PRUDENTIAL PLC
Form 6-K
September 19, 2014
Table of Contents

As filed with the Securities and Exchange Commission on 19 September 2014

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

Commission File Number: 1-15040

PRUDENTIAL PUBLIC LIMITED COMPANY

(Name of Registrant)

12 Arthur Street,

London EC4R 9AQ, England

(Address of Principal Executive Offices)

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

Form 20-F X   Form 40-F __

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

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

Table of Contents

This report on Form 6-K is hereby incorporated by reference, in its entirety, into Prudential Public Limited Company s registration statement on Form F-3 (File No. 333-177093).

Table of Contents

TABLE OF CONTENTS

As used in this document, unless the content otherwise requires; the terms Prudential , the Group , we , us and our refer to Prudential plc, together with its subsidiaries, while the terms Prudential plc , the Company and the parent company each refer to Prudential plc .

Limitations on Enforcement of US Laws against Prudential plc, its Management and Others

Prudential plc is an English public limited company. Most of its directors and executive officers are resident outside the United States, and a substantial portion of its assets and the assets of such persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons or to enforce against them or Prudential plc in US courts judgements obtained in US courts predicated upon the civil liability provisions of the federal securities laws of the United States. We believe that there may be doubt as to the enforceability in England and Wales, in original actions or in actions for enforcement of judgements of US courts, of liabilities predicated solely upon the federal securities laws of the United States.

Table of Contents

Selected Historical Financial Information of Prudential

The following table sets forth Prudential s selected consolidated financial data for the periods indicated. Certain data is derived from Prudential s consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. As at 30 June 2014, there were no unendorsed standards effective for the periods presented below affecting the consolidated financial information of Prudential and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to Prudential. Accordingly, the selected consolidated financial data presented below that is derived from Prudential s consolidated financial statements is derived from consolidated financial statements prepared in accordance with IFRS as issued by the IASB. This table is only a summary and should be read in conjunction with Prudential s unaudited condensed consolidated interim financial statements and the related notes included in this document, together with the Operating and Financial Review section below.

	Six Months Ended 30 June		
	2014[1]	**2014**	**2013**
	(In $ Millions)	**(In £ Millions)**	**(In £ Millions)**
Income statement data			
Earned premiums, net of reinsurance	**27,691**	**16,189**	14,763
Investment returns	**22,885**	**13,379**	6,528
Other income	**1,811**	**1,059**	1,100
Total revenue, net of reinsurance	**52,387**	**30,627**	22,391
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(43,701)**	**(25,549)**	(18,143)
Acquisition costs and other expenditure	**(5,706)**	**(3,336)**	(3,315)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(291)**	**(170)**	(152)
Remeasurement of carrying value of Japan Life business classified as held for sale	**(19)**	**(11)**	(135)
Total charges, net of reinsurance	**(49,717)**	**(29,066)**	(21,745)
Share of profits from joint ventures and associates, net of related tax	**252**	**147**	74
Profit before tax *(being tax attributable to shareholders and policyholders returns)*[2]	**2,922**	**1,708**	720
Tax charge attributable to policyholders returns	**(486)**	**(284)**	(214)
Profit before tax attributable to shareholders	**2,436**	**1,424**	506
Tax charge attributable to shareholders returns	**(477)**	**(279)**	(141)
Profit for the period	**1,959**	**1,145**	365

	Six Months Ended 30 June		
	2014[1]	**2014**	**2013**
Other data			
Based on profit for the period attributable to the Prudential s equity holders:			
Basic earnings per share	**77.0¢**	**45.0p**	14.3p
Diluted earnings per share	**76.8¢**	**44.9p**	14.3p
Dividend per share declared and paid in reporting period[5]	**40.78¢**	**23.84p**	20.79p
Equivalent cents per share[6]		**40.19¢**	31.43¢
Market price per share at end of period[7]	**2294¢**	**1341p**	1075p
Weighted average number of shares (in millions)	**2,547**	**2,547**	2,548

Table of Contents

	As of 30 June		As of 31 December
	2014[1]	**2014**	**2013**
	(In $ Millions)	**(In £ Millions)**	**(In £ Millions)**
Statement of financial position data			
Total assets	**580,356**	**339,290**	325,932
Total policyholder liabilities and unallocated surplus of with-profits funds	**507,587**	**296,748**	286,014
Core structural borrowings of shareholder-financed operations	**7,812**	**4,567**	4,636
Total liabilities	**562,180**	**328,664**	316,281
Total equity	**18,176**	**10,626**	9,651

	As of and for the Six Months Ended 30 June		
	2014[1]	**2014**	**2013**
	(In $ Millions)	**(In £ Millions)**	**(In £ Millions)**
Other data			
New business:			
Single premium sales[3]	**22,214**	**12,987**	11,489
New regular premium sales[3][4]	**1,711**	**1,000**	1,012
Funds under management	**782,041**	**457,200**	427,400

(1) Amounts stated in US dollars in the half year 2014 column have been translated from pounds sterling at the rate of $1.7105 per £1.00 (the noon buying rate in New York City on 30 June 2014).

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

(3) The new business premiums in the table shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders (see EEV basis, new business results and free surplus generation below). The amounts shown are not, and are not intended to be, reflective of premium income recorded in the IFRS income statement. Internal vesting business is classified as new business where the contracts include an open market option.

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

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

(5) 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 parent company dividend relating to the reporting period was an interim dividend of 11.19p per share, as against an interim dividend of 9.73p per share for the first half of 2013.

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

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

Table of Contents

Exchange Rate Information

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

Period	Average rate
Six months ended 30 June 2013	1.54
Twelve months ended 31 December 2013	1.56
Six months ended 30 June 2014	1.67

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

	High	Low
March 2014	1.67	1.65
April 2014	1.69	1.66
May 2014	1.70	1.67
June 2014	1.71	1.67
July 2014	1.72	1.69
August 2014	1.69	1.66

On 12 September 2014, the latest practicable date prior to this filing, the noon buying rate was £1.00 = $1.62.

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 below under Forward-Looking Statements .

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;

- failure of counterparties to transactions with Prudential or, for derivative transactions adequate collateral not being in place;

Table of Contents

estimates of the value of financial instruments being difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time); and

increased illiquidity also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline.

Global financial markets are subject to uncertainty and volatility created by a variety of factors, including concerns over sovereign debt, general slowing in world growth from subdued or slowdown in demand and the timing and scale of quantitative easing programmes of central banks. 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, and increases in surrenders levels arising from interest rate rises, could have a material impact on its businesses or results of operations.

Jackson also writes a significant amount of variable annuities that offer capital or income protection guarantees. The value of these guarantees is affected by market factors including interest rates, equity levels, bond spreads and realised 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.

Jackson hedges the guarantees on its variable annuity book on an economic basis and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate economic result. In particular, for Prudential s Group IFRS reporting, the measurement of the Jackson variable annuity guarantees is typically less sensitive to market movements than for the corresponding hedging derivatives, which are held at market value. However, depending on the level of hedging conducted regarding a particular risk type, certain market movements can drive volatility in the economic results which may be less significant under IFRS reporting.

A significant part of the profit from Prudential s UK insurance operations is related to bonuses for policyholders declared on with-profits products, which are broadly based on historical and current rates of return on equity, real estate and fixed income securities, as well as Prudential s expectations of future investment returns. This profit could be lower in a sustained low interest rate environment.

Table of Contents

Prudential is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio

Prudential is subject to the risk of potential sovereign debt credit deterioration on the amounts of sovereign debt obligations held in its investment portfolio. In recent years, rating agencies have downgraded the sovereign debt of some countries. There is a risk of further downgrades.

Investing in sovereign debt creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of states or monarchs) in the countries in which the issuers are located and the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and Prudential may have limited recourse to compel payment in the event of a default. A sovereign debtor s willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor s policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject.

Moreover, governments may use a variety of techniques, such as intervention by their central banks or imposition of regulatory controls or taxes, to devalue their currencies exchange rates, or may adopt monetary and other policies (including to manage their debt burdens) that have a similar effect, all of which could adversely impact the value of an investment in sovereign debt even in the absence of a technical default. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issuers.

In addition, if a sovereign default or other such events described above were to occur, other financial institutions may also suffer losses or experience solvency or other concerns, and Prudential might face additional risks relating to any debt of such financial institutions held in its investment portfolio. There is also risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be affected, as might counter party relationships between financial institutions. If a sovereign were to default on its obligations, or adopt policies that devalue or otherwise alter the currencies in which its obligations are denominated this could have a material adverse effect on Prudential s financial condition and results of operations.

Prudential is subject to the risk of exchange rate fluctuations owing to the geographical diversity of its businesses

Due to the geographical diversity of Prudential s businesses, Prudential is subject to the risk of exchange rate fluctuations. Prudential s operations in the US and Asia, which represent a significant proportion of operating profit based on longer-term investment returns and shareholders funds, generally write policies and invest in assets denominated in local currencies. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential s consolidated financial statements upon translation of results into pounds sterling. This exposure is not currently separately managed. The currency exposure relating to the translation of reported earnings could impact on financial reporting ratios such as dividend cover, which is calculated as operating profit after tax on an IFRS basis, divided by the current year interim dividend plus the proposed final dividend. The impact of gains or losses on currency translations is recorded as a component of shareholders funds within other comprehensive income. Consequently, this could impact on Prudential s gearing ratios (defined as debt over debt plus shareholders funds). The Group s surplus capital position for regulatory reporting purposes may also be affected by fluctuations in exchange rates.

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

Table of Contents

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 new prudential 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 although its implementation was delayed pending agreement on a directive known as Omnibus II which amended certain aspects of the Solvency II Directive. Following adoption of the Omnibus II Directive by the Council of the European Union in April 2014, Solvency II is now expected to be implemented as of 1 January 2016, although the European Commission and the European Insurance and Occupational Pensions Authority (EIOPA) are continuing to develop the detailed rules that will supplement the high-level rules and principles of the Solvency II and Omnibus II Directives, which are not currently expected to be finalised until mid-2015. Further, the effective application of a number of key measures incorporated in the Omnibus II Directive, including the provisions for third-country equivalence, is expected to be subject to supervisory judgement and approval. 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 the capital required to support its business and that Prudential may be placed at a competitive disadvantage to other European and non-European financial services groups.

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

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

In July 2013 the FSB announced the initial list of nine insurance groups that have been designated as G-SIIs. This list included Prudential as well as a number of its competitors. Designation as a G-SII will lead to additional policy measures being applied to the designated group. Based on the policy framework released by the IAIS and subsequent guidance papers these additional policy measures will include enhanced group- wide supervision, effective resolution measures of the group in the event of failure, loss absorption, and higher loss absorption capacity. This enhanced supervision commenced immediately and includes the development by July 2014 of a Systemic Risk Management Plan (SRMP) under supervisory oversight and its implementation thereafter and by the end of 2014, a group Recovery and Resolution Plan (RRP) and Liquidity Risk Management Plan (LRMP). Prudential is monitoring the development and potential impact of, the framework of policy measures and is engaging with the PRA on the implications of the policy measures and Prudential s designation as a G-SII. The G-SII regime also introduces two types of capital requirements; the first, a Basic Capital Requirement (BCR), designed to act as a minimum group capital requirement and the second, a Higher Loss Absorption (HLA) requirement for conducting non-traditional insurance and non-insurance activities. A consultation paper on BCR was released in July 2014. The IAIS currently expects to finalise the BCR and HLA proposals by November 2014 and the end of 2015 respectively. Implementation of the regime is likely to be phased in over a period of years with the BCR expected to be introduced in 2015 on a confidential reporting basis to group-wide supervisors. The HLA requirement will apply from January 2019 to the insurance groups identified as G-SIIs in November 2017.

ComFrame is also being developed by the IAIS to provide common global requirements for the supervision of insurance groups. The framework is designed to outline a set of common global principles and standards for group supervision and may increase the focus of regulators in some jurisdictions. One of the framework s key components is an Insurance Capital Standard (ICS) which would form the group solvency capital standard under ComFrame. In May 2014 the IAIS published a memorandum setting out the approach to the development of the ICS. The three year development phase of ComFrame ended in December 2013 and the IAIS is now undertaking a field testing exercise from 2014 to 2018 to assess the impact of the quantitative and qualitative requirements proposed under ComFrame. ComFrame is expected to be implemented in 2019.

Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise where Prudential, along with other companies, may be required to make such contributions.

The Group s accounts are prepared in accordance with current International Financial Reporting Standards (IFRS) applicable to the insurance industry. The International Accounting Standards Board (IASB) introduced a framework that it described as Phase I, which permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In July 2010, the IASB published its first Exposure Draft for its Phase II on insurance accounting, which would introduce significant changes to the statutory reporting of insurance entities that prepare accounts according to IFRS. A revised Exposure Draft was issued in June 2013. The IASB is re-deliberating on the Exposure Draft proposals in light of comments by the insurance industry and other respondents. The timing of the final proposals taking effect is uncertain but not expected to be before 2018.

Any changes or modification of IFRS accounting policies may require a change in the future results or a retrospective adjustment of reported results.

The resolution of several issues affecting the financial services industry could have a negative impact on Prudential s reported results or on its relations with current and potential customers

Prudential is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally. These actions could involve a review of types of business sold in the past under acceptable market practices at the time, such as the requirement in the UK to provide redress to certain past purchasers of pension and mortgage endowment policies, changes to the tax regime affecting products, and regulatory reviews on products sold and industry practices, including, in the latter case, lines of business it has closed.

Regulators interest may include the approach that product providers use to select third party distributors and to monitor the appropriateness of sales made by them. In some cases, product providers can be held responsible for the deficiencies of third-party distributors.

In the US, there has been significant regulatory attention on the different regulatory standards applied to investment advice delivered to retail customers by different sectors of the industry. This focus includes new regulations in respect of the suitability of sales of certain products such as alternative investments. 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 global life insurers such as Allianz, AXA, AIA, and Manulife and multinational asset managers such as J.P. Morgan Asset Management, Schroders, HSBC Global Asset Management and Franklin Templeton. In a number of markets, local companies have a very significant market presence.

Within the UK, Prudential s principal competitors include many of the major retail financial services companies and fund management companies including, in particular, Aviva, Legal & General, Lloyds Banking Group, Standard Life, Schroders, Invesco Perpetual and Fidelity.

Jackson s competitors in the US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies such as AIG, AXA Financial Inc., 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.

Table of Contents

Downgrades in Prudential s financial strength and credit ratings could significantly impact its competitive position and damage its relationships with creditors or trading counterparties

Prudential s financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in Prudential s products, and as a result its competitiveness. Downgrades in Prudential s ratings, as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns, could have an adverse effect on its ability to market products; retain current policyholders; and on the Group s financial flexibility. In addition, the interest rates Prudential pays on its borrowings are affected by its credit ratings, which are in place to measure the Group s ability to meet its contractual obligations.

Prudential 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 (negative outlook) by Moody s, AA (stable outlook) by Standard & Poor s and AA (stable outlook) by Fitch.

Jackson s financial strength is rated AA by Standard & Poor s and Fitch, A1 by Moody s, and A+ by AM Best. These ratings have a stable outlook.

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

In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential s financial condition.

Adverse experience in the operational risks inherent in Prudential s business could have a negative impact on its results of operations

Operational risks are present in all of Prudential s businesses, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events. Prudential s business is dependent on processing a large number of transactions across numerous and diverse products, and is subject to a number of different legal and regulatory regimes. Further, because of the long-term nature of much of the Group s business, accurate records have to be maintained for significant periods.

These factors, among others, result in significant reliance on and require significant investment in IT, compliance and other operational systems, personnel and processes. In addition, Prudential outsources several operations, including a significant part of its UK back office and customer-facing functions as well as a number of IT functions, resulting in reliance upon the operational processing performance of its outsourcing partners.

Although Prudential s IT, compliance and other operational systems and processes incorporate controls designed to manage and mitigate the operational risks associated with its activities, there can be no assurance that such controls will always be effective. For example, although Prudential has not experienced a material failure or breach in relation to its legacy and other IT systems and processes to date, it has been, and likely will continue to be, subject to computer viruses, attempts at unauthorised access and cyber-security attacks.

Prudential s legacy and other IT systems and processes, as with operational systems and processes generally, may be susceptible to failure or breaches. Such events could, among other things, harm Prudential s ability to perform necessary business functions, result in the loss of confidential or proprietary data (exposing it to potential legal claims and regulatory sanctions) and damage its relationships with its business partners and customers. Similarly, any weakness in 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 2014, which have subsequently caused, or are expected to cause, a significant negative impact on its results of operations.

Table of Contents

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, 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 remittances. In some circumstances, this 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

Table of Contents

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.

Forward-Looking Statements

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

Any forward-looking statements contained in this document speak only as of the date on which they are made. Prudential may also make or disclose written and/or oral forward-looking statements in reports filed with or furnished to the US Securities and Exchange Commission, the UK Prudential Regulation Authority and Financial Conduct Authority or other regulatory authorities, as well as in its annual report and accounts to shareholders, proxy statements, offering circulars, registration statements, prospectuses and, prospectus supplements, press releases and other written materials and in oral statements made by directors, officers or employees of Prudential to third parties, including financial analysts. All such forward-looking statements are qualified in their entirety by reference to the factors discussed under the Risk Factors heading of this document. These factors are not exhaustive as Prudential operates in a continually changing business environment with new risks emerging from time to time that it may be unable to predict or that it currently does not expect to have a material adverse effect on its business. Prudential expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST listing rules or other applicable laws and regulations.

EEV Basis, New Business Results and Free Surplus Generation

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

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

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

Underlying free surplus generation is used to measure the internal cash generation by our business units. For the insurance operations it represents amounts maturing from the in-force business during the period less investment in new business and excludes other non-operating items. For asset management it equates to post-tax IFRS operating profit based on longer-term investment returns for the period.

Table of Contents

Operating and Financial Review

The following discussion and analysis should be read in conjunction with Prudential s unaudited condensed consolidated interim financial statements and the related notes for the period ended 30 June 2014 included in this document. The critical accounting policies which have been applied to these statements are discussed in the section below entitled IFRS Critical Accounting Policies .

The results discussed below are not necessarily indicative of the results to be expected in any future periods. This discussion contains forward-looking statements based on current expectations, which involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in these forward-looking statements due to a number of factors (including those discussed in the Risk Factors section of this document. See also the discussion under the heading Forward-looking statements above.

Introduction and Overview

In the first half of 2014, Prudential continued to provide a broad range of financial products and services, primarily to the retail market. Prudential s principal operations continue to be in Asia, the United States and the United Kingdom. The accounting policies applied by Prudential in determining the IFRS basis results reflected in Prudential s unaudited condensed consolidated interim financial statements for the period ended 30 June 2014 are the same as those previously adopted in Prudential s consolidated financial statements for the year ended 31 December 2013, except for the adoption of the new and amended accounting pronouncements as described in note A2 to the unaudited condensed consolidated interim financial statements.

Overview

The Group has delivered strong, broad-based performance in the first half of 2014.

Our clear and consistent strategy and our focus on execution have allowed us to leverage effectively our chosen portfolio of businesses to produce good returns for our shareholders while delivering valuable products and services to our customers.

Currency volatility

For the purpose of reporting our performance in sterling terms, we adopt the normal convention of translating the results of our overseas businesses using average exchange rates for the period. However, the currency translation effect is so pronounced for some parts of the business that it masks the underlying operational trends, rendering it difficult to meaningfully assess performance. In that context, it is important to note that the actual flows that we collect from our customers in Asia and the US are received in local currency. We believe that in periods of currency volatility, the most appropriate way to assess the actual performance of our businesses is to look at what they have achieved on a local currency basis, in other words in terms of the actual flows they have collected rather than the translation of those flows into sterling.

The market reaction to the combination of the expected rise in interest rates in Western economies, concerns about economic growth in China and in other Asian economies and political uncertainty in Thailand and Indonesia have led to significant currency volatility during the first half of 2014 and to currency depreciation in some of our key Asian markets. There has also been more recently a significant strengthening of sterling driven by expectations that a stronger recovery of the UK economy would lead to an earlier shift in UK monetary policy. All these factors have impacted our results negatively when reported in sterling using actual exchange rates.

The table below presents a summary of the Group s profit before tax on an IFRS basis. For memorandum disclosure purposes, the table presents the half year 2013 results on both an actual exchange rate and constant exchange rate basis so as to eliminate the impact of exchange translation. Actual Exchange Rates (AER) are actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates for the balance sheet at the balance sheet date. Constant Exchange Rates (CER) results are calculated by translating prior period results using the current period foreign exchange rate ie current period average rates for the income statement and current period closing rates for the balance sheet.

Table of Contents

Profit before tax attributable to shareholders IFRS

	Actual Exchange Rate			Constant Exchange Rate	
	2014 £m Half year	**2013 £m Half year**	**Change %**	**2013 £m Half year**	**Change %**
Operating profit before tax					
Long-term business:					
Asia	**483**	474	2	406	19
US	**686**	582	18	538	28
UK	**374**	341	10	341	10
Long-term business operating profit before tax	**1,543**	1,397	10	1,285	20
UK general insurance commission	**12**	15	(20)	15	(20)
Asset management business:					
M&G (including Prudential Capital)	**249**	225	11	225	11
Eastspring Investments	**42**	38	11	34	24
US	**(5)**	34	(115)	31	(116)
Other income and expenditure	**(320)**	(294)	(9)	(294)	(9)
Total operating profit based on longer-term investment returns before tax	**1,521**	1,415	7	1,296	17
Non-operating items	**(97)**	(909)	n/a	(844)	n/a
Profit before tax attributable to shareholders	**1,424**	506	181	452	215

In the remainder of this Introduction and Overview , every time we comment on the performance of our businesses, we focus on their performance measured in local currency (presented here by reference to percentage growth expressed at constant exchange rates) unless otherwise stated.

Group performance

The Group has delivered double-digit growth across our three key metrics of IFRS operating profit, new business profit and cash with all four of our business units delivering a strong performance.

Our Group IFRS operating profit based on longer-term investment returns increased by 17 per cent during the year to £1,521 million (2013: £1,296 million).

Asia life operating profit based on longer-term investment returns was up 19 per cent underpinned by our performance in our seven sweet spot markets[1], which combined grew IFRS operating profit at a rate of 20 per cent. Our focus on proactively managing our diverse business portfolio has helped us offset the short-term headwinds experienced in a few of our markets.

US life operating profit based on longer-term investment returns increased 28 per cent to £686 million (2013: £538 million). We have achieved higher levels of fee income, generated by variable annuity products written at attractive margins combined with favourable market movements which increased the value of separate account assets.

UK life operating profit based on longer-term investment returns grew by 10 per cent to £374 million (2013: £341 million) benefitting from higher levels of bulk annuity transactions.

M&G delivered operating profit based on longer-term investment returns of £249 million[2], an increase of 11 per cent, reflecting continued strong third-party net inflows combined with favourable market movements in the period, which together have increased M&G s external funds under management by £14.7 billion to a record £132.8 billion (2013: increase of £6.3 billion to £118.1 billion).

[1] Sweet spot markets include Indonesia, Singapore, Hong Kong, Malaysia, Philippines, Vietnam and Thailand.

[2] Including Prudential Capital.

Table of Contents

Net cash remittances from our businesses to the Group increased by 15 per cent to £974 million (2013: £844 million on an actual exchange rate basis) driven by strong organic cash generation and supported by robust local capital positions. Cash remittances from Asia grew by 14 per cent to £216 million, the US was up 20 per cent to £352 million, the UK was up 9 per cent to £246 million while M&G (including Prudential Capital) delivered an increase of 19 per cent to £160 million.

Our balance sheet continues to be defensively positioned and at the end of the period our IGD surplus[3] was estimated at £4.1 billion, equating to coverage of 2.3 times.

2017 Objectives

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

We announced new objectives for 2017 at our investor conference in December 2013 in London. These objectives are:

(i) Asia Underlying Free Surplus Generation[(4)(5)] of £0.9 billion to £1.1 billion in 2017 (2012: £484 million)

(ii) Asia life and asset management pre-tax IFRS operating profit to grow at a compound annual rate of at least 15 per cent over the period 2012 2017 to reach at least £1,858 million in 2017 (2012: £924 million[(6)])

(iii) Group Underlying Free Surplus Generation[(5)] of at least £10 billion cumulatively over the four-year period from 2014 to end- 2017.

We are making progress towards our 2017 objectives.

[3] Insurance Groups Directive surplus (the Group s regulatory capital measure), before allowing for interim dividend.

[4] Underlying free surplus generated comprises underlying free surplus generated from long-term business (net of investment in new business) and that generated from asset management operations. The 2012 comparative is based on the retrospective application of new and amended accounting standards and excludes the one-off gain of £51 million from the sale of the Group s holding in China Life Insurance Company of Taiwan.

[5] Underlying free surplus generation is defined in the section EEV Basis, New Business Results and Free Surplus Generation .

[6] Asia 2012 IFRS operating profit of £924 million is based on the retrospective application of new and amended accounting standards, and excludes the one-off gain of £51 million from the sale of the Group s holding in China Life Insurance Company of Taiwan.

18

Table of Contents

Our operating performance by business unit

Asia

In the first half of 2014, Asia delivered IFRS operating profit of £525 million, up 19 per cent on the same period in 2013 (3 per cent on an actual exchange rate basis), reflecting continued growth in the scale of our in-force life and asset management businesses and highlighting the successful execution of our strategy. Net cash remittances for the half year were £216 million, 14 per cent higher period-on-period.

Our strategic priority continues to be to meet the savings and financial protection needs of Asia s rapidly growing middle classes with shareholder friendly products that deliver demonstrable value to customers and are distributed through high-quality tied agents and carefully selected bank partners. The regulatory environment remains supportive as governments look to the private sector to provide efficient and consumer friendly ways for citizens to access enhanced social welfare options as well as to channel household savings into longer term investments in the economy. Our product portfolio in the region is tailored to customers needs in each of our markets and consistently delivers a high proportion of regular premiums and a significant amount of premium directed towards health and protection coverage.

During the first half of this year, some of our markets experienced headwinds as a result of political and economic events such as the uncertainty over the outcome of Presidential elections in Indonesia or the military takeover in Thailand. These shorter-term cyclical pressures do not detract from the long-term structural trend of growing demand for our products and services from the rapidly growing and underinsured middle classes. These supportive trends underpin the compelling prospects for profitable growth for our business over the long term. These trends are reflected in our first half performance. Single premiums, which are sentiment-led and are impacted by cyclical events fell slightly while regular premiums, which are the preferred mode for consumers to save and protect themselves, were resilient, growing during the period.

Distribution is key to success in Asia. Over the first half of 2014 we have continued to grow in both the agency and bancassurance channels. The growing scale and increasing productivity of our agency platform is complemented by an extensive range of bank distribution partners across the region. The first half of 2014 included the first anniversary of our successful partnership in Thailand with Thanachart Bank. We also announced in the first quarter that we have further extended and expanded our long-established and market-leading partnership with Standard Chartered Bank for 15 years to 2029. The renewal of this relationship is in line with our strategy, with Standard Chartered Bank strategically positioned in the fast-growing markets of South-east Asia our sweet spot markets. This gives us access to Standard Chartered Bank s existing 800 branches and 13 million customers and represents a significant growth opportunity over this period. June 2014 saw a record month for new business production from Standard Chartered Bank, continuing a strong history of delivery since 1998 that is based on the demonstrable success of working closely together under a strategic partnership framework.

Our strategic focus on the seven sweet spot markets of South-east Asia (including Hong Kong), where the structural growth opportunities are the most attractive, continue to explain our performance in Asia. Collectively, these markets produced 20 per cent growth in IFRS operating profit, reflecting the disciplined execution of our strategy.

In **Hong Kong**, sales growth was strong, mainly as a result of increases in active agency manpower and in productivity, demonstrating the on-going success of our health and protection and our participating products in Hong Kong. In addition the domestication of the Hong Kong branch of the Prudential Assurance Company, was effective 1 January 2014, and established an independent Hong Kong Life Fund.

In **Singapore**, we continue to lead the market with our popular regular premium and PRUshield products and increases in agency productivity have supported an increase in sales. The positive impact of higher sales volumes was partially offset by change in product mix in the period.

Indonesia had a challenging first half with exceptional flooding disrupting sales in the first quarter, followed by uncertainty over the outcome of the Presidential elections depressing the overall market in the second quarter. Given these external factors we are pleased to have held sales at the prior period s level. Agency recruitment has remained strong throughout this period with the number of new agents increasing over the prior year and we remain very well placed for when the market normalises. Growth in IFRS operating profit of 32 per cent reflects the continued strong contribution from our in-force portfolio of recurring premium income.

19

Table of Contents

In **Malaysia**, our decision to refocus our agency business on health and protection and to grow distribution by Bumiputra agents (Bumi), has delivered an encouraging increase in agency activity. However, as average case sizes are smaller in the Bumi channel and as we have deliberately de-emphasised some top-up products, this has led to a moderate increase in total sales.

Following last year s acquisition of Thanachart Life in **Thailand** and the successful execution of our exclusive bancassurance agreement with Thanachart Bank, sales from this market have increased over the first half of last year. This also results from strong progress in our original business, where sales were also up in the first half of the year. We have not seen any major impact on our operations from the recent political events to date and although we remain vigilant, we continue to be very positive about the longer-term prospects of our business in Thailand.

The transformation of our agency business in the **Philippines** is making excellent progress, following a significant increase in agent activity and an increased focus on the regular premium business, in which sales grew at a brisk pace. Significantly lower levels of single premium and lower bancassurance sales, however, have driven a decline in total sales.

Vietnam had a solid first half, with increased sales driven by increases in agency activity.

Our joint venture with CITIC in **China** continues to perform well with sales growing reflecting progress in both the agency and bank channels. We now have offices in all the major economic centres in China. In **India** our joint venture with ICICI Bank remains the leader in the private sector, but the market slowed in the first half ahead of the recent elections. There is much optimism about the Indian economy and we remain in an excellent position to benefit from any positive developments. The recently announced budget proposed an increase in the foreign shareholding cap from 26 per cent to 49 per cent, however the exact shape of the proposals and whether they are likely to receive parliamentary approval are still to be clarified.

In **Taiwan** and **Korea**, we remain selective in our participation and as a result we are content to tolerate fluctuations in new business volumes.

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

US

In the first half of 2014, Jackson delivered life IFRS operating profit of £686 million, up 28 per cent at constant exchange rates (18 per cent on an actual exchange rate basis) from the same period in 2013. This increase was primarily driven by increased fee income from higher separate account assets. Cash remitted to Group increased 20 per cent to a record level £352 million compared to £294 million (at actual exchange rates) in 2013. Jackson continues to focus on the delivery of IFRS operating earnings and cash, while maintaining its disciplined approach to new business and management of the in-force book, and at the same time continuing to improve its capital position.

Jackson achieved higher total retail sales compared to the first half of 2013. These sales were achieved while continuing to write new business at aggregate internal rates of return well in excess of 20 per cent and with a payback period of two years. Including institutional sales, total sales were also higher than the first half of 2013.

Sales from **variable annuity** increased in the first half of 2014. Sales of Elite Access, our variable annuity without living benefits were significantly above prior first half year levels and exceeded the growth rate of sales of variable annuities excluding Elite Access, which were also higher than prior year. Overall, the US economy continues to see signs of improvement with further declines in unemployment rates, signs of recovery in the crucially important housing market and stronger GDP growth, with a second quarter at 4 per cent annualised. During the first half of 2014, the S&P 500 Index rose 6 per cent and the 10-year Treasury rate remained significantly above the 2012 low levels. Overall, the US competitive landscape has been more stable than in recent periods, as most annuity writers appear to have committed to a particular course of action for the near term. That said, variable annuity providers continue to modify their product offerings through reductions in fund availability and increased fees. In addition, an increasing number of investment-only variable annuity products, i.e. variable annuities without living benefits, have been launched.

The economics of our variable annuity business continue to be very attractive and with the success of Elite Access, we continue to improve the diversification of our product mix. In line with our proactive cycle management approach, Jackson continues to actively manage the sales volumes of variable annuities with living benefits to maintain an appropriate balance of our revenue streams and to match the Group s annual risk appetite. At the end of the period, Jackson s statutory separate account assets were £71.5 billion, up 34 per cent (19 per cent on an actual exchange rate basis) compared to £53.3 billion (at constant exchange rates) for the same period in 2013, as a result of both positive net flows and the significant growth in the underlying market value of the separate account assets over the past 12 months.

Fixed annuity sales remained relatively flat compared to 2013, while **fixed index annuity** sales decreased sharply primarily as a result of product changes implemented in late 2013 to increase returns to shareholder capital.

IFRS operating profit from non-life operations in the US decreased to a loss of £5 million (2013: profit of £31 million), due to a Curian year-to-date loss of £23 million after a £33 million provision related primarily to the potential refund of certain fees by Curian.

Jackson s strategy remains unchanged. We continue to price new business on a conservative basis, targeting value over volume. Our hedging remains focused on optimising the economics of our exposures over time while maintaining a strong balance sheet. Since 1 January 2008, Jackson has remitted close to US$2.5 billion of cash to the Group. We believe Jackson s approach has translated into value for the customers and into profits and cash for shareholders, the ultimate metrics of our successful strategy.

UK, Europe and Africa

In the first half of 2014, Prudential UK delivered life IFRS operating profit of £374 million, up 10 per cent period-on-period. Cash remitted to the Group increased to £246 million, compared to £226 million in the first half of 2013.

The UK market continues to be heavily influenced by an unprecedented level of regulatory and legislative change. In March 2014, the UK government announced significant changes to pensions regulation which will effectively remove the requirement to purchase a pension annuity from April 2015. There has since been considerable disruption to industry sales of individual annuities as the government, pension providers, advisers and consumers work through the implications of these changes. In the transitional period created by the Budget, there has been, understandably, an increase in the number of customers who have deferred converting their pension savings into retirement income. This is reflected in the significant decline in our first half sales of **individual annuities**, which were also impacted by the overall slowdown in the market that started to emerge through 2013. Our experience in retirement income products and investment expertise means that we believe we are well positioned to help customers through this period of change and provide solutions that meet their retirement needs.

Total sales increased including four new **bulk annuity** deals in the first half of 2014 (2013: nil). Through our longstanding presence in this segment of the life and pensions market, we have developed considerable longevity experience, operational scale and a solid investment track record, which together represent expertise and capabilities that are increasingly in demand. Our approach to bulk transactions in the UK will continue to be one of selective participation, looking for situations where we can both bring significant value to our customers and meet our demanding shareholder return hurdles.

Within our **retail** business, strong momentum in sales of onshore and offshore bonds was offset by a reduction in individual annuities and corporate pensions sales.

The strength of our investment proposition is reflected in the growth in sales of our onshore bonds. **Onshore bonds** sales increased, including with-profits bonds, up over the first half of 2013. In particular, demand for our non-guaranteed with-profits bond remains strong, attracting customers who are prepared to accept some investment risk but still want to benefit from the smoothing offered by a with-profits product with a strong track record of investment growth. We expect this to be a feature of the market going forward, with significant demand for products with managed volatility.

Sales from **other retail products**, principally individual pensions, income drawdown, PruProtect, PruHealth and offshore bonds, increased. Offshore bond sales and income drawdown sales both grew significantly, both driven by our with-profits product offering. The growth in income drawdown reflects the improving investment environment and increased customer demand, which was accelerated by the UK Budget. The Budget has the potential to open up opportunities to serve our customers further and our programme of product development remains on track to bring new products to market in 2015.

Corporate pensions sales were lower, mainly due to a fall in with-profits sales following changes to government sector pension schemes. We remain the largest provider of Additional Voluntary Contribution plans within the public sector, where we provide schemes for 72 of the 99 public sector authorities in the UK (first half of 2013: 68 of the 99).

Prudential s continuing focus on the delivery of excellent customer service was recognised at the 2014 FTAdviser Online Service Awards, where we received an outstanding achievement award and two 5-star ratings in the life and pensions and investment categories.

On 27 March 2014, we completed the acquisition of Express Life in Ghana, marking the Group s entry into the nascent African life insurance industry. The business has now been re-branded to Prudential Ghana and is making good progress in growing its agency force and new business volumes. In addition, the renewal of our bancassurance partnership with Standard Chartered Bank includes an agreement to explore opportunities to collaborate in Africa, subject to existing exclusivity arrangements and regulatory restrictions.

We are positive about the long-term opportunities in Africa, where we see many of the favourable structural characteristics of our preferred Asian markets, although most sub-Saharan life insurance markets are in the very early stages of development and therefore are not likely to be material for many years.

Asset Management

Our European asset management business, **M&G**, has delivered a strong performance in the first half, with IFRS operating profit growing by 11 per cent to £227 million as a result of higher levels of funds under management. M&G remitted cash of £135 million to Group, up 24 per cent on 2013.

Net **retail** fund inflows totalled £3.8 billion during the first six months of 2014. Continental Europe made the largest contribution with net flows of £4.2 billion (2013: £5.6 billion). Retail funds under management from Continental Europe have increased by 32 per cent to £27.9 billion over the past 12 months and now represent 39 per cent of total retail funds under management, up from 34 per cent a year ago. Total retail funds under management now stand at £71.9 billion, up 15 per cent compared to 30 June 2013.

Following a relative slowdown in recent periods, M&G s UK sales are showing signs of stabilisation, with net outflows of £516 million in the first six months, an improvement on net outflows of £1.2 billion in the same period in 2013.

M&G s **institutional** business produced first-half net inflows of £427 million. The business again experienced a series of expected withdrawals from a single large but low-margin mandate which was originally received during 2012 and whose value at 30 June 2014 was £5.9 billion. Excluding the redemptions from this single mandate, the business has experienced a healthy positive run rate of underlying net sales. Overall, institutional funds under management have increased to £60.8 billion, up 10 per cent compared to 30 June 2013.

Consistently good investment performance, coupled with an established reputation for innovation, has led to a strong pipeline of new business for the institutional team. 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 in the lending market 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.

Strong net inflows, combined with the positive impact of a 9 per cent increase in equity market levels and 8 per cent rise in bond markets, pushed total external client assets to a new record level of £132.8 billion, 12 per cent

Table of Contents

higher than a year ago. Total funds under management as at 30 June 2013 stood at £253.7 billion (2013: £234.3 billion), with third party assets accounting for 52 per cent of the total.

Underlying profit[7] increased by 10 per cent to £214 million and our operating margins improved, as M&G continues to execute against its strategy and deliver strong performance for both clients and shareholders.

The beneficial impact on revenues of higher levels of funds under management has helped to absorb a larger cost base, reflecting continued investment in headcount and operational infrastructure, and resulting in a cost / income ratio of 54 per cent that is unchanged from the first half of 2013.

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.

Eastspring Investments, our Asia asset management business, saw net third-party inflows of £2.5 billion, 39 per cent higher than last year, with success in securing new equity flows, particularly from institutional clients, mitigating lower net inflows in fixed income. Total funds under management as at 30 June 2014 were £67 billion, up 22 per cent on the prior half year as a result of net inflows and positive market movements. IFRS operating profit increased 24 per cent to £42 million, driven by the positive impact on revenue from higher levels of average assets under management.

Capital and risk management

We continue to take a disciplined approach to capital management and have implemented a number of measures over the last few years to enable us to make our capital work more efficiently and more effectively for the Group. Using the regulatory measures of the Insurance Groups Directive (IGD), our Group capital surplus position at 30 June 2014 was estimated at £4.1 billion (2013: £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 as one of nine companies to be designated as a Global Systemically Important Insurer (G-SII). Since then, in July 2014 the International Association of Insurance Supervisors has released a consultation paper on the Basic Capital Requirement (BCR), one of the two types of capital requirement proposed under the G-SII framework. Prudential is monitoring the development and potential impact of the framework of policy measures and engaging closely with the Prudential Regulation Authority (PRA) on the implication of this designation.

Solvency II is scheduled to come into effect on 1 January 2016 and our preparations are well advanced. We continue to work with HM Treasury, the Association of British Insurers, the PRA, trade associations and peers across Europe, to ensure that the practical details of Solvency II, including the final implementing measures, are both workable and effective.

Dividend

Due to the strong and sustained operational and financial performance of the Group, evidenced by the achievement of all our demanding 2013   Growth and Cash   Objectives, the Board decided to rebase the 2013 full year dividend upwards to 33.57 pence per share, representing an increase of 15 per cent over 2012. As in previous years the interim dividend for 2014 has been calculated formulaically as one third of the prior year   s full year dividend. The Board has approved a 2014 interim dividend of 11.19 pence per share, which equates to an increase of 15 per cent over the 2013 interim dividend.

The Board applies strict affordability tests against a broad range of criteria before making its dividend recommendation. It is the result of these tests, combined with the Group s exceptionally strong performance in the past five years, that enabled the Board to take the unusual decision to recommend the rebase of the dividend in consecutive years, 2012 and 2013.

It is worth emphasising here again that although the Board has been able to recommend three upward rebases in 2010, 2012 and 2013, the Group s dividend policy remains unchanged. The Board will maintain its focus on

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

Table of Contents

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

Our business has continued to deliver both Growth and Cash in the first half of 2014. We are making progress towards the 2017 objectives announced in December 2013.

Our clear and unchanged strategy focused on cash-generative growth from our attractive and increasingly diverse geographic, product and market segments combined with our disciplined execution underpins our broad-based underlying financial performance.

There is increasing evidence that economic growth is set to accelerate in the US and the UK with emerging Asia economies forecast to continue to grow at relatively higher rates than developed Western economies. While this improving macroeconomic picture is beneficial to our businesses, there remains shorter-term uncertainty around the pace and timing of eventual interest rate increases in the US and the UK. This has mainly manifested in a strengthening of sterling. Investment markets are discounting an orderly transition to a less accommodative world. In Europe, the economic environment continues to pose significant challenges but we have little exposure to this region.

Asia remains core to the long-term growth and profitability prospects for the Group. A rapidly growing and prosperous middle class that is mostly under-insured, with very low state insurance coverage, provide a strong structural underpinning for long-term sustainable and profitable growth. In the shorter term, some Asian economies are facing cyclical headwinds from currency depreciation, political events and the effects of proactive financial tightening undertaken over the last year. Against this backdrop, we continue to actively manage our diverse portfolio of businesses across the region to secure strong returns to both our customers and our shareholders. We are also investing in further expanding our leading business platform in the region as evidenced by the renewal of our long-established and successful bancassurance relationship with Standard Chartered and our successful partnerships with United Overseas Bank and Thanachart Bank. Our leadership position across our sweet spot markets, growing scale and effective distribution of our attractive product propositions across both the agency and bank channels position us well to profitably capture the long-term structural growth opportunity.

In the US, we remain focused on generating both earnings and cash. In the UK, we are leveraging our brands and existing product expertise to meet our customers changing needs in the new regulatory landscape while delivering stable returns.

We remain confident in our ability to produce profitable growth over the long term and continue to create value for our customers and shareholders.

IFRS Critical Accounting Policies

Prudential s discussion and analysis of its financial condition and results of operations are based upon Prudential s consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB and as endorsed by the EU. EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. As at 30 June 2014, there were no unendorsed standards effective for the period ended 30 June 2014 affecting the consolidated financial information of Prudential and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to Prudential. Accordingly, Prudential s financial information for the period ended 30 June 2014 is prepared in accordance with IFRS as issued by the IASB. Prudential adopts mandatory requirements of new or altered EU-adopted IFRS standards when required, and may consider earlier adoption where permitted and appropriate in the circumstances.

The preparation of these financial statements requires Prudential to make estimates and judgements that affect the reported amounts of assets, liabilities, and revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, Prudential evaluates its estimates, including those related to long-term business provisioning and the fair value of assets.

Table of Contents

Critical accounting policies are defined as those that are reflective of significant judgements and uncertainties, and potentially give rise to different results under different assumptions and conditions.

Prudential s critical accounting policies and the critical aspects of its estimates and judgements in determining the measurement of the Group s assets and liabilities are further discussed in Item 5, Operating and Financial Review and Prospects IFRS Critical Accounting Policies of the Group s 2013 annual report on Form 20-F. In preparing the unaudited condensed consolidated interim financial statements included elsewhere in this document, the significant judgements made by management in applying the Group s accounting policies and the key sources of estimation uncertainty were for the same items as those described therein, which are:

Classification of insurance and investment contracts,

Measurement of policyholder liabilities,

Measurement of deferred acquisition costs,

Determination of fair value of financial investments, and

Determining impairment related to financial assets.

Table of Contents

Summary Consolidated Results and Basis of Preparation of Analysis

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

	2014 £m Half year	2013 £m Half year
Total revenue, net of reinsurance	**30,627**	22,391
Total charges, net of reinsurance	**(29,066)**	(21,745)
Share of profits from joint ventures and associates, net of related tax	**147**	74
Profit before tax *(being tax attributable to shareholders and policyholders returns)**	**1,708**	720
Less tax charge attributable to policyholders returns	**(284)**	(214)
Profit before tax attributable to shareholders	**1,424**	506
Total tax charge attributable to policyholders and shareholders	**(563)**	(355)
Adjustment to remove tax charge attributable to policyholders returns	**284**	214
Tax charge attributable to shareholders returns	**(279)**	(141)
Profit for the period	**1,145**	365

* 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.

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

Accordingly, Prudential has chosen to explain its unaudited condensed consolidated interim results by reference to profits for the period, reflecting profit after tax. In explaining movements in profit for the period, reference is made to trends in profit before shareholder tax and the shareholder tax charge. The explanations of movement in profit before shareholder tax are shown below by reference to the profit analysis applied for segmental disclosure as shown in note B1 to Prudential s unaudited condensed consolidated interim financial statements. This basis is used by management and reported externally to Prudential s UK, Hong Kong and Singapore shareholders and to the UK, Hong Kong and Singapore financial markets. Separately, in this section, analysis of movements in profits before shareholder tax is provided by nature of revenue and charges.

Explanation of Movements in Profits After Tax and Profits Before Shareholder

Tax by Reference to the Basis Applied for Segmental Disclosure

a) Group overview

Profit for half year 2014 after tax was £1,145 million compared to a profit of £365 million in half year 2013. The increase primarily reflects the movement in results before tax attributable to shareholders, which increased from a profit of £506 million in half year 2013 to a profit of £1,424 million in half year 2014, partially offset by an increase in the tax charge attributable to shareholders returns from £141 million in half year 2013 to £279 million in half year 2014.

The increase in the total profit before tax attributable to shareholders from £506 million in half year 2013 to £1,424 million in half year 2014 reflects an improvement in operating profit based on longer-term investment returns from £1,415 million in half year 2013 to £1,521 million in half year 2014 and a favourable change in non-operating items of £812 million from negative £909 million to negative £97 million. The increase of £106 million or

Table of Contents

7 per cent in operating profit based on longer-term investments includes a negative exchange translation impact of £119 million. Following the major depreciation in currencies against the sterling in the second half of 2013, the first half of 2014 has seen further volatility in the world s currency markets. Excluding the currency volatility, on a constant exchange rate basis, the Group operating profit based on longer term investment returns increased by £225 million or 17 per cent to £1,521 million, driven by profitable business growth in Asia, the US and M&G and the beneficial impact of four bulk annuity transactions in the UK life business.

The improvement in non-operating items of £812 million is primarily due to the favourable change in short-term fluctuations in investment returns from negative £755 million in half year 2013 to negative £45 million in half year 2014 and no loss attaching to the held for sale Japan Life business in half year 2014 compared to a loss of £124 million at half year 2013. This improvement of £812 million in non-operating items includes a positive exchange translation impact of £65 million.

The half year 2014 effective rate of tax on the total IFRS profit was 20 per cent (half year 2013: 28 per cent) reflecting the reduction in corporation tax rates in the UK and certain Asian jurisdictions as well as the fact that the 2013 effective tax rate was higher than normal due to no tax relief being available on the loss attaching to the held for sale Japan Life business (half year 2013: £124 million).

b) Summary by business segment and geographical region

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

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

			2014 £m Half year		
	Asia	**US**	**UK**	**Unallocated corporate****	**Total**
Insurance operations	**514**	**313**	**375**	**-**	**1,202**
Asset management*	**36**	**(5)**	**204**	**-**	**235**
Total profit attributable to the segments	**550**	**308**	**579**	**-**	**1,437**
Unallocated corporate	**-**	**-**	**-**	**(292)**	**(292)**
Total profit (loss) for the period	**550**	**308**	**579**	**(292)**	**1,145**

			2013 £m Half year		
	Asia	**US**	**UK**	**Unallocated corporate****	**Total**
Insurance operations	152	87	149	-	388
Asset management*	32	21	168	-	221

Total profit attributable to the segments	184	108	317	-	609
Unallocated corporate	-	-	-	(244)	(244)
Total profit (loss) for the period	184	108	317	(244)	365

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

** Representing central operations.

Table of Contents

Profit from insurance operations

Total profit from insurance operations in half year 2014 was £1,202 million compared to a profit of £388 million in half year 2013. All of the profits from insurance operations in the half years 2014 and 2013 were from continuing operations. The movement in profits for insurance operations can be summarised as follows:

	2014 £m Half year	**2013 £m Half year**
Profit before shareholder tax	**1,489**	533
Shareholder tax	**(287)**	(145)
Profit after tax	**1,202**	388

The increase of £956 million in profit before tax attributable to shareholders in half year 2014 compared to half year 2013 primarily compares an increase of £143 million in operating profit based on longer-term investment returns of the insurance operations to £1,555 million, combined with a positive change of £813 million in the non-operating items to negative £66 million. The increase of £143 million in operating profit based on longer-term investments includes a negative exchange translation impact of £112 million. The increase in operating profit based on longer-term investment returns reflects a growth in the scale of our life insurance operations, driven primarily by positive business inflows. In half year 2014, these results were delivered despite challenging macroeconomic concerns in Southeast Asia and significant disruption to the UK life market.

The improvement in non-operating items is predominantly due to the favourable change in short-term fluctuations in investment returns from negative £725 million in half year 2013 to negative £14 million in half year 2014 and no loss attaching to the held for sale Japan Life business (half year 2013: loss of £124 million). This was offset by an adverse change of £22 million in other non-operating items. This improvement of £813 million in non-operating items includes a positive currency impact of £65 million.

The effective shareholder tax rate on profits from insurance operations decreased from 27 per cent in half year 2013 to 19 per cent in half year 2014. The movement was principally due to a non-deductible loss of £124 million on the held for sale Japan Life business in half year 2013 , the reduction in the corporation tax rate in the UK and a shift in the geographic mix of Asia profit at lower tax rates.

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

Asia

Basis of profits

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

For Asian operations in countries where local GAAP is not well established and in which the business is primarily non-participating and linked business, measurement of the insurance assets and liabilities is determined substantially by reference to US GAAP principles. This basis is applied in India, Taiwan and the assets of the Japan Life business that are held for sale. For with-profits business in Hong Kong, Singapore and Malaysia the basis of profit recognition is bonus driven as described under United Kingdom Basis of profits below.

Table of Contents

Comparison of total profit arising from Asia insurance operations

The following table shows the movement in profit arising from Asia insurance operations from half year 2013 to half year 2014:

	2014 £m Half year	**2013 £m Half year**
Profit before shareholder tax	**598**	210
Shareholder tax	**(84)**	(58)
Profit after tax	**514**	152

The increase of £388 million from the profit before tax attributable to shareholders in half year 2013 of £210 million to a profit of £598 million in half year 2014 primarily reflects an increase of £9 million in operating profit based on longer-term investment and a positive change in non-operating items of £379 million. The increase of £9 million in operating profit based on longer-term investments includes a negative exchange translation impact of £68 million. Excluding the currency volatility, Asia insurance operations operating profit based on longer term investment returns was up 19 per cent or £77 million on a constant exchange rate basis driven by the increasing scale of the in-force portfolio.

The change from a non-operating loss of £264 million in half year 2013 to a non-operating profit of £115 million in half year 2014 arises from an improvement in the short-term fluctuations in investment returns of £256 million, no loss attaching to the held for sale Japan Life business in half year 2014 (half year 2013: loss of £124 million) and £1 million for other items. The positive change of £379 million in non-operating items includes a positive exchange translation impact of £30 million. The positive short-term fluctuations in investment returns primarily reflect net unrealised movements on bond holdings following modest falls in bond yields during the first half of the year across the region.

The effective shareholder tax rate changed from 28 per cent in half year 2013 to 14 per cent in half year 2014, with the movement principally due to a non-deductible loss of £124 million on the held for sale Japan Life business in half year 2013. Excluding the impact of the held for sale Japan Life business the half year 2013 tax rate was 17 per cent. In addition, the half year 2014 rate reflects a shift in the geographic mix of profits at lower tax rates compared to half year 2013.

United States

Basis of profits

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

Comparison of total profit arising from US insurance operations

The following table shows the movement in profits arising from US insurance operations from half year 2013 to half year 2014:

	2014 £m Half year	2013 £m Half year
Profit before shareholder tax	**420**	114
Shareholder tax	**(107)**	(27)
Profit after tax	**313**	87

The £306 million increase in profit before tax attributable to shareholders in half year 2014 against the comparative period in 2013, comprised an increase of £104 million in operating profit based on longer-term investment returns and a reduction in the non-operating loss of £202 million. The increase of £104 million in operating profit based on longer-term investment returns includes a negative exchange translation impact of £44 million. Excluding the currency volatility, the increase in operating profit based on longer-term investment returns in half year 2014 on a constant exchange rate basis compared to half year 2013 was £148 million or 28 per cent primarily driven by increased fee income from higher separate account assets.

The reduction in the non-operating loss was mainly due to a favourable change in short-term fluctuations in investment returns of £215 million reducing the loss from £441 million in half year 2013 to a loss of £226 million in half year 2014. This was partially offset by an adverse change of £13 million in other non-operating items. The reduction of £202 million in non-operating items includes a positive exchange translation impact of £35 million. The negative short-term fluctuations in investment returns mainly represent the negative net unrealised value movement on derivatives held to manage the Group s exposure to market movements following rises in the equity values.

The effective tax rate on profits from US operations increased from 24 per cent in half year 2013 to 25 per cent in half year 2014 due to the impact of fiscal adjustments at half year 2014.

United Kingdom

Basis of profits

Prudential s results comprise an annual profit distribution to shareholders from its UK long-term with-profits fund as well as profits from its annuity and other businesses.

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

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

The results of the UK shareholder-backed annuity business reflect the inclusion of investment returns including realised and unrealised gains and losses. The charge for benefits reflects the valuation rate of interest applied to discount future anticipated payments to policyholders. This rate in turn reflects current market yields adjusted for factors including default risks on the assets backing the liabilities. The level of allowance for default risk is a key assumption. Details are included in note B4 to the unaudited condensed consolidated financial statements.

Comparison of total profit arising from UK insurance operations

The following table shows the movement in profits arising from UK insurance operations from half year 2013 to half year 2014:

	2014 £m Half year	2013 £m Half year

Profit before shareholder tax	**471**	209
Shareholder tax	**(96)**	(60)
Profit after tax	**375**	149

Profit after tax from UK insurance operations of £375 million in half year 2014 is higher than the £149 million in half year 2013.

The increase in profit before tax attributable to shareholders of £262 million to £471 million in half year 2014 primarily comprises an increase of £30 million operating profit based on longer-term investment returns, combined with an improvement in the short-term fluctuations in investment returns for shareholder-backed business of

30

£232 million. The 10 per cent increase in operating profit based on longer-term investment returns was driven by the contribution from higher levels of bulk annuity transactions partially offset by the reduction in profits from new retail annuity business. Operating profit based on longer-term investment returns included general insurance commissions of £12 million in half year 2014 compared with £15 million in half year 2013. The positive fluctuations includes net unrealised movement on fixed income assets supporting the capital of the shareholder-backed annuity business, reflecting the fall in bond yields since the end of 2013.

The effective shareholder tax rate on profits from UK insurance operations for half year 2014 of 20 per cent compares with an effective tax rate of 29 per cent in half year 2013, with the movement principally reflecting the reductions in the UK corporation tax rate which were enacted in the second half of 2013 combined with the absence of any incremental tax on branch profits following the domestication of the Hong Kong branch at the start of the year.

Profit from asset management

The following table shows the movement in profits from asset management from half year 2013 to half year 2014:

	2014 £m Half year	**2013 £m Half year**
Profit before shareholder tax	**292**	288
Shareholder tax	**(57)**	(67)
Profit after tax	**235**	221

Total profit from asset management increased from £221 million in half year 2013 to £235 million in half year 2014.

The increase of £4 million in profit before tax attributable to shareholders to £292 million in half year 2014 resulted from an increase for M&G of £39 million to £255 million in half year 2014 and an increase in profits before tax for Eastspring Investments of £4 million to £42 million in half year 2014, which were partially offset by a decrease for US broker dealer and asset management operations of £39 million to a loss of £5 million in half year 2014.

The £39 million increase in profit before tax attributable to shareholders for M&G reflects an increase of £24 million in operating profit based on longer-term investment returns to £249 million in half year 2014 reflecting a 11 per cent uplift in average external funds under management compared to half year 2013; combined with a £15 million favourable change in short-term fluctuations in investment returns.

The £4 million increase in profit before tax attributable to shareholders for Eastspring Investments includes a negative exchange translation impact of £4 million. Excluding the currency volatility, the increase was £8 million, or 24 per cent reflecting the benefit of higher average funds under management. The loss of £5 million in half year 2014 for the US broker dealer and asset management operations was after a £33 million provision related primarily to the potential refund of certain fees by Curian.

The effective tax rate on profits from asset management operations decreased from 23 per cent in half year 2013 to 20 per cent in half year 2014, principally reflecting the reductions in the UK corporation tax rate which were enacted in the second half of 2013.

Unallocated corporate result

The following table shows the movement in the unallocated corporate result from half year 2013 to half year 2014:

	2014 £m Half year	**2013 £m Half year**
Loss before shareholder tax	**(357)**	(315)
Shareholder tax	**65**	71
Loss after tax	**(292)**	(244)

Total net of tax charges for unallocated corporate activity increased by £48 million from £244 million in half year 2013 to £292 million in half year 2014.

Table of Contents

The loss before shareholder tax increased by £42 million from £315 million at half year 2013 to £357 million at half year 2014. Net other expenditure (including restructuring and Solvency II implementation costs) increased by £26 million from £294 million in half year 2013 to £320 million in half year 2014. This was combined with an adverse change of £16 million in short-term fluctuations in investment returns from a loss of £21 million in half year 2013 to a loss of £37 million in half year 2014.

The effective tax rate on unallocated corporate result changed from 23 per cent at half year 2013 to 18 per cent at half year 2014, principally due the reduction in the UK corporation tax rate and no recurrence of the release of a provision in half year 2013.

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

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

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

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

The operating segments identified by Prudential reflect the organisation structure, which is by both geography (Asia, US and UK) and by product line (insurance operations and asset management). Prudential 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 which has been incorporated into the M&G operating segment for the purposes of segment reporting.

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

- Short-term fluctuations in investment returns;
- Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012;

32

Loss attaching to the held for sale Japan Life business. See note D1 for further details; and

The costs associated with the domestication of the Hong Kong branch which became effective on 1 January 2014.

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

Except in the case of 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:

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

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

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

Risk margin reserve based charge for the expected level of defaults for the period, which is determined by reference to the credit quality of the portfolio. The difference between impairment losses in the reporting period and the risk margin reserve charge to the operating result is reflected in short-term fluctuations in investment returns; and

The amortisation of interest-related realised gains and losses to operating results based on longer-term investment returns to the date when sold bonds would have otherwise matured.

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 risk margin reserve 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 risk margin reserve charge. Further details of the risk margin reserve charge, as well as the amortisation of interest-related realised gains and losses, for Jackson are shown in note B1.2 to the unaudited condensed consolidated financial statements.

Table of Contents

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 risk margin reserve charge.

At 30 June 2014, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £427 million (half year 2013: net gain of £522 million).

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

As at 30 June 2014, the equity-type securities for US insurance non-separate account operations amounted to £1,071 million (half year 2013: £1,188 million). For these operations, the longer-term rates of return for income and capital applied in 2014 and 2013, which reflect the combination of risk free rates and appropriate risk premiums are as follows:

	2014 Half year	**2013 Half year**
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	**6.5% to 6.7%**	5.7% to 6.5%
Other equity-type securities such as investments in limited partnerships and private equity funds	**8.5% to 8.7%**	7.7% to 8.5%

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 £664 million as at 30 June 2014 (half year 2013: £526 million). The rates of return applied in half year 2014 and half year 2013 ranged from 2.02 per cent to 13.75 per cent with the rates applied varying by territory. These rates 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 not for life and fixed index annuity business, and Guaranteed Minimum Income Benefit reinsurance (see note below);
Movements in accounts carrying value of Guaranteed Minimum Death Benefit and Guaranteed Minimum Withdrawal Benefit for life and Guaranteed Minimum Income Benefit liabilities, for which, under the grandfathered US GAAP applied under IFRS for Jackson s insurance assets and liabilities, the measurement basis gives rise to a muted impact of current period market movements;
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.

Table of Contents

Note

US operations Embedded derivatives for variable annuity guarantee features

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

(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 returns and change for policyholder benefits) the operating result reflects longer-term market returns.

Examples where such bifurcation is necessary are:

<u>Asia Hong Kong</u>

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 (also applied for IFRS basis) 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 PRIL and the PAC non-profit sub-fund after adjustments to allocate the following elements of the movement to the category of short-term fluctuations in investment returns :

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

Credit experience reflects the impact of defaults and other similar experience, such as asset exchanges arising from debt restructuring by issuers that include effectively an element of permanent impairment of the security held.

35

Table of Contents

Positive or negative experience compared to assumptions is included within short-term fluctuations in investment returns without further adjustment. The effects of other changes to credit risk provisioning are included in the operating result, as is the net effect of changes to the valuation rate of interest due to portfolio rebalancing to align more closely with management benchmark.

(e) Fund management and other non-insurance businesses

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

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

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

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

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

	Actual Exchange Rate			Constant Exchange Rate	
	2014 £m Half year	**2013 £m Half year**	**Change %**	**2013 £m Half year**	**Change %**
Operating profit before tax					
Long-term business:(note (ii))					
Asia	**484**	476	2	408	19
US	**686**	582	18	538	28
UK	**374**	341	10	341	10
Development expenses	**(1)**	(2)	50	(2)	50
Long-term business operating profit	**1,543**	1,397	10	1,285	20
UK general insurance commission (note (iii))	**12**	15	(20)	15	(20)
Asset management business:					
M&G (including Prudential Capital)	**249**	225	11	225	11
Eastspring Investments	**42**	38	11	34	24
US broker-dealer and asset management	**(5)**	34	(115)	31	(116)
	1,841	1,709	8	1,590	16
Other income and expenditure	**(305)**	(270)	(13)	(270)	(13)
Solvency II implementation costs	**(11)**	(13)	15	(13)	15

Restructuring costs (note (iv))	**(4)**	(11)	64	(11)	64
Total IFRS basis operating profit based on longer-term investments returns(note (i))	**1,521**	1,415	7	1,296	17
Short-term fluctuations in investment returns: (note (v))					
Insurance operations	**(14)**	(725)	98	(679)	98
Other operations	**(31)**	(30)	(3)	(30)	(3)
Total short-term fluctuations in investment returns	**(45)**	(755)	94	(709)	94
Amortisation of acquisition accounting adjustments	**(44)**	(30)	(47)	(28)	(57)
Loss attaching to held for sale Japan Life business	**-**	(124)	100	(107)	100
Cost of domestication of Hong Kong branch	**(8)**	-	n/a	-	n/a
Profit before tax attributable to shareholders	**1,424**	506	181	452	215
Tax charge attributable to shareholders returns	**(279)**	(141)	(98)	(125)	(123)
Profit for the period attributable to equity holders of Prudential	**1,145**	365	214	327	250

Table of Contents

Notes

(i) Operating profit based on longer-term investment returns.

The Group provides supplementary analysis of IFRS profit before tax attributable to shareholders so as to distinguish operating profit based on longer-term investment returns from other elements of total profit. Operating profit based on longer-term investment returns is the basis on which management regularly reviews the performance of Prudential s segments as defined by IFRS 8. Further discussion on the determination of operating profit based on longer-term investment returns is provided in section c) Additional explanation of performance measures and analysis of consolidated results by business segment and geographical region above.

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

The results of Prudential s long-term business operations are affected by changes to assumptions, estimates and bases of preparation. Where applicable, these are described in note B4 to the unaudited condensed consolidated interim financial statements.

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

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

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

	2014 £m Half year	**2013 £m Half year**
Insurance operations		
Asia	**119**	(137)
US	**(226)**	(441)
UK	**93**	(147)
Other operations	**(31)**	(30)
Total	**(45)**	(755)

Further details on the short-term fluctuations in investment returns are provided below under Charge for short-term fluctuations in investment returns and also in note B1.2 to the unaudited condensed consolidated interim financial statements.

Table of Contents

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

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

Half year 2014	UK	US	Asia	M&G	US	Eastspring Investments	Total segment	Unallocated corporate	Total
	Insurance operations			Asset management					
	(In £ Millions)								
Operating profit based on longer-term investment returns	**386**	**686**	**483**	**249**	**(5)**	**42**	**1,841**	**(320)**	**1,521**
Short-term fluctuations in investment returns on shareholder backed business	**93**	**(226)**	**119**	**6**	**-**	**-**	**(8)**	**(37)**	**(45)**
Amortisation of acquisition accounting adjustment	**-**	**(40)**	**(4)**	**-**	**-**	**-**	**(44)**	**-**	**(44)**
Cost of domestication of Hong Kong branch	**(8)**	**-**	**-**	**-**	**-**	**-**	**(8)**	**-**	**(8)**
Profit before tax attributable to shareholders	**471**	**420**	**598**	**255**	**(5)**	**42**	**1,781**	**(357)**	**1,424**
Tax attributable to shareholders									**(279)**
Profit for the period									**1,145**

Half year 2013 (AER)	UK	US	Asia	M&G	US	Eastspring Investments	Total segment	Unallocated corporate	Total
	Insurance operations			Asset management					
	(In £ Millions)								
Operating profit based on longer-term investment returns	356	582	474	225	34	38	1,709	(294)	1,415
Short-term fluctuations in investment returns on shareholder backed business	(147)	(441)	(137)	(9)	-	-	(734)	(21)	(755)
Amortisation of acquisition accounting adjustment	-	(27)	(3)	-	-	-	(30)	-	(30)
Profit attaching to held for sale Japan Life business	-	-	(124)	-	-	-	(124)	-	(124)
Profit before tax attributable to shareholders	209	114	210	216	34	38	821	(315)	506
Tax attributable to shareholders									(141)
Profit for the period									365

Half year 2013 (CER)	Insurance operations UK	US	Asia	Asset management M&G	US	Eastspring Investments (In £ Millions)	Total segment	Unallocated corporate	Total
Operating profit based on longer-term investment returns	356	538	406	225	31	34	1,590	(294)	1,296
Short-term fluctuations in investment returns on shareholder backed business	(147)	(408)	(124)	(9)	-	-	(688)	(21)	(709)
Amortisation of acquisition accounting adjustment	-	(25)	(3)	-	-	-	(28)	-	(28)
Profit attaching to held for sale Japan Life business	-	-	(107)	-	-	-	(107)	-	(107)
Profit before tax attributable to shareholders	209	105	172	216	31	34	767	(315)	452
Tax attributable to shareholders									(125)
Profit for the period									327

Table of Contents

IFRS operating profit based on longer-term investment returns

Following the major depreciation in currencies against sterling in the second half of 2013, the first half of 2014 has seen further volatility in the world s currency markets, driven by improving growth prospects and increasing speculation around the timing of possible movements in interest rates. In our key markets, this has been more prominent among the US dollar, US dollar-linked currencies and the Indonesian rupiah, all of which have weakened against sterling since the first half of 2013.

Therefore, the following commentary is focused on the performance of our Asia and US businesses in local currency and have presented percentage growth rates between periods on a constant exchange basis, unless otherwise stated. Growth rates based on actual exchange rates are also shown in the financial tables presented above.

The Group IFRS operating profit based on longer-term investment returns increased by 17 per cent in the first half of 2014 to £1,521 million on a constant exchange rate basis (7 per cent on an actual exchange rate basis), driven by profitable business growth in Asia, the US and M&G and the beneficial impact of four bulk annuity transactions in the UK life business. Asia operating profit based on longer term investment returns was up 19 per cent (2 per cent on an actual exchange rate basis), with strong growth from all of our operations, particularly Indonesia, Thailand and Vietnam. US operating profit increased by 28 per cent (18 per cent on an actual exchange rate basis), driven principally by higher variable annuity fee income. UK operating profit was 10 per cent higher, reflecting contributions totalling £60 million from bulk annuity transactions (2013: nil), which offset lower profits in the retail business. M&G (including Prudential Capital), our UK based asset management business and Eastspring Investments, our Asia asset manager, delivered IFRS earnings growth of 11 per cent and 24 per cent (11 per cent on an actual exchange rate basis), respectively.

Insurance operations

IFRS operating profit based on longer-term investment returns from our insurance operations in Asia, the US and the UK increased 20 per cent (10 per cent on an actual exchange rate basis) to £1,555 million. This increase in profitability of our insurance operations reflects the growth in the scale of our life operations, driven primarily by positive business inflows. We track the progress that we make in growing our life business by reference to the scale of our obligations to our customers, which are referred to in the financial statements as policyholder liabilities. Each year these liabilities increase as we collect premiums and decrease as we pay claims. The overall scale of these policyholder liabilities is relevant in evaluating our profit potential, in that it is reflective of our ability to earn fees on the unit-linked element and it sizes the risk that we carry on the insurance element, for which Prudential needs to be rewarded.

In the first half of 2014, alongside growing the scale of our life operating profit based on longer term investment returns, we have continued to focus on improving its quality by maintaining our bias for sources of income such as insurance margin and fee income, ahead of spread income: insurance income because it is relatively insensitive to the equity and interest rate cycle, and fee income because it is capital efficient. Our emphasis on growing our offering of risk products such as health and protection, has seen insurance margin grow by 23 per cent (11 per cent on an actual exchange rate basis), while fee income is up 24 per cent (15 per cent on an actual exchange rate basis), primarily reflecting the higher amount of assets that we manage on behalf of our customers. In contrast, the contribution to our profits from spread income has continued to increase at a more subdued rate of 12 per cent (4 per cent on an actual exchange rate basis). The fact that insurance margin and fee income generate a growing proportion of our income represents a healthy evolution in the quality, the resilience and the balance of our earnings.

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

IFRS operating profit based on longer-term investment returns from Asia life insurance was up 19 per cent (2 per cent on an actual exchange rate basis) to £483 million, driven by the increasing scale of the in-force portfolio and our emphasis on growing the proportion of our income that is sourced from regular premium health and protection business. In addition, we continue to focus on our seven sweet spot markets of Indonesia, Singapore, Malaysia, Thailand, Vietnam, the Philippines and Hong Kong, which collectively increased IFRS operating profit based on longer term investment returns by 20 per cent (3 per cent on an actual exchange rate basis). Indonesia IFRS operating profit, our largest market on this measure, was up by 32 per cent (1 per cent on an actual exchange rate basis) to £139 million, reflecting increased insurance and fee income from growth in the in-force book following the high level of regular premium health and protection and unit-linked sales in recent years. We are also encouraged to see further progress among our smaller, fast-growing businesses in South-east Asia, with Thailand, the Philippines and Vietnam reporting a combined 97 per cent (75 per cent on an actual exchange rate basis) increase in profits to £63 million and now accounting for 13 per cent of Asia s life operating profit based on longer-term investment returns compared to 8 per cent (8 per cent on an actual exchange rate basis) in the prior half year. In particular, Thailand s contribution has benefited from the acquisition of Thanachart s in-force portfolio and profit on new business written through our exclusive relationship with Thanachart Bank, with IFRS operating profit up 150 per cent (127 per cent on an actual exchange rate basis) to £25 million.

In the US, life IFRS operating profit based on longer-term investment returns increased by 28 per cent (18 per cent on an actual exchange rate basis) to £686 million, driven by 28 per cent (19 per cent on an actual exchange rate basis) growth in fee income, which now accounts for 48 per cent of Jackson s total income, compared to 38 per cent in the same period just three years ago. The uplift in fee income in the period reflects average separate account assets of £68 billion in the first half of 2014 compared to £52 billion (56 billion at actual exchange rate) in the first half of last year, equating to an increase of 31 per cent (21 per cent on an actual exchange rate basis) on a constant exchange rate basis, driven by variable annuity net premium inflows and appreciation in US equity markets. We continue to focus on improving the balance of Jackson s profits and diversifying its sources of earnings and we are pleased with the continued growth in sales of Elite Access, our variable annuity product without living benefits.

UK IFRS operating profit based on longer-term investment returns (excluding general insurance commissions) was 10 per cent higher than the first half of 2013 at £374 million (2013: £341 million), principally due to a £60 million profit contribution from bulk annuity transactions (2013: nil), which exceeded a £29 million reduction in profits from new retail annuity business (from £54 million in 2013 to £25 million in 2014). The UK general insurance commissions were £12 million in half year 2014 (2013: £15 million).

Asset management business

Our asset management businesses in the UK and Asia collectively contributed IFRS operating profit of £291 million, up 12 per cent on the first half of 2013. Similar to our life operations, growth in asset management operating profit primarily reflects the increased scale of this business, as measured by funds managed on behalf of external institutional and retail customers and our internal life insurance operations. Net flows from external parties into these funds (excluding MMF) were £6.7 billion in the first half of 2014 (2013: £5.8 billion on an actual exchange rate basis) and helped drive external retail and institutional funds under management (excluding MMF) to £153.8 billion at 30 June 2014 compared to £137.4 billion at 30 June 2013.

M&G s IFRS operating profit based on longer-term investment returns increased 11 per cent to £227 million (2013: £204 million). Underlying profits, excluding performance-related payments and earnings from associates, increased 10 per cent to £214 million (2013: £195 million), primarily reflecting an 11 per cent uplift in average external funds under management compared to the first half of 2013, following a period of strong net inflows and positive market movements. The positive business mix effect from the increasing proportion of higher-margin external retail business has seen M&G s average fee income improve to 38 basis points (2013: 36 basis points), with higher income helping to absorb the current phase of increased headcount and infrastructure investment. Reflecting this, the cost income ratio was maintained at 54 per cent (2013: 54 per cent). As in previous years, we expect the cost/income ratio to increase by the end of 2014 as M&G s cost run rate is typically higher over the second half of the year. Prudential Capital produced IFRS operating profit based on longer term investment returns of £22 million in the first half of 2014 (2013: £21 million).

Our Asia asset management business, Eastspring Investments, has also seen the benefit of higher average funds under management, with IFRS operating profit based on longer term investment returns of £42 million up 24 per cent (11 per cent on an actual exchange rate basis). In the US, our asset management businesses, PPM America and Curian, and our broker-dealer network, National Planning Holdings, collectively generated an IFRS operating loss based on longer term investment returns of £5 million (2013: profit of £31 million at constant exchange rates; profit of £34 million at actual exchange rates) after a £33 million provision related primarily to the potential refund of certain fees by Curian.

Table of Contents

Unallocated corporate result

Unallocated operating loss based on longer-term investment returns for half year 2014 of £320 million comprised of a charge for other income and expenditure of £305 million, Solvency II implementation costs of £11 million and restructuring costs of £4 million.

Unallocated operating loss based on longer-term investment returns for half year of 2013 of £294 million comprised of a charge for other income and expenditure of £270 million, Solvency II implementation costs of £13 million and restructuring costs of £11 million.

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

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

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

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

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

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

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

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

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

Analysis of pre-tax IFRS operating profit based on longer-term investment returns by source

	Half year 2014 £m				
	Asia note (ii)	**US**	**UK**	**Unallocated**	**Total**
Spread income	**62**	**364**	**131**	**-**	**557**
Fee income	**74**	**658**	**32**	**-**	**764**
With-profits	**15**	**-**	**135**	**-**	**150**
Insurance margin	**314**	**328**	**38**	**-**	**680**
Margin on revenues	**724**	**-**	**84**	**-**	**808**
Expenses:					
Acquisition costs	**(473)**	**(477)**	**(50)**	**-**	**(1,000)**
Administration expenses	**(304)**	**(333)**	**(64)**	**-**	**(701)**
DAC adjustments	**40**	**135**	**(6)**	**-**	**169**
Expected return on shareholder assets	**31**	**11**	**74**	**-**	**116**
Long-term business operating profit	**483**	**686**	**374**	**-**	**1,543**
Asset management operating profit	**42**	**(5)**	**249**	**-**	**286**
GI commission	**-**	**-**	**12**	**-**	**12**
Other income and expenditure[note (i)]	**-**	**-**	**-**	**(320)**	**(320)**
Total operating profit based on longer-term investment returns[note (ii)]	**525**	**681**	**635**	**(320)**	**1,521**

41

Table of Contents

	Half year 2013 £m AER				
	Asia note (ii)	US	UK	Unallocated	Total
Spread income	56	377	102	-	535
Fee income	80	554	33	-	667
With-profits	22	-	133	-	155
Insurance margin	303	262	48	-	613
Margin on revenues	778	-	80		858
Expenses:					
Acquisition costs	(502)	(465)	(54)	-	(1,021)
Administration expenses	(300)	(323)	(59)	-	(682)
DAC adjustments	9	173	(7)	-	175
Expected return on shareholder assets	28	4	65	-	97
Long-term business operating profit	474	582	341	-	1,397
Asset management operating profit	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 note (ii)	512	616	581	(294)	1,415

	Half year 2013 £m CER				
	Asia note (ii)	US	UK	Unallocated	Total
Spread income	49	348	102	-	499
Fee income	69	513	33	-	615
With-profits	20	-	133	-	153
Insurance margin	261	242	48	-	551
Margin on revenues	669	-	80	-	749
Expenses:					
Acquisition costs	(433)	(430)	(54)	-	(917)
Administration expenses	(260)	(299)	(59)	-	(618)
DAC adjustments	8	160	(7)	-	161
Expected return on shareholder assets	23	4	65	-	92
Long-term business operating profit	406	538	341	-	1,285
Asset management operating profit	34	31	225	-	290
GI commission	-	-	15	-	15
Other income and expenditure note (i)	-	-	-	(294)	(294)
Total operating profit based on longer-term investment returns note (ii)	440	569	581	(294)	1,296

Notes

(i) Including restructuring and Solvency II implementation costs.

(ii) The profit analysis above excludes the results of the life insurance business of Japan which is held for sale.

Table of Contents

Margin analysis of long-term insurance business Group

The following analysis expresses certain of the Group s sources of operating profit as a margin of policyholder liabilities or other suitable driver. Details on the calculation of the Group s average policyholder liability balances are given in note (iii).

	Total								
	Half year 2014 note (iv)			Half year 2013 AER note (iv)			Half year 2013 CER notes (iv),(v)		
	Profit	Average Liability note (iii)	Margin note (ii)	Profit	Average Liability note (iii)	Margin note (ii)	Profit	Average Liability note (iii)	Margin note (ii)
Long-term business	£m	£m	bps	£m	£m	bps	£m	£m	bps
Spread income	**557**	**64,741**	**172**	535	65,424	164	499	62,492	160
Fee income	**764**	**106,052**	**144**	667	93,512	143	615	87,678	140
With-profits	**150**	**98,046**	**31**	155	97,336	32	153	96,352	32
Insurance margin	**680**			613			551		
Margin on revenues	**808**			858			749		
Expenses:									
Acquisition costs note (i)	**(1,000)**	**2,300**	**(43)%**	(1,021)	2,162	(47)%	(917)	1,974	(46)%
Administration expenses	**(701)**	**178,649**	**(78)**	(682)	166,130	(82)	(618)	156,839	(79)
DAC adjustments	**169**			175			161		
Expected return on shareholder assets	**116**			97			92		
Operating profit	**1,543**			1,397			1,285		

Notes

(i) The ratio for acquisition costs is calculated as a percentage of APE sales including with-profits sales. Acquisition costs include only those relating to shareholder-backed business. APE is defined under the section EEV Basis, New Business Results and Free Surplus Generation in this document.

(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. Average liabilities for spread income are based on the general account liabilities to which spread income attaches. In addition, for REALIC (acquired in 2012), which are included in the average liability to calculate the administration expense margin, the calculation excludes the liabilities reinsured to third parties prior to the acquisition by Jackson. Average liabilities are adjusted for business acquisitions and disposals in the period.

(iv) The half year 2014 and half year 2013 analyses exclude 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.

(v) The half year 2013 comparative information has been presented at Actual Exchange Rate (AER) and Constant Exchange Rates (CER) so as to eliminate the impact of exchange translation. CER results are calculated by translating prior period results using the current period foreign exchange rates. All CER profit figures have been translated at current period average rates. For Asia CER average liability calculations the policyholder liabilities have been translated using current period opening and closing exchange rates. For the US CER average liability calculations the policyholder liabilities have been translated at the current period month end closing exchange rates. See also note A1 to the unaudited condensed consolidated interim financial statements.

Table of Contents

Margin analysis of long-term insurance business Asia

	Asia								
	Half year 2014			**Half year 2013 AER**			**Half year 2013 CER**		
		note (ii)			note (ii)			notes (ii),(v)	
	Profit	**Average Liability**	**Margin**	**Profit**	**Average Liability**	**Margin**	**Profit**	**Average Liability**	**Margin**
		note (iii) (v)			note (iii)			note (iii)	
Long-term business	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	**62**	**8,472**	**146**	56	7,220	155	49	6,653	147
Fee income	**74**	**14,204**	**104**	80	14,253	112	69	12,772	108
With-profits	**15**	**13,653**	**22**	22	13,522	33	20	12,538	32
Insurance margin	**314**			303			261		
Margin on revenues	**724**			778			669		
Expenses:									
Acquisition costs note (i)	**(473)**	**996**	**(47)%**	(502)	1,010	(50)%	(433)	882	(49)%
Administration expenses	**(304)**	**22,676**	**(268)**	(300)	21,473	(279)	(260)	19,425	(268)
DAC adjustments note (iv)	**40**			9			8		
Expected return on shareholder assets	**31**			28			23		
Operating profit	**483**			474			406		

Notes

(i) The ratio for acquisition costs is calculated as a percentage of APE sales including with-profits sales. Acquisition costs include only those relating to shareholder-backed business. APE is defined under the section EEV Basis, New Business Results and Free Surplus Generation in this document.

(ii) The analysis excludes the 2011, results of the life insurance business of Japan in both the individual profit and the average liability amounts for both 2013 and 2014.

(iii) Opening and closing policyholder liabilities, adjusted for corporate transactions, have been used to derive an average balance for the year, as a proxy for average balances throughout the year.

(iv) The DAC adjustment contains £2 million in respect of joint ventures in half year 2014.

(v) Constant Exchange Rates (CER) results are calculated by translating prior period results using the current period foreign exchange rates. All CER profit figures have been translated at current period average rates and for the average liability calculations the policyholder liability balances have been translated at the current period opening and closing exchange rates.

Analysis of Asia operating profit drivers

Spread income has increased by 27 per cent at constant exchange rates (AER 11 per cent) to £62 million in half year 2014, predominantly reflecting the growth of the Asian non-linked policyholder liabilities.

Fee income has increased by 7 per cent at constant exchange rates (AER 8 per cent decrease) to £74 million in half year 2014, broadly in line with the increase in movement in average unit-linked liabilities.

Insurance margin has increased by 20 per cent at constant exchange rates (AER 4 per cent) to £314 million in half year 2014 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. Half year 2014 insurance margin includes non-recurring items of £3 million (half year 2013: £23 million at actual exchange rates; £19 million at constant exchange rates).

Excluding the adverse impact of currency fluctuations, margin on revenues has increased by £55 million from £669 million in half year 2013 to £724 million in half year 2014 primarily reflecting higher premium income recognised in the period.

Acquisition costs have increased by 9 per cent at constant exchange rates (AER 6 per cent decrease) to £473 million in half year 2014, compared to the 13 per cent increase in sales (AER 1 per cent decrease), resulting in a modest decrease in the acquisition costs ratio. The analysis above uses shareholder acquisition costs as a proportion of total APE. If with-profits sales were excluded from the denominator the acquisition cost ratio would become 68 per cent (half year 2013: 67 per cent at constant exchange rates). The small increase being the result of changes to product and country mix.

Administration expenses have increased by 17 per cent at constant exchange rates (AER 1 per cent) to £304 million in half year 2014 as the business continues to invest in developing its infrastructure to keep pace with the growth in the business. On constant exchange rates the administration expense ratio remains in line with prior period at 268 basis points.

Table of Contents

Expected return on shareholder assets has increased from £28 million in half year 2013 to £31 million in half year 2014 primarily due to higher income from increased shareholder assets offset by the adverse effects of currency translation.

Margin analysis of long-term insurance business US

	US								
	Half year 2014			**Half year 2013 AER**			**Half year 2013 CER** note (iii)		
	Profit	**Average Liability** note (ii)	**Margin**	**Profit**	**Average Liability** note (ii)	**Margin**	**Profit**	**Average Liability** note (ii)	**Margin**
Long-term business	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	**364**	**28,207**	**258**	377	31,137	242	348	28,772	242
Fee income	**658**	**68,177**	**193**	554	56,539	196	513	52,186	197
Insurance margin	**328**			262			242		
Expenses									
Acquisition costs note (i)	**(477)**	**871**	**(55)%**	(465)	797	(58)%	(430)	737	(58)%
Administration expenses	**(333)**	**104,240**	**(64)**	(323)	94,870	(68)	(299)	87,627	(68)
DAC adjustments	**135**			173			160		
Expected return on shareholder assets	**11**			4			4		
Operating profit	**686**			582			538		

Notes

(i) The ratio for acquisition costs is calculated as a percentage of APE sales. APE is defined under the section EEV Basis, New Business Results and Free Surplus Generation in this document.

(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. Average liabilities for spread income are based on the general account liabilities to which spread income attaches. Average liabilities used to calculate the administrative expense margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson.

(iii) Constant Exchange Rates (CER) results are calculated by translating prior period results using the current period foreign exchange rates. All CER profit figures have been translated at the current period average rate and for the average liability calculations the policyholder liability balances have been translated at the current period month end-closing exchange rates.

Analysis of US operating profit drivers:

Spread income has increased by 5 per cent at constant exchange rates (AER reduced by 3 per cent) to £364 million in first half 2014. The reported spread margin increased to 258 basis points from 242 basis points in the first half of 2013, primarily as a result of lower crediting rates. In addition, spread income benefited from swap transactions previously entered into to more closely match the overall asset and liability duration. Excluding this effect, the spread margin would have been 185 basis points (half year 2013: 183 basis points on both AER and CER bases).

Fee income has increased by 28 per cent at constant exchange rates (AER 19 per cent) to £658 million during the first half of 2014, due to higher average separate account balances resulting from positive net cash flows from variable annuity business and market appreciation over the past 12 months. Fee income margin has remained broadly consistent with the prior period at 193 basis points (half year 2013 at 197 basis points at constant exchange rates; 196 basis points at actual exchange rates), with the decrease primarily attributable to a change in the mix of business.

Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Positive net flows from variable annuity business with life contingent and other guarantee fees, coupled with a benefit from re-pricing actions, have increased the insurance margin to £328 million in the first half of 2014.

Acquisition costs, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, have increased to £477 million reflecting higher volumes. As a percentage of APE, acquisition costs have decreased to 55 per cent for half year 2014, compared to 58 per cent in half year 2013 due to the continued shift towards producers selecting asset-based commissions which are treated as an administrative expense in this analysis, rather than front end commissions.

Administration expenses increased to £333 million during the first half of 2014 compared to £299 million for the first half of 2013 at a constant exchange rate (AER £323 million) primarily as a result of higher asset based commissions paid on the larger 2014 separate account balance. These are paid on policy anniversary dates

Table of Contents

and are treated as an administration expense in this analysis. Excluding these trail commissions, the resulting administration expense ratio would be lower at 37 basis points from 45 basis points (on both constant and actual exchange rate bases) in the first half of 2013, reflecting the benefits of operational leverage.

DAC adjustments decreased to £135 million during the first half of 2014 compared to £160 million at a constant exchange rate (AER £173 million) during the first half of 2013. This reflects the interplay between higher DAC amortisation charges on costs previously deferred (reflecting business growth), which is outpacing the rate at which current period acquisition costs are being deferred. Certain acquisition costs are not fully deferrable, resulting in new business strain of £103 million for the first half of 2014 (half year 2013: £86 million on constant exchange rate basis; £93 million on actual exchange rate basis) mainly reflecting the increase in sales in the period.

Analysis of pre-tax operating profit before and after acquisition costs and DAC adjustments

	Half year 2014 £m				**Half year 2013 £m AER**				**Half year 2013 £m CER** note (i)			
		Acquisition costs				**Acquisition costs**				**Acquisition costs**		
	Other operating profits	**Incurred**	**Deferred**	**Total**	**Other operating profits**	**Incurred**	**Deferred**	**Total**	**Other operating profits**	**Incurred**	**Deferred**	**Total**
Total operating profit before acquisition costs and DAC adjustments	**1,028**			**1,028**	874			874	808			808
Less new business strain		**(477)**	**374**	**(103)**		(465)	372	(93)		(430)	344	(86)
Other DAC adjustments-amortisation of previously deferred acquisition costs:												
Normal			**(249)**	**(249)**			(219)	(219)			(203)	(203)
Deceleration (acceleration)			**10**	**10**			20	20			19	19
Total	**1,028**	**(477)**	**135**	**686**	874	(465)	173	582	808	(430)	160	538

Note

(i) The half year 2013 comparative information has been presented at Actual Exchange Rate (AER) and Constant Exchange Rate (CER) so as to eliminate the impact of exchange translation. CER results are calculated by translating prior period results using the current period foreign exchange rate. See also note A1 to the unaudited condensed consolidated interim financial statements.

Margin analysis of long-term insurance business UK