
		(262,061)	(230,298)	(249,325)
Total net assets	10	24,522	20,605	22,443
Share capital		128	127	128
Share premium		1,890	1,887	1,889
IFRS basis shareholders' reserves		7,607	7,278	8,342
Total IFRS basis shareholders' equity	10	9,625	9,292	10,359
Additional EEV basis retained profit	10	14,897	11,313	12,084
Total EEV basis shareholders' equity (excluding non-controlling interests)	10	24,522	20,605	22,443

* As adjusted from 2012 results previously published for the adoption of IFRS 11 – see note 1.

† Including liabilities in respect of insurance products classified as investment contracts under IFRS 4. For half year 2013, the policyholder liabilities of the held for sale Japan Life business are included in total assets less liabilities, before deduction for insurance funds.

Notes on the EEV basis results

1 Basis of preparation, methodology and accounting presentation

The EEV basis results have been prepared in accordance with the EEV Principles issued by the European Insurance CFO Forum in May 2004. Where appropriate, the EEV basis results include the effects of adoption of International Financial Reporting Standards (IFRS). The EEV basis results have been prepared on the basis of the current EU solvency regime.

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles. The EEV basis results for 2013 and 2012 half years are unaudited. Except for the presentational change for the results of the held for sale Japan Life business and the consequential effects of the changes in accounting policies for IFRS reporting in respect of employee benefits and joint venture operations, as described below, the 2012 full year results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2012. The supplement included an unqualified audit report from the auditors.

Adjustment to the presentation of the 2012 comparative results for the effect of the agreement to sell Japan Life business and IFRS accounting pronouncements adopted in 2013

In July 2013, the Group agreed to sell, dependent on regulatory approval, its life insurance business in Japan, which we closed to new business in 2010. Also, in half year 2013, the Group has adopted new accounting standards on 'Joint arrangements' (IFRS 11) and amendments to IAS 19 'Employee benefits', from 1 January 2013. Accordingly, the half year and full year 2012 comparative EEV basis results have been retrospectively adjusted from those previously published for the application of the IFRS standards and for the effect of the Japan Life business sale agreement. The tables below show the results on the previous and revised basis of reporting.

	Half year 2013 £m			
	Under previous basis note (i)	Effect of change IFRS 11 note (ii)	Effect of change IAS 19 note (iii)	Under new policies
Operating profit based on longer-term investment returns				
Asia operations:				
Long-term business:				
Before reclassification of held for sale Japan Life business	1,087	–	–	1,087
Reclassification of Japan Life business	(8)	–	–	(8)
	1,079	–	–	1,079
Eastspring investments	42	(4)	–	38
Other results	1,362	–	–	1,362
Total operating profit based on longer-term investment returns	2,483	(4)	–	2,479
Short-term fluctuations in investment returns:				
Before reclassification of held for sale Japan Life business	(791)	–	(4)	(795)
Reclassification of Japan Life business	(13)	–	–	(13)
	(804)	–	(4)	(808)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(38)	–	38	–
Effect of changes in economic assumptions:				
Before reclassification of held for sale Japan Life business	687	–	–	687
Reclassification of Japan Life business	(3)	–	–	(3)
	684	–	–	684
Loss attaching to held for sale Japan Life business:				
Reclassification from operating profit based on longer-term investment returns	8	–	–	8
Reclassification from short-term fluctuations in investment returns	13	–	–	13
Reclassification from effect of changes in economic assumptions	3	–	–	3
Remeasurement of carrying value of Japan Life business classified as held for sale	(71)	–	–	(71)
	(47)	–	–	(47)
Mark to market value movements on core borrowings	203	–	–	203
Profit before tax	2,481	(4)	34	2,511
Tax attributable to shareholders' profit	(583)	4	(8)	(587)
Profit for the period attributable to shareholders	1,898	–	26	1,924
Items taken directly to shareholders' equity	181	–	(26)	155
Net increase in shareholders' equity	2,079	–	–	2,079
Total EPS based on total profit after tax (in pence)	74.5p	–	1.0p	75.5p

Notes on the EEV basis results continued

1 Basis of preparation, methodology and accounting presentation continued

Summary statement of financial position

	30 Jun 2013 £m			
	Under previous basis note (i)	Effect of change IFRS 11 note (ii)	Effect of change IAS 19	Under new policies
Total net assets				
Total assets less liabilities, before deduction for insurance funds:				
Before reclassification of held for sale Japan Life business	290,883	(3,330)	–	287,553
Reclassification of Japan Life business	(970)	–	–	(970)
	289,913	(3,330)	–	286,583
Less insurance funds:				
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds:				
Before reclassification of held for sale Japan Life business	(281,258)	3,330	–	(277,928)
Reclassification of Japan Life business	970	–	–	970
	(280,288)	3,330	–	(276,958)
Less shareholders' accrued interest in the long-term business	14,897	–	–	14,897
Total net assets	24,522	–	–	24,522

	Half year 2012 £m			
	As reported under previous basis note (i)	Effect of change IFRS 11 note (ii)	Effect of change IAS 19 note (iii)	Under new policies
Operating profit based on longer-term investment returns				
Asia operations:				
Long-term business:				
Before reclassification of held for sale Japan Life business	872	–	–	872
Reclassification of Japan Life business	2	–	–	2
	874	–	–	874
Eastspring investments	34	(2)	–	32
Other results	1,203	–	–	1,203
Total operating profit based on longer-term investment returns	2,111	(2)	–	2,109
Short-term fluctuations in investment returns:				
Before reclassification of held for sale Japan Life business	225	–	1	226
Reclassification of Japan Life business	(17)	–	–	(17)
	208	–	1	209
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	103	–	(103)	–
Effect of changes in economic assumptions:				
Before reclassification of held for sale Japan Life business	(371)	–	–	(371)
Reclassification of Japan Life business	10	–	–	10
	(361)	–	–	(361)
Profit attaching to held for sale Japan Life business:				
Reclassification from operating profit based on longer-term investment returns	(2)	–	–	(2)
Reclassification from short-term fluctuations in investment returns	17	–	–	17
Reclassification from effect of changes in economic assumptions	(10)	–	–	(10)
	5	–	–	5
Other items	(71)	–	–	(71)
Profit before tax	1,995	(2)	(102)	1,891
Tax attributable to shareholders' profit	(554)	2	25	(527)
Profit for the period attributable to shareholders	1,441	–	(77)	1,364
Items taken directly to shareholders' equity	(473)	–	77	(396)
Net increase in shareholders' equity	968	–	–	968
Total EPS based on total profit after tax (in pence)	56.8p	–	(3.0)p	53.8p

Summary statement of financial position

	30 Jun 2012 £m			
	As reported under previous basis	**Effect of change**		**Under new policies**
		IFRS 11 note (ii)	**IAS 19**	
Total net assets				
Total assets less liabilities, before deduction for insurance funds	253,810	(2,907)	–	250,903
Less insurance funds:				
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds	(244,518)	2,907	–	(241,611)
Less shareholders' accrued interest in the long-term business	11,313	–	–	11,313
Total net assets	20,605	–	–	20,605

	Full year 2012 £m			
	As reported under previous basis note (i)	**Effect of change**		**Under new policies**
		IFRS 11 note (ii)	**IAS 19** note (iii)	
Operating profit based on longer-term investment returns				
Asia operations:				
Long-term business:				
Before reclassification of held for sale Japan Life business	1,960	–	–	1,960
Reclassification of Japan Life business	(2)	–	–	(2)
	1,958	–	–	1,958
Eastspring investments	75	(6)	–	69
Other results	2,286	–	–	2,286
Total operating profit based on longer-term investment returns	4,319	(6)	–	4,313
Short-term fluctuations in investment returns:				
Before reclassification of held for sale Japan Life business	538	–	5	543
Reclassification of Japan Life business	(33)	–	–	(33)
	505	–	5	510
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	62	–	(62)	–
Effect of changes in economic assumptions:				
Before reclassification of held for sale Japan Life business	(16)	–	–	(16)
Reclassification of Japan Life business	14	–	–	14
	(2)	–	–	(2)
Profit attaching to held for sale Japan Life business:				
Reclassification from operating profit based on longer-term investment returns	2	–	–	2
Reclassification from short-term fluctuations in investment returns	33	–	–	33
Reclassification from effect of changes in economic assumptions	(14)	–	–	(14)
	21	–	–	21
Other items	115	–	–	115
Profit before tax	5,020	(6)	(57)	4,957
Tax attributable to shareholders' profit	(1,207)	6	13	(1,188)
Profit for the year attributable to shareholders	3,813	–	(44)	3,769
Items taken directly to shareholders' equity	(1,007)	–	44	(963)
Net increase in shareholders' equity	2,806	–	–	2,806

Total EPS based on total profit after tax (in pence)	150.1p	–	(1.8)p	148.3p

Notes on the EEV basis results continued

1 Basis of preparation, methodology and accounting presentation continued

Summary statement of financial position

	31 Dec 2012 £m			
	As reported under previous basis	Effect of change		Under new policies
		IFRS 11 note (ii)	IAS 19	
Total net assets				
Total assets less liabilities, before deduction for insurance funds	274,863	(3,095)	–	271,768
Less insurance funds:				
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds	(264,504)	3,095	–	(261,409)
Less shareholders' accrued interest in the long-term business	12,084	–	–	12,084
Total net assets	22,443	–	–	22,443

Notes

(i) Following the agreement in July 2013 to sell the Group's life insurance business in Japan, the results for the Japan Life business have been shown separately in the Group's analysis of profit – see note 7.

(ii) Consistent with the requirements of IFRS 11, the Group's EEV pre-tax results now incorporate the post-tax results for asset management joint venture operations. For life insurance joint venture operations, the EEV results continue to be presented on a pre-tax basis, ie as for the Group's other insurance businesses.

(iii) Under the amended IAS 19, all actuarial gains and losses and related tax are recognised in the movement in shareholders' equity, rather than in the summarised consolidated income statement.

a Covered business

The EEV results for the Group are prepared for 'covered business', as defined by the EEV Principles. Covered business represents the Group's long-term insurance business for which the value of new and in-force contracts is attributable to shareholders. The results for covered business, including the Group's investments in joint venture insurance operations, are presented on a pre-tax basis, with tax reported separately. The EEV basis results for the Group's covered business are then combined with the IFRS basis results of the Group's other operations. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management.

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

With two principal exceptions, covered business comprises the Group's long-term business operations. The principal exceptions are as follows:

- The closed Scottish Amicable Insurance Fund (SAIF), which is a ring-fenced sub-fund of the Prudential Assurance Company (PAC) long-term fund, established by a Court approved Scheme of Arrangement in October 1997. SAIF is closed to new business and the assets and liabilities of the fund are wholly attributable to the policyholders of the fund; and
- The presentational treatment of the Group's principal defined benefit pension scheme, the Prudential Staff Pension Scheme (PSPS). The partial recognition of the surplus for PSPS is recognised in 'Other' operations, as described in note 1(c)(vi).

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

b Methodology

(i) Embedded value

Overview

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

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

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

Notwithstanding the basis of presentation of results (as explained in note 1(c)(iv)) no smoothing of market or account balance values, unrealised gains or investment return is applied in determining the embedded value or profit before tax. Separately, the analysis of profit is delineated between operating profit based on longer-term investment returns and other constituent items (as explained in note 1(c)(i)).

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

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

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

Principal economic assumptions
The EEV basis results for the Group's operations have been determined using economic assumptions where the long-term expected rates of return on investments and risk discount rates are set by reference to period end rates of return on government bonds.

Expected returns on equity and property asset classes and corporate bonds are derived by adding a risk premium, based on the Group's long-term view, to the risk-free rate.

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

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

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

The contribution from new business represents profits determined by applying operating assumptions as at the end of the period.

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

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

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

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

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

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

Notes on the EEV basis results continued

1 Basis of preparation, methodology and accounting presentation continued

Cost of capital

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

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

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

Financial options and guarantees

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

- *Asia operations*

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

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

- *US operations (Jackson)*

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

Fixed annuities provide that, at Jackson's discretion, it may reset the interest rate credited to policyholders' accounts, subject to a guaranteed minimum. The guaranteed minimum return varies from 1.0 per cent to 5.5 per cent for all periods throughout these results, depending on the particular product, jurisdiction where issued, and date of issue. For half year 2013, 86 per cent (half year 2012: 85 per cent; full year 2012: 86 per cent) of the account values on fixed annuities are for policies with guarantees of 3 per cent or less. The average guarantee rate is 2.8 per cent for all periods throughout these results.

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

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

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

- *UK insurance operations*

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

With-profits products provide returns to policyholders through bonuses that are smoothed. There are two types of bonuses – annual and final. Annual bonuses are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular product. Unlike annual bonuses, final bonuses are guaranteed only until the next bonus declaration. The with-profits fund also held a provision on the Pillar I Peak 2 basis of £47 million at 30 June 2013 (30 June 2012: £90 million; 31 December 2012: £47 million) to honour guarantees on a small number of guaranteed annuity option products.

The only material guaranteed surrender values relate to investments in the PruFund range of with-profits funds. For these products the policyholder can choose to pay an additional management charge. In return, at the selected guarantee date, the fund will be increased if necessary to a guaranteed minimum value (based on the initial investment adjusted for any prior withdrawals). The with-profits fund held a reserve of £52 million at 30 June 2013 (30 June 2012: £65 million; 31 December 2012: £52 million) in respect of this guarantee.

The Group's main exposure to guaranteed annuity options in the UK is through the non-covered business of SAIF. A provision on the Pillar I Peak 2 basis of £325 million was held in SAIF at half year 2013 (half year 2012: £403 million; full year 2012: £371 million) to honour the guarantees. As described in note 1(a) above, the assets and liabilities are wholly attributable to the policyholders of the fund. Therefore, the movement in the provision has no direct impact on shareholders.

Time value

The value of financial options and guarantees comprises two parts. One is given by a deterministic valuation on best estimate assumptions (the intrinsic value). The other part arises from the variability of economic outcomes in the future (the time value).

Where appropriate, a full stochastic valuation has been undertaken to determine the time value of the financial options and guarantees.

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations. Assumptions specific to the stochastic calculations reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of long-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes but with an allowance for correlation between the various asset classes. Details of the key characteristics of each model are given in notes 15(iv),(v) and (vi).

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

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

(ii) Level of required capital

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

- Asia operations: the level of required capital has been set to an amount at least equal to higher of local statutory requirements and the economic capital requirement;
- US operations: the level of required capital has been set at 250 per cent (half year and full year 2012: 235 per cent) of the risk-based capital required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level (CAL); and
- UK insurance operations: the capital requirements are set at the higher of Pillar I and Pillar II requirements for shareholder-backed business of UK insurance operations as a whole.

(iii) Allowance for risk and risk discount rates

Overview

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

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

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

Market risk allowance

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

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

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

Additional credit risk allowance

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

- Expected long-term defaults;
- Credit risk premium (to reflect the volatility in downgrade and default levels); and
- Short-term downgrades and defaults.

Notes on the EEV basis results continued

1 Basis of preparation, methodology and accounting presentation continued

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

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

Asia operations

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

In half year 2013 and full year 2012, projected rates of return for holdings of corporate bonds comprise the risk-free rate plus an assessment of long-term spread over the risk-free rate. This basis aligns with the approach for UK with-profit holdings of corporate bonds and, more generally, is consistent with the use of long-term risk premiums for holdings of other categories of investments across the Group's operations. For half year 2012 market spreads at the reporting date, rather than long-term spreads, were applied. The main effects of the change are for holdings in Hong Kong, Korea, Malaysia and Singapore.

US operations (Jackson)

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

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

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

After taking these and related factors into account and based on market conditions, the risk discount rate for general account business includes an additional allowance of 150 basis points (half year 2012: 200 basis points; full year 2012: 150 basis points) for credit risk. For VA business, the additional allowance has been set at one-fifth (equivalent to 30 basis points (half year 2012: 40 basis points; full year 2012: 30 basis points)) of the non-VA business to reflect the proportion of the VA business that is allocated to holdings of general account debt securities. The level of the additional allowance is assessed at each reporting period to take account of prevailing credit conditions and as the business in force alters over time.

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

UK operations

(1) Shareholder-backed annuity business

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

In the annuity MCEV calculations, the future cash flows are discounted using the swap yield curve plus an allowance for liquidity premium based on Prudential's assessment of the expected return on the assets backing the annuity liabilities after allowing for expected long-term defaults, a credit risk premium, an allowance for a 1 notch downgrade of the portfolio subject to credit risk and an allowance for short-term defaults. For the purposes of presentation in the EEV results, the results on this basis are reconfigured. Under this approach, the projected earned rate of return on the debt securities held is determined after allowing for expected long-term defaults and, where necessary, an additional allowance for an element of short-term downgrades and defaults to bring the allowance in the earned rate up to best estimate levels. The allowances for credit risk premium, 1 notch downgrade and the remaining element of short-term downgrade and default allowances are incorporated into the risk margin included in the discount rate, as shown in note 15(iii).

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

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

(3) With-profits fund holdings of debt securities

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

Allowance for non-diversifiable non-market risks

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

A base level allowance of 50 basis points is applied to cover the non-diversifiable non-market risks associated with the Group's businesses. For the Group's US business and UK business other than shareholder-backed annuity, no additional allowance is necessary. For UK shareholder-backed annuity business a further allowance of 50 basis points is used to reflect the longevity risk which is of particular relevance. For the Group's Asia operations in China, India, Indonesia, Philippines, Taiwan, Thailand and Vietnam, additional allowances are applied for emerging market risk ranging from 100 to 250 basis points.

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

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

(v) Debt capital

Core structural debt liabilities are carried at market value. As the liabilities are generally held to maturity or for the long term, no deferred tax asset or liability has been established on the difference, compared to the IFRS carrying value. Accordingly, no deferred tax credit or charge is recorded in the results for the reporting period in respect of the mark to market value adjustment.

(vi) Foreign currency translation

Foreign currency profits and losses have been translated at average exchange rates for the period. Foreign currency assets and liabilities have been translated at period end rates of exchange. The purpose of translating the profits and losses at average exchange rates, notwithstanding the fact that EEV profit represents the incremental value added on a discounted cash flow basis, is to maintain consistency with the methodology applied for IFRS basis reporting.

c Accounting presentation

(i) Analysis of profit before tax

To the extent applicable, the presentation of the EEV profit for the period is consistent with the basis that the Group applies for analysis of IFRS basis profits before shareholder taxes between operating and non-operating results. Operating results reflect the underlying results including longer-term investment returns (which are determined as described in note 1(c)(ii) below) and incorporate the following:

- New business contribution, as defined in note 1(b)(i);
- Unwind of discount on the value of in-force business and other expected returns, as described in note 1(c)(iv) below;
- The impact of routine changes of estimates relating to non-economic assumptions, as described in note 1(c)(iii) below; and
- Non-economic experience variances, as described in note 1(c)(v) below.

Non-operating results comprise the recurrent items of short-term fluctuations in investment returns, the mark to market value movements on core borrowings and the effect of changes in economic assumptions.

On 16 July 2013, the Group agreed, dependent on regulatory approval, to sell its Japan Life business. For half year 2013, the effect of the change in carrying value and the results for the business have been presented separately in the Group's analysis of profit. For half year and full year 2012, operating profits based on longer-term investment returns excluded the gain on dilution of the Group holding's in PPM South Africa and in full year 2012 excluded the gain recognised on the acquisition of REALIC.

(ii) Operating profit

For the investment element of the assets covering the net worth of long-term insurance business, investment returns are recognised in operating results at the expected long-term rate of return. These expected returns are calculated by reference to the asset mix of the portfolio. For the purpose of calculating the longer-term investment return to be included in the operating result of the PAC with-profits fund of UK operations, where assets backing the liabilities and unallocated surplus are subject to market volatility, asset values at the beginning of the reporting period are adjusted to remove the effects of short-term market movements, as explained in note 1(c)(iv) below.

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

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

Notes on the EEV basis results continued

1 Basis of preparation, methodology and accounting presentation continued

(iii) Effect of changes in operating assumptions

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

(iv) Unwind of discount and other expected returns

The unwind of discount and other expected returns is determined by reference to the value of in-force business, required capital and surplus assets at the start of the period as adjusted for the effect of changes in economic and operating assumptions reflected in the current period.

For UK insurance operations the amount included within operating results based on longer-term investment returns represents the unwind of discount on the value of in-force business at the beginning of the period (adjusted for the effect of current period assumption changes), the unwind of discount on the additional value representing the shareholders' share of smoothed surplus assets retained within the PAC with-profits fund (as explained in note 1(c)(ii) above), and the expected return on shareholders' assets held in other UK long-term business operations. Surplus assets retained within the PAC with-profits fund are smoothed for this purpose to remove the effects of short-term investment volatility from operating results. In the summary statement of financial position and for total profit reporting, asset values and investment returns are not smoothed. At 30 June 2013 the shareholders' interest in the smoothed surplus assets used for this purpose only, were £25 million lower (30 June 2012: £9 million higher; 31 December 2012: £121 million lower) than the surplus assets carried in the statement of financial position.

(v) Operating experience variances

Operating profits include the effect of experience variances on non-economic assumptions, which are calculated with reference to the embedded value assumptions at the end of the reporting period, such as persistency, mortality and morbidity, expenses and other factors. Further details of these assumptions are shown in notes 15(vii),(viii) and (ix).

(vi) Pension costs

Profit before tax

Movements on the shareholders' share of surpluses (to the extent not restricted by IFRIC 14) and deficits of the Group's defined benefit pension schemes adjusted for contributions paid in the period are recorded within Other Comprehensive Income. Consistent with the basis of distribution of bonuses and the treatment of the estate described in notes 1(b)(i) and (iv), the shareholders' share incorporates 10 per cent of the proportion of the financial position attributable to the PAC with-profits fund. The financial position is determined by applying the requirements of IAS 19.

Actuarial and other gains and losses of defined benefit pension schemes

For the Group's defined benefit pension schemes the EEV results reflect the IAS 19 position booked for IFRS reporting. Consistent with this approach, to the extent of recognition of any surplus, the actuarial and other gains and losses include:

- The difference between actual and expected return on the scheme assets;
- Experience gains and losses on scheme liabilities;
- The impact of altered economic and other assumptions on the discounted value of scheme liabilities; and
- For pension schemes where the IAS 19 position reflects a deficit funding obligation, actuarial and other gains and losses includes the movement in estimates of deficit funding requirements.

In addition, this item includes the effect of partial recognition of the Prudential Staff Pension Scheme surplus that arose at full year 2012. This partial recognition reflects the impact of the 5 April 2011 triennial valuation that was completed in 2012. Under that valuation, there was sufficient actuarial surplus to permit a reduction in employer contributions to the minimum level under the trust deed rules, thereby allowing recoverability of part of the surplus in future periods.

These items are recorded net of tax in the movement in shareholders' equity, consistent with the IFRS basis of presentation under the revised IAS 19.

(vii) Effect of changes in economic assumptions

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

(viii) Taxation

The profit for the period for covered business is in most cases calculated initially at the post-tax level. The post-tax profit for covered business is then grossed up for presentation purposes at the rates of tax applicable to the countries and periods concerned. In the UK, the rate applied for half year 2013 is 23 per cent (half year 2012: 24 per cent; full year 2012: 23 per cent). For Jackson, the US federal tax rate of 35 per cent is applied to gross up movements on the value of in-force business. The overall tax rate includes the impact of tax effects determined on a local regulatory basis. For Asia, similar principles apply subject to the availability of taxable profits. Tax payments and receipts included in the projected cash flows to determine the value of in-force business are calculated using rates that have been substantively enacted by the end of the reporting period. Possible future changes of rate are not anticipated. See note 15(ix) for further details.

(ix) Inter-company arrangements

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

(x) Foreign exchange rates

Foreign currency results have been translated as discussed in note 1(b)(vi), for which the principal exchange rates are as follows:

Local currency: £	Closing rate at 30 Jun 2013	Average rate for the 6 months to 30 Jun 2013	Closing rate at 30 Jun 2012	Average rate for the 6 months to 30 Jun 2012	Closing rate at 31 Dec 2012	Average rate for the 12 months to 31 Dec 2012
China	9.31	9.56	9.97	9.97	10.13	10.00
Hong Kong	11.76	11.98	12.17	12.24	12.60	12.29
India	90.13	84.94	87.57	82.27	89.06	84.70
Indonesia	15,053.25	15,024.12	14,731.67	14,460.30	15,665.76	14,842.01
Korea	1,732.15	1,703.47	1,796.42	1,800.16	1,740.22	1,785.07
Malaysia	4.79	4.75	4.98	4.87	4.97	4.89
Singapore	1.92	1.92	1.99	1.99	1.99	1.98
Taiwan	45.46	45.78	46.87	46.77	47.20	46.88
Thailand	47.04	46.07	49.81	49.11	49.72	49.26
Vietnam	32,161.63	32,305.17	32,788.45	32,937.67	33,875.42	33,083.59
US	1.52	1.54	1.57	1.58	1.63	1.58

2 Analysis of new business contribution

	Half year 2013						
	New business premiums		Annual premium and contribution equivalents (APE)	Present value of new business premiums (PVNBP)	Pre-tax new business contribution	New business margin	
	Single £m	Regular £m	£m	£m	£m	APE %	PVNBP %
Asia operations	1,097	899	1,010	5,524	659	65	11.9
US operations	7,957	1	797	7,957	479	60	6.0
UK insurance operations	2,435	112	355	2,943	130	37	4.4
Total	11,489	1,012	2,162	16,424	1,268	59	7.7

	Half year 2012						
	New business premiums		Annual premium and contribution equivalents	Present value of new business premiums	Pre-tax new business contribution	New business margin	
	Single £m	Regular £m	£m	£m	£m	APE %	PVNBP %
Asia operations	669	832	899	4,725	547	61	11.6
US operations	7,119	8	719	7,180	442	61	6.2
UK insurance operations	2,960	116	412	3,495	152	37	4.3
Total	10,748	956	2,030	15,400	1,141	56	7.4

Notes on the EEV basis results continued

2 Analysis of new business contribution continued

	Full year 2012						
	New business premiums		Annual premium and contribution equivalents	Present value of new business premiums	Pre-tax new business contribution	New business margin	
	Single £m	Regular £m	£m	£m	£m	APE %	PVNBP %
Asia operations	1,568	1,740	1,897	10,544	1,266	67	12.0
US operations	14,504	12	1,462	14,600	873	60	6.0
UK insurance operations	6,286	207	836	7,311	313	37	4.3
Total	22,358	1,959	4,195	32,455	2,452	58	7.6

	New business contribution £m		
	Half year 2013	Half year 2012	Full year 2012
Asia operations:			
China	17	14	26
Hong Kong	162	101	210
India	10	10	19
Indonesia	228	179	476
Korea	19	19	26
Taiwan	16	17	48
Other	207	207	461
Total Asia operations	659	547	1,266

3 Operating profit from business in force

(i) Group summary

	Half year 2013 £m			
	Asia operations note (ii)	US operations note (iii)	UK insurance operations note (iv)	Total
Unwind of discount and other expected returns	400	287	267	954
Effect of changes in operating assumptions	(13)	70	–	57
Experience variances and other items	33	180	7	220
Total	420	537	274	1,231

	Half year 2012* £m			
	Asia operations note (ii)	US operations note (iii)	UK insurance operations note (iv)	Total
Unwind of discount and other expected returns	318	198	245	761
Effect of changes in operating assumptions	(3)	35	43	75
Experience variances and other items	12	130	50	192
Total	327	363	338	1,028

* As adjusted for the effect of the Japan Life business sale agreement – see note 1.

	Full year 2012* £m			
	Asia operations note (ii)	**US operations** note (iii)	**UK insurance operations** note (iv)	**Total**
Unwind of discount and other expected returns	595	412	482	1,489
Effect of changes in operating assumptions	22	35	87	144
Experience variances and other items	75	290	(16)	349
Total	692	737	553	1,982

* As adjusted for the effect of the Japan Life business sale agreement – see note 1.

(ii) Asia operations

	2013 £m	2012* £m	
	Half year	**Half year**	**Full year**
Unwind of discount and other expected returns[note (a)]	400	318	595
Effect of changes in operating assumptions:			
Mortality and morbidity[note (b)]	4	2	79
Persistency and withdrawals[note (c)]	(6)	–	(24)
Expense[note (d)]	2	–	(45)
Other	(13)	(5)	12
	(13)	(3)	22
Experience variance and other items:			
Mortality and morbidity[note (e)]	29	34	57
Persistency and withdrawals[note (f)]	(4)	(14)	52
Expense[note (g)]	(15)	(25)	(30)
Other	23	17	(4)
	33	12	75
Total Asia operations	420	327	692

* As adjusted for the effect of the Japan Life business sale agreement – see note 1.

Notes

(a) The increase in unwind of discount and other expected returns of £82 million from £318 million in half year 2012 to £400 million in half year 2013 mainly reflects the £68 million effect of the growth in the opening in-force value (adjusted for assumption changes) on which the discount rates are applied, combined with the £7 million effect of an increase in return on net worth and the £7 million effect of higher risk discount rates, driven by the increase in long-term interest rates.

(b) In full year 2012, the credit of £79 million for mortality and morbidity assumption changes primarily reflected mortality improvements in Hong Kong and Singapore and revised assumptions for critical illness business in Singapore.

(c) In full year 2012, the charge of £(24) million for persistency and withdrawals reflected a number of offsetting items, including adjustments in respect of partial withdrawals in Malaysia.

(d) In full year 2012, the charge of £(45) million for expense assumption changes principally arose in Malaysia and reflected changes to the pension entitlements of agents.

(e) The favourable effect of mortality and morbidity experience in half year 2013 of £29 million (half year 2012: £34 million; full year 2012: £ 57 million) reflects continued better than expected experience, principally arising in Hong Kong, Indonesia, Malaysia and Singapore.

(f) The persistency and withdrawals experience variance of £(4) million in half year 2013 reflects the net effect of small variances across the territories. The positive experience variance of £52 million in full year 2012 reflected a combination of favourable experience in Hong Kong and Indonesia.

(g) The negative expense experience variance of £(15) million in half year 2013 (half year 2012: £(25) million; full year 2012: £(30) million) principally reflects expense overruns for operations which are currently sub-scale (China, Malaysia Takaful and Taiwan) and in India where the business model is being adapted in response to the regulatory changes introduced in recent years.

Notes on the EEV basis results continued

3 Operating profit from business in force continued

(iii) US operations

	2013 £m	2012 £m	
	Half year	Half year	Full year
Unwind of discount and other expected returns[note (a)]	287	198	412
Effect of changes in operating assumptions:			
Persistency[note (b)]	73	45	45
Other[note (c)]	(3)	(10)	(10)
	70	35	35
Experience variances and other items:			
Spread experience variance[note (d)]	125	98	205
Amortisation of interest-related realised gains and losses[note (e)]	45	44	91
Other	10	(12)	(6)
	180	130	290
Total US operations	537	363	737

Notes

(a) The increase in unwind of discount and other expected returns of £89 million from £198 million for half year 2012 to £287 million in half year 2013 includes the £71 million effect of the increase in opening value of in-force business (after economic assumption changes and including £23 million in respect of the acquired REALIC book) together with the positive effect of higher risk discount rates of £18 million.

(b) The effect of changes in persistency assumptions of £73 million in half year 2013 (half year and full year 2012: £45 million) primarily relates to a reduction in lapse rates from the end of the surrender charge period, principally for VA business.

(c) Other changes in operating assumptions include the effect of changes in mortality assumptions, the capitalised effect of changes in projected policyholder variable annuity fees and the effect of other regular updates to reflect experience. In half year and full year 2012, the effect of changes in mortality assumptions also included the beneficial effect of the explicit modelling of projected mortality improvement.

(d) The spread assumption for Jackson is determined on a longer-term basis, net of provision for defaults. The spread experience variance in half year 2013 of £125 million (half year 2012: £98 million; full year 2012: £205 million) includes the positive effect of transactions undertaken to more closely match the overall asset and liability duration.

(e) The amortisation of interest-related gains and losses reflects the fact that when bonds that are neither impaired nor deteriorating are sold and reinvested there will be a consequent change in the investment yield. The realised gain or loss is amortised into the result over the period when the bonds would have otherwise matured to better reflect the long-term returns included in operating profits.

(iv) UK insurance operations

	2013 £m	2012 £m	
	Half year	Half year	Full year
Unwind of discount and other expected returns[note (a)]	267	245	482
Effect of change in UK corporate tax rate[note (b)]	–	43	87
Other items[note (c)]	7	50	(16)
Total UK insurance operations	274	338	553

Notes

(a) The increase in unwind of discount and other expected returns of £22 million from £245 million in half year 2012 to £267 million for half year 2013 reflects a £14 million effect of higher discount rates, driven by the increase in gilt rates, together with an effect of £8 million arising from the growth in the opening value of in-force.

(b) For half year and full year 2012, the beneficial effect of the change in UK corporate tax rates of £43 million and £87 million respectively, reflects the reduction in corporate rates enacted in that period (half year 2012: from 25 to 24 per cent, full year 2012: from 25 to 23 per cent). Consistent with the Group's approach of grossing up the movement in the net of tax value of in-force for shareholder tax, the £43 million (full year 2012: £87 million) benefit is presented gross. No changes to UK corporation tax rates were enacted during the first half of 2013.

(c) The credit of £50 million in half year 2012 included £31 million in respect of the effect of portfolio rebalancing for annuity business. The negative effect of £(16) million in full year 2012 included a charge of £(52) million for the strengthening of mortality assumptions, net of reserve releases and the effects of portfolio rebalancing for annuity business.

4 Acquisition of bancassurance partnership agreement and subsidiaries

2013

Partnership agreement with Thanachart Bank and purchase of Thanachart Life Assurance Company Limited

On 3 May 2013, the agreement Prudential plc, through its subsidiary Prudential Life Assurance (Thailand) Public Company Limited (Prudential Thailand), entered into in November 2012 to establish an exclusive 15-year partnership with Thanachart Bank Public Company Limited (Thanachart Bank) to develop jointly their bancassurance business in Thailand was launched. At the same time Prudential Thailand completed the acquisition of 100 per cent of the voting interest in Thanachart Life Assurance Company Limited (Thanachart Life), a wholly-owned life insurance subsidiary of Thanachart Bank.

The consideration for the transaction is THB 18.981 billion (£412 million), of which THB 17.500 billion (£380 million) was settled in cash on completion in May 2013 with a further payment of THB 0.946 billion (£20 million), for adjustments to reflect the net asset value as at completion date, paid in July 2013. In addition, a deferred payment of THB 0.535 billion (£12 million) is payable 12 months after completion. The acquired assets are comprised of:

	£m
Acquired assets:	
Net worth (including acquisition of distribution rights)	386
Value of in force acquired	26
Transaction consideration	412

The purchase consideration paid was equivalent to the fair value of the acquired assets and liabilities assumed. No goodwill has been recognised.

2012

Acquisition of Reassure America Life Insurance Company (REALIC)

On 4 September 2012, the Group through its indirect wholly-owned subsidiary Jackson National Life Insurance Company, completed the acquisition of 100 per cent issued share capital of SRLC America Holding Corp. and its primary operating subsidiary Reassure America Life Insurance Company (REALIC). REALIC is a US-based insurance company whose business model was to acquire, through purchase or reinsurance, closed blocks of insurance business, primarily life assurance risks. REALIC did not and does not write new business. The purchase consideration, which remains subject to final agreement under the terms of the transaction with Swiss Re, is £370 million (US$587 million).

In full year 2012, the gain of £453 million arising from the acquisition of REALIC was excluded from the Group's EEV operating profit based on longer-term investment returns.

5 Short-term fluctuations in investment returns

Short-term fluctuations in investment returns, net of the related change in the time value of cost of options and guarantees, arise as follows:

(i) Group summary

	2013 £m	2012* £m	
	Half year	Half year	Full year
Insurance operations:			
Asia note (ii)	(282)	199	362
US note (iii)	(404)	(62)	(254)
UK note (iv)	(92)	25	315
	(778)	162	423
Other operations:			
Other note (v)	(30)	62	119
Economic hedge value movement note (vi)	–	(15)	(32)
Total	(808)	209	510

* As adjusted from 2012 results previously published for the adoption of revised IAS 19 and the effect of the Japan Life business sale agreement – see note 1.

Notes on the EEV basis results continued

5 Short-term fluctuations in investment returns continued

(ii) Asia operations

For half year 2013, the negative short-term fluctuations in investment returns of £(282) million principally arise in Hong Kong of £(158) million and in Singapore of £(127) million, primarily reflecting unrealised value reductions on bonds, driven by the increase in long-term interest rates.

For half year 2012, the positive short-term fluctuations in investment returns of £199 million in Asia operations mainly reflected unrealised gains on bonds, principally arising in Vietnam of £59 million, Hong Kong of £51 million, Singapore of £40 million and Taiwan of £25 million, together with an unrealised gain of £13 million on the Group's 7.74 per cent stake in China Life Insurance Company of Taiwan which was sold during the second half of 2012.

For full year 2012, the positive short-term fluctuations in investment returns of £362 million in Asia operations were driven by unrealised gains on bonds and higher equity markets, principally arising in Hong Kong of £139 million mainly relating to positive returns on bonds backing participating business, Singapore of £114 million primarily relating to increasing future expected fee income for unit-linked business and unrealised gains on bonds, Taiwan of £56 million for unrealised gains on bonds and CDOs and India of £30 million.

(iii) US operations

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

	2013 £m	2012 £m	
	Half year	Half year	Full year
Investment return related experience on fixed income securities[note (a)]	12	(45)	(99)
Investment return related impact due to changed expectation of profits on in-force variable annuity business in future periods based on current period separate account return, net of related hedging activity[note (b)]	(472)	(42)	(183)
Actual less long-term return on equity based investments and other items	56	25	28
	(404)	(62)	(254)

Notes

(a) The credit (charge) relating to fixed income securities comprises the following elements:
- the excess of actual realised gains (losses) over the amortisation of interest related realised gains and losses recorded in the profit and loss account;
- credit loss experience (versus the longer-term assumption); and
- the impact of de-risking activities within the portfolio.

(b) This item reflects the net impact of:
- variances in projected future fees and future benefit costs arising from the effect of market fluctuations on the growth in separate account asset values in the current reporting period; and
- related hedging activity arising from realised and unrealised gains and losses on equity related hedges and interest rate options.

In half year 2013, there was a 6.65 per cent composite rate of return for the variable annuity separate account assets (principally equities and bonds) compared with an assumed longer-term rate of return of 3.0 per cent for the period. Consequently, the asset values and, therefore, projected future fees at 30 June 2013 were higher than assumed. However, net of the impact of related hedging effects there is a short-term fluctuation of £(472) million.

(iv) UK insurance operations

The short-term fluctuations in investment returns for UK insurance operations arise from the following types of business:

	2013 £m	2012 £m	
	Half year	Half year	Full year
With-profits[note (a)]	(55)	58	285
Shareholder-backed annuity[note (b)]	(63)	(1)	(3)
Unit-linked and other	26	(32)	33
	(92)	25	315

Notes

(a) In half year 2013, a return of 3.3 per cent on policyholder asset shares was achieved (half year 2012: 3.5 per cent; full year 2012: 10.5 per cent). The short-term fluctuations in investment returns for with-profits business include the impact of the difference between the actual earned and expected rates of return for the policyholder asset shares and unallocated surplus of the fund.
For full year 2012, the credit of £285 million reflected a return on policyholder asset shares and unallocated surplus of the fund of 9.8 per cent against an expected rate of 5.0 per cent for the year.

(b) Short-term fluctuations in investment returns for shareholder-backed annuity business comprise: (1) losses on surplus assets reflecting increases in corporate bond and gilt yields; (2) the difference between actual and expected default experience; and (3) the effect of mismatching for assets and liabilities of different durations and other short-term fluctuations in investment returns.

(v) Other items

Short-term fluctuations of Other operations in half year 2013 of £(30) million (half year 2012: £62 million; full year 2012: £119 million) primarily represent unrealised value movements on investments, including centrally held swaps to manage foreign exchange and certain macro-economic exposures of the Group.

(vi) Economic hedge value movements

This item represents the costs on short-dated hedge contracts taken out in the first half of 2012 to provide downside protection against severe equity market falls through a period of particular uncertainty with respect to the Eurozone. The hedge contracts were terminated in the second half of 2012.

6 Effect of changes in economic assumptions

The effects of changes in economic assumptions for in-force business, net of the related change in the time value of cost of options and guarantees, included within profit before tax (including actual investment returns) arise as follows:

(i) Group summary

	2013 £m	2012* £m	
	Half year	Half year	Full year
Asia operations[note (ii)]	333	(244)	(135)
US operations[note (iii)]	62	(79)	85
UK insurance operations[note (iv)]	289	(38)	48
Total	684	(361)	(2)

* As adjusted for the effect of the Japan Life business sale agreement – see note 1.

Notes on the EEV basis results continued

6 Effect of changes in economic assumptions continued

(ii) Asia operations

The effect of changes in economic assumptions for Asia operations in half year 2013 of £333 million primarily reflects the impact relating to the increase in long-term interest rates in the period, principally in Hong Kong of £374 million, Singapore of £73 million and Taiwan of £56 million for the increase in fund earned rates for participating business. There are partial offsets arising in Indonesia of £(136) million and in Malaysia of £(33) million, mainly reflecting the negative impact of discounting health and protection products at higher rates.

The charge of £(244) million in half year 2012 for the effect of changes in economic assumptions primarily reflected decreases in fund earned rates, mainly arising in Hong Kong of £(79) million and Vietnam of £(63) million due to the reduction in the assumed long-term yields and in Singapore of £(73) million for the narrowing of corporate bond spreads.

The charge of £(135) million in full year 2012 for the effect of changes in economic assumptions principally arose in Hong Kong of £(320) million, primarily reflecting the effect on projected cash flows of de-risking the asset portfolio and the reduction in fund earned rates on participating business, driven by the very low interest rate environment, and in Vietnam of £(47) million, following the fall in bond yields. There were partial offsets totalling £232 million, principally arising in Malaysia and Indonesia, mainly reflecting the positive impact of discounting projected health and protection profits at lower rates, driven by the decrease in risk discount rates.

(iii) US operations

The effect of changes in economic assumptions for US operations reflects the following:

	2013 £m	2012 £m	
	Half year	Half year	Full year
Effect of changes in 10-year treasury rates, beta and equity risk premium:note (a)			
Fixed annuity and other general account businessnote (b)	(226)	28	20
Variable annuity (VA) businessnote (c)	288	(107)	(83)
Decrease in additional allowance for credit risknote (d)	–	–	148
Totalnote (e)	62	(79)	85

Notes

(a) The effect of changes in economic assumptions represents the aggregate effect of changes to projected returns and the risk discount rate (as shown in note 15(ii)). The risk discount rate, as discussed in note 1(b)(iii), represents the aggregate of the risk-free rate (which is defined as the 10-year treasury rate) and margin for market risk, credit risk and non-diversifiable non-market risk.

(b) For fixed annuity and other general account business, the charge of £(226) million in half year 2013 principally arises from the effect of a higher discount rate on the opening value of the in-force book, driven by the 70 basis points increase in the risk-free rate. The projected cash flows for this business principally reflect projected spread, with secondary effects on the cash flows also resulting from changes to assumed future yields and resulting policyholder behaviour. The credit of £28 million in half year 2012 reflected a 20 basis points decrease in the risk free rate and in full year 2012 the credit of £20 million reflected a 10 basis point decrease in the risk free rate, partially offset by the effect for the acquired REALIC book (reflecting a 20 basis point increase in the risk-free rate from the 4 September acquisition date to 31 December 2012).

(c) For VA business, the credit of £288 million principally reflects an increase in projected fee income and a decrease in projected benefit costs, arising from the increase in the rate of assumed future return on the underlying separate account assets, driven the 70 basis points increase in the risk-free rate. There is a partial offset arising from the increase in the discount rate applied to those cash flows. The charge of £(107) million in half year 2012 and £(83) million in full year 2012 reflected a decrease in the risk free rate of 20 basis points and 10 basis points respectively.

(d) For full year 2012, the £148 million effect of the decrease in the additional allowance for credit risk within the risk discount rate reflected the reduction in credit spreads and represented a 50 basis points decrease for spread business, including the acquired REALIC business (from 200 basis points to 150 basis points), and a 10 basis points decrease for VA business (from 40 basis points to 30 basis points), representing the proportion of business invested in the general account (as described in note 1(b)(iii)).

(e) The total effect of changes in economic assumptions for US operations of a credit of £62 million for half year 2013 includes a charge of £(20) million for the effect of the change in required capital from 235 per cent to 250 per cent of risk-based capital (see note 1(b)(ii)).

(iv) UK insurance operations

The effect of changes in economic assumptions of a credit of £289 million for UK insurance operations for half year 2013 comprises the following:

	2013 £m	2012 £m	
	Half year	Half year	Full year
Shareholder-backed annuity business[note (a)]			
Effect of change in:			
Expected long-term rates of return, risk discount rates and other changes	(137)	18	140
Tax regime[note (b)]	–	–	(46)
	(137)	18	94
With-profits and other business[note (c)]			
Effect of changes in expected long-term rates of return	586	(112)	(62)
Effect of changes in risk discount rates	(160)	67	24
Other changes	–	(11)	(8)
	426	(56)	(46)
	289	(38)	48

Notes

(a) For shareholder-backed annuity business the overall effect of changes in expected long-term rates of return and risk discount rates for the periods shown above reflect the combined effects of the changes in economic assumptions, which incorporate a default allowance for both best estimate defaults and in respect of the additional credit risk provisions (as shown in note 15(iii)).

(b) In full year 2012, the effect of the change in tax regime of £(46) million reflected the change in pattern of taxable profits for shareholder-backed annuity business arising from the acceleration of tax payments due to the altered timing of relief on regulatory basis provisions.

(c) For with-profits and other business the total credit in half year 2013 of £426 million (half year 2012: £(56) million; full year 2012: £(46) million) includes the net effect of the changes in fund earned rates and risk discount rate (as shown in note 15(iii)), driven by the 70 basis points increase (half year and full year 2012: a reduction of 20 basis points) in the 15-year gilt rate.

7 Agreement to sell Japan Life business

On 16 July 2013, the Group reached an agreement to sell the life insurance business in Japan, PCA Life Insurance Company Limited, which was closed to new business in 2010, to SBI Holdings Inc. for US$85 million (£56 million at 30 June closing exchange rate). Completion of the transaction is dependent on regulatory approval.

Consistent with the classification of the business as held for sale for IFRS reporting, the EEV carrying value has been set to £53 million at 30 June 2013, representing the estimated proceeds, net of related expenses.

In order to facilitate comparisons of the Group's retained businesses, the presentation of the Group's EEV basis results have been adjusted to show separately the results for the Japan Life business. Accordingly, the presentation of the comparative results for half year and full year 2012 have been retrospectively adjusted. For half year 2013, the result for the period, including short-term fluctuations in investment returns and the effect of changes in economic assumptions, together with the adjustment to the carrying value have given rise to an aggregate loss of £(47) million. The half year and full year 2012 amounts of £5 million and £21 million respectively, represent the previously reported profits before tax for this business.

Notes on the EEV basis results continued

8 Analysis of movement in free surplus

Free surplus is the excess of the net worth over the capital required to support the covered business. Where appropriate, adjustments are made to the regulatory basis net worth from the local regulatory basis so as to include backing assets movements at fair value rather than cost, so as to comply with the EEV Principles.

	Half year 2013 £m		
Long-term business and asset management operationsnote (i)	**Long-term business** note 13	**Asset management and UK general insurance commission** note (iii)	**Free surplus of long-term business, asset management and UK general insurance commission**
Underlying movement:			
Investment in new businessnote (ii)	(396)	–	(396)
Business in force:			
Expected in-force cash flows (including expected return on net assets)	1,106	239	1,345
Effects of changes in operating assumptions, operating experience variances and other operating items	203	–	203
	913	239	1,152
Changes in non-operating itemsnote (iv)	(287)	(7)	(294)
Increase in EEV assumed level of required capitalnotes 1(b)(ii) and 13	(59)	–	(59)
Loss attaching to held for sale Japan Life businessnote 7	(56)	–	(56)
	511	232	743
Net cash flows to parent companynote (v)	(745)	(99)	(844)
Bancassurance agreement and purchase of Thanachart Lifenotes 4 and 13	365	–	365
Exchange movements, timing differences and other itemsnote (vi)	190	1	191
Net movement in free surplus	321	134	455
Balance at 1 January 2013	2,957	732	3,689
Balance at 30 June 2013	3,278	866	4,144
Representing:			
Asia operations	1,359	217	1,576
US operations	891	127	1,018
UK operations	1,028	522	1,550
	3,278	866	4,144
Balance at 1 January 2013			
Representing:			
Asia operations	974	207	1,181
US operations	1,211	108	1,319
UK operations	772	417	1,189
	2,957	732	3,689

Notes

(i) All figures are shown net of tax.

(ii) Free surplus invested in new business is for the effects of setting aside required capital and incurring acquisition costs.

(iii) For the purposes of this analysis, free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis shareholders' equity.

(iv) Changes in non-operating items represent short-term fluctuations in investment returns and the effect of changes in economic assumptions for long-term business operations. Short-term fluctuations in investment returns primarily reflect temporary market movements on the portfolio of investments held by the Group's shareholder-backed operations.

(v) Net cash flows to parent company for long-term business operations reflect the flows as included in the holding company cash flow at transaction rates.

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

	Half year 2013 £m		
	Long-term business	Asset management and UK general insurance commission	Total
Exchange movements[note 13]	101	8	109
Mark to market value movements on Jackson assets backing surplus and required capital[note 13]	(39)	–	(39)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes[note 13]	(7)	(5)	(12)
Other[note (vii)]	135	(2)	133
	190	1	191

(vii) Other primarily reflects the effect of timing differences, partly offset by the repayment of contingent loan funding, as shown in note 13(ii), together with intra-group loans, and other non-cash items.

9 Net core structural borrowings of shareholder-financed operations

	30 Jun 2013 £m			30 Jun 2012 £m			31 Dec 2012 £m		
	IFRS basis	Mark to market value adjustment note	EEV basis at market value	IFRS basis	Mark to market value adjustment note	EEV basis at market value	IFRS basis	Mark to market value adjustment note	EEV basis at market value
Holding company* cash and short-term investments	(1,490)	–	(1,490)	(1,222)	–	(1,222)	(1,380)	–	(1,380)
Core structural borrowings – central funds	3,710	360	4,070	3,187	293	3,480	3,126	536	3,662
Holding company net borrowings	2,220	360	2,580	1,965	293	2,258	1,746	536	2,282
Core structural borrowings – Prudential Capital	275	–	275	250	–	250	275	–	275
Core structural borrowings – Jackson	164	25	189	159	26	185	153	43	196
Net core structural borrowings of shareholder-financed operations	2,659	385	3,044	2,374	319	2,693	2,174	579	2,753

* Including central finance subsidiaries.

Note
The movement in the mark to market value adjustment represents:

	2013 £m	2012 £m	
Mark to market movement in balance sheet:	Half year	Half year	Full year
Beginning of period	579	204	204
Change reflected in:			
Income statement	(203)	113	380
Foreign exchange effects	9	2	(5)
End of period	385	319	579

In January 2013, the Company issued US$700 million (£462 million at 30 June 2013 closing exchange rate) perpetual subordinated capital securities.

Notes on the EEV basis results continued

10 Reconciliation of movement in shareholders' equity

	Half year 2013 £m					
	Long-term business operations					
	Asia operations note (i)	US operations	UK insurance operations	Total long-term business operations	Other operations note (i)	Group total
Operating profit (based on longer-term investment returns)						
Long-term business:						
New business[note 2]	659	479	130	1,268	–	1,268
Business in force[note 3]	420	537	274	1,231	–	1,231
	1,079	1,016	404	2,499	–	2,499
Asset management	–	–	–	–	297	297
Other results	(2)	(1)	(14)	(17)	(300)	(317)
Operating profit based on longer-term investment returns	1,077	1,015	390	2,482	(3)	2,479
Short-term fluctuations in investment returns[note 5]	(282)	(404)	(92)	(778)	(30)	(808)
Mark to market value movements on core borrowings[note 9]	–	21	–	21	182	203
Effect of changes in economic assumptions[note 6]	333	62	289	684	–	684
Loss attaching to held for sale Japan Life business[note 7]	(47)	–	–	(47)	–	(47)
Profit before tax (including actual investment returns)	1,081	694	587	2,362	149	2,511
Tax (charge) credit attributable to shareholders' profit:[note 11]						
Tax on operating profit	(250)	(309)	(97)	(656)	(2)	(658)
Tax on short-term fluctuations in investment returns	59	133	22	214	7	221
Tax on effect of changes in economic assumptions	(61)	(22)	(67)	(150)	–	(150)
Total tax (charge) credit	(252)	(198)	(142)	(592)	5	(587)
Profit for the period	829	496	445	1,770	154	1,924
Other movements						
Exchange movements on foreign operations and net investment hedges, net of tax	385	436	–	821	(128)	693
Intra-group dividends (including statutory transfers)[note (ii)]	(210)	(304)	(102)	(616)	616	–
Investment in operations[note (iii)]	43	–	–	43	(43)	–
External dividends	–	–	–	–	(532)	(532)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, net of tax[note (iv)]	–	–	(7)	(7)	(19)	(26)
Reserve movements in respect of share-based payments	–	–	–	–	31	31
Bancassurance agreement and purchase of Thanachart Life[notes (v) and 4]	412	–	–	412	(412)	–
Other transfers	–	17	(12)	5	(5)	–
Treasury shares movements	–	–	–	–	27	27
New share capital subscribed	–	–	–	–	1	1
Mark to market value movements on Jackson assets backing surplus and required capital, net of tax	–	(39)	–	(39)	–	(39)
Net increase in shareholders' equity	1,459	606	324	2,389	(310)	2,079
Shareholders' equity at 1 January 2013[note (i)]	9,462	6,032	6,772	22,266	177	22,443
Shareholders' equity at 30 June 2013[note (i)]	10,921	6,638	7,096	24,655	(133)	24,522

	Half year 2013 £m					
	Long-term business operations					
	Asia operations note (i)	US operations	UK insurance operations	Total long-term business operations	Other operations note (i)	Group total
Representing:						
Statutory IFRS basis shareholders' equity	2,759	3,598	3,033	9,390	235	9,625
Additional retained profit (loss) on an EEV basis note (iii)	8,162	3,040	4,063	15,265	(368)	14,897
EEV basis shareholders' equity	10,921	6,638	7,096	24,655	(133)	24,522
Balance at 1 January 2013						
Representing:						
Statutory IFRS basis shareholders' equity	2,290	4,343	3,008	9,641	718	10,359
Additional retained profit (loss) on an EEV basis note (iii)	7,172	1,689	3,764	12,625	(541)	12,084
EEV basis shareholders' equity	9,462	6,032	6,772	22,266	177	22,443

Notes

(i) For the purposes of the table above, goodwill related to Asia long-term operations is included in Other operations.

(ii) Intra-group dividends (including statutory transfers) represent dividends that have been declared in the period and amounts accrued in respect of statutory transfers. For long-term business operations, the difference between the net amount of £573 million for intra-group dividends (including statutory transfers) and investment in operations shown above and the net cash flows to parent company of £745 million (as shown in note 8) primarily relates to timing differences arising on statutory transfers, intra-group loans, and other non-cash items.

(iii) The additional retained loss on an EEV basis for Other operations primarily represents the mark to market value adjustment for holding company net borrowings of a charge of £(360) million (half year 2012: charge of £(293) million; full year 2012: charge of £(536) million), as shown in note 9.

(iv) The credit for the shareholders' share of actuarial and other gains and losses on defined benefit schemes comprises:

	2013 £m	2012* £m	
	Half year	Half year	Full year
IFRS basis	(21)	65	34
Additional shareholders' interest note 1(c)(vi)	(5)	12	10
EEV basis total	(26)	77	44

* As adjusted from 2012 results previously published for the adoption of revised IAS 19 – see note 1.

(v) The £412 million transfer from other operations to Asia operations represents the funding of Asia operations to purchase the bancassurance agreement and Thanachart Life (as shown in note 4).

Notes on the EEV basis results **Financial results**

Notes on the EEV basis results continued

11 Tax attributable to shareholders' profit

The tax charge comprises:

	2013 £m	2012* £m	
	Half year	Half year	Full year
Tax charge on operating profit based on longer-term investment returns:			
Long-term business:			
Asia operations	250	197	420
US operations	309	240	513
UK insurance operations	97	116	168
	656	553	1,101
Other operations	2	15	38
Total tax charge on operating profit based on longer-term investment returns	658	568	1,139
Tax (credit) charge on items not included in operating profit:			
Tax (credit) charge on short-term fluctuations in investment returns	(221)	49	45
Tax charge (credit) on effect of changes in economic assumptions	150	(90)	4
Total tax (credit) charge on items not included in operating profit	(71)	(41)	49
Tax charge on profit attributable to shareholders (including tax on actual investment returns)	587	527	1,188

* As adjusted from 2012 results previously published for the adoption of IFRS 11 and revised IAS 19 – see note 1.

12 Earnings per share (EPS)

	2013 £m		2012* £m			
	Half year		Half year		Full year	
	Operating	Total	Operating	Total	Operating	Total
Profit before tax	2,479	2,511	2,109	1,891	4,313	4,957
Tax	(658)	(587)	(568)	(527)	(1,139)	(1,188)
Profit after tax	1,821	1,924	1,541	1,364	3,174	3,769
EPS (pence)	71.5p	75.5p	60.8p	53.8p	124.9p	148.3p
Average number of shares (millions)	2,548	2,548	2,536	2,536	2,541	2,541

* As adjusted from 2012 results previously published for the adoption of IFRS 11, revised IAS 19 and the effect of the Japan Life business sale agreement – see note 1.

13 Reconciliation of net worth and value of in-force for long-term business[note(i)]

	Half year 2013 £m				
	Free surplus note 8	Required capital	Total net worth	Value of in-force business note (v)	Total long-term business operations
Group					
Shareholders' equity at 1 January 2013	2,957	3,898	6,855	15,411	22,266
New business contribution[notes (iii), (iv)]	(396)	261	(135)	1,048	913
Existing business – transfer to net worth	1,065	(191)	874	(874)	–
Expected return on existing business	41	49	90	616	706
Changes in operating assumptions and experience variances	203	(16)	187	20	207
Loss attaching to held for sale Japan Life business[note 7]	(56)	(1)	(57)	10	(47)
Increase in EEV assumed level of required capital[note (vii)]	(59)	59	–	(13)	(13)
Changes in non-operating assumptions and experience variances	(287)	38	(249)	253	4
Profit after tax from long-term business	511	199	710	1,060	1,770
Exchange movements on foreign operations and net investment hedges	101	145	246	575	821
Bancassurance agreement and purchase of Thanachart Life[notes 4 and (vi)]	365	21	386	26	412
Intra-group dividends (including statutory transfers) and investment in operations	(615)	–	(615)	42	(573)
Mark to market value movements on Jackson assets backing surplus and required capital	(39)	–	(39)	–	(39)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(7)	–	(7)	–	(7)
Other transfers to net worth	5	–	5	–	5
Shareholders' equity at 30 June 2013	3,278	4,263	7,541	17,114	24,655
Representing:					
Asia operations					
Shareholders' equity at 1 January 2013	974	970	1,944	7,518	9,462
New business contribution[note (iv)]	(165)	57	(108)	610	502
Existing business – transfer to net worth	360	11	371	(371)	–
Expected return on existing business	33	–	33	282	315
Changes in operating assumptions and experience variances	32	(24)	8	2	10
Loss attaching to held for sale Japan Life business[note 7]	(56)	(1)	(57)	10	(47)
Changes in non-operating assumptions and experience variances	(38)	(14)	(52)	101	49
Profit after tax from long-term business	166	29	195	634	829
Exchange movements on foreign operations and net investment hedges	21	29	50	335	385
Bancassurance agreement and purchase of Thanachart Life[notes 4 and (vi)]	365	21	386	26	412
Intra-group dividends (including statutory transfers) and investment in operations	(167)	–	(167)	–	(167)
Shareholders' equity at 30 June 2013	1,359	1,049	2,408	8,513	10,921

Notes on the EEV basis results continued

13 Reconciliation of net worth and value of in-force for long-term business[note (i)] continued

	Half year 2013 £m				
	Free surplus note 8	Required capital	Total net worth	Value of in-force business note (v)	Total long-term business operations
US operations					
Shareholders' equity at 1 January 2013	1,211	1,600	2,811	3,221	6,032
New business contribution[note (iv)]	(211)	172	(39)	350	311
Existing business – transfer to net worth	438	(163)	275	(275)	–
Expected return on existing business	20	28	48	139	187
Changes in operating assumptions and experience variances	133	7	140	68	208
Increase in EEV assumed level of required capital[note (vii)]	(59)	59	–	(13)	(13)
Changes in non-operating assumptions and experience variances	(395)	–	(395)	198	(197)
Profit after tax from long-term business	(74)	103	29	467	496
Exchange movements on foreign operations and net investment hedges	80	116	196	240	436
Intra-group dividends (including statutory transfers)	(304)	–	(304)	–	(304)
Mark to market value movements on Jackson assets backing surplus and required capital	(39)	–	(39)	–	(39)
Other transfers to net worth	17	–	17	–	17
Shareholders' equity at 30 June 2013	891	1,819	2,710	3,928	6,638
UK insurance operations					
Shareholders' equity at 1 January 2013	772	1,328	2,100	4,672	6,772
New business contribution[note (iv)]	(20)	32	12	88	100
Existing business – transfer to net worth	267	(39)	228	(228)	–
Expected return on existing business	(12)	21	9	195	204
Changes in operating assumptions and experience variances	38	1	39	(50)	(11)
Changes in non-operating assumptions and experience variances	146	52	198	(46)	152
Profit after tax from long-term business	419	67	486	(41)	445
Intra-group dividends (including statutory transfers)[note (ii)]	(144)	–	(144)	42	(102)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(7)	–	(7)	–	(7)
Other transfers from net worth	(12)	–	(12)	–	(12)
Shareholders' equity at 30 June 2013	1,028	1,395	2,423	4,673	7,096

Notes

(i) All figures are shown net of tax.

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

(iii) The movements arising from new business contribution are as follows:

	2013 £m	2012 £m	
	Half year	Half year	Full year
Free surplus invested in new business	(396)	(364)	(618)
Increase in required capital	261	243	454
Reduction in total net worth	(135)	(121)	(164)
Increase in the value associated with new business	1,048	939	1,955
Total post-tax new business contribution	913	818	1,791

(iv) Free surplus invested in new business is as follows:

	Half year 2013 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations
Pre-tax new business contribution[note 2]	659	479	130	1,268
Tax	(157)	(168)	(30)	(355)
Post-tax new business contribution	502	311	100	913
Free surplus invested in new business	(165)	(211)	(20)	(396)
Post-tax new business contribution per £1 million free surplus invested	3.0	1.5	5.0	2.3

	Half year 2012 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations
Pre-tax new business contribution[note 2]	547	442	152	1,141
Tax	(133)	(154)	(36)	(323)
Post-tax new business contribution	414	288	116	818
Free surplus invested in new business	(162)	(180)	(22)	(364)
Post-tax new business contribution per £1 million free surplus invested	2.6	1.6	5.3	2.2

	Full year 2012 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations
Pre-tax new business contribution[note 2]	1,266	873	313	2,452
Tax	(284)	(305)	(72)	(661)
Post-tax new business contribution	982	568	241	1,791
Free surplus invested in new business	(292)	(281)	(45)	(618)
Post-tax new business contribution per £1 million free surplus invested	3.4	2.0	5.4	2.9

(v) The value of in-force business includes the value of future margins from current in-force business less the cost of holding required capital and represents:

	30 Jun 2013 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations
Value of in-force business before deduction of cost of capital and time value of guarantees	8,921	4,632	4,932	18,485
Cost of capital	(384)	(223)	(259)	(866)
Cost of time value of guarantees[note (viii)]	(24)	(481)	–	(505)
Net value of in-force business	8,513	3,928	4,673	17,114

	30 Jun 2012 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations
Value of in-force business before deduction of cost of capital and time value of guarantees	7,270	3,460	4,806	15,536
Cost of capital	(383)	(139)	(240)	(762)
Cost of time value of guarantees	(28)	(689)	(56)	(773)
Net value of in-force business	6,859	2,632	4,510	14,001

Notes on the EEV basis results continued

13 Reconciliation of net worth and value of in-force for long-term business[note(i)] continued

	31 Dec 2012 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations
Value of in-force business before deduction of cost of capital and time value of guarantees	7,903	3,992	4,916	16,811
Cost of capital	(352)	(121)	(244)	(717)
Cost of time value of guarantees[note (viii)]	(33)	(650)	–	(683)
Net value of in-force business	7,518	3,221	4,672	15,411

(vi) The free surplus increase of £365 million in respect of the transaction with Thanachart bank includes the purchase cost of the partnership agreement to enable future new sales through the bancassurance channel. As new business is written, the carrying value of this purchase cost is amortised against the new business contribution line of this reconciliation.

(vii) The increase in required capital in US operations of £59 million reflects the effect of the change from 235 per cent to 250 per cent of risk-based capital.

(viii) The change in the cost of time value at guarantees for US operations from £(650) million at full year 2012 to £(481) million at half year 2013, primarily relates to variable annuity business, mainly arising from the increase in the expected long-term separate account rate of return of 0.7 per cent driven by the increase in the US 10-year treasury bond rate, partly offset by the impact from new business written in the period.

14 Sensitivity of results to alternative assumptions

(a) Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value as at 30 June 2013 (31 December 2012) and the new business contribution after the effect of required capital for half year 2013 and full year 2012 to:

- 1 per cent increase in the discount rates;
- 1 per cent increase and decrease in interest rates, including all consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- 1 per cent rise in equity and property yields;
- 10 per cent fall in market value of equity and property assets (embedded value only);
- Holding company statutory minimum capital (by contrast to required capital), (embedded value only);
- 5 basis point increase in UK long-term expected defaults; and
- 10 basis point increase in the liquidity premium for UK annuities.

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

New business contribution

	Half year 2013 £m				Full year 2012 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations	Total long-term business operations
New business contribution[note 2]	659	479	130	1,268	1,266	873	313	2,452
Discount rates – 1% increase	(89)	(25)	(16)	(130)	(163)	(40)	(38)	(241)
Interest rates – 1% increase	29	35	2	66	33	104	6	143
Interest rates – 1% decrease	(66)	(55)	(4)	(125)	(106)	(161)	(11)	(278)
Equity/property yields – 1% rise	26	48	6	80	48	97	13	158
Long-term expected defaults – 5 bps increase	–	–	(3)	(3)	–	–	(10)	(10)
Liquidity premium – 10 bps increase	–	–	6	6	–	–	20	20

Embedded value of long-term business operations

	30 Jun 2013 £m				31 Dec 2012 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations	Total long-term business operations
Shareholders' equity note 10	10,921	6,638	7,096	24,655	9,462	6,032	6,772	22,266
Discount rates – 1% increase	(999)	(255)	(486)	(1,740)	(879)	(209)	(482)	(1,570)
Interest rates – 1% increase	(229)	(110)	(332)	(671)	(218)	(124)	(328)	(670)
Interest rates – 1% decrease	48	56	411	515	85	49	399	533
Equity/property yields – 1% rise	370	238	206	814	328	230	202	760
Equity/property market values – 10% fall	(195)	12	(275)	(458)	(159)	(69)	(309)	(537)
Statutory minimum capital	123	170	4	297	108	89	4	201
Long-term expected defaults – 5 bps increase	–	–	(120)	(120)	–	–	(112)	(112)
Liquidity premium – 10 bps increase	–	–	240	240	–	–	224	224

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

(b) Effect of changes in future UK corporation tax rate enacted in July 2013

The Finance Bill 2013, which was substantively enacted on 2 July 2013, includes reductions in the UK corporation tax rate from 23 per cent to 21 per cent effective 1 April 2014 and from 21 per cent to 20 per cent effective 1 April 2015. Had the half year 2013 EEV results been prepared on the basis of these new tax rates, the net of tax value of in-force business of UK insurance operations at 30 June 2013 would have been higher by £95 million.

15 Assumptions

Deterministic assumptions

The tables below summarise the principal financial assumptions:

Assumed investment returns reflect the expected future returns on the assets held and allocated to the covered business at the valuation date.

(i) Asia operations notes (a),(b)

	30 Jun 2013 %										
	China	Hong Kong notes (b),(d)	India	Indonesia	Korea	Malaysia notes (c),(d)	Philippines	Singapore note (d)	Taiwan	Thailand	Vietnam
Risk discount rate:											
New business	10.1	4.3	13.0	11.1	7.3	6.0	10.6	4.5	3.8	10.5	16.1
In force	10.1	4.2	13.0	11.1	7.4	6.0	10.6	5.2	3.7	10.5	16.1
Expected long-term rate of inflation	2.5	2.25	4.0	5.0	3.0	2.5	4.0	2.0	1.0	3.0	5.5
Government bond yield	3.6	2.5	8.0	7.3	3.4	3.6	3.9	2.4	1.4	3.8	9.3

Notes on the EEV basis results continued

15 Assumptions continued

	30 Jun 2012 %										
	China	Hong Kong notes (b),(d)	India	Indonesia	Korea	Malaysia notes (c),(d)	Philippines	Singapore note (d)	Taiwan	Thailand	Vietnam
Risk discount rate:											
New business	9.9	3.7	13.35	11.15	7.05	6.3	12.4	3.9	4.9	10.3	17.0
In force	9.9	3.5	13.35	11.15	7.1	6.4	12.4	4.6	5.0	10.3	17.0
Expected long-term rate of inflation	2.5	2.25	4.0	5.0	3.0	2.5	4.0	2.0	1.0	3.0	5.5
Government bond yield	3.4	1.7	8.35	6.25	3.65	3.5	5.6	1.6	1.2	3.5	10.3

	31 Dec 2012 %										
	China	Hong Kong notes (b),(d)	India	Indonesia	Korea	Malaysia notes (c),(d)	Philippines	Singapore note (d)	Taiwan	Thailand	Vietnam
Risk discount rate:											
New business	10.1	3.8	13.2	9.4	7.4	5.8	11.1	3.6	3.25	10.3	17.2
In force	10.1	3.5	13.2	9.4	7.2	5.8	11.1	4.3	3.4	10.3	17.2
Expected long-term rate of inflation	2.5	2.25	4.0	5.0	3.0	2.5	4.0	2.0	1.0	3.0	5.5
Government bond yield	3.6	1.8	8.2	5.3	3.2	3.5	4.35	1.3	1.2	3.5	10.5

	Asia total %		
	30 Jun 2013	30 Jun 2012	31 Dec 2012
Weighted risk discount rate: note (a)			
New business	7.5	7.5	6.8
In force	6.7	6.6	6.1

Equity risk premiums in Asia (excluding those for the held for sale Japan Life business) range from 3.5 per cent to 8.7 per cent for half year 2013 (half year 2012: 3.5 per cent to 8.7 per cent; full year 2012: 3.5 per cent to 8.8 per cent).

Notes

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

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

(c) The risk discount rate for Malaysia reflects both the Malaysia life and Takaful operations.

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

	2013 %	2012 %	
	30 Jun	30 Jun	31 Dec
Hong Kong	6.5	5.7	5.8
Malaysia	9.6	9.5	9.5
Singapore	8.4	7.7	7.35

(ii) US operations

	2013 %	2012 %	
	30 Jun	30 Jun	31 Dec
Assumed new business spread margins:notes (a), (c)			
Fixed Annuity business:*†			
January to June issues	1.2	1.4	1.4
July to December issues	n/a	n/a	1.1
Fixed Index Annuity business:†			
January to June issues	1.45	1.75	1.75
July to December issues	n/a	n/a	1.35
Institutional business	0.75	1.25	1.25
Risk discount rate:note (d)			
Variable annuity	7.3	6.5	6.5
Non-variable annuity	4.8	4.4	4.0
Weighted average total:note (b)			
New business	7.2	6.3	6.3
In force	6.5	5.7	5.6
US 10-year treasury bond rate at end of period	2.5	1.7	1.8
Pre-tax expected long-term nominal rate of return for US equities	6.5	5.7	5.8
Equity risk premium	4.0	4.0	4.0
Expected long-term rate of inflation	2.5	2.1	2.5

* Including the proportion of variable annuity business invested in the general account.
† Grading up linearly by 25 basis points to a long-term assumption over five years.

Notes

(a) The assumed new business spread margin shown above are the rates at inception. For fixed annuity business (including the proportion of variable annuity business invested in the general account) and fixed index annuity business, the assumed spread margin grades up linearly by 25 basis points to the long-term assumption over five years.

(b) The weighted average risk discount rates reflect the mix of business between variable annuity and non-variable annuity business. The increase in the weighted average risk discount rates from half year 2012 to half year 2013 primarily reflects the increase in the US 10-year treasury bond rate of 80 basis points and the effect of an increase in the product allowance for market risk, partly offset by the effect of the decrease in additional allowance for credit risk (as described in note (d) below).

(c) Credit risk treatment
The projected cash flows incorporate the expected long-term spread between the earned rate and the rate credited to policyholders. The projected earned rates reflect book value yields which are adjusted over time to reflect projected reinvestment rates. Positive net cash flows are assumed to be reinvested in a mix of corporate bonds, commercial mortgages and limited partnerships. The yield on those assets is assumed to grade from the current level to a yield that allows for a long-term assumed credit spread on the reinvested assets of 1.25 per cent over 10 years. The yield also reflects an allowance for a risk margin reserve which for half year 2013 is 27 basis points (half year 2012: 27 basis points; full year 2012: 28 basis points) for long-term defaults (as described in note 1(b)(iii)), which represents the allowance as at the valuation date applied in the cash flow projections of the value of the in-force business.
In the event that long-term default levels are higher, then unlike for UK annuity business where policyholder benefits are not changeable, Jackson has some discretion to adjust crediting rates, subject to contract guarantee levels and general market competition considerations.

(d) For US operations, the risk discount rates shown above include an additional allowance for a combination of credit risk premium and short-term downgrade and default allowance for general account business of 150 basis points (half year 2012: 200 basis points; full year 2012: 150 basis points) and for variable annuity business of 30 basis points (half year 2012: 40 basis points; full year 2012: 30 basis points) to reflect the fact that a proportion of the variable annuity business is allocated to the general account (as described in note 1(b)(iii)).

Notes on the EEV basis results continued

15 Assumptions continued

(iii) UK insurance operations

	2013 %	2012 %	
	30 Jun	30 Jun	31 Dec
Shareholder-backed annuity business: note (d)			
Risk discount rate:			
New business note (a)	7.2	7.3	6.9
In force note (b)	8.45	8.4	7.95
Pre-tax expected long-term nominal rate of return for shareholder-backed annuity business:			
New business	3.9	4.6	4.2
In force note (b)	4.4	4.25	3.9
Other business: note (d)			
Risk discount rate: note (c)			
New business	5.8	5.2	5.2
In force	6.2	5.45	5.6
Equity risk premium	4.0	4.0	4.0
Pre-tax expected long-term nominal rates of investment return:			
UK equities	7.0	6.3	6.3
Overseas equities	6.5 to 9.8	5.7 to 9.7	5.8 to 9.6
Property	5.8	5.05	5.1
Gilts	3.0	2.3	2.3
Corporate bonds	4.6	3.9	3.9
Expected long-term rate of inflation	3.3	2.8	2.9
Post-tax expected long-term nominal rate of return for the PAC with-profits fund:			
Pension business (where no tax applies)	5.8	5.0	5.0
Life business	5.0	4.3	4.35

Notes

(a) The new business risk discount rate for shareholder-backed annuity business incorporates an allowance for best estimate defaults and additional credit risk provisions, appropriate to the new business assets, over the projected lifetime of this business. These additional provisions comprise of a credit risk premium, which is derived from Moody's data from 1970 to 2009, an allowance for a 1 notch downgrade of the portfolio subject to credit risk and an allowance for short-term defaults.

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

(c) The risk discount rates for new business and business in force for UK insurance operations, other than shareholder-backed annuities, reflect weighted rates based on the type of business.

(d) Credit spread treatment

For with-profits business, the embedded value reflects the discounted value of future shareholder transfers. These transfers are directly affected by the level of projected rates of return on investments, including debt securities. The assumed earned rate for with-profit holdings of corporate bonds is defined as the risk-free rate plus an assessment of the long-term spread over gilts, net of expected long-term defaults. This approach is similar to that applied for equities and properties for which the projected earned rate is defined as the risk-free rate plus a long-term risk premium.

For UK shareholder-backed annuity business, different dynamics apply both in terms of the nature of the business and the EEV methodology applied. For this type of business the assets are generally held to maturity to match long duration liabilities. It is therefore appropriate under EEV methodology to include a liquidity premium in the economic basis used. The appropriate EEV risk discount rate is set in order to equate the EEV with a 'market consistent embedded value' including liquidity premium. The liquidity premium in the 'market consistent embedded value' is derived from the yield on the assets held after deducting an appropriate allowance for credit risk. For Prudential Retirement Income Limited, which has approximately 90 per cent of UK shareholder-backed annuity business, the allowance for credit risk for the in-force business at 30 June 2013 is made up of:

(1) 15 basis points in respect of long-term expected defaults derived by applying Moody's data from 1970 to 2009 and the definition of the credit rating used is the second highest credit rating published by Moody's, Standard & Poor's and Fitch.

(2) 49 basis points in respect of additional provisions which comprise a credit risk premium, which is derived from Moody's data from 1970 to 2009, an allowance for a 1 notch downgrade of the portfolio subject to credit risk and an allowance for short-term defaults.

The credit assumptions used and the residual liquidity premium element of the bond spread over swap rates is as follows:

	New business*† (bps)			In-force business (bps)		
	30 Jun 2013	30 Jun 2012	31 Dec 2012	30 Jun 2013	30 Jun 2012	31 Dec 2012
Bond spread over swap rates	116	163	150	157	191	161
Total credit risk allowance	38	33	35	64	66	65
Liquidity premium	78	130	115	93	125	96

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

† Specific assets are allocated to the new business for the period with the appropriate allowance for credit risk which was 38 basis points for half year 2013 (half year 2012: 33 basis points; full year 2012: 35 basis points).

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

Stochastic assumptions

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations described above. Assumptions specific to the stochastic calculations, such as the volatilities of asset returns, reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of longer-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes but with allowance for correlation between the various asset classes.

Details are given below of the key characteristics and calibrations of each model.

(iv) Asia operations

- The same asset return models as described for UK insurance operations below, appropriately calibrated, have been used for Asia operations. The principal asset classes are government and corporate bonds. Equity holdings are much lower than in the UK whilst property holdings do not represent a significant investment asset;
- The stochastic cost of guarantees is primarily only of significance for the Hong Kong, Korea, Malaysia and Singapore operations; and
- The mean stochastic returns are consistent with the mean deterministic returns for each country. The expected volatility of equity returns ranges from 18 per cent to 35 per cent for all periods throughout these results, and the volatility of government bond yields ranges from 0.9 per cent to 2.3 (half year 2012: 0.9 per cent to 2.4 per cent; full year 2012: 0.9 per cent to 2.3 per cent).

(v) US operations (Jackson)

- Interest rates are projected using a log-normal generator calibrated to historical US treasury yield curves;
- Corporate bond returns are based on treasury securities plus a spread that has been calibrated to current market conditions and varies by credit quality; and
- Variable annuity equity returns and bond interest rates have been stochastically generated using a log-normal model with parameters determined by reference to historical data. The volatility of equity fund returns ranges from 19 per cent to 32 per cent for all periods throughout these results, depending on the risk class and the class of equity, and the standard deviation of interest rates ranges from 2.2 per cent to 2.5 per cent for all periods throughout these results.

(vi) UK insurance operations

- Interest rates are projected using a two-factor model calibrated to the initial market yield curve;
- The risk premium on equity assets is assumed to follow a log-normal distribution;
- The corporate bond return is calculated as the return on a zero-coupon bond plus a spread. The spread process is a mean reverting stochastic process; and
- Property returns are modelled in a similar fashion to corporate bonds, namely as the return on a risk-free bond, plus a risk premium, plus a process representative of the change in residual values and the change in value of the call option on rents.

Mean returns have been derived as the annualised arithmetic average return across all simulations and durations.

For each projection period, standard deviations have been calculated by taking the square root of the annualised variance of the returns over all the simulations. These have been averaged over all durations in the projection. For equity and property, the standard deviations relate to the total return on these assets. The standard deviations applied for all periods are as follows:

	%
Equities:	
UK	20
Overseas	18
Property	15

Notes on the EEV basis results continued

15 Assumptions continued

(vii) Demographic assumptions

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

(viii) Expense assumptions

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

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

Corporate expenditure comprises:

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

(ix) Taxation and other legislation

Current taxation and other legislation have been assumed to continue unaltered except where changes have been announced and substantively enacted in the period.

The sensitivity of the embedded value as at 30 June 2013 to the effect of the reductions in the UK corporate tax rate enacted in July 2013 is shown in note 14(b).

16 Total insurance and investment products new business note (i)

	Single			Regular			Annual premium and contribution equivalents (APE) note 1(b)(i)			Present value of new business premiums (PVNBP) note 1(b)(i)		
	2013 £m Half year	2012 £m Half year	2012 £m Full year	2013 £m Half year	2012 £m Half year	2012 £m Full year	2013 £m Half year	2012 £m Half year	2012 £m Full year	2013 £m Half year	2012 £m Half year	2012 £m Full year
Group insurance operations												
Asia	**1,097**	669	1,568	**899**	832	1,740	**1,010**	899	1,897	**5,524**	4,725	10,544
US	**7,957**	7,119	14,504	**1**	8	12	**797**	719	1,462	**7,957**	7,180	14,600
UK	**2,435**	2,960	6,286	**112**	116	207	**355**	412	836	**2,943**	3,495	7,311
Group total	**11,489**	10,748	22,358	**1,012**	956	1,959	**2,162**	2,030	4,195	**16,424**	15,400	32,455
Asia insurance operations												
Hong Kong	**85**	43	157	**205**	173	380	**214**	177	396	**1,204**	998	2,316
Indonesia	**212**	159	359	**219**	190	410	**240**	206	446	**1,069**	831	2,097
Malaysia	**53**	46	98	**93**	93	208	**99**	98	218	**661**	609	1,388
Philippines	**129**	89	172	**16**	12	28	**29**	21	45	**177**	123	254
Singapore	**251**	164	399	**145**	125	261	**170**	141	301	**1,209**	1,029	2,314
Thailand	**20**	6	12	**23**	19	36	**25**	19	37	**106**	71	140
Vietnam	**1**	–	1	**23**	18	44	**23**	18	45	**84**	63	159
SE Asia operations inc. Hong Kong	**751**	507	1,198	**724**	630	1,367	**800**	680	1,488	**4,510**	3,724	8,668
China note (ii)	**76**	17	37	**39**	32	53	**47**	33	56	**243**	156	277
Korea	**200**	15	94	**42**	43	86	**62**	45	95	**359**	235	438
Taiwan	**48**	86	172	**40**	79	138	**45**	88	156	**206**	380	723
India note (iii)	**22**	44	67	**54**	48	96	**56**	53	102	**206**	230	438
Total Asia operations	**1,097**	669	1,568	**899**	832	1,740	**1,010**	899	1,897	**5,524**	4,725	10,544
US insurance operations												
Variable annuities	**5,384**	5,976	11,596	**–**	–	–	**538**	597	1,160	**5,384**	5,976	11,596
Elite Access (variable annuity)	**1,270**	138	849	**–**	–	–	**127**	14	85	**1,270**	138	849
Fixed annuities	**296**	312	581	**–**	–	–	**30**	31	58	**296**	312	581
Fixed index annuities	**620**	503	1,094	**–**	–	–	**62**	50	109	**620**	503	1,094
Life	**–**	4	6	**1**	8	12	**1**	8	12	**–**	65	102
Wholesale	**387**	186	378	**–**	–	–	**39**	19	38	**387**	186	378
Total US insurance operations	**7,957**	7,119	14,504	**1**	8	12	**797**	719	1,462	**7,957**	7,180	14,600
UK and Europe insurance operations												
Direct and partnership annuities	**153**	139	297	**–**	–	–	**15**	14	30	**153**	139	297
Intermediated annuities	**293**	249	653	**–**	–	–	**29**	25	65	**293**	249	653
Internal vesting annuities	**669**	657	1,456	**–**	–	–	**67**	66	146	**669**	657	1,456
Total individual annuities	**1,115**	1,045	2,406	**–**	–	–	**111**	105	241	**1,115**	1,045	2,406
Corporate pensions	**73**	134	303	**86**	91	159	**93**	104	189	**454**	551	1,045
Onshore bonds	**825**	1,060	2,275	**–**	–	–	**83**	106	228	**826**	1,060	2,277
Other products	**422**	449	894	**26**	25	48	**68**	70	137	**548**	567	1,175
Wholesale	**–**	272	408	**–**	–	–	**–**	27	41	**–**	272	408
Total UK and Europe insurance operations	**2,435**	2,960	6,286	**112**	116	207	**355**	412	836	**2,943**	3,495	7,311
Group total	**11,489**	10,748	22,358	**1,012**	956	1,959	**2,162**	2,030	4,195	**16,424**	15,400	32,455

Notes on the EEV basis results continued

16 Total insurance and investment products new business note (i) continued

Investment products – funds under management notes (iv), (v), (vi), (vii)

	Half year 2013 £m					
	1 Jan 2013	Changes to Group holdings	Market gross inflows	Redemptions	Market exchange translation and other movements	30 Jun 2013
Eastspring Investments	17,630	–	7,372	(5,366)	(368)	19,268
M&G	111,868	–	20,598	(16,758)	2,431	118,139
Group total	129,498	–	27,970	(22,124)	2,063	137,407

	Half year 2012 £m					
	1 Jan 2012	Changes to Group holdings note (vi)	Market gross inflows	Redemptions	Market exchange translation and other movements	30 Jun 2012
Eastspring Investments	15,036	–	3,787	(3,361)	99	15,561
M&G	91,948	(3,783)	14,701	(9,760)	1,537	94,643
Group total	106,984	(3,783)	18,488	(13,121)	1,636	110,204

Notes

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

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

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

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

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

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

(v) Investment flows for the half year exclude Eastspring Money Market Funds gross inflows of £30,774 million (half year 2012: £25,355 million) and net inflows of £107 million (half year 2012: net outflows of £103 million).

(vi) From 1 January 2012, Prudential Portfolio Managers South Africa (Pty) Limited is no longer a subsidiary of M&G, following the restructuring transaction whereby M&G's ownership has been diluted.

(vii) New business and market gross inflows and redemptions have been translated at an average exchange rate for the period applicable. Funds under management at points in time are translated at the exchange rate applicable to those dates.

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Additional financial information

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

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

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

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

iii **With-profits** business represents the 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 against investment income as part of spread income or fee income as appropriate).

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

Analysis of pre-tax IFRS operating profit by source

	Half year 2013 £m						
	Asia						
	On prior basis	Adjustments notes (ii), (iii)	Asia	US	UK	Unallocated	Total
Spread income	61	(5)	56	377	102	–	535
Fee income	80	–	80	554	33	–	667
With-profits	22	–	22	–	133	–	155
Insurance margin	307	(4)	303	262	48	–	613
Margin on revenues	785	(7)	778	–	80	–	858
Expenses:							
Acquisition costs	(502)	–	(502)	(465)	(54)	–	(1,021)
Administration expenses	(306)	6	(300)	(323)	(59)	–	(682)
DAC adjustments	7	2	9	173	(7)	–	175
Expected return on shareholder assets	28	–	28	4	65	–	97
Long-term business operating profit	482	(8)	474	582	341	–	1,397
Asset management operating profit	42	(4)	38	34	225	–	297
GI commission	–	–	–	–	15	–	15
Other income and expenditure note (i)	–	–	–	–	–	(294)	(294)
Total operating profit based on longer-term investment returns	524	(12)	512	616	581	(294)	1,415

	Half year 2012 £m						
	Asia						
	As previously reported	Adjustments notes (ii), (iii)	Asia	US	UK	Unallocated	Total
Spread income	55	(7)	48	349	132	–	529
Fee income	66	–	66	408	35	–	509
With-profits	18	–	18	–	146	–	164
Insurance margin	256	–	256	153	11	–	420
Margin on revenues	636	(8)	628	–	68	–	696
Expenses:							
Acquisition costs	(428)	–	(428)	(480)	(64)	–	(972)
Administration expenses	(250)	7	(243)	(242)	(63)	–	(548)
DAC adjustments	33	5	38	219	(4)	–	253
Expected return on shareholder assets	20	–	20	35	75	–	130
Long-term business operating profit	406	(3)	403	442	336	–	1,181
Asset management operating profit	34	(2)	32	17	199	–	248
GI commission	–	–	–	–	17	–	17
Other income and expenditure note (i)	–	–	–	–	–	(289)	(289)
Total operating profit based on longer-term investment returns	440	(5)	435	459	552	(289)	1,157

	Full year 2012 £m						
	Asia						
	As previously reported	Adjustments notes (ii), (iii)	Asia	US	UK	Unallocated	Total
Spread income	106	(13)	93	702	266	–	1,061
Fee income	141	–	141	875	61	–	1,077
With-profits	39	–	39	–	272	–	311
Insurance margin	594	(5)	589	399	39	–	1,027
Margin on revenues	1,453	(14)	1,439	–	216	–	1,655
Expenses:							
Acquisition costs	(903)	–	(903)	(972)	(122)	–	(1,997)
Administration expenses	(583)	13	(570)	(537)	(128)	–	(1,235)
DAC adjustments	(28)	12	(16)	442	(8)	–	418
Expected return on shareholder assets	43	–	43	55	107	–	205
Gain on China Life (Taiwan) shares	51	–	51	–	–	–	51
Long-term business operating profit	913	(7)	906	964	703	–	2,573
Asset management operating profit	75	(6)	69	39	371	–	479
GI commission	–	–	–	–	33	–	33
Other income and expenditure note (i)	–	–	–	–	–	(565)	(565)
Total operating profit based on longer-term investment returns	988	(13)	975	1,003	1,107	(565)	2,520

Notes

(i) Including restructuring and Solvency II implementation costs.

(ii) The 2013 analysis excludes the results of the held for sale life insurance business of Japan. The 2012 comparative results have been presented on a consistent basis. The results of Japan Life business excluded were half year 2013: profit of £5 million, half year 2012: £nil and full year 2012: loss of £(2) million.

(iii) The Group has adopted new accounting standards on joint arrangements as described in note B. The only impact of the resulting change on the analysis above is to deduct the associated tax expense from the joint ventures' operating profit by treating it as an administration expense. This contributed to an additional expense, as follows:

- Long-term business – half year 2013: £3 million; half year 2012: £3 million and full year 2012: £9 million; and
- Asset management business – half year 2013: £4 million; half year 2012: £2 million and full year 2012: £6 million.

All other lines continue to include the Group's share of the relevant part of the joint ventures' pre-tax operating profit.

Additional financial information continued

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

Margin analysis of long-term insurance business

The following analysis expresses certain of the Group's sources of operating profit as a margin of policyholder liabilities or other suitable driver. The margin is on an annualised basis in which half year profits are annualised by multiplying by two. Details of the Group's average policyholder liability balances are given in note (iii).

	Total								
	Half year 2013 note (v)			Half year 2012 notes (iv),(v)			Full year 2012 notes (iv),(v)		
Long-term business	Profit £m	Average liability note (iii) £m	Margin note (ii) bps	Profit £m	Average liability note (iii) £m	Margin note (ii) bps	Profit £m	Average liability note (iii) £m	Margin note (ii) bps
Spread income	535	65,424	164	529	60,320	175	1,061	61,432	173
Fee income	667	93,512	143	509	74,422	137	1,077	78,433	137
With-profits	155	97,336	32	164	94,103	35	311	95,681	33
Insurance margin	613			420			1,027		
Margin on revenues	858			696			1,655		
Expenses:									
Acquisition costs[note (i)]	(1,021)	2,162	(47)%	(972)	2,030	(48)%	(1,997)	4,195	(48)%
Administration expenses	(682)	166,130	(82)	(548)	134,742	(81)	(1,235)	142,205	(87)
DAC adjustments	175			253			418		
Expected return on shareholder assets	97			130			205		
Gain on China Life (Taiwan) shares							51		
Operating profit	1,397			1,181			2,573		

Notes

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

(ii) Margin represents the operating return earned in the period as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus. The margin is on an annualised basis in which half-year profits are annualised by multiplying by two.

(iii) For UK and Asia, opening and closing policyholder liabilities have been used to derive an average balance for the period, as a proxy for average balances throughout the period. The calculation of average liabilities for Jackson is derived from month-end balances throughout the period as opposed to opening and closing balances only, and liabilities held in the general account for variable annuity living and death guaranteed benefits are excluded from the calculation of the average as no spread income is earned on these balances. In addition for REALIC (acquired in the second half of 2012), which are included in the average liability to calculate the administration expense margin, the calculation excludes the liabilities reinsured to (and in essence retained by) Swiss Re immediately prior to the acquisition by Jackson. Average liabilities are adjusted for business acquisitions and disposals in the period.

(iv) The Group has adopted new accounting standards on joint arrangements as described in note B. The only impact of the resulting change on the analysis above is to deduct the associated tax expense from the joint ventures' operating profit by treating it as an administration expense. The impact of this change is explained in note (iii), to the 'Analysis of pre-tax IFRS operating profit by source' table earlier in this section. All other lines continue to include the Group's share of the relevant part of the joint ventures' pre-tax operating profit.

(v) The 2013 analysis excludes the results of the held for sale life insurance business of Japan in both the individual profit and average liability amounts shown in the table above. The 2012 comparative results have been presented on a consistent basis.

	Asia note (iii)								
	Half year 2013			Half year 2012 note (ii)			Full year 2012 note (ii)		
Long-term business	Profit £m	Average liability note (iv) £m	Margin bps	Profit £m	Average liability note (iv) £m	Margin bps	Profit £m	Average liability note (iv) £m	Margin bps
Spread income	56	7,220	155	48	5,753	167	93	5,978	155
Fee income	80	14,253	112	66	11,931	111	141	12,648	111
With-profits	22	13,522	33	18	12,969	28	39	12,990	30
Insurance margin	303			256			589		
Margin on revenues	778			628			1,439		
Expenses:									
Acquisition costs note (i)	(502)	1,010	(50)%	(428)	899	(48)%	(903)	1,897	(48)%
Administration expenses	(300)	21,473	(279)	(243)	17,684	(275)	(570)	18,626	(306)
DAC adjustments	9			38			(16)		
Expected return on shareholder assets	28			20			43		
Gain on China Life (Taiwan) shares							51		
Operating profit	474			403			906		

Notes

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

(ii) The Group has adopted new accounting standards on joint arrangements as described in note B. The only impact of the resulting change on the analysis above is to deduct the associated tax expense from the joint venture's operating profit by treating it as an administration expense. The impact of this change is explained in note (iii) to the 'Analysis of pre-tax IFRS operating profit by source' table earlier in this section. All other lines continue to include the Group's share of the relevant part of the joint venture's pre-tax operating profit.

(iii) The 2013 analysis excludes the results of the held for sale life insurance business of Japan in both the individual profit and the average liability amounts shown in the table above. The average shareholder-backed policyholder liabilities excluding Japan business at half year 2013 is £21,473 million (half year 2012: £17,684 million and full year 2012: £18,626 million). The corresponding amount including Japan business at half year 2013 is £22,471 million (half year 2012: £18,846 million and full year 2012: £19,742 million). The 2012 comparative results have been presented on a consistent basis.

(iv) Opening and closing policyholder liabilities, adjusted for corporate transactions, have been used to derive an average balance for the period, as a proxy for average balances throughout the period.

Analysis of Asia operating profit drivers

- **Spread income** has increased from £48 million in half year 2012 to £56 million in half year 2013, predominantly reflecting the growth of the Asian non-linked policyholder liabilities.
- **Fee income** has increased from £66 million in half year 2012 to £80 million in half year 2013, broadly in line with the increase in movement in average unit-linked liabilities.
- **Insurance margin** has increased by £47 million from £256 million in half year 2012 to £303 million in half year 2013, predominantly reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products and management action on claims controls and pricing. Insurance margin includes non-recurring items of £23 million (half year 2012: £30 million), reflecting items that are not expected to reoccur in the future.
- **Margin on revenues** has increased by £150 million from £628 million in half year 2012 to £778 million in half year 2013, primarily reflecting the ongoing growth in the size of the portfolio and higher premium income recognised in the period.
- **Acquisition costs** have increased from £428 million in half year 2012 to £502 million in half year 2013, compared to the 12 per cent increase in sales, resulting in an increase in the acquisition cost ratio. The analysis above uses shareholder acquisition costs as a proportion of total APE. If with-profits sales were excluded from the denominator the acquisition cost ratio would become 67 per cent (half year 2012: 63 per cent and full year 2012: 63 per cent), reflecting changes to product mix.
- **Administration expenses** have increased from £243 million in half year 2012 to £300 million in half year 2013 as the business continues to expand. The administration expense ratio remains broadly in line with prior periods at 279 basis points (half year 2012: 275 basis points and full year 2012: 306 basis points).

Additional financial information continued

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

	US								
	Half year 2013			Half year 2012			Full year 2012		
Long-term business	Profit £m	Average liability note (ii) £m	Margin bps	Profit £m	Average liability note (ii) £m	Margin bps	Profit £m	Average liability note (ii) £m	Margin bps
Spread income	377	31,137	242	349	29,265	238	702	29,416	239
Fee income	554	56,539	196	408	41,222	198	875	44,046	199
Insurance margin	262			153			399		
Expenses:									
Acquisition costs[note (i)]	(465)	797	(58)%	(480)	719	(67)%	(972)	1,462	(66)%
Administration expenses	(323)	94,870	(68)	(242)	70,487	(69)	(537)	75,802	(71)
DAC adjustments	173			219			442		
Expected return on shareholder assets	4			35			55		
Operating profit	582			442			964		

Notes

(i) The ratio for acquisition costs is calculated as a percentage of APE.

(ii) The calculation of average liabilities for Jackson is derived from month-end balances throughout the period as opposed to opening and closing balances only. Liabilities held in the general account for variable annuity living and death guaranteed benefits together with other amounts on which no spread income is earned (eg REALIC liabilities) are excluded from the calculation of the average. In addition for REALIC, which is included in the average liability to calculate the administration expense margin, the calculation excludes the liabilities reinsured to (and in essence retained by) Swiss Re immediately prior to the acquisition by Jackson.

Analysis of US operating profit drivers:

- **Spread income** was £377 million in half year 2013, compared to £349 million in half year 2012. The reported spread margin increased to 242 basis points as a result of lower crediting rates, which have helped to maintain spread income levels on a stable asset base, partially offset by a decrease in yields earned in the period caused by the lower interest rate environment. In addition, spread income benefited from swap transactions previously entered into more closely match the overall asset and liability duration. Excluding this effect, the spread margin would have been 183 basis points (half year 2012: 187 basis points and full year 2012: 186 basis points).
- **Fee income** has increased by 36 per cent to £554 million in half year 2013, compared to £408 million in half year 2012, primarily due to higher average separate account balances due to positive net flows from variable annuity business and market appreciation. Fee income margin has remained broadly consistent with half year 2012 at 196 basis points (half year 2012: 198 basis points).
- **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, coupled with the benefit in the period of repricing actions, have increased the insurance margin from £153 million in half year 2012 to £262 million in half year 2013. This includes a benefit of £83 million from REALIC, following its acquisition by Jackson in September 2012.
- **Acquisition costs**, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, have decreased by £15 million compared to half year 2012 due largely to the discontinuation of certain policy enhancement options on annuity business. As a percentage of APE, acquisition costs have decreased to 58 per cent for half year 2013, compared to 67 per cent in half year 2012. This is due to the discontinuation of contract enhancements mentioned above and the continued increase in producers selecting asset-based commission which is treated as an administrative expense in this analysis, rather than front end commissions.
- **Administration expenses** increased to £323 million during the first half of 2013 compared to £242 million in 2012, primarily as a result of the acquisition of REALIC and higher asset-based commission paid on the larger 2013 separate account balance. Asset-based commissions are paid upon policy anniversary dates and are treated as an administration expense in this analysis as opposed to a cost of acquisition and are offset by higher fee income. Excluding these trail commission amounts, the resulting administration expense ratio would be lower at 45 basis points (half year 2012: 47 basis points and full year 2012: 48 basis points), reflecting the benefits of operational leverage.
- **DAC adjustments** decreased to £173 million in the first half of 2013 compared to £219 million in the first half of 2012 due to lower levels of current period acquisition costs being deferred (as discussed above) and higher DAC amortisation being incurred following higher gross profit in the period. Certain acquisition costs are not fully deferrable, resulting in new business strain of £93 million for half year 2013 (half year 2012: £82 million and full year 2012: £174 million).

Analysis of pre-tax operating profit before and after acquisition costs and DAC adjustments

	Half year 2013 £m				Half year 2012 £m			
	Other operating profits	Acquisition costs Incurred	Acquisition costs Deferred	Total	Other operating profits	Acquisition costs Incurred	Acquisition costs Deferred	Total
Total operating profit before acquisition costs and DAC adjustments	874			874	703			703
Less new business strain		(465)	372	(93)		(480)	398	(82)
Other DAC adjustments – amortisation of previously deferred acquisition costs:								
Normal			(219)	(219)			(204)	(204)
Decelerated			20	20			25	25
Total	874	(465)	173	582	703	(480)	219	442

	Full year 2012 £m			
	Other operating profits	Acquisition costs Incurred	Acquisition costs Deferred	Total
Total operating profit before acquisition costs and DAC adjustments	1,494			1,494
Less new business strain		(972)	798	(174)
Other DAC adjustments – amortisation of previously deferred acquisition costs:				
Normal			(412)	(412)
Decelerated			56	56
Total	1,494	(972)	442	964

Additional financial information continued

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

	UK								
	Half year 2013			Half year 2012			Full year 2012		
Long-term business	Profit £m	Average liability note (ii) £m	Margin bps	Profit £m	Average liability note (ii) £m	Margin bps	Profit £m	Average liability note (ii) £m	Margin bps
Spread income	102	27,067	75	132	25,302	104	266	26,038	102
Fee income	33	22,720	29	35	21,269	33	61	21,739	28
With-profits	133	83,814	32	146	81,134	36	272	82,691	33
Insurance margin	48			11			39		
Margin on revenues	80			68			216		
Expenses:									
Acquisition costs[note (i)]	(54)	355	(15)%	(64)	412	(16)%	(122)	836	(15)%
Administration expenses	(59)	49,787	(24)	(63)	46,571	(27)	(128)	47,777	(27)
DAC adjustments	(7)			(4)			(8)		
Expected return on shareholders' assets	65			75			107		
Operating profit	341			336			703		

Notes

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

(ii) Opening and closing policyholder liabilities have been used to derive an average balance for the period, as a proxy for average balances throughout the period.

Analysis of UK operating profit drivers:

- **Spread income** has reduced from £132 million in the first half of 2012 to £102 million in the same period in 2013. This is principally due to the non-recurrence of bulk annuity profits of £18 million experienced in the first half of 2012 and lower contribution to profits from sales of conventional annuities in the first half of 2013.
- **Fee income** earned in the first six months of 2013 of £33 million (half year 2012: £35 million) is broadly consistent with that earned in the prior period. The margin at 29 basis points is in line with the margin recognised for full year 2012 of 28 basis points.
- **With-profits income** has decreased from £146 million in half year 2012 to £133 million in half year 2013, principally due to a 50 basis points reduction in the annual bonus rate. This has contributed to the reduction in the with-profits margin from 36 basis points in half year 2012 to 32 basis points in half year 2013.
- **Insurance margin** has increased from £11 million in the first half of 2012 to £48 million in the first half of 2013, reflecting a £27 million positive impact of undertaking a longevity swap on certain aspects of the UK's annuity back-book liabilities in the first half of 2013.
- **Margin on revenues** represents premium charges for expenses and other sundry net income received by the UK. Half year 2013 income was higher at £80 million (half year 2012: £68 million), with 2012 impacted by a lower level of sundry net income.
- **Acquisition costs** as a percentage of new business sales have decreased from 16 per cent in the first half of 2012 to 15 per cent for 2013, partly reflecting lower commission payments from the implementation of the recommendations of the Retail Distribution Review.

  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 period. Acquisition costs as a percentage of shareholder-backed new business sales were 34 per cent in half year 2013 (half year 2012: 33 per cent and full year 2012: 33 per cent).
- **Administration expenses** at £59 million are lower than at half year 2012 (half year 2012: £63 million) due to lower project spend in the period.
- **Expected return on shareholder assets** has decreased from £75 million in half year 2012 to £65 million in half year 2013, principally due to a reduction in investment yields achieved.

I(b): Asia operations – analysis of IFRS operating profit by territory

Operating profit based on longer-term investment returns for Asia operations are analysed as follows:

	2013 £m	2012* £m	
	Half year	Half year	Full year
Underlying operating profit:			
China	6	7	16
Hong Kong	51	47	88
India	26	26	50
Indonesia	137	123	260
Korea	8	8	16
Malaysia	73	60	118
Philippines	9	2	15
Singapore	104	93	206
Taiwan (bancassurance business)	4	1	18
Thailand	11	2	7
Vietnam	16	18	25
Other	–	2	(5)
Non-recurrent items[note (ii)]	31	17	48
Operating profit before gain on sale of stake in China Life of Taiwan	476	406	862
Gain on sale of stake in China Life of Taiwan[note (ii)]	–	–	51
Total insurance operations [note (i)]	476	406	913
Development expenses	(2)	(3)	(7)
Total long-term business operating profit [note (iii)]	474	403	906
Eastspring Investments	38	32	69
Total Asia operations	512	435	975

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new and amended accounting standards described in note B.

Notes

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

	2013 £m	2012* £m	
	Half year	Half year	Full year
New business strain†	(23)	(40)	(46)
Business in force	468	429	860
Non-recurrent items:[note (ii)]			
Gain on sale of stake in China Life of Taiwan	–	–	51
Other non-recurrent items	31	17	48
Total	476	406	913

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new and amended accounting standards described in note B.

† The IFRS new business strain corresponds to approximately 2 per cent of new business APE premiums for 2013 (half year 2012: approximately 4 per cent; full year 2012: approximately 2 per cent). The improvement over the half year 2012 is driven by a shift in overall sales mix to lower strain products and countries. 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) During the second half of 2012, the Group sold its 7.74 per cent stake in China Life (Taiwan) for £97 million, crystallising a gain of £51 million. Other non-recurrent items of £31 million in half year 2013 (half year 2012: £17 million; full year 2012: £48 million) represent a small number of items that are not anticipated to reoccur in subsequent periods.

(iii) To facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the held for sale Japan Life business are not included within the long-term business operating profit for Asia. The 2012 comparative results have also been adjusted. The Japan Life business contributed a profit of £5 million in half year 2013 (half year 2012: £nil; full year 2012: loss of £(2) million).

Additional financial information continued

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

	Half year 2013 £m				
	M&G note (ii)	Eastspring Investments note (ii)	PruCap	US	Total
Operating income before performance-related fees	421	109	56	181	767
Performance-related fees	4	1	–	–	5
Operating income (net of commission)note (i)	425	110	56	181	772
Operating expensenote (i)	(226)	(68)	(35)	(147)	(476)
Share of associate's results	5	–	–	–	5
Group's share of tax on joint ventures' operating profitnote (iii)	–	(4)	–	–	(4)
Operating profit based on longer-term investment returns	204	38	21	34	297
Average funds under management	£230.9bn	£62.7bn			
Margin based on operating income*	36bps	35bps			
Cost/income ratio†	54%	62%			

	Half year 2012 £m				
	M&G note (ii)	Eastspring Investments notes (ii),(iii)	PruCap	US	Total
Operating income before performance-related fees	354	96	59	142	651
Performance-related fees	1	1	–	–	2
Operating income (net of commission)note (i)	355	97	59	142	653
Operating expensenote (i)	(186)	(63)	(35)	(125)	(409)
Share of associate's results	6	–	–	–	6
Group's share of tax on joint ventures' operating profit	–	(2)	–	–	(2)
Operating profit based on longer-term investment returns	175	32	24	17	248
Average funds under management*	£197.3bn	£53.5bn			
Margin based on operating income*	36bps	36bps			
Cost/income ratio†	53%	66%			

	Full year 2012 £m				
	M&G note (ii)	**Eastspring Investments** notes(ii)(iii)	**PruCap**	**US**	**Total**
Operating income before performance-related fees	734	201	120	296	1351
Performance-related fees	9	2	–	–	11
Operating income (net of commission)[note (i)]	743	203	120	296	1,362
Operating expense[note (i)]	(436)	(128)	(69)	(257)	(890)
Share of associate's results	13	–	–	–	13
Group's share of tax on joint ventures' operating profit	–	(6)	–	–	(6)
Operating profit based on longer-term investment returns	320	69	51	39	479
Average funds under management	£205.1bn	£55.0bn			
Margin based on operating income*	36bps	37bps			
Cost/income ratio†	59%	64%			

Notes

(i) Operating income and expense includes the Group's share of contribution from joint ventures (but excludes any contribution from associates). In the income statement as shown in note D of the IFRS financial statements, these amounts are netted and tax deducted and shown as single amounts,

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

	M&G					
	Operating income before performance-related fees					
	Retail £m	**Margin of FUM*** bps	**Institutional‡** £m	**Margin of FUM*** bps	**Total** £m	**Margin of FUM*** bps
30 June 2013	265	89	156	18	421	36
30 June 2012	218	96	136	18	354	36
31 December 2012	438	91	297	19	735	36

	Eastspring Investments					
	Operating income before performance-related fees					
	Retail £m	**Margin of FUM*** bps	**Institutional‡** £m	**Margin of FUM*** bps	**Total** £m	**Margin of FUM*** bps
30 June 2013	64	60	45	22	109	35
30 June 2012	56	63	40	23	96	36
31 December 2012	118	64	83	24	201	37

* Margin represents operating income before performance-related fees as a proportion of the related funds under management (FUM). Half-year figures have been annualised by multiplying by two. Monthly closing internal and external funds managed by the respective entity have been used to derive the average. Any funds held by the Group's insurance operations which are managed by third parties outside of the Prudential Group are excluded from these amounts.

† Cost/income ratio represents cost as a percentage of operating income before performance-related fees.

‡ Institutional includes internal funds.

(iii) The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B following adoption of IFRS 11 for joint ventures group on the joint ventures' operating profit. This amount is excluded from the cost for cost/income ratio purposes.

Additional financial information continued

II(a): Funds under management

(a) Summary note(i)

	2013 £bn	2012 £bn	
	30 Jun	30 Jun	31 Dec
Business area:			
Asia operations	39.9	35.0	38.9
US operations	102.5	78.1	91.4
UK operations	155.7	147.4	153.3
Prudential Group funds under management	298.1	260.5	283.6
External funds note(ii)	129.3	102.7	121.4
Total funds under management	427.4	363.2	405.0

Notes

(i) Including Group's share of assets managed by joint ventures.

(ii) External funds shown above as at 30 June 2013 of £129.3 billion (30 June 2012: £102.7 billion; 31 December 2012: £121.4 billion) comprise £141.7 billion (30 June 2012: £114.3 billion; 31 December 2012: £133.5 billion) of funds managed by M&G and Eastspring Investments as shown in note (c) below less £12.4 billion (half year 2012: £11.6 billion; full year 2012: £12.1 billion) that are classified within Prudential Group's funds. The £141.7 billion (30 June 2012: £114.3 billion; 31 December 2012: £133.5 billion) investment products comprise £137.4 billion (30 June 2012: £110.2 billion; 31 December 2012: £129.4 billion) as published in the New Business schedules plus Asia Money Market Funds of £4.3 billion (30 June 2012: £4.1 billion; 31 December 2012: £4.0 billion).

(b) Prudential Group funds under management – analysis by business area

	Asia operations £bn			US operations £bn			UK operations £bn			Total £bn		
	30 Jun 2013	30 Jun 2012*	31 Dec 2012*	30 Jun 2013	30 Jun 2012	31 Dec 2012	30 Jun 2013	30 Jun 2012*	31 Dec 2012*	30 Jun 2013	30 Jun 2012*	31 Dec 2012*
Investment properties†	–	–	–	0.1	0.1	0.1	10.7	10.7	10.7	10.8	10.8	10.8
Equity securities	14.1	11.1	12.7	60.4	43.9	49.6	37.8	34.1	36.4	112.3	89.1	98.7
Debt securities	20.1	18.3	20.1	33.4	27.1	33.0	84.8	81.9	85.8	138.3	127.3	138.9
Loans	1.0	1.2	1.0	6.7	4.1	6.2	5.5	5.5	5.5	13.2	10.8	12.7
Other investments and deposits	1.2	1.3	1.8	1.9	2.9	2.5	16.6	15.6	15.5	19.7	19.8	19.8
Total included in statement of financial position	36.4	31.9	35.6	102.5	78.1	91.4	155.4	147.8	153.9	294.3	257.8	280.9
Internally managed funds held in insurance joint ventures	3.5	3.1	3.3	–	–	–	0.3	(0.4)	(0.6)	3.8	2.7	2.7
Total Prudential Group funds under management as published	39.9	35.0	38.9	102.5	78.1	91.4	155.7	147.4	153.3	298.1	260.5	283.6

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

† As included in the investments section of the consolidated statement of financial position at 30 June 2013, except for £0.2 billion (30 June 2012: £0.3 billion; 31 December 2012: £0.2 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.

(c) Investment products – external funds under management[note]

	Half year 2013 £m				
	1 Jan 2013	Market gross inflows	Redemptions	Market exchange translation and other movements	30 Jun 2013
Eastspring Investments[note]	21,634	38,146	(36,034)	(211)	23,535
M&G	111,868	20,598	(16,758)	2,431	118,139
Group total	133,502	58,744	(52,792)	2,220	141,674

	Half year 2012 £m				
	1 Jan 2012	Market gross inflows	Redemptions	Market exchange translation and other movements	30 Jun 2012
Eastspring Investments[note]	19,221	29,142	(28,819)	72	19,616
M&G	91,948	14,701	(9,760)	(2,246)	94,643
Group total	111,169	43,843	(38,579)	(2,174)	114,259

	Full year 2012 £m				
	1 Jan 2012	Market gross inflows	Redemptions	Market exchange translation and other movements	31 Dec 2012
Eastspring Investments[note]	19,221	60,498	(59,098)	1,013	21,634
M&G	91,948	36,463	(19,582)	3,039	111,868
Group total	111,169	96,961	(78,680)	4,052	133,502

Note
Including Asia Money Market Funds at 30 June 2013 of £4.3 billion (half year 2012: £4.1 billion; full year 2012: £4.0 billion).

(d) M&G and Eastspring Investments total funds under management

	2013 £bn	2012 £bn	
	30 Jun	30 Jun	31 Dec
M&G			
External funds under management	118.1	94.6	111.9
Internal funds under management	116.2	109.1	116.4
Total funds under management	234.3	203.7	228.3

	2013 £bn	2012 £bn	
	30 Jun	30 Jun	31 Dec
Eastspring Investments			
External funds under management[note]	23.5	19.6	21.6
Internal funds under management	38.3	34.2	36.5
Total funds under management	61.8	53.8	58.1

Note
Including Asia Money Market Funds at 30 June 2013 of £4.3 billion (half year 2012: £4.1 billion; full year 2012: £4.0 billion).

Additional financial information continued

II(b): Option schemes

The Group maintains four share option schemes satisfied by the issue of new shares. Executive directors and eligible employees based in the UK may participate in the UK savings-related share option scheme, executives based in Asia and eligible employees can participate in the international savings-related share option scheme. Employees based in Dublin are eligible to participate in the Prudential International Assurance sharesave plan, and Hong Kong based agents can participate in the non-employee savings-related share option scheme. Further details of the schemes and accounting policies are detailed in Note I4 of the IFRS basis consolidated financial statements in the 2012 Annual Report.

All options were granted at £nil consideration. No options have been granted to substantial shareholders, suppliers of goods or services (excluding options granted to agents under the non-employee savings-related share option scheme) or in excess of the individual limit for the relevant scheme.

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

- UK savings-related share option scheme: 16 May 2023;
- International savings-related share option scheme: 31 May 2021;
- Prudential International Assurance sharesave plan: 3 August 2019; and
- International savings-related share option scheme for non-employees 2012: 17 May 2022.

The weighted average share price of Prudential plc for the period ended 30 June 2013 was £10.48 (2012: £7.19).

The following analyses show the movements in options for each of the option schemes for the six month period ended 30 June 2013. No options were granted in the period.

UK 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
29 Sep 05	4.07	01 Dec 12	31 May 13	3,780	–	(1,260)	–	–	(2,520)	–
20 Apr 06	5.65	01 Jun 13	30 Nov 13	7,322	–	(1,149)	–	–	–	6,173
28 Sep 06	4.75	01 Dec 13	31 May 14	13,325	–	–	–	–	–	13,325
26 Apr 07	5.72	01 Jun 14	30 Nov 14	503	–	–	–	–	–	503
27 Sep 07	5.52	01 Dec 12	31 May 13	5,108	–	(5,108)	–	–	–	–
27 Sep 07	5.52	01 Dec 14	31 May 15	1,668	–		–	–	–	1,668
25 Apr 08	5.51	01 Jun 13	30 Nov 13	26,509	–	(18,750)	–	–	(24)	7,735
25 Apr 08	5.51	01 Jun 15	30 Nov 15	1,544	–	–	–	–	–	1,544
25 Sep 08	4.38	01 Dec 13	31 May 14	43,374	–	(607)	–	–	(158)	42,609
25 Sep 08	4.38	01 Dec 15	31 May 16	11,205	–	–	–	–	–	11,205
27 Apr 09	2.88	01 Jun 12	30 Nov 12	5,709	–	(5,709)	–	–	–	–
27 Apr 09	2.88	01 Jun 14	30 Nov 14	1,719,205	–	(12,996)	(1,085)	(6,511)	(4,583)	1,694,030
27 Apr 09	2.88	01 Jun 16	30 Nov 16	177,492	–	(343)	–	(5,686)	(111)	171,352
25 Sep 09	4.25	01 Dec 12	31 May 13	40,985	–	(36,459)	–	(854)	(256)	3,416
25 Sep 09	4.25	01 Dec 14	31 May 15	86,651	–	(407)	(3,659)	–	(178)	82,407
28 Sep 10	4.61	01 Dec 13	31 May 14	256,720	–	(606)	(390)	(1,716)	(174)	253,834
28 Sep 10	4.61	01 Dec 15	31 May 16	123,861	–	(470)	–	–	(467)	122,924
16 Sep 11	4.66	01 Dec 14	31 May 15	458,199	–	(531)	(7,686)	(5,792)	(782)	443,408
16 Sep 11	4.66	01 Dec 16	31 May 17	184,570	–	–	(1,960)	–	–	182,610
21 Sep 12	6.29	01 Dec 15	31 May 16	986,901	–	(284)	(9,840)	(6,237)	(2,864)	967,676
21 Sep 12	6.29	01 Dec 17	31 May 18	147,509	–	–	(477)	(4,771)	–	142,261
				4,302,140	–	(84,679)	(25,097)	(31,567)	(12,117)	4,148,680

The total number of securities available for issue under the scheme is 4,148,680, which represents 0.162 per cent of the issued share capital at 30 June 2013.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £10.54.

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
26 Apr 07	5.72	01 Jun 12	30 Nov 12	14,489	–	–	–	–	(14,489)	–
25 Apr 08	5.51	01 Jun 13	30 Nov 13	4,192	–	(2,739)	–	–	–	1,453
25 Sep 08	4.38	01 Dec 13	31 May 14	6,951	–	–	–	–	–	6,951
27 Apr 09	2.88	01 Jun 12	30 Nov 12	63,474	–	–	–	–	(63,474)	–
27 Apr 09	2.88	01 Jun 14	30 Nov 14	78,133	–	(1,372)	–	(1,188)	–	75,573
25 Sep 09	4.25	01 Dec 12	31 May 13	41,541	–	(24,469)	(1,088)	–	–	15,984
25 Sep 09	4.25	01 Dec 14	31 May 15	2,682	–	–	–	–	–	2,682
28 Sep 10	4.61	01 Dec 13	31 May 14	119,163	–	(2,117)	–	(5,344)	–	111,702
28 Sep 10	4.61	01 Dec 15	31 May 16	6,130	–	–	–		–	6,130
16 Sep 11	4.66	01 Dec 14	31 May 15	352,841	–	(721)	(6,242)	(11,975)	–	333,903
16 Sep 11	4.66	01 Dec 16	31 May 17	25,739	–	–	–		–	25,739
21 Sep 12	6.29	01 Dec 15	31 May 16	681,368	–	–	(5,357)	(19,590)	–	656,421
21 Sep 12	6.29	01 Dec 17	31 May 18	34,701	–	–	–	(4,771)	–	29,930
				1,431,404	–	(31,418)	(12,687)	(42,868)	(77,963)	1,266,468

The total number of securities available for issue under the scheme is 1,266,468, which represents 0.049 per cent of the issued share capital at 30 June 2013.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £9.86.

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 Apr 09	2.88	01 Jun 12	30 Nov 12	3,646	–	–	–	–	–	3,646
27 Apr 09	2.88	01 Jun 14	30 Nov 14	6,567	–	–	–	–	–	6,567
25 Sep 09	4.25	01 Dec 12	31 May 13	639	–	(614)	–	–	(25)	–
				10,852	–	(614)	–	–	(25)	10,213

The total number of securities available for issue under the scheme is 10,213, which represents 0.0004 per cent of the issued share capital at 30 June 2013.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £9.73.

Additional financial information continued

II(b): Option schemes continued

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
26 Apr 07	5.72	01 Jun 12	30 Nov 12	12,779	–	–	–	–	(12,779)	–
27 Sep 07	5.52	01 Dec 12	31 May 13	2,970	–	(2,874)	–	–	–	96
25 Apr 08	5.51	01 Jun 13	30 Nov 13	3,834	–	–	–	–	–	3,834
25 Sep 08	4.38	01 Dec 13	31 May 14	13,708	–	–	–	–	–	13,708
27 Apr 09	2.88	01 Jun 12	30 Nov 12	27,532	–	–	–	–	–	27,532
27 Apr 09	2.88	01 Jun 14	30 Nov 14	686,366	–	–	–	–	–	686,366
25 Sep 09	4.25	01 Dec 12	31 May 13	16,676	–	(16,673)	–	–	(3)	–
25 Sep 09	4.25	01 Dec 14	31 May 15	11,717	–	–	–	–	–	11,717
28 Sep 10	4.61	01 Dec 13	31 May 14	1,096,742	–	–	(3,950)	(5,968)	–	1,086,824
28 Sep 10	4.61	01 Dec 15	31 May 16	368,850	–	–	–	(6,636)	–	362,214
16 Sep 11	4.66	01 Dec 14	31 May 15	608,943	–	–	(2,745)	(391)	–	605,807
16 Sep 11	4.66	01 Dec 16	31 May 17	262,682	–	–	(4,336)	(572)	–	257,774
21 Sep 12	6.29	01 Dec 15	31 May 16	443,315	–	–	–	–	–	443,315
21 Sep 12	6.29	01 Dec 17	31 May 18	96,300	–	–	(6,011)	–	–	90,289
				3,652,414	–	(19,547)	(17,042)	(13,567)	(12,782)	3,589,476

The total number of securities available for issue under the scheme is 3,589,476, which represents 0.140 per cent of the issued share capital at 30 June 2013.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £11.02.

Section 4

Additional information

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Risk factors

A number of factors (risk factors) affect Prudential's operating results and financial condition and, accordingly, the trading price of its shares. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The information given is as of the date of this document, is not updated, and any forward looking statements are made subject to the reservations specified under 'Forward-looking statements' at the end of this document.

Prudential's approaches to managing risks are explained in the 'Business review' section under 'Risk and capital management'.

Risks relating to Prudential's business

Prudential's businesses are inherently subject to market fluctuations and general economic conditions

Prudential's businesses are inherently subject to market fluctuations and general economic conditions. Uncertainty or negative trends in international economic and investment climates could adversely affect Prudential's business and profitability. Since 2008, Prudential has operated against a challenging background of periods of significant volatility in global capital and equity markets, interest rates and liquidity, and widespread economic uncertainty. Government interest rates also remain at or near historic lows in the US, the UK and some Asian countries in which Prudential operates. These factors have, at times during this period, had a material adverse effect on Prudential's business and profitability.

In the future, the adverse effects of such factors would be felt principally through the following items:

- Investment impairments or reduced investment returns, which could impair Prudential's ability to write significant volumes of new business and would have a negative impact on its assets under management and profit;
- Higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses;
- Prudential in the normal course of business enters into a variety of transactions with counterparties, including derivative transactions. Failure of any of these counterparties to discharge their obligations, or where adequate collateral is not in place, could have an adverse impact on Prudential's results; and
- Estimates of the value of financial instruments being difficult because, in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain value and estimates of value require substantial elements of judgement, assumptions and estimates (which may change over time). Increased illiquidity also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline.

Global financial markets have experienced, and continue to experience, significant uncertainty brought on, in particular, by concerns over European and US sovereign debt, as well as concerns about a general slowing of global demand reflecting a continued lack of confidence among consumers, companies and governments. Upheavals in the financial markets may affect general levels of economic activity, employment and customer behaviour. For example, insurers may experience an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums. The demand for insurance products may also be adversely affected. If sustained, this environment is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on Prudential's business and profitability. New challenges related to market fluctuations and general economic conditions may continue to emerge.

For some non-unit-linked investment products, in particular those written in some of the Group's Asian operations, it may not be possible to hold assets which will provide cash flows to match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets where regulated surrender values are set with reference to the interest rate environment prevailing at the time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. While this residual asset/liability mismatch risk can be managed, it cannot be eliminated. Where interest rates in these markets remain lower than interest rates used to calculate surrender values over a sustained period, this could have an adverse impact on Prudential's reported profit.

In the US, fluctuations in prevailing interest rates can affect results from Jackson which has a significant spread-based business, with the majority of its assets invested in fixed income securities. In particular, fixed annuities and stable value products written by Jackson expose Prudential to the risk that changes in interest rates, which are not fully reflected in the interest rates credited to customers, will reduce spread. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. Declines in spread from these products or other spread businesses that Jackson conducts could have a material impact on its businesses or results of operations.

Jackson also writes a significant amount of variable annuities that offer capital or income protection guarantees. The value of these guarantees is affected by market factors including interest rates, equity levels, bond spreads and volatility. There could be market circumstances where the derivatives that Jackson enters into to hedge its market risks may not fully cover its exposures under the guarantees. The cost of the guarantees that remain unhedged will also affect Prudential's results.

A significant part of the profit from Prudential's UK insurance operations is related to bonuses for policyholders declared on with-profits products, which are broadly based on historical and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns. This profit could be lower in a sustained low interest rate environment.

Prudential is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio

Prudential is subject to the risk of potential sovereign debt credit deterioration on the amounts of sovereign debt obligations, principally for UK, other European, US and Asian countries held in its investment portfolio. In recent years, rating agencies have downgraded the sovereign debt of some Continental European countries, the UK and the US. There is a risk of further downgrades for these countries. For some European countries, the risk of default has also increased. Investing in such

instruments creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of states or monarchs) in the countries in which the issuers are located and the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and Prudential may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issuers. If a sovereign were to default on its obligations, this could have a material adverse effect on Prudential's financial condition and results of operations.

Prudential is subject to the risk of exchange rate fluctuations owing to the geographical diversity of its businesses

Due to the geographical diversity of Prudential's businesses, Prudential is subject to the risk of exchange rate fluctuations. Prudential's operations in the US and Asia, which represent a significant proportion of operating profit based on longer-term investment returns and shareholders' funds, generally write policies and invest in assets denominated in local currency. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential's consolidated financial statements upon translation of results into pounds sterling. The currency exposure relating to the translation of reported earnings is not currently separately managed. The impact of gains or losses on currency translations is recorded as a component of shareholders' funds within other comprehensive income. Consequently, this could impact on Prudential's gearing ratios (defined as debt over debt plus shareholders' funds).

Prudential conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates

Changes in government policy, legislation (including tax) or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates, which in some circumstances may be applied retrospectively, may adversely affect Prudential's product range, distribution channels, profitability, capital requirements and, consequently, reported results and financing requirements. Also, regulators in jurisdictions in which Prudential operates may change the level of capital required to be held by individual businesses, or could introduce possible changes in the regulatory framework for pension arrangements and policies, the regulation of selling practices and solvency requirements. Furthermore, as a result of interventions by governments in response to recent financial and global economic conditions, it is widely expected that there will continue to be a substantial increase in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transaction structure and enhanced supervisory powers.

Current EU directives, including the EU Insurance Groups Directive (IGD) require EU financial services groups to demonstrate net aggregate surplus capital in excess of solvency requirements at the group level in respect of shareholder-owned entities. The test is a continuous requirement, so that Prudential needs to maintain a higher amount of regulatory capital at the group level than otherwise necessary in respect of some of its individual businesses to accommodate, for example, short-term movements in global foreign exchange rates, interest rates, deterioration in credit quality and equity markets. The EU is also developing a regulatory framework for insurance companies, referred to as 'Solvency II'. The approach is based on the concept of three pillars. Pillar 1 consists of the quantitative requirements, for example, the amount of capital an insurer should hold. Pillar 2 sets out requirements for the governance and risk management of insurers, as well as for the effective supervision of insurers. Pillar 3 focuses on disclosure and transparency requirements.

The Solvency II Directive covers valuation, the treatment of insurance groups, the definition of capital and the overall level of capital requirements. A key aspect of Solvency II is that the assessment of risks and capital requirements are intended to be aligned more closely with economic capital methodologies, and may allow Prudential to make use of its internal economic capital models, if approved by the Prudential Regulation Authority (PRA). The Solvency II Directive was formally approved by the Economic and Financial Affairs Council in November 2009. Representatives from the European Parliament, the European Commission and the Council of the European Union are currently discussing the Omnibus II Directive which, once approved, will amend certain aspects of the original Solvency II Directive. In addition, the European Commission is continuing to develop the detailed rules that will complement the high-level principles of the Solvency II Directive, referred to as 'implementing measures'. The Omnibus II Directive is not currently scheduled to be finalised before late 2013, while the implementing measures cannot be finalised until after Omnibus II is finalised. There is significant uncertainty regarding the final outcome of this process. In particular, the Solvency II rules relating to the determination of the liability discount rate and the treatment of the US business remain unclear. As a result there is a risk that the effect of the measures finally adopted could be adverse for Prudential, including potentially a significant increase in capital required to support its business and that Prudential may be placed at a competitive disadvantage to other European and non-European financial services groups.

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

Risk factors continued

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

In July 2013, the FSB announced the initial list of nine insurance groups that have been designated as G-SIIs. This list included Prudential, as well as a number of its competitors. The designation as a G-SII is likely to lead to additional policy measures being applied to the designated group. Based on a policy framework released by the IAIS concurrently with the initial list, these additional policy measures will include enhanced group-wide supervision, which is intended to commence immediately and which will include the development by July 2014 of a Systemic Risk Management Plan (SRMP) under supervisory oversight and implementation thereafter; recovery and resolution planning requirements (RRP); and higher loss absorption (HLA) capacity, for conducting non-traditional and non-insurance activities. As a foundation for HLA requirements, backstop capital requirements (ie loss absorption (LA) requirements) for all group activities will first be finalised. Prudential is monitoring the development of, and the potential impact of, the framework of policy measures and engaging with the PRA on the implications of this designation. The IAIS currently expects to finalise LA and HLA proposals in 2014 and 2015 respectively. Implementation of the regime is likely to be phased in over a period of years, with LA expected to be introduced between 2015 and 2019 and HLA not applied to G-SIIs until 2019.

ComFrame is also being developed by the IAIS to provide common global requirements for the supervision of insurance groups. The framework is designed to develop common principles for supervision and so may increase the focus of regulators in some jurisdictions. It is also currently expected that some prescriptive requirements, including group capital requirements, will be included in the framework. A revised draft ComFrame proposal is expected in October 2013.

Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise where Prudential, along with other companies, may be required to make such contributions.

The Group's accounts are prepared in accordance with current International Financial Reporting Standards (IFRS) applicable to the insurance industry. The International Accounting Standards Board (IASB) introduced a framework that it described as Phase I, which permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In July 2010, the IASB published its first Exposure Draft for its Phase II on insurance accounting, which would introduce significant changes to the statutory reporting of insurance entities that prepare accounts according to IFRS. A revised Exposure Draft was issued in June 2013. It remains uncertain whether the proposals in the Exposure Draft will become the final IASB standard. The timing of the changes taking effect is uncertain but not expected to be before 2018.

Any changes or modification of IFRS accounting policies may require a change in the future results or a restatement of reported results.

The resolution of several issues affecting the financial services industry could have a negative impact on Prudential's reported results or on its relations with current and potential customers

Prudential is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally. These actions could involve a review of business sold in the past under acceptable market practices at the time, such as the requirement in the UK to provide redress to certain past purchasers of pension and mortgage endowment policies, changes to the tax regime affecting products and regulatory reviews on products sold and industry practices, including, in the latter case, businesses it has closed.

Regulators are increasingly interested in the approach that product providers use to select third party distributors and to monitor the appropriateness of sales made by them. In some cases, product providers can be held responsible for the deficiencies of third-party distributors.

In the US, federal and state regulators have focused on, and continue to devote substantial attention to, the mutual fund, fixed index annuity and insurance product industries. This focus includes new regulations in respect of the suitability of sales of certain products. As a result of publicity relating to widespread perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms.

In Asia, regulatory regimes are developing at different speeds, driven by a combination of global factors and local considerations. There is a risk that new requirements are introduced that challenge current practices, or are retrospectively applied to sales made prior to their introduction.

Litigation, disputes and regulatory investigations may adversely affect Prudential's profitability and financial condition

Prudential is, and may be in the future, subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of Prudential's businesses and operations that are specific to Prudential, or that are common to companies that operate in Prudential's markets. Legal actions and disputes may arise under contracts, regulations (including tax) or from a course of conduct taken by Prudential, and may be class actions. Although Prudential believes that it has adequately provided in all material aspects for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought, other sanctions that might be applicable and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome could, from time to time, have an adverse effect on Prudential's reputation, results of operations or cash flows.

Prudential's businesses are conducted in highly competitive environments with developing demographic trends and continued profitability depends on management's ability to respond to these pressures and trends

The markets for financial services in the UK, US and Asia are highly competitive, with several factors affecting Prudential's ability to sell its products and continued profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance, historical bonus levels, developing demographic trends and customer appetite for certain savings products. In some of its markets, Prudential faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates or claims-paying ratios. Further, heightened competition for talented and skilled employees and agents with local experience, particularly in Asia, may limit Prudential's potential to grow its business as quickly as planned.

In Asia, the Group's principal competitors in the region are international financial companies, including Allianz, AXA, ING, AIA and Manulife. In a number of markets, local companies have a very significant market presence.

Within the UK, Prudential's principal competitors in the life market include many of the major retail financial services companies including, in particular, Aviva, Legal & General, Lloyds Banking Group and Standard Life.

Jackson's competitors in the US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies such as AIG, AXA Financial Inc., Hartford Life Inc., Prudential Financial, Lincoln National, MetLife and TIAA-CREF.

Prudential believes competition will intensify across all regions in response to consumer demand, technological advances, the impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures.

Downgrades in Prudential's financial strength and credit ratings could significantly impact its competitive position and hurt its relationships with creditors or trading counterparties

Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in most of Prudential's products, and as a result its competitiveness. Downgrades in Prudential's ratings, as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns, could have an adverse effect on its ability to market products, retain current policyholders, and on the Group's financial flexibility. In addition, the interest rates Prudential pays on its borrowings are affected by its debt credit ratings, which are in place to measure the Group's ability to meet its contractual obligations.

Prudential's long-term senior debt is rated as A2 by Moody's, A+ by Standard & Poor's and A by Fitch. These ratings have a stable outlook.

Prudential's short-term debt is rated as P-1 by Moody's, A-1 by Standard & Poor's and F1 by Fitch.

The Prudential Assurance Company Limited's financial strength is rated Aa2 by Moody's, AA by Standard & Poor's and AA by Fitch. These ratings have a stable outlook.

Jackson's financial strength is rated AA by Standard & Poor's and Fitch, A1 by Moody's, and A+ by AM Best. These ratings have a stable outlook.

In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition.

Adverse experience in the operational risks inherent in Prudential's business could have a negative impact on its results of operations

Operational risks are present in all of Prudential's businesses, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events. Prudential's business is dependent on processing a large number of complex transactions across numerous and diverse products, and is subject to a number of different legal and regulatory regimes. Further, because of the long-term nature of much of the Group's business, accurate records have to be maintained for significant periods. These factors, among others, result in significant reliance on and require significant investment in information technology, compliance and other systems, personnel and processes. In addition, Prudential outsources several operations, including a significant part of its UK back office and customer-facing functions, as well as a number of IT functions, resulting in reliance upon the operational processing performance of its outsourcing partners.

Although Prudential's systems and processes incorporate controls designed to manage and mitigate the operational risks associated with its activities, there can be no assurance that such controls will always be effective. For example, although the business has not experienced a material failure or breach in relation to IT systems and processes to date, failures or breaches of this sort, including a cyber-security attack, could harm its ability to perform necessary business functions and hurt its relationships with its business partners and customers. Similarly, any weakness in the administration systems or actuarial reserving processes could have an impact on its results of operations during the effective period. Prudential has not experienced or identified any operational risks in its systems or processes during the first half of 2013, which have subsequently caused, or are expected to cause, a significant negative impact on its results of operations.

Adverse experience relative to the assumptions used in pricing products and reporting business results could significantly affect Prudential's results of operations

Prudential needs to make assumptions about a number of factors in determining the pricing of its products, setting reserves, for reporting its capital levels and the results of its long-term business operations. For example, the assumption that Prudential makes about future expected levels of mortality is particularly relevant for its UK annuity business. In exchange for a premium equal to the capital value of their accumulated pension fund,

Risk factors continued

pension annuity policyholders receive a guaranteed payment, usually monthly, for as long as they are alive. Prudential conducts rigorous research into longevity risk, using data from its substantial annuitant portfolio. As part of its pension annuity pricing and reserving policy, Prudential's UK business assumes that current rates of mortality continuously improve over time at levels based on adjusted data and models from the Continuous Mortality Investigations (CMI) as published by the Institute and Faculty of Actuaries. If mortality improvement rates significantly exceed the improvement assumed, Prudential's results of operations could be adversely affected.

A further example is the assumption that Prudential makes about future expected levels of the rates of early termination of products by its customers (persistency). This is particularly relevant to its lines of business other than its UK annuity business. Prudential's persistency assumptions reflect recent past experience for each relevant line of business. Any expected deterioration in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly lower than assumed (that is, policy termination rates are significantly higher than assumed), the Group's results of operations could be adversely affected.

Another example is the impact of epidemics and other effects that cause a large number of deaths. Significant influenza epidemics have occurred three times in the last century, but the likelihood, timing, or the severity of future epidemics cannot be predicted. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemics could have a material impact on the Group's loss experience.

In common with other life insurers, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity levels and trends, policy surrender rates, investment performance and impairments, unit cost of administration and new business acquisition expense.

As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments

The Group's insurance and investment management operations are generally conducted through direct and indirect subsidiaries.

As a holding company, Prudential's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper. Certain of the subsidiaries are restricted by applicable insurance, foreign exchange and tax laws, rules and regulations that can limit the payment of dividends, which in some circumstances could limit the ability to pay dividends to shareholders or to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group.

Prudential operates in a number of markets through joint ventures and other arrangements with third parties (including in China and India), involving certain risks that Prudential does not face with respect to its consolidated subsidiaries

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures (including in China and India). For the Group's joint venture operations, management control is exercised jointly with the venture participants. The level of control exercisable by the Group depends on the terms of the joint venture agreements, in particular, the allocation of control among, and continued co-operation between, the joint venture participants. Prudential may face financial, reputational and other exposure (including regulatory censure) in the event that any of its joint venture partners fails to meet its obligations under the joint venture, encounters financial difficulty, or fails to comply with local regulation or international standards such as those for the prevention of financial crime. In addition, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not controlled by Prudential and is dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements or material failure in controls (such as those for the prevention of financial crime) could adversely affect the results of operations of Prudential.

Prudential's Articles of Association contain an exclusive jurisdiction provision

Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings by a shareholder (in its capacity as such) against Prudential and/or its directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service provider. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

Changes in tax legislation may result in adverse tax consequences

Tax rules, including those relating to the insurance industry, and their interpretation, may change, possibly with retrospective effect, in any of the jurisdictions in which Prudential operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation could affect Prudential's financial condition and results of operations.

Corporate governance

Hong Kong listing obligations

The directors confirm that the Company has complied with the Corporate Governance Code issued by the Hong Kong Stock Exchange throughout the reporting period, other than in respect of the Terms of Reference of the Remuneration Committee as regards making recommendations to the Board in respect of the remuneration of the non-executive directors. It would be inconsistent with the principles of the UK Corporate Governance Code for the Remuneration Committee to be involved in setting the fees of non-executive directors.

The directors also confirm that the half year results have been reviewed by the Group Audit Committee.

The Company confirms that it has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than required by the Hong Kong Listing Rules. Confirmation has been sought from each director that they have complied with the Prudential Share Dealing Rules throughout the period.

Going concern

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue their operations for the foreseeable future and, therefore, consider it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements.

The UK's Financial Reporting Council (FRC) has published guidance concerning directors' considerations of the Company as a going concern, in particular the guidance pertaining to half year statements. The directors have addressed all relevant procedures and considerations as outlined in the FRC's guidance document.

The Company's business activities, together with the factors likely to affect its future development, successful performance and position in the current economic climate, are set out in the Business review.

In this context, the directors have considered liquidity risk, capital and related sensitivities, which are discussed in the Risk and capital management section of the Business review. Specifically, in making their going concern assessment, the directors have considered:

- The Group capital position;
- The Group's capital commitments;
- The market risk and liquidity profile of the Group's assets and liabilities;
- The maturity profile of the Group's core and operational borrowings;
- Various liquidity stress scenarios; and
- The capital and liquidity positions of its subsidiaries.

The Group's IFRS financial statements include cash flow details in the 'Condensed consolidated statement of cash flows' and borrowings information in notes S and T.

Significant shareholdings

As at 30 June 2013, Prudential had received notifications in accordance with the Disclosure and Transparency Rules, from the following companies, disclosing their direct or indirect interests in 3 per cent or more of Prudential's issued ordinary share capital:

Shareholder	Interest
Legal and General Group Plc	3.99%
Norges Bank	4.03%
BlackRock, Inc	5.08%
Capital Group Companies, Inc.	9.99%

In addition, further notification was received from Capital Group Companies, Inc. of an increase in their interest to 10.12 per cent in the period up to the date of this report.

Disclosure of interests of directors

The following table sets out the share options held by the directors in the UK Saving Related Share Option Scheme (SAYE) as at the end of the period. No other directors held shares in any other option scheme.

	Date of grant	Exercise price	Market price at 30 June 2013	Exercise period		Number of options						
				Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
John Foley	25 Apr 08	551	1075	01 Jun 13	29 Nov 13	2,953	–	2,953	–	–	–	–
Tidjane Thiam	16 Sep 11	465.8666	1075	01 Dec 14	29 May 15	965	–	–	–	–	–	965
Nic Nicandrou	16 Sep 11	465.8666	1075	01 Dec 16	31 May 17	3,268	–	–	–	–	–	3,268
Rob Devey	16 Sep 11	465.8666	1075	01 Dec 16	31 May 17	3,268	–	–	–	–	–	3,268

Directors' shareholdings

The Company and its directors, chief executives and shareholders have been granted a partial exemption from the disclosure requirements under Part XV of the SFO. As a result of this exemption, directors, chief executives and shareholders do not have an obligation under the SFO to notify the Company of shareholding interests, and the Company is not required to maintain a register of directors' and chief executives' interests under section 352 of the SFO, nor a register of interests of substantial shareholders under section 336 of the SFO. The Company is, however, required to file with the Hong Kong Stock Exchange any disclosure of interests notified to it in the United Kingdom.

The following table sets out the interests of directors in the issued share capital of Prudential including the interests of persons connected with directors for the purposes of DTR 3.1.2 of the Disclosure and Transparency Rules, as at the end of the period. This includes shares acquired under the Share Incentive Plan, and deferred annual bonus awards and interests in shares awarded on appointment as detailed in the table on other share awards on page 203.

	1 Jan 2013	30 Jun 2013			
	Total beneficial interest (number of shares)	Number of shares owned outright	Number of shares subject to deferral	Total beneficial interest (number of shares)	Number of shares subject to performance conditions
Keki Dadiseth (note 1)	32,196	–	–	–	–
Howard Davies	3,192	8,248	–	8,248	–
Rob Devey	275,443	72,846	118,206	191,052	445,748
John Foley	323,235	157,178	82,196	239,374	483,765
Michael Garrett	39,233	39,233	–	39,233	–
Ann Godbehere	15,914	15,914	–	15,914	–
Alistair Johnston	5,000	10,000	–	10,000	–
Paul Manduca	2,500	42,500	–	42,500	–
Michael McLintock	682,733	295,905	156,631	452,536	142,283
Kaikhushru Nargolwala	16,000	50,000	–	50,000	–
Nic Nicandrou	350,858	164,610	137,072	301,682	460,412
Anthony Nightingale (note 2)	–	15,000	–	15,000	–
Philip Remnant (note 3)	–	2,100	–	2,100	–
Alice Schroeder (note 4)	–	2,000	–	2,000	–
Barry Stowe (note 5)	511,231	248,780	151,118	399,898	499,090
Tidjane Thiam	923,839	458,565	430,587	889,152	1,243,213
Lord Turnbull	16,624	16,624	–	16,624	–
Mike Wells (note 6)	591,808	127,998	275,580	403,578	1,208,278

Notes

1. Keki Dadiseth retired from the Board on 1 May 2013.
2. Anthony Nightingale was appointed to the Board on 1 June 2013.
3. Philip Remnant was appointed to the Board on 1 January 2013.
4. Alice Schroeder was appointed to the Board on 10 June 2013. For the 30 June 2013 figure, her beneficial interest in shares is made up of 1,000 ADRs (representing 2,000 ordinary shares).
5. For the 1 January 2013 figure, part of Barry Stowe's beneficial interest in shares is made up of 207,963 ADRs (representing 415,926 ordinary shares) and 95,305 ordinary shares, (8,513.73 of these ADRs are held within an investment account which secures premium financing for a life assurance policy). For the 30 June 2013 figure, the beneficial interest in shares is made up of 199,449 ADRs (representing 399,898 ordinary shares).
6. For the 31 December 2012 figure, Mike Wells' beneficial interest in shares is made up of 295,904 ADRs (representing 591,808 ordinary shares). For the 30 June 2013 figure, his beneficial interest in shares is made up of 201,789 (representing 403,578 ordinary shares). In the table above, the figure for shares subject to performance conditions includes the maximum number of shares (150 per cent of the original number awarded) which may be released to Mike Wells under the JNL Performance Share Plan. This maximum number of shares may be released if stretch performance targets are achieved.

Directors' outstanding long-term incentive awards

Share-based long-term incentive awards

The section below sets out the outstanding share awards under the Prudential Long-Term Incentive Plan, Group Performance Share Plan and the awards made under additional long-term plans for the executive directors with regional responsibilities.

Plan name	Year of award	Conditional share awards outstanding at 1 Jan 2013 (number of shares)	Conditional awards in 2013 (number of shares)	Market price at date of award (pence)	Dividend equivalents on vested shares (number of shares released) (note 2)	Rights exercised in 2013	Rights lapsed in 2013	Conditional share awards outstanding at 30 Jun 2013 (number of shares)	Date of end of performance period
Rob Devey									
GPSP	2010	104,089		568.5	11,772	104,089		–	31 Dec 12
BUPP	2010	104,089		568.5	11,772	104,089		–	31 Dec 12
GPSP	2011	76,242		733.5				76,242	31 Dec 13
BUPP	2011	76,242		733.5				76,242	31 Dec 13
GPSP	2012	88,273		678				88,273	31 Dec 14
BUPP	2012	88,273		678				88,273	31 Dec 14
PLTIP	2013		116,718	1203				116,718	31 Dec 15
		537,208	116,718		23,544	208,178		445,748	
John Foley									
GPSP	2011	152,484		733.5				152,484	31 Dec 13
GPSP	2012	199,433		678				199,433	31 Dec 14
PLTIP	2013		131,848	1203				131,848	31 Dec 15
		351,917	131,848					483,765	
Michael McLintock									
GPSP	2010	66,238		568.5	7,490	66,238		–	31 Dec 12
GPSP	2011	48,517		733.5				48,517	31 Dec 13
GPSP	2012	47,079		678				47,079	31 Dec 14
PLTIP	2013		46,687	1203				46,687	31 Dec 15
		161,834	46,687		7,490	66,238		142,283	
Nic Nicandrou									
GPSP	2010	208,179		568.5	23,548	208,179		–	31 Dec 12
GPSP	2011	152,484		733.5				152,484	31 Dec 13
GPSP	2012	185,374		678				185,374	31 Dec 14
PLTIP	2013		122,554	1203				122,554	31 Dec 15
		546,037	122,554		23,548	208,179		460,412	
Barry Stowe (note 1)									
GPSP	2010	129,076		568.5	14,522	129,076		–	31 Dec 12
BUPP	2010	129,076		568.5	13,824	122,880	6,196	–	31 Dec 12
GPSP	2011	88,270		733.5				88,270	31 Dec 13
BUPP	2011	88,270		733.5				88,270	31 Dec 13
GPSP	2012	95,642		678				95,642	31 Dec 14
BUPP	2012	95,642		678				95,642	31 Dec 14
PLTIP	2013		131,266	1203				131,266	31 Dec 15
		625,976	131,266		28,346	251,956	6,196	499,090	

Disclosure of interests of directors continued

Share-based long-term incentive awards continued

Plan name	Year of award	Conditional share awards outstanding at 1 Jan 2013 (number of shares)	Conditional awards in 2013 (number of shares)	Market price at date of award (pence)	Dividend equivalents on vested shares (number of shares released) (note 2)	Rights exercised in 2013	Rights lapsed in 2013	Conditional share awards outstanding at 30 Jun 2013 (number of shares)	Date of end of performance period
Tidjane Thiam									
GPSP	2010	510,986		568.5	57,806	510,986		–	31 Dec 12
GPSP	2011	374,279		733.5				374,279	31 Dec 13
GPSP	2012	523,103		678				523,103	31 Dec 14
PLTIP	2013		345,831	1203				345,831	31 Dec 15
		1,408,368	345,831		57,806	510,986		1,243,213	
Mike Wells (notes 1 & 3)									
JNL PSP	2009	218,100		455.5		218,100		–	31 Dec 12
JNL PSP	2010	141,000		568.5				141,000	31 Dec 13
GPSP	2011	197,648		733.5				197,648	31 Dec 13
BUPP	2011	197,648		733.5				197,648	31 Dec 13
GPSP	2012	199,256		678				199,256	31 Dec 14
BUPP	2012	199,256		678				199,256	31 Dec 14
PLTIP	2013		273,470	1203				273,470	31 Dec 15
		1,152,908	273,470			218,100		1,208,278	

Notes

1 The awards for Barry Stowe and Mike Wells were made in ADRs (1 ADR = 2 Prudential plc shares). The figures in the table are represented in terms of Prudential plc shares.

2 In 2010, a scrip dividend equivalent, and in 2011, 2012 and 2013 a DRIP dividend equivalent, were accumulated on these awards.

3 The table above reflects the maximum number of shares (150 per cent of the original number awarded) which may be released to Mike Wells under the JNL Performance Share Plan. This maximum number of shares may be released if stretch performance targets are achieved.

Other share awards

The table below sets out the share awards that have been made to executive directors under their appointment terms and those deferred from annual incentive plan payouts. The number of shares is calculated using the average share price over the three business days commencing on the day of the announcement of the Group's annual financial results for the relevant year. For the awards from the 2012 annual incentives, made in 2013, the average share price was 1,124.17 pence.

	Year of grant	Conditional share awards outstanding at 1 Jan 2013 (number of shares)	Conditionally awarded in 2013 (number of shares)	Dividends accumulated in 2013 (number of shares) (note 2)	Shares released in 2013 (number of shares)	Conditional share awards outstanding at 30 Jun 2013 (number of shares)	Date of end of restricted period	Date of release	Market price at date of award (pence)	Market price at date of vesting or release (pence)
Rob Devey										
Deferred 2009 annual incentive award	2010	29,755			29,755	–	31 Dec 12	02 Apr 13	552.5	1,083
Deferred 2010 annual incentive award	2011	48,349		845		49,194	31 Dec 13		721.5	
Deferred 2011 annual incentive award	2012	42,593		744		43,337	31 Dec 14		750	
Deferred 2012 annual incentive award	2013		25,234	441		25,675	31 Dec 15		1,055	
		120,697	25,234	2,030	29,755	118,206				
John Foley										
Deferred 2011 annual incentive award	2012	46,057		805		46,862	31 Dec 14		750	
Deferred 2012 annual incentive award	2013		34,727	607		35,334	31 Dec 15		1,055	
		46,057	34,727	1,412	–	82,196				
Michael McLintock										
Deferred 2009 annual incentive award	2010	77,493			77,493	–	31 Dec 12	02 Apr 13	552.5	1,083
Deferred 2010 annual incentive award	2011	80,753		1,411		82,164	31 Dec 13		721.5	
Deferred 2011 annual incentive award	2012	37,284		651		37,935	31 Dec 14		750	
Deferred 2012 annual incentive award	2013		35,905	627		36,532	31 Dec 15		1,055	
		195,530	35,905	2,689	77,493	156,631				

Disclosure of interests of directors continued

Other share awards continued

	Year of grant	Conditional share awards outstanding at 1 Jan 2013 (number of shares)	Conditionally awarded in 2013 (number of shares)	Dividends accumulated in 2013 (number of shares) (note 2)	Shares released in 2013 (number of shares)	Conditional share awards outstanding at 30 Jun 2013 (number of shares)	Date of end of restricted period	Date of release	Market price at date of award (pence)	Market price at date of vesting or release (pence)
Nic Nicandrou										
Deferred 2009 annual incentive award	2010	27,276			27,276	–	31 Dec 12	02 Apr 13	552.5	1,083
Deferred 2010 annual incentive award	2011	49,862		871		50,733	31 Dec 13		721.5	
Deferred 2011 annual incentive award	2012	45,060		787		45,847	31 Dec 14		750	
Deferred 2012 annual incentive award	2013		38,836	679		39,515	31 Dec 15		1,055	
		122,198	38,836	2,337	27,276	136,095				
Barry Stowe (note 1)										
Deferred 2009 annual incentive award	2010	40,474			40,474	–	31 Dec 12	02 Apr 13	552.5	1,083
Deferred 2010 annual incentive award	2011	58,314		1,034		59,348	31 Dec 13		721.5	
Deferred 2011 annual incentive award	2012	52,446		930		53,376	31 Dec 14		750	
Deferred 2012 annual incentive award	2013		37,726	668		38,394	31 Dec 15		1,055	
		151,234	37,726	2,632	40,474	151,118				
Tidjane Thiam										
Deferred 2009 annual incentive award	2010	65,482			65,482	–	31 Dec 12	02 Apr 13	552.5	1,083
Deferred 2010 annual incentive award	2011	229,515		4,013		233,528	31 Dec 13		721.5	
Deferred 2011 annual incentive award	2012	104,719		1,831		106,550	31 Dec 14		750	
Deferred 2012 annual incentive award	2013		88,954	1,555		90,509	31 Dec 15		1,055	
		399,716	88,954	7,399	65,482	430,587				

	Year of grant	Conditional share awards outstanding at 1 Jan 2013 (number of shares)	Conditionally awarded in 2013 (number of shares)	Dividends accumulated in 2013 (number of shares) (note 2)	Shares released in 2013 (number of shares)	Conditional share awards outstanding at 30 Jun 2013 (number of shares)	Date of end of restricted period	Date of release	Market price at date of award (pence)	Market price at date of vesting or release (pence)
Mike Wells (note 1)										
2009 After Tax Deferral Program award (note 3)	2010	32,250			32,250	–	15 Mar 13	15 Mar 13	520	1,154
Deferred 2010 Group Deferred Bonus Plan award	2011	94,080		1,668		95,748	31 Dec 13		721.5	
Deferred 2011 annual incentive award	2012	96,336		1,708		98,044	31 Dec 14		750	
Deferred 2012 annual incentive award	2013		80,364	1,424		81,788	31 Dec 15		1,055	
		222,666	80,364	4,800	32,250	275,580				

Notes

1 The Deferred Share Awards in 2010, 2011, 2012 and 2013 for Barry Stowe and Mike Wells were made in ADRs (1 ADR = 2 Prudential plc shares). The figures in the table are represented in terms of Prudential plc shares.
2 In 2010, a scrip dividend equivalent, and in 2011, 2012 and 2013 a DRIP dividend equivalent, were accumulated on these awards.
3 This award attracts dividends in the form of cash rather than shares.

Shares acquired under the Share Incentive Plan

	Year of initial grant	Share Incentive Plan awards held in Trust at 1 Jan 2013 (number of shares)	Partnership shares accumulated in 2013 (number of shares)	Matching shares accumulated in 2013 (number of shares)	Dividend shares accumulated in 2013 (number of shares)	Share Incentive Plan awards held in Trust at 30 Jun 2013 (number of shares)
Nic Nicandrou						
Shares held in Trust	2010	869	73	18	17	977

Note

1 The table above provides information about shares purchased under the SIP together with Matching shares (awarded on a 1:4 basis) and dividend shares. The total number of shares will only be released if Nic Nicandrou remains in employment for five years.

Cash-settled long-term incentive awards

This information has been prepared in line with the reporting requirements of the Hong Kong Stock Exchange and sets out executive directors' outstanding share awards and share options. For details of the cash-settled long-term incentive awards held by some executive directors, please see our Annual Report.

Shareholder information

Dividends

2013 interim date	Shareholders registered on the main UK and Irish branch register	Shareholders registered on the Hong Kong branch register	Holders of US American Depository Receipts	Shareholders with ordinary shares standing to the credit of their CDP securities accounts
Ex dividend date	21 August 2013	22 August 2013	21 August 2013	21 August 2013
Record date	23 August 2013	23 August 2013	23 August 2013	23 August 2013
Payment of 2013 interim dividend	26 September 2013	26 September 2013	On or about 4 October 2013	On or about 3 October 2013

Shareholder enquiries

For enquiries about shareholdings, including dividends and lost share certificates, please contact the Company's registrars:

By post
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

By telephone
Tel: 0871 384 2035
Fax: 0871 384 2100
Textel: 0871 384 2255
(for the hard of hearing)

Calls to 0871 numbers are charged at 8p per minute plus network extras. Lines are open from 8.30am to 5.30pm (UK), Monday to Friday.

International shareholders
tel: +44 (0)121 415 7026

Dividend mandates

Shareholders may find it convenient to have their dividends paid directly to their bank or building society account. If you wish to take advantage of this facility, please call Equiniti and request a Cash Dividend Mandate form. Alternatively, you may download a form from www.prudential.co.uk/prudential-plc/investors/shareholder_services/forms

Cash dividend alternative

The Company has a Dividend Re-investment Plan (DRIP). Shareholders who have elected for the DRIP will automatically receive shares for all future dividends in respect of which a DRIP alternative is offered. The election may be cancelled at any time by the shareholder. Further details of the DRIP and the timetable are available on the Company's website at www.prudential.co.uk/prudential-plc/investors

Electronic communications

Shareholders are encouraged to elect to receive shareholder documents electronically by registering with Shareview at www.shareview.co.uk This will save on printing and distribution costs, and create environmental benefits. Shareholders who have registered, will be sent an email notification whenever shareholder documents are available on the Company's website and a link will be provided to that information. When registering, you will need your shareholder reference number which can be found on your share certificate or proxy form. The option to receive shareholder documents electronically is not available to shareholders holding shares through The Central Depository (Pte) Limited (CDP). Please contact Equiniti if you require any assistance or further information.

Share dealing services

The Company's Registrars, Equiniti, offer a postal dealing facility for buying and selling Prudential plc ordinary shares – please see the Equiniti address opposite or telephone 0871 384 2248. They also offer a telephone and internet dealing service, Shareview, which provides a simple and convenient way of selling Prudential plc shares. For telephone sales call 0871 384 2780 between 8.30am and 4.30pm, Monday to Friday, and for internet sales log on to www.shareview.co.uk/dealing

ShareGift

Shareholders who have only a small number of shares, the value of which makes them uneconomic to sell, may wish to consider donating them to ShareGift (Registered Charity 1052686). The relevant share transfer form may be obtained from our website www.prudential.co.uk/prudential-plc/investors/shareholder_services/forms or from Equiniti. Further information about ShareGift may be obtained on +44 (0)20 7930 3737 or from www.ShareGift.org There are no implications for capital gains tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief.

Irish branch register

The Company operates a branch register for shareholders in Ireland. All enquiries regarding Irish branch register accounts should be directed to Capita Registrars (Ireland) Limited, PO Box 7117, Dublin 2. Telephone: + 353 1 553 0050

Hong Kong branch register

The Company operates a branch register for shareholders in Hong Kong. All enquiries regarding Hong Kong branch register accounts should be directed to Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
Telephone: +852 2862 8555

Singapore shareholder enquiries

Shareholders who have shares standing to the credit of their securities accounts with CDP in Singapore may refer queries to the CDP at 4 Shenton Way, #02-01, SGX Centre 2, Singapore 068807. Telephone: +65 6535 7511. Enquiries regarding shares held in Depository Agent Sub-accounts should be directed to your Depository Agent or broker.

American Depositary Receipts (ADRs)

The Company's ordinary shares are listed on the New York Stock Exchange in the form of American Depositary Shares, evidenced by ADRs and traded under the symbol PUK. Each American Depositary Share represents two ordinary shares. All enquiries regarding ADR holder accounts should be directed to JP Morgan, the authorised depositary bank, at JP Morgan Chase & Co, PO Box 64504, St. Paul, MN 55164-0504, USA.
Telephone: +1 800 990 1135
or from outside the US: +1 651 453 2128 or log on to www.adr.com

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www.prudential.co.uk

Prudential plc is a holding company, subsidiaries of which are authorised and regulated, as applicable, by the Prudential Regulation Authority and the Financial Conduct Authority. The Prudential Regulation Authority and the Financial Conduct Authority replaced the Financial Services Authority on 1 April 2013.

Forward-looking statements

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