PRUDENTIAL PLC
Form 6-K
August 11, 2015
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As filed with the Securities and Exchange Commission on 11 August 2015

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): ___

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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. 333-199148).

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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.

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Selected Historical Financial Information of Prudential

The following table sets forth Prudential s selected consolidated financial data for the periods indicated. Certain data is derived from Prudential s consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. As at 30 June 2015, 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 is derived from Prudential s 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		
	2015[1]	**2015**	**2014**
	(In $ Millions)	**(In £ Millions)**	**(In £ Millions)**
Income statement data			
Earned premiums, net of reinsurance	**28,126**	**17,884**	16,189
Investment returns	**9,609**	**6,110**	13,379
Other income	**2,021**	**1,285**	1,059
Total revenue, net of reinsurance	**39,756**	**25,279**	30,627
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(29,280)**	**(18,618)**	(25,549)
Acquisition costs and other expenditure	**(7,085)**	**(4,505)**	(3,336)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(233)**	**(148)**	(170)
Disposal of Japan Life business:			
Cumulative exchange loss recycled from other comprehensive income	**(72)**	**(46)**	-
Remeasurement adjustment	**-**	**-**	(11)
Total charges, net of reinsurance	**(36,670)**	**(23,317)**	(29,066)
Share of profits from joint ventures and associates, net of related tax	**192**	**122**	147
Profit before tax (being tax attributable to shareholders and policyholders returns)[2]	**3,278**	**2,084**	1,708
Tax charge attributable to policyholders returns	**(318)**	**(202)**	(284)
Profit before tax attributable to shareholders	**2,960**	**1,882**	1,424
Tax charge attributable to shareholders returns	**(698)**	**(444)**	(279)
Profit for the period	**2,262**	**1,438**	1,145

	Six Months Ended 30 June		
	2015[1]	**2015**	**2014**
Other data			
Based on profit for the period attributable to the Prudential s equity holders:			
Basic earnings per share	**88.5¢**	**56.3p**	45.0p
Diluted earnings per share	**88.4¢**	**56.2p**	44.9p
Dividend per share declared and paid in reporting period[5]	**40.48¢**	**25.74p**	23.84p
Equivalent cents per share[6]		**40.34¢**	40.19¢

Market price per share at end of period[7]	**2411¢**	**1533p**	1341p
Weighted average number of shares (in millions)	**2,552**	**2,552**	2,547

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	As of 30 June		As of 31 December
	2015[1]	**2015**	**2014**
	(In $ Millions)	**(In £ Millions)**	**(In £ Millions)**
Statement of financial position data			
Total assets	**594,325**	**377,901**	369,204
Total policyholder liabilities and unallocated surplus of with-profits funds	**513,310**	**326,388**	321,989
Core structural borrowings of shareholder-financed operations	**7,674**	**4,880**	4,304
Total liabilities	**575,288**	**365,796**	357,392
Total equity	**19,037**	**12,105**	11,812

	As of and for the Six Months Ended 30 June		
	2015[1]	**2015**	**2014**
	(In $ Millions)	**(In £ Millions)**	**(In £ Millions)**
Other data			
New business:			
Single premium sales[3]	**22,027**	**14,006**	12,987
New regular premium sales[3][4]	**2,096**	**1,333**	986
Funds under management	**794,056**	**504,900**	457,200

(1) Amounts stated in US dollars in the half year 2015 column have been translated from pounds sterling at the rate of $1.5727 per £1.00 (the noon buying rate in New York City on 30 June 2015).

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

(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. The 2014 comparatives have been adjusted to exclude PruHealth and PruProtect sales at half year 2014, following the disposal of our 25 per cent interest in the businesses in November 2014.

(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 12.31p per share, as against an interim dividend of 11.19p per share for the first half of 2014.

(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.

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Exchange Rate Information

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

Period	**Average rate**
Six months ended 30 June 2014	1.67
Twelve months ended 31 December 2014	1.65
Six months ended 30 June 2015	1.52

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**
February 2015	1.55	1.50
March 2015	1.54	1.47
April 2015	1.55	1.46
May 2015	1.58	1.51
June 2015	1.59	1.52
July 2015	1.56	1.54

On 7 August 2015, the latest practicable date prior to this filing, the noon buying rate was £1.00 = $1.55.

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Risk Factors

A number of 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, 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 (which in some jurisdictions have become negative) and liquidity, and widespread economic uncertainty. For example, government interest rates 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 reduce Prudential s capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees, or 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 that could give rise to a negative impact on Prudential s financial position and on the accessibility or recoverability of amounts due or, for derivative transactions, adequate collateral not being in place;
- 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, the timing and speed of normalisation of the monetary policy in the US, the UK and other jurisdictions and socio-political events. 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. In addition, there may be a higher incidence of counterparty failures. 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 its balance sheet and profitability. For example, this could occur if the recoverable value of intangible assets for bancassurance agreements and deferred acquisition costs are reduced. 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 those used to calculate surrender values over a sustained period, this could have a material adverse effect 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 (such as interest rates, equity values, bond spreads and realised volatility) and policyholder behaviour. 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 (with consideration of the local regulatory position) and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate result on these bases. 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 or local regulatory results that 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.

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

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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 with possible consequences for the degree of flexibility the Prudential has in managing its business.

Prudential conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates

Changes in government policy, legislation (including tax) or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates, which in some circumstances may be applied retrospectively, may adversely affect Prudential s product range, distribution channels, competitiveness, 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. In addition, there could be changes to the maximum level of non-domestic ownership by foreign companies in certain jurisdictions. 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 transactions 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 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

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Prudential to make use of its internal 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 and the Omnibus II Directive, which amended certain aspects of the Solvency II Directive, was adopted by the Council of the European Union in April 2014. As such, Solvency II is expected to be implemented as of 1 January 2016, although a number of the detailed rules and guidelines that will supplement the high-level rules and principles of the Solvency II and Omnibus II Directives remain subject to formal ratification during the second half of 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 subject to regulatory judgement and approval. As a result there is a risk that the final outcome of Solvency II 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 of which Prudential was one. The FSB published the 2014 list of G-SIIs in November 2014 which is identical to the 2013 list of G-SIIs. Designation as a G-SII has led 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 include enhanced group- wide supervision, effective resolution measures of the group in the event of failure, loss absorption, and higher loss absorption capacity. Prudential is monitoring the development and potential impact of the policy measures and is continuing to engage 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. G-SIIs began reporting on their BCR to their group-wide supervisors on a confidential basis from 2015. The IAIS is currently consulting on the HLA requirement and this is expected to 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 be expected to form the group solvency capital standard under ComFrame. The IAIS has recently announced an extension to the ICS timelines and a version of the ICS is expected to be adopted as part of ComFrame in late 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

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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 currently re-deliberating 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 2019.

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 attention on the different regulatory standards applied to investment advice delivered to retail customers by different sectors of the industry. As a result of reports relating to perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms. This includes focus on the suitability of sales of certain products, alternative investments and the widening of the circumstances under which a person or entity providing investment advice with respect to certain employee benefit and pension plans would be considered a fiduciary which would subject the person or entity to certain regulatory requirements. There is a risk that new regulations introduced may have a material adverse effect on the sales of the products by Prudential and increase Prudential s exposure to legal risks.

In Asia, regulatory regimes are developing at different speeds, driven by a combination of global factors and local considerations. New requirements could be introduced in these and other regulatory regimes that challenge current practices, or could retrospectively be applied to sales made prior to their introduction, which could have a negative impact on Prudential s business or reported results.

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 upon 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

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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. 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., Allianz, Prudential Financial, Lincoln National, MetLife and Aegon.

Prudential believes competition will intensify across all regions in response to consumer demand, technological advances, the impact of consolidation, regulatory actions and other factors. Prudential s ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures.

Downgrades in Prudential s financial strength and credit ratings could significantly impact its competitive position and 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 plc 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 plc 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.

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Adverse experience in the operational risks inherent in Prudential s business could disrupt its business functions and 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 information technology (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. Due to human error among other reasons, operational incidents do happen periodically and no system or process can entirely prevent them although there have not been any material such events to date. 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 administration systems (such as those relating to policyholder records or meeting regulatory requirements) or actuarial reserving processes could have a material adverse effect on its results of operations during the effective period.

Attempts by third parties to disrupt Prudential s IT systems could result in loss of trust from Prudential s customers, reputational damage and financial loss

Being part of the financial services sector, Prudential and its business partners are increasingly exposed to the risk that third parties may attempt to disrupt the availability, confidentiality and integrity of its IT systems. This could result in loss of trust from Prudential s customers, reputational damage and financial loss. The cyber-security threat continues to evolve globally in sophistication and potential significance as Prudential increasingly moves to digitalize its business and provide on-line business operations for its customers. Prudential has not identified a material failure or breach in relation to its legacy and other IT systems and processes to date. However, it has been, and likely will continue to be, subject to computer viruses, attempts at unauthorised access and cyber-security attacks such as denial of service attacks (which, for example, can cause temporary disruption to websites and IT networks), phishing and disruptive software campaigns.

Prudential is continually enhancing its IT environment to remain secure against emerging threats, together with increasing its ability to detect system compromise and recover should such an incident occur. However, there can be no assurance that such events will not take place with adverse consequential effects on Prudential s business and financial position.

Adverse experience relative to the assumptions used in pricing products and reporting business results could significantly affect Prudential s results of operations

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 surrenders and take-up rates on guarantee features of products, investment performance and impairments, unit cost of administration and new business acquisition expense.

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,

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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. Assumptions about future expected levels of mortality are similarly relevant to the Guaranteed Minimum Withdrawal Benefit (GMWB) of Jackson s variable annuity business. 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, especially Jackson s portfolio of traditional and variable annuities. Prudential s persistency assumptions reflect recent past experience for each relevant line of business. Any expected change in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly different than assumed , the Group s results of operations could be adversely affected. Furthermore, Jackson s variable annuity products are sensitive to other types of policyholder behaviour, such as the take-up of its GMWB product features.

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.

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 Prudential s ability to pay dividends to shareholders or to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group.

Prudential operates in a number of markets through joint ventures and other arrangements with third parties (including in China and India), involving certain risks that Prudential does not face with respect to its consolidated subsidiaries

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures (including in China and India). For the Group s joint venture operations, management control is exercised jointly with the venture participants. The level of control exercisable by the Group depends on the terms of the joint venture agreements, in particular, the allocation of control among, and continued co-operation between, the joint venture participants. Prudential may face financial, reputational and other exposure (including regulatory censure) in the event that any of its joint venture partners fails to meet its obligations under the joint venture, encounters financial difficulty, or fails to comply with local or international regulation and standards such as those pertaining to 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, such as through significant deterioration in the reputation, financial position or other circumstances of the third party or material failure in controls (such as those pertaining to the prevention of financial crime) could adversely affect the results of operations of Prudential.

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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 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 uncertainty, inflation and deflation; changes in Prudential s profitability due 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.

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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.

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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 2015 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 2015, 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 2015 are the same as those previously adopted in Prudential s consolidated financial statements for the year ended 31 December 2014, except for the adoption of the new accounting pronouncements as described in note A2 to the unaudited condensed consolidated interim financial statements.

Overview

The Group has reported a strong broad-based performance in the first half of 2015.

Our focus on the three main opportunities in Asia, US and UK serving the protection and investment needs of the growing middle class in Asia, providing income in retirement to American baby boomers and meeting the financial needs of an ageing British population is unchanged. The Group has distinct strengths and capabilities to execute our strategy successfully: leading market positions in its chosen geographies, strong diversification by geography, currency, product and distribution and a high quality, growing in-force book which generates significant earnings and cash. Our teams continue to leverage these strengths effectively and with discipline, as evidenced by the strong progress in the first half of 2015.

Currency volatility

In both 2014 and 2015 to date, there have been significant fluctuations in the value of sterling against local currencies in the US and in some of our key markets in Asia. These fluctuations continue to be driven by ongoing speculation about relative growth trajectories in the world s major economies and by debate around the timing and size of the withdrawal of the stimulus provided by various central banks. The sizeable component of Prudential s non-sterling earnings and assets means that our headline results and shareholders equity, which are reported in UK sterling, will also fluctuate from one reporting period to the next.

In 2014 we adopted the approach of evaluating the financial performance of the Group by presenting percentage growth rates before the impact of the fluctuations in the value of sterling against local currencies in the US and Asia. In a period of currency volatility this approach allows a more meaningful assessment of underlying performance trends. This is because our businesses in the US and Asia receive premiums and pay claims in local currencies and are, therefore, not exposed to any cross-currency trading effects. To maintain comparability in the discussion below the same basis has been applied. Growth rates based on actual exchange rates are also shown in the financial tables presented in this report. It is worth noting that so far this year, we have experienced favourable currency movements. As a result and contrary to last year, the constant exchange rate basis that we have used below produces lower progressions than the actual exchange rate basis. Consistent with previous reporting periods, the assets and liabilities of our overseas businesses are translated at period-end exchange rates so the effect of currency movements has been fully incorporated within reported shareholders equity.

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The table below presents a summary of the Group s profit before tax on an IFRS basis. The table presents the half year 2014 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.

Profit before tax IFRS

	Actual Exchange Rate			Constant Exchange Rate	
	2015 £m Half year	2014 £m Half year	Change %	2014 £m Half year	Change %
Operating profit before tax					
Long-term business:					
Asia[1]	**574**	483	19	497	15
US	**834**	686	22	751	11
UK[2]	**436**	366	19	366	19
Long-term business operating profit before tax[1,2]	**1,844**	1,535	20	1,614	14
UK general insurance commission	**17**	12	42	12	42
Asset management business:					
M&G	**251**	227	11	227	11
Prudential Capital	**7**	22	(68)	22	(68)
Eastspring Investments	**58**	42	38	43	35
US	**12**	(5)	n/a	(5)	n/a
Other income and expenditure	**(308)**	(320)	4	(320)	4
Results of the sold PruHealth and PruProtect businesses	**-**	8	(100)	8	(100)
Total operating profit based on longer-term investment returns before tax	**1,881**	1,521	24	1,601	17
Non-operating items	**1**	(97)	n/a	(113)	n/a
Profit before tax attributable to shareholders	**1,882**	1,424	32	1,488	26

1 After Asia development costs.

2 Following the disposal of the Group s 25 per cent interest in PruHealth and PruProtect in November 2014, the 2014 comparative results of UK insurance operations have been adjusted to exclude results of those businesses.

In the remainder of this Introduction and Overview section, 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

Our first-half performance is underpinned by material contributions from all our principal business units.

Our Group IFRS operating profit based on longer-term investment returns increased by 17 per cent during the first half of 2015 to £1,881 million, with a broad-based contribution to growth from all four principal business units Asia, US, UK and M&G. On an actual exchange rate basis, IFRS operating profit grew by 24 per cent.

Asia life and asset management operating profit of £632 million, grew by 17 per cent, reflecting our continuing success in capturing profitable growth in markets which are under-penetrated with growing demand for protection and savings products. Our leading position in 9 out of 12 markets in the region including Eastspring s position as Asia s largest retail asset manager[1] enables us to meet a wide range of customer needs and deliver a performance that is resilient across the economic cycle.

[1] Asset Management, September 2014 issue (ranked according to participating regional players only). Based on assets sourced from the region (excluding Japan, Australia and New Zealand) as of June 2014.

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US life IFRS operating profit of £834 million was up 11 per cent. A primary driver of our earnings is our growing separate account asset base that has benefitted from both strong net inflows and strong separate account performance.

UK life IFRS operating profit of £436 million, grew by 19 per cent, reflecting continued pro-active management of our in-force book.

M&G delivered operating profit of £251 million, an increase of 11 per cent, primarily reflecting higher levels of average funds under management (including internal funds) which are 7 per cent higher at £260.0 billion.

The Group is focused on delivering strong cash generation which underpins both our strategic and financial flexibility. **Net cash remittances** from our businesses increased by 10 per cent on actual exchange rates to £1,068 million. Cash remittances of £258 million from Asia were 19 per cent higher in the first half of 2015 while those from the US increased by 14 per cent to £403 million, both on an actual exchange rate basis. Our UK operations remitted £231 million (2014: £246 million), as we continue to invest in the business in response to the UK market reforms. M&G delivered an increase in remittances of 12 per cent to £151 million, in line with the growth in earnings.

Our balance sheet continues to be defensively positioned and at the end of the period our Insurance Group Directive surplus[2] was estimated at £5.2 billion, equating to coverage of 2.5 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(3)(4) of £0.9 billion to £1.1 billion in 2017 (2012: £484 million on an actual exchange rate basis).

(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(5) on an actual exchange rate basis).

(iii) Group Underlying Free Surplus Generation(4) of at least £10 billion cumulatively over the four-year period from 2014 to end of 2017.

We are continuing to make progress towards our 2017 objectives announced in December 2013.

[2] Before allowing for interim dividend

[3] 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.

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

[5] 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.

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Our operating performance by business unit

Asia

Asia has delivered a strong performance across all of our key metrics. In the first half of 2015, Asia s IFRS operating profit increased by 17 per cent to £632 million (20 per cent on an actual exchange rate basis), driven by 15 per cent growth in our life businesses and 35 per cent growth in Eastspring Investments, our Asia asset management businesses (19 per cent and 38 per cent respectively on an actual exchange rate basis). Cash remittances were up 19 per cent at £258 million on an actual exchange rate basis.

The macro-economic environment remains broadly supportive, with our markets generating some of the world s highest GDP growth rates and having favourable demographic trends. While in some markets we are seeing local short-term challenges, particularly in Indonesia where the macro-economic outlook remains fragile, our pan-Asian platform across 12 life markets in the region and significant diversification by country, product and channel enables the delivery of a strong regional performance. Our priority remains the provision of products and services that meet the significant savings and financial protection needs of Asia s rapidly growing middle classes while also delivering consistent shareholder returns across the economic cycle.

Our life businesses have delivered excellent levels of new business in the first half, with sales increasing over prior year. Our new business sales, continue to have a high proportion of regular premiums and a significant amount of premium directed towards health and protection coverage which makes our business less correlated to investment markets. In addition, the breadth and quality of our market leading distribution platform has seen growth in both agency and bancassurance channels offering further resilience to our progress as we are able to reach a wider customer base. Agency generated sales increased over prior year driven by higher numbers of active agents and improvements in agency productivity. Bancassurance sales were also up including growth from our relationship with Standard Chartered Bank despite the loss of two relationships in Singapore as previously disclosed.

In **Hong Kong**, sales increased driven by an increase in active agency manpower and improved productivity, together with the continuing success of our long-standing relationship with Standard Chartered Bank as well as the smaller, but fast growing broker channel. The Hong Kong economy has very close ties with mainland China and the market has seen increasing levels of sales to mainland customers. We have an excellent track record in executing on this opportunity and our US dollar denominated participating products are particularly attractive.

Our joint venture with CITIC in **China** continues to perform well, with sales growth reflecting progress in both the agency and bank channels as a result of strong momentum from our efforts to grow scale in a vastly under-penetrated market. We continue to monitor closely the recent developments in the China equity markets but to date have not seen any significant impact on our business.

Consumer sentiment in **Indonesia** remains depressed as the economy faces short to medium-term challenges from weaker global demand for its raw material exports, with President Jokowi s ambitious reform programmes progressing at a slower pace than anticipated. Against this backdrop, our sales were in line with last period with lower profitability reflecting business mix and adverse interest rate effects. We remain confident in the medium term potential in this market given modest insurance penetration and a growing middle class. We are, therefore, continuing to build out our platform across the country which positions us well for when more favourable conditions return. Notwithstanding flat sales, the recurring regular premium nature of the unit-linked and protection business that we write in Indonesia has driven IFRS operating profit higher by 21 per cent to £167 million.

Our **Malaysia** strategy in recent years has been to broaden our approach to include a greater focus on the bumiputra sector of the market and increasing penetration of Takaful products. Progress in this area continues to be highly encouraging which, together with strong growth in bancassurance, has resulted in increased sales for the half year compared to the prior period.

In **Singapore**, sales, excluding the Maybank and Singpost relationships which ceased in 2014, are broadly in line with the previous period. On a reported basis, sales including these discontinued relationships declined.

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In our smaller businesses in South-east Asia, the economy in **Thailand** continues to be sluggish and in the context of a 2.4 per cent decline[6] in the overall insurance market, we are pleased that our business continues to make good progress with sales growing over the prior period. We continue to increase the proportion of protection products in the mix of business sold. The transformation of our business in the **Philippines** is showing significant improvements following a significant refocussing on the agency channel, with increased sales over prior year and **Vietnam** also had an excellent first half with increased sales growth driven by increases in agency activity.

In **India** our joint venture with ICICI Bank remains the leader in the private sector and delivered strong sales growth, driven by unit-linked sales. We continue to assess developments in the regulations regarding foreign ownership limits.

In **Taiwan** and **Korea**, we remain selective in our participation in line with our value strategy and in the first half of the year this resulted in increased sales for both regions.

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

Eastspring Investments, the largest Asian retail asset manager[7], saw net third-party inflows of £4.6 billion, up 79 per cent from 2014, with robust flows into equity funds, particularly from Japan into our Asia Oceania Fund. Total funds under management as at 30 June 2015 were £85.3 billion, growing 28 per cent period on period as a result of net inflows and positive market movements. IFRS operating profit increased 35 per cent to £58 million, driven by the positive impact on revenue from higher levels of average assets under management.

Asia s results in the first half of 2015 evidence the quality of our diversified business platform and our disciplined execution, which together enable the business to deliver strong, profitable growth across the economic cycle. We have a market leading franchise in a region which is well supported by the long-term structural tailwinds of low insurance penetration, a rapidly growing and wealthy middle class and limited social insurance providing significant headroom to create value for customers and shareholders.

US

Jackson continues to benefit from its clear focus on generating earnings and cash. In the first half of 2015, our US business delivered total IFRS operating profit of £846 million, up 13 per cent (24 per cent on an actual exchange rate basis). Jackson s life IFRS operating profit grew 11 per cent (22 per cent on an actual exchange rate basis) to £834 million, reflecting increased fee income from higher levels of separate account assets, which were up 11 per cent period on period to £85.9 billion at the end of June 2015 (30 June 2014: £77.7 billion, on a constant exchange rate basis), driven by continued strong net inflows. The growth in earnings also supported strong capital generation, enabling Jackson to remit £403 million of cash to the Group (2014: £352 million), while continuing to maintain a healthy balance sheet.

Despite weak GDP growth in the first quarter of 2015, the US economy has since returned to a path of moderate growth consistent with that seen in the past few years. At 30 June 2015, despite volatility caused by domestic and economic uncertainties, US investment markets closed moderately higher than the start of year positions, with the S&P 500 Index up 0.2 per cent and the 10-year Treasury rate increasing by 18 basis points.

The insurance industry continues to deal with emerging regulatory topics, including the Department of Labor s proposed fiduciary standard. Jackson, alongside the rest of the industry, is actively participating in discussions with regulators and industry specialists. The comment period has ended and the public hearing started on 10 August 2015, with any changes not expected to take effect until at least late 2016.

Against this market backdrop, the US competitive landscape continued to see insurers flex the benefits and costs of their variable annuity product offerings and a number of new competitors have entered the investment-only variable annuity market. Jackson remains competitive in its variable annuity offerings and continues to experience success with Elite Access, its investment-only variable annuity.

[6] Source: Thailand Life Assurance Association. Since 30 June 2014.

[7] Asia Asset Management, September 2014 issue (ranked according to participating regional players only). Based on assets sourced from the region (excluding Japan, Australia and New Zealand) as of June 2014.

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Jackson remains focused on actively managing sales volumes of variable annuities with living benefits to maintain an appropriate balance of our revenue streams and to match our annual risk appetite. As a result, Jackson experiences fluctuations in quarterly sales volumes as we implement management actions through the year to achieve these goals and continue to price new business on a conservative basis, placing value over volume. In line with this approach, Jackson experienced a decline in sales volumes compared to prior year. Although interest rates remain low, the beneficial impact of product initiatives implemented in previous years means that the economics of our business remain very attractive and we continue to write highly profitable new business through sales of prudently priced annuity products.

Variable annuity sales decreased from prior year, reflecting the extremely high sales levels achieved in the first half of 2014 and continuing action to manage sales levels. As a result, variable annuity volumes excluding Elite Access were lower period-on-period. Sales of Elite Access, our variable annuity without living benefits, were marginally higher than the prior period with two thirds of our first-half sales coming from non-qualified plans. With the contribution from Elite Access, we continue to improve the diversification of our product mix, with an increased proportion of variable annuity sales in the first half of 2015 not featuring living benefit guarantees.

Fixed annuity sales decreased compared to 2014, primarily as a result of the low interest rate environment. **Fixed index annuity** sales remained relatively flat compared to the first half of 2014.

Jackson s strategy is 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. With this strategy, Jackson has been able to deliver significant profitable growth across the cycle and since 1 January 2008, Jackson has remitted close to US$3.2 billion of cash to the Group. Our performance continues to demonstrate that Jackson s growth translates into value for customers and into profits and cash for shareholders, the ultimate metrics of our successful strategy.

UK, Europe and Africa

In the first half of 2015, Prudential s UK business delivered strong growth in IFRS operating profit reflecting the successful execution of our UK strategy, focusing on the retail and wholesale business segments where the economics are most attractive. Life IFRS operating profit was 19 per cent[8] higher at £436 million driven by our focused approach to new business and active management to unlock value in our in-force book. Cash remitted to the Group was £231 million, compared to £246 million in the first half of 2014.

The UK market saw significant disruption from the reforms to the pension industry announced in 2014, which came into force in April 2015. Against this backdrop, our strategic focus on providing risk-managed savings and investment products, development of new products and routes to market and disciplined participation in the bulk annuity market, saw sales rise in the first half of 2015.

Our **retail** business has achieved strong sales performance, despite the expected slowdown in **individual annuity** sales, which were sharply lower than the first half of 2014. Excluding the impact of individual annuities, retail sales were significantly higher than in the first half of 2014, driven by the combination of the strength of our investment proposition and the expanding market for flexible retirement income and pension products. There is significant on-going demand for our PruFund multi-asset funds with customers attracted by both the performance track record and the benefit of a smoothed return to manage market volatility.

We are seeing ongoing diversification in our product portfolio. **Onshore bonds** and **offshore bonds** sales increased on the same period last year. Following the pension reforms, we have seen **income drawdown** and **individual**

pensions sales increase significantly, offsetting the volume decline from lower individual annuity sales. Our successful launch, in February 2015, of the PruFund range of investment funds within an **ISA** wrapper generated strong sales with assets under management totalling £260 million at the end of June 2015.

In total across all products, PruFund sales increased substantially, with total assets under management having increased 18 per cent to £13.7 billion since the start of the year.

8 Following the disposal of the Group s 25 per cent interest in PruHealth and PruProtect in November 2014, the 2014 comparative results of UK insurance operations have been adjusted to exclude results of those businesses.

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In our bulk annuity business, we completed two deals in the first half of 2015, generating £1,169 million of premiums compared to four bulk annuity deals over the same period last year (premiums of £1,036 million). Our approach to bulk transactions in the UK continues to be one of disciplined participation, looking for opportunities where we can both bring significant value to our customers and meet our demanding shareholder return hurdles.

The ongoing focus on the development of our proposition and delivery of excellent customer service which underpins our strategy has been recognised in a number of ways. We received two 5-star ratings at the Financial Adviser Online Service Awards 2015 and were named Company of the Year. We were also awarded best Multi-Asset Manager of the Year (Developed Markets) at the Global Investor 2015 Investment Excellence Awards, for our new Dynamic Growth Funds, which launched in March for corporate pensions customers.

While the UK retirement income market continues to undergo significant change, our business remains well-placed to prosper in this new environment. Our capabilities in multi-asset investing delivered through the PruFund range, the strength of our brand and diversified distribution position us well to successfully meet evolving customer needs.

In Poland, our life company, Prudential Polska continues to grow ahead of plan. The business now has 16 branches across the country and 582 financial planning consultants. Its success demonstrates our ability to build a new business franchise by transferring our existing product and distribution strengths to a new market.

In June 2015 we completed the acquisition of Ugandan company Goldstar Life Assurance, a step forward in our strategy of expanding across Sub-Saharan Africa.

M&G

M&G has delivered an 11 per cent increase in IFRS operating profit to £251 million in the first half of 2015. This reflects the growth in average assets under management between the two periods and effective cost control. The higher level of earnings enabled M&G to remit £151 million to the Group in the first half of 2015, representing a 12 per cent increase on the prior period.

Total gross retail and institutional inflows amounted to £20.4 billion, 6 per cent higher than the same period last year. However, larger redemptions saw M&G report overall retail net outflows during the first half of 2015 of £3.4 billion (2014: net inflows of £3.8 billion). M&G experienced net retail outflows of £4.0 billion in the second quarter of 2015, including £2.6 billion from Europe, mainly reflecting a change in investor sentiment away from fixed income, a trend we expect to continue into the second half of the year. Our strategy of diversification by fund has helped drive good net inflows into several M&G multi-asset funds. Total retail funds under management at 30 June 2015 were lower at £69.2 billion (30 June 2014: £71.9 billion). Retail funds under management from Continental Europe have increased by 3 per cent to £28.7 billion over the past 12 months and now represent 42 per cent of total retail assets, up from 39 per cent a year ago.

Institutional net inflows increased to £1.0 billion (2014: net inflows of £0.4 billion). The M&G Alpha Opportunities Fund has been particularly popular, attracting net inflows of £1.3 billion. External institutional funds under management have increased to £64.2 billion, up 6 per cent compared with 30 June 2014. The Institutional business continues to have a strong pipeline of new business money committed by clients but not yet invested across a diverse range of strategies, thanks to consistently good investment performance and a reputation for innovation.

Total external client assets of £133.4 billion (30 June 2014: £132.8 billion) now account for 52 per cent of total funds under management of £256.5 billion (30 June 2014: £253.7 billion).

Underlying IFRS operating profit[9] increased by 14 per cent to £243 million. The beneficial impact on revenues from higher average levels of funds under management, with operating costs unchanged, has resulted in a cost income ratio of 51 per cent (2014: 54 per cent).

M&G remains well placed to service clients thanks to its long-held strategy of diversification by asset class, product and geography and its focus on long-term investment performance.

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

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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 for the Group. Based on the Insurance Groups Directive solvency measure, our surplus position at 30 June 2015 was estimated at £5.2 billion before allowing for the interim dividend (30 June 2014: £4.1 billion; 31 December 2014: £4.7 billion before final dividend). The Insurance Groups Directive surplus at 30 June 2015 is equivalent to a cover of 2.5 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. In July 2014, the International Association of Insurance Supervisors released a consultation paper on the Basic Capital Requirement, one of the two types of capital requirement proposed under this framework. Prudential is monitoring the development and potential impact of the framework of policy measures and engaging closely with the Prudential Regulation Authority on the implications of this designation.

Solvency II is scheduled to come into force on 1 January 2016. In preparation for this, we submitted our Solvency II internal model applications to the Prudential Regulation Authority in June 2015. The Prudential Regulation Authority have indicated that they will conclude their review and approval process of our internal model along with our UK peers in December 2015. We welcome the clarification provided by the Prudential Regulation Authority that their assessments of the ability of UK entities to make distributions will be based on capital levels after allowance for transitional measures.

Overall we are confident that the final Solvency II outcome will confirm Prudential s position as a strongly capitalised Group. In the meantime our businesses are continuing to produce strong operating earnings, which generate significant economic capital.

Dividend

Due to the continued strong operating performance of the Group, the Board decided to rebase the 2014 full year dividend upwards to 36.93 pence per share, representing an increase of 10 per cent over 2013. As in previous years, the interim dividend for 2015 has been calculated formulaically as one third of the prior year s full year dividend. The Board has approved a 2015 interim dividend of 12.31 pence per share, which equates to an increase of 10 per cent over the 2014 interim dividend.

The Group s dividend policy remains unchanged. The Board will maintain its focus on delivering a growing dividend from this new higher base, 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

The Group has made strong progress in the first half of 2015. Our teams remain focused on executing our well defined and successful strategy. The first-half performance builds on a long track record of delivery, meeting the significant customer demand for our products while delivering sustainable shareholder returns.

The macro and geo-political environment remains both uncertain and volatile. Investment markets are progressively pricing in the possibility of interest rate increases in the US, resulting in a stronger dollar, which when combined with commodity price declines is leading to softer global growth prospects. Reflecting these pressures, emerging markets in Asia are now expected by the International Monetary Fund to grow more slowly than recent rates in the short term, but they are still forecast to comfortably outpace developed economy growth rates. Equally, as developed economies recover to growth, this will over time provide a tailwind to emerging markets. We have some distinct advantages diversification by country, currency, product and channel; clear focus on long-term growth opportunities; a large, growing and profitable in-force book and an emphasis on growing insurance margin which is uncorrelated to markets providing a strong foundation to prosper in a volatile environment.

Over the long term, Prudential s geographic footprint provides us with strong organic growth prospects driven by our leadership positions in the three fastest growing geographies in the world Asia, the US and the UK. In Asia, we have leadership positions in vastly under penetrated insurance markets with our prospects underpinned by

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significant, growing demand for protection and savings products from a rapidly growing uninsured middle class. We have a strong track record of market outperformance in the region across economic and market cycles which is testament to the quality of our business platform and the team s focus on execution. In the US, we have implemented our strategy with discipline meeting the significant needs of the baby boomers for retirement income. In the UK, our life business is positively transitioning to a changing landscape of pension and savings provision while M&G, despite near-term headwinds, remains well-positioned to build long-term wealth for its customers. The diversity of our businesses, the tailwinds from supportive demographics across our three markets and our disciplined execution, underpinned by strong capital and cash generation, position us well to be able to deliver long-term sustainable shareholder returns.

Prudential s priority is to continue our focus on delivering a strong financial performance through delivering great products and services to our customers, while also ensuring that we continue to develop our capabilities to capture the significant, long-term growth opportunities available to us. We remain confident of being able to deliver strong, sustainable, profitable growth while delivering quality products and services to a large and rapidly growing customer base.

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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 2015, there were no unendorsed standards effective for the period ended 30 June 2015 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 2015 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.

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 2014 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.

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Summary Consolidated Results and Basis of Preparation of Analysis

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

	2015 £m Half year	**2014 £m Half year**
Total revenue, net of reinsurance	**25,279**	30,627
Total charges, net of reinsurance	**(23,317)**	(29,066)
Share of profits from joint ventures and associates, net of related tax	**122**	147
Profit before tax *(being tax attributable to shareholders and policyholders returns)**	**2,084**	1,708
Less tax charge attributable to policyholders returns	**(202)**	(284)
Profit before tax attributable to shareholders	**1,882**	1,424
Total tax charge attributable to policyholders and shareholders	**(646)**	(563)
Adjustment to remove tax charge attributable to policyholders returns	**202**	284
Tax charge attributable to shareholders returns	**(444)**	(279)
Profit for the period	**1,438**	1,145

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

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

a) Group overview

Profit for half year 2015 after tax was £1,438 million compared to a profit of £1,145 million in the first half of 2014. The increase primarily reflects the movement in results before tax attributable to shareholders, which increased from a profit before tax of £1,424 million in half year 2014 to a profit of £1,882 million in half of 2015, partially offset by an increase in the tax charge attributable to shareholders returns from £279 million in half year 2014 to £444 million in half year 2015.

The increase in the total profit before tax attributable to shareholders from £1,424 million in half year 2014 to £1,882 million in half year 2015 reflects an improvement in operating profit based on longer-term investment returns from £1,521 million in half year 2014 to £1,881 million in half year 2015 and a favourable change in non-operating items of £98 million from negative £97 million to positive £1 million. The increase of £360 million or 24 per cent increase in operating profit based on longer-term investment returns includes a positive impact of exchange translation of £80 million. Excluding the currency volatility, on a CER basis, the Group operating profit based on longer term investment returns increased by £280 million or 17 per cent to £1,881 million. This improvement in profitability was broad-based, with all our principal business operations in Asia, the US, UK Life and M&G reporting higher operating profit.

The improvement in non-operating items of £98 million is primarily due to the favourable change in short-term fluctuations in investment returns from negative £45 million in half year 2014 to positive £86 million in half year 2015. This favourable change in regular non-operating items in half year 2015 was partially offset by the cumulative exchange loss of £46 million in respect of the Japan Life business recycled from other comprehensive income, upon completion of its sale in February 2015.

During the first half of 2015, investment markets have seen on-going volatility, although overall movements in both equity and bond markets have been modest. As a result, the impact of short-term market driven effects non-operating results in the first half of 2015 has been relatively muted.

The half year 2015 effective rate of tax on the total IFRS profit was 24 per cent (half year 2014: 20 per cent) reflecting larger contribution to the total profit from Jackson which attracts a higher rate of tax.

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, Prudential Capital, which undertakes treasury functions for the Group, 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.

	2015 £m Half year				
	Asia	US	UK	Unallocated corporate**	Total
Insurance operations	**379**	**761**	**282**	**-**	**1,422**
Asset management*	**50**	**8**	**205**	**-**	**263**
Total profit attributable to the segments	**429**	**769**	**487**	**-**	**1,685**
Unallocated corporate	**-**	**-**	**-**	**(247)**	**(247)**
Total profit (loss) for the period	**429**	**769**	**487**	**(247)**	**1,438**

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	2014 £m (AER) Half year				
	Asia	**US**	**UK**	**Unallocated corporate****	**Total**
Insurance operations	514	313	369	-	1,196
Asset management*	36	(5)	204	-	235
Total profit attributable to the segments	550	308	573	-	1,431
Unallocated corporate	-	-	-	(286)	(286)
Total profit (loss) for the period	550	308	573	(286)	1,145

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

** Representing principally central operations.

In order to show the UK long-term business on a comparable basis, the half year 2014 comparable results of UK insurance operations exclude the contribution from the sold PruHealth and PruProtect business.

Profit from insurance operations

Total profit from insurance operations in half year 2015 was £1,422 million compared to a profit of £1,196 million in half year 2014. All of the profits from insurance operations in the half years 2015 and 2014 were from continuing operations. The movement in profits for insurance operations can be summarised as follows:

	2015 £m Half year	**2014 £m Half year**
Profit before shareholder tax	**1,851**	1,481
Shareholder tax	**(429)**	(285)
Profit after tax	**1,422**	1,196

The increase of £370 million in profit before tax attributable to shareholders in half year 2015 compared to half year 2014 primarily comprises an increase of £314 million in operating profit based on longer-term investment returns of the insurance operations to £1,861 million, combined with a positive change of £56 million in the non-operating items to negative £10 million. This increase reflects the growth in life insurance business in Asia, higher fee income from US and a higher contribution from UK retail.

The improvement in non-operating items is predominantly due to the favourable change in short-term fluctuations in investment returns from negative £14 million in half year 2014 to positive £75 million in half year 2015. This was offset by a recycled £46 million cumulative exchange loss related to the sale of Japan Life business (as described above) and the £39 million amortisation of acquisition accounting adjustments (half year 2014: £52 million including the £8 million costs of the domestication of the Hong Kong branch).

The effective shareholder tax rate on profits from insurance operations increased from 19 per cent in half year 2014 to 23 per cent in half year 2015. The movement principally reflects a larger contribution to the total profit from Jackson which attracts a higher rate of tax offset by reductions in the estimates of prior periods liabilities.

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 Asia 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 until the sale of the Japan Life business in 2015, Japan. 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.

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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 2014 to half year 2015:

	2015 £m Half year	**2014 £m Half year**
Profit before shareholder tax	**467**	598
Shareholder tax	**(88)**	(84)
Profit after tax	**379**	514

The decrease of £131 million from the profit before tax attributable to shareholders in half year 2014 of £598 million to a profit of £467 million in half year 2015 primarily reflects an increase of £91 million in operating profit based on longer-term investment returns and an adverse change in non-operating items of £222 million. The increase of £91 million in operating profit based on longer-term investment returns includes a positive exchange translation impact of £14 million. Excluding the currency volatility, Asia insurance operations operating profit based on longer term investment returns was up 15 per cent or £77 million on a CER basis driven by the increasing scale of the in-force portfolio and our regular premium health and protection oriented product focus.

The change from a non-operating profit of £115 million in half year 2014 to a non-operating loss of £107 million in half year 2015 arises from adverse changes in the short-term fluctuations in investment returns of £176 million and a recycled £46 million cumulative exchange loss related to the sale of Japan Life business in half year 2015 (as described above). The negative short-term fluctuations in investment returns primarily reflect net unrealised losses on fixed income securities following rises in bond yields across most countries in the region during the period.

The effective shareholder tax rate changed from 14 per cent in half year 2014 to 19 per cent in half year 2015 reflecting a larger contribution to the total profit from higher tax jurisdictions.

United States

Basis of profits

The underlying profit on Jackson s business arises predominantly from fee income on variable annuity business, spread income from interest-sensitive products, such as fixed annuities and institutional products, 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 2014 to half year 2015:

	2015 £m Half year	**2014 £m Half year**

Profit before shareholder tax	**1,027**	420
Shareholder tax	**(266)**	(107)
Profit after tax	**761**	313

The £607 million increase in profit before tax attributable to shareholders in half year 2015 compared to the same period in 2014, comprised an increase of £148 million in operating profit based on longer-term investment returns and a change from a non-operating loss in the first half of 2014 to a non-operating profit in the first half of 2015, representing an improvement of £459 million. The increase of £148 million in operating profit based on longer-term investment returns includes a positive exchange translation impact of £65 million. Excluding the currency volatility, the increase in operating profit based on longer-term investment returns in half year 2015 on a CER basis compared to half year 2014 is £83 million or 11 per cent, primarily as a result of an increase in fee income reflecting growth in average separate account assets.

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The improvement in the non-operating result is mainly due to a favourable change in short-term fluctuations in investment returns of £454 million, resulting in a change from a loss of £226 million in half year 2014 to a gain of £228 million in half year 2015. There is also a £5 million reduction in the loss generated by other non-operating items. Short-term fluctuations in investment returns mainly represent the net value movement on the guarantees offered by Jackson and the associated derivatives held to manage market exposures. The positive movement in half year 2015 was primarily attributable to the net favourable movement in guarantee reserves relative to the hedge instruments, due to the impact of higher interest rates on the accounting reserves.

The effective tax rate on profits from US operations increased from 25 per cent in half year 2014 to 26 per cent in half year 2015 due to a reduction in the effect of the deduction for portfolio dividends received for Variable Annuity business partly offset by reductions in the estimates of prior periods liabilities.

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 shareholder backed 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 smooth 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 2014 to half year 2015:

	2015 £m Half year	**2014 £m Half year**
Profit before shareholder tax	**357**	463
Shareholder tax	**(75)**	(94)
Profit after tax	**282**	369

The decrease in profit before tax attributable to shareholders of £106 million to £357 million in half year 2015 primarily comprises an increase of £75 million in operating profit based on longer-term investment returns (2015: £453 million, 2014: £378 million), combined with an adverse period-on-period movement in the short-term fluctuations in investment returns for shareholder-backed business of £189 million and a favourable £8 million impact from the variation of other non-operating items. The increase in operating profit based on longer-term investment returns was driven by our focused approach to new business and active management to unlock in-force value in our business.

The negative short-term fluctuations of £96 million in the UK include net unrealised losses on fixed income assets supporting the excess capital held within the shareholder-backed annuity business.

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The effective shareholder tax rate on profits from UK insurance operations for half year 2015 of 21 per cent compares with an effective tax rate of 20 per cent in half year 2014, with the movement principally reflecting the benefit in half year 2014 of the recognition of losses from prior periods for which the benefit had not previously been taken.

Profit from asset management

The following table shows the movement in profits from asset management from half year 2014 to half year 2015:

	2015 £m Half year	2014 £m Half year
Profit before shareholder tax	**322**	292
Shareholder tax	**(59)**	(57)
Profit after tax	**263**	235

Total profit from asset management increased from £235 million in half year 2014 to £263 million in half year 2015.

The £30 million increase in profit before tax attributable to shareholders in half year 2015 mainly reflects the profit increases contributed by M&G and Eastspring Investments.

The £32 million increase in profit before tax attributable to shareholders for M&G was principally driven by higher average levels of funds under management, following the recent period of strong net inflows and positive market movements.

The £16 million increase in profit before tax attributable to shareholders for Eastspring Investments reflects the growth in funds under management, driven by record levels of net inflows particularly from the retail sector into equity funds and the positive impact of market appreciation.

The effective tax rate on profits from asset management operations decreased from 20 per cent in half year 2014 to 18 per cent in half year 2015, principally reflecting the reductions in the UK corporation tax rate.

Unallocated corporate result

The following table shows the movement in the unallocated corporate result from half year 2014 to half year 2015:

	2015 £m Half year	2014 £m Half year
Loss before shareholder tax	**(291)**	(349)
Shareholder tax	**44**	63
Loss after tax	**(247)**	(286)

Total charges net of tax for unallocated corporate activity decreased by £39 million from £286 million in half year 2014 to £247 million in half year 2015.

The loss before shareholder tax decreased by £58 million from £349 million at half year 2014 to £291 million at half year 2015. Net other expenditure (including restructuring and Solvency II implementation costs) decreased by £4 million from £312 million in half year 2014 to £308 million in half year 2015. This decrease was combined with a favourable change of £54 million in short-term fluctuations in investment returns from a loss of £37 million in half year 2014 to a gain of £17 million in half year 2015.

The effective tax rate on unallocated corporate result changed from 18 per cent at half year 2014 to 14 per cent at half year 2015, representing the reduction in the UK corporation tax rate and the release of provisions against uncertain tax liabilities following the agreement of the tax position with local tax authorities.

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

The Group s operating segments are also its reportable segments for the purposes of internal management reporting. Prior to 2015, the Group incorporated Prudential Capital into the M&G operating segment for the purposes of segment reporting. To better reflect the economic characteristics of the two businesses, the Group has in 2015 made a change to present Prudential Capital as a separate reportable segment rather than aggregating this segment within M&G. The change to present Prudential Capital as a separate reportable segment is reflected in our unaudited condensed consolidated financial statements and has been applied retrospectively.

Performance measure

The performance measure of operating segments utilised by the Company is IFRS operating profit attributable to shareholders based on longer-term investment returns, 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;
- Gain on the sale of the Group s stake in the PruHealth and PruProtect businesses in 2014;
- 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;

The recycling of the cumulative exchange translation loss on the sold Japan Life business from other comprehensive income to the income statement in 2015. See note D1 to the unaudited condensed consolidated financial statements 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.

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Determination of operating profit based on longer-term investment return for investment and liability movements

(a) General principles

(i) UK style with-profits business
The operating profit based on longer-term returns reflects the statutory transfer gross of attributable tax. Value movements in the underlying assets of the with-profits funds do not affect directly the determination of operating profit.

(ii) Unit linked 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 both the unit liabilities and the backing assets.

(iii) US variable annuity and fixed index annuity business
This business has guarantee liabilities which are measured on a combination of fair value and other, US GAAP derived, principles. These liabilities are subject to an extensive derivative programme to manage equity and, with those of the general account, interest rate exposures. The principles for determination of the operating profit and short-term fluctuations are necessarily bespoke, as discussed in section (c) below.

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

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

Examples of where such bifurcation is necessary are in Hong Kong and for UK shareholder-backed annuity business, as explained in sections b(i) and d(i), respectively.

(v) 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.

Except in the case of assets backing liabilities which are directly matched (such as linked business) or closely correlated with value movements (as discussed below) operating profit based on longer-term investment returns for shareholder-financed business is determined on the basis of expected longer-term investment returns.

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.

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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.

At 30 June 2015, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £478 million (half year 2014: net gain of £427 million).

Equity-type securities

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.

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, as discussed below in section (c).

(b) Asia insurance operations

(i) Business where policyholder liabilities are sensitive to market conditions

For certain Asia non-participating business, for example in Hong Kong, 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 included in IFRS total profit) was used.

For certain other types of non-participating business, longer-term interest rates are used to determine the movement in policyholder liabilities for determining operating results.

(ii) Other Asia shareholder-financed business

Debt securities

For this business 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.

Equity-type securities

For Asia insurance operations, investments in equity securities held for non-linked shareholder-financed operations amounted to £831 million as at 30 June 2015 (half year 2014: £664 million). The expected long-term rates of return applied in the periods 2015 and 2014 ranged from 2.26 per cent to 13.00 per cent with the rates applied varying by territory. These rates reflect expectations of long-term 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 using the equity method are determined on a basis similar to that used for the other Asia insurance operations described above.

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(c) US insurance operations

(i) Separate account business
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.

(ii) US variable and fixed index annuity business
The following value movements for Jackson s variable and fixed index annuity business are excluded from operating profit based on longer-term investment returns. See note B1.2 note (ii) to the unaudited condensed consolidated financial statements:

- Fair value movements for equity-based derivatives;
- Fair value movements for embedded derivatives for the not for life portion of Guaranteed Minimum Withdrawal Benefit and fixed index annuity business, and Guaranteed Minimum Income Benefit reinsurance (see below);
- Movements in accounts carrying value of Guaranteed Minimum Death Benefit and the for life portion of Guaranteed Minimum Withdrawal Benefits 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;
- A portion of the fee assessments as well as claim payments, in respect of guarantee liabilities; and
- Related amortisation of deferred acquisition costs for each of the above items.

Embedded derivatives for variable annuity guarantee features

The Guaranteed Minimum Income Benefit liability, which is essentially 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.

(iii) Other derivative value movements
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.

(iv) Other US shareholder-financed business

Debt securities

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 risk margin reserve to apply to debt securities held to back general account business. Debt securities held to back 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.

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Equity-type securities

As at 30 June 2015, the equity-type securities for US insurance non-separate account operations amounted to £1,087 million (half year 2014: £1,071 million). For these operations, the longer-term rates of return for income and capital applied in 2015 and 2014, which reflect the combination of the average risk-free rates over the period and appropriate risk premiums are as follows:

	2015 Half year	2014 Half year
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	**5.7% to 6.4%**	6.5% to 6.7%
Other equity-type securities such as investments in limited partnerships and private equity funds	**7.7% to 8.4%**	8.5% to 8.7%

(d) UK Insurance operations

(i) Shareholder-backed annuity business
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.

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

- 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. 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.

(ii) Non-linked shareholder-financed business

For debt securities backing non-linked shareholder-financed business of the UK insurance operations (other than the annuity business) 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.

(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 in the operating result with temporary unrealised gains and losses being included in short-term fluctuations. 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.

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

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

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

For comparison, the table below presents the 2014 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**
	2015 £m Half year	**2014 £m Half year**	**2014 £m Half year**
Operating profit before tax			
Long-term business:(note (ii))			
Asia	**576**	484	498
US	**834**	686	751
UK*	**436**	366	366
Asia development expenses	**(2)**	(1)	(1)
Long-term business operating profit	**1,844**	1,535	1,614
UK general insurance commission(note (iii))	**17**	12	12
Asset management business:			
M&G	**251**	227	227
Prudential Capital	**7**	22	22
Eastspring Investments	**58**	42	43
US broker-dealer and asset management	**12**	(5)	(5)
	2,189	1,833	1,913
Other income and expenditure	**(283)**	(305)	(305)
Solvency II implementation costs	**(17)**	(11)	(11)
Restructuring costs(note (iv))	**(8)**	(4)	(4)
Results of sold PruHealth and PruProtect businesses*	**-**	8	8
Total IFRS basis operating profit based on longer-term investment returns(note (i))	**1,881**	1,521	1,601
Short-term fluctuations in investment returns:(note (v))			
Insurance operations	**75**	(14)	(26)
Other operations	**11**	(31)	(31)
Total short-term fluctuations in investment returns	**86**	(45)	(57)
Amortisation of acquisition accounting adjustments	**(39)**	(44)	(48)
Cummulative exchange loss on the sold Japan Life business recycled from other comprehensive income	**(46)**	-	-
Cost of domestication of the Hong Kong branch	**-**	(8)	(8)
Profit before tax attributable to shareholders	**1,882**	1,424	1,488
Tax charge attributable to shareholders returns	**(444)**	(279)	(293)
	1,438	1,145	1,195

Profit for the period attributable to equity holders of Prudential

* In order to show the UK long-term business on a comparable basis, the half year 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect business.

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.

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(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, which terminates in 2016.

(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:

	2015 £m Half year	**2014 £m Half year**
Insurance operations:		
Asia	**(57)**	119
US	**228**	(226)
UK	**(96)**	93
Other operations	**11**	(31)
Total	**86**	(45)

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.

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.

	Insurance operations			**Asset management**						
Half year 2015	**UK**	**US**	**Asia**	**M&G**	**Prudential Capital**	**US**	**Eastspring Investments**	**Total segment**	**Unallocated corporate**	**Total**
						(In £ Millions)				
Operating profit based on longer-term investment returns	**453**	**834**	**574**	**251**	**7**	**12**	**58**	**2,189**	**(308)**	**1,881**
Short-term fluctuations in investment returns on	**(96)**	**228**	**(57)**	**6**	**(12)**	**-**	**-**	**69**	**17**	**86**

shareholder backed business										
Amortisation of acquisition accounting adjustment	**-**	**(35)**	**(4)**	**-**	**-**	**-**	**-**	**(39)**	**-**	**(39)**
Cumulative exchange loss on the sold Japan Life business recycled from other comprehensive income	**-**	**-**	**(46)**	**-**	**-**	**-**	**-**	**(46)**	**-**	**(46)**
Profit before tax attributable to shareholders	**357**	**1,027**	**467**	**257**	**(5)**	**12**	**58**	**2,173**	**(291)**	**1,882**
Tax attributable to shareholders										**(444)**
Profit for the period										**1,438**

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Half year 2014 (AER)	Insurance operations UK*	US	Asia	Asset management M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallocated corporate	Total
	(In £ Millions)									
Operating profit based on longer-term investment returns	378	686	483	227	22	(5)	42	1,833	(312)	1,521
Short-term fluctuations in investment returns on shareholder backed business	93	(226)	119	8	(2)	-	-	(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	463	420	598	235	20	(5)	42	1,773	(349)	1,424
Tax attributable to shareholders										(279)
Profit for the period										1,145

Half year 2014 (CER)	Insurance operations UK*	US	Asia	Asset management M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallocated corporate	Total
	(In £ Millions)									
Operating profit based on longer-term investment returns	378	751	497	227	22	(5)	43	1,913	(312)	1,601
Short-term fluctuations in investment returns on shareholder backed business	93	(248)	129	8	(2)	-	-	(20)	(37)	(57)
Amortisation of acquisition accounting adjustment	-	(44)	(4)	-	-	-	-	(48)	-	(48)
Cost of domestication of Hong Kong branch	(8)	-	-	-	-	-	-	(8)	-	(8)
Profit before tax attributable to shareholders	463	459	622	235	20	(5)	43	1,837	(349)	1,488
Tax attributable to shareholders										(293)
Profit for the period										1,195

* In order to show the UK long-term business on a comparable basis, the half year 2014 comparative result of UK insurance operations exclude the contribution from the sold PruHealth and PruProtect business.

IFRS operating profit based on longer-term investment returns

Consistent with the explanations made in the currency volatility section above, comparison of the 2015 and 2014 half year performance is partially affected by the movements in the average exchange rates used to translate the results of our overseas operations into sterling. Therefore, to facilitate explanations of changes in underlying performance, in the commentary on half year 2015 compared to half year 2014 discussions below, every time we comment on the performance of our businesses, we provide their performance measured on the constant exchange rates basis unless otherwise stated. Growth rates based on actual exchange rates are also shown in the tables presented above.

In the first half of 2015 Prudential reported strong performance in our growth and cash metrics including our IFRS operating profit based on longer-term investment returns.

Total IFRS operating profit based on longer-term investment returns increased by 17 per cent in the first half of 2015 to £1,881 million (24 per cent on an AER basis). The improvement in profitability was broad-based, with all of our principal business operations in Asia, the US, UK Life and M&G reporting higher operating profit.

Insurance operations

Taken together, IFRS operating profit based on longer-term investment returns from our insurance operations in Asia, the US and the UK increased 14 per cent[10] to £1,861 million (20 per cent on an AER basis). This increase reflects the growth in the scale of these operations, driven primarily by positive business inflows. We track the progress that we make in growing our life insurance business by reference to the scale of our obligations to our customers, which are described in the financial statements as policyholder liabilities. Each year these liabilities increase as we collect premiums and decrease as we pay claims and policies mature. The overall scale of these policyholder liabilities is relevant in evaluating our profit potential, in that it reflects, for example, 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 earns premiums.

IFRS operating profit based on longer-term investment returns from our portfolio of life insurance operations in **Asia** was up 15 per cent to £574 million (19 per cent on an AER basis), driven by the increasing scale of the in-force business and our regular premium health and protection oriented product focus. We continue to see strong profit growth in Indonesia, up 21 per cent and in Hong Kong, up 23 per cent, reflecting the benefit of sales growth over recent years on the size of the in-force portfolio and increased levels of protection business. The combined contribution of the smaller South-east Asia operations of the Philippines, Thailand and Vietnam increased 26 per cent to £87 million. Insurance margin remains the key driver of growth at a regional level, up 20 per cent, reflecting Asia s ongoing success in achieving high levels of health and protection penetration, in line with our strategic preference for high return, fast payback business.

In the **US,** IFRS operating profit based on longer-term investment returns increased by 11 per cent to £834 million (22 per cent on an AER basis), primarily as a result of a 15 per cent increase in fee income, which is Jackson s main source of income. The uplift in fee income reflects the growth in average separate account assets from £74.5 billion in the first half of 2014 to £86.3 billion in the first half of 2015, representing an increase of 16 per cent on a constant exchange rate basis, driven by variable annuity net premium inflows and positive market movements. Spread profits declined by 6 per cent as the ongoing lower interest rate environment continues to compress margin on our US fixed and indexed annuity business.

UK insurance operations IFRS operating profit based on longer-term investment returns was 20 per cent higher than the first half of 2014 at £453 million (2014: £378 million[10]). New annuity business contributed £66 million (2014: £85 million) to IFRS earnings, including £49 million (2014: £60 million) from bulk transactions completed in the period. Active management of our in-force business generated £370 million (2014: £281 million), including a £61 million (2014: nil) benefit from a longevity reinsurance transaction.

Asset management business

Our asset management businesses, M&G and Eastspring collectively contributed IFRS operating profit based on longer-term investment returns of £309 million, a 14 per cent increase over the first half of 2014 (15 per cent on an AER basis). Similar to the trend observed in our life operations, growth in asset management operating profit primarily reflects the increased scale of these businesses, as measured by funds managed on behalf of external institutional and retail customers and our internal life insurance operations.

M&G s IFRS operating profit based on longer-term investment returns increased 11 per cent to £251 million (2014: £227 million), primarily reflecting a 14 per cent rise in underlying profit[11] to £243 million (2014: £214 million). The increase in underlying profit[11] was principally driven by higher average levels of funds under management, following the recent period of strong net inflows and positive market movements. While institutional net inflows remained robust at £1.0 billion, M&G experienced sizeable outflows in the second quarter, bringing the total net

10 Following the disposal of the Group s 25 per cent interest in PruHealth and PruProtect in November 2014, the 2014 comparative results for UK insurance operations have been adjusted to exclude results of those businesses.

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

outflows for the first six months of 2015 to £3.4 billion. As these are driven by consumer sentiment moving away from fixed income funds, the trend is expected to persist in the second half of the year, dampening profits. M&G maintained an average asset management fee margin of 38 basis points and with operating costs unchanged, the underlying cost income ratio improved to 51 per cent (2014: 54 per cent). As in previous years, we expect the cost income ratio to increase by the end of 2015 as M&G s cost run rate is typically higher over the second half of the year.

Our Asia asset management business, **Eastspring Investments**, has also benefited from growth in funds under management, with IFRS operating profit based on longer-term investment returns higher by 35 per cent at £58 million (38 per cent on an AER basis). Average funds under management increased by 31 per cent to £81.6 billion compared to the first half of 2014, driven by record levels of net inflows particularly from the retail sector into equity funds and the positive impact of market appreciation. Higher operating income outpaced the increase in operating costs, producing an improved cost income ratio of 58 per cent (2014: 59 per cent). External funds now account for 42 per cent of Eastspring s total funds under management (2014: 38 per cent).

In the US, our asset management businesses, PPM America and Curian, together with our broker-dealer network, National Planning Holdings, collectively generated IFRS operating profit based on longer-term investment returns of £12 million (2014: loss of £5 million on both a CER and AER basis).

Prudential Capital produced IFRS operating profit based on longer-term investment returns of £7 million in the first half of 2015 (2014: £22 million) reflecting a reduction in assets managed.

Unallocated corporate result

Unallocated operating loss based on longer-term investment returns for half year 2015 of £308 million comprised a charge for other income and expenditure of £283 million, Solvency II implementation costs of £17 million and restructuring costs of £8 million.

Unallocated operating loss based on longer-term investment returns for half year of 2014 of £312 million comprised a charge for other income and expenditure of £305 million, Solvency II implementation costs of £11 million, restructuring costs of £4 million and a profit of £8 million for the results of the PruHealth and PruProtect businesses sold in 2014.

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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 by source and margin analysis of Group long-term insurance business

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

	Half year 2015 £m					
	Asia	US	UK	Total	Average	Margin

					liability	bps
			note (v)		note (iv)	note(ii)
Spread income	**65**	**372**	**137**	**574**	**72,890**	**157**
Fee income	**86**	**832**	**33**	**951**	**125,581**	**151**
With-profits	**21**	**-**	**133**	**154**	**106,205**	**29**
Insurance margin	**387**	**383**	**87**	**857**		
Margin on revenues	**832**	**-**	**88**	**920**		
Expenses:						
Acquisition costs note (i)	**(573)**	**(479)**	**(43)**	**(1,095)**	**2,733**	**(40)%**
Administration expenses	**(355)**	**(408)**	**(66)**	**(829)**	**206,167**	**(80)**
DAC adjustments note (vi)	**78**	**114**	**-**	**192**		
Expected return on shareholder assets	**33**	**20**	**67**	**120**		
Long-term business operating profit	**574**	**834**	**436**	**1,844**		

See notes at the end of this section.

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	Half year 2014 AER £m					
					Average	**Margin**
	Asia	**US**	**UK**	**Total**	**liability**	**bps**
			note (v)		note (iv)	note (ii)
Spread income	62	364	131	557	64,741	172
Fee income	74	658	32	764	106,052	144
With-profits	15	-	135	150	98,046	31
Insurance margin	314	328	30	672		
Margin on revenues	724	-	84	808		
Expenses:						
Acquisition costs[note (i)]	(473)	(477)	(50)	(1,000)	2,286	(44)%
Administration expenses	(304)	(333)	(64)	(701)	178,649	(78)
DAC adjustments[note (vi)]	40	135	(6)	169		
Expected return on shareholder assets	31	11	74	116		
Long-term business operating profit	483	686	366	1,535		

See notes at the end of this section.

	Half year 2014 CER £m note (iii)					
	Asia	**US**	**UK**	**Total**	**Average liability**	**Margin bps**
			note (v)		note (iv)	note (ii)
Spread income	65	398	131	594	67,672	176
Fee income	76	721	32	829	112,561	147
With-profits	16	-	135	151	98,560	31
Insurance margin	323	360	30	713		
Margin on revenues	746	-	84	830		
Expenses:						
Acquisition costs[note (i)]	(488)	(523)	(50)	(1,061)	2,415	(44)%
Administration expenses	(316)	(365)	(64)	(745)	188,814	(79)
DAC adjustments[note (vi)]	43	147	(6)	184		
Expected return on shareholder assets	32	13	74	119		
Long-term business operating profit	497	751	366	1,614		

See notes at the end of this section.

In the first half of 2015, alongside growing our overall level of life operating profit we continued to focus on improving its quality. We achieved this by maintaining our bias for sources of income such as insurance margin and fee income, ahead of spread income: insurance margin because it is relatively insensitive to the equity and interest rate cycle and fee income because it is capital efficient. Our strategic emphasis on growth in risk products such as health and protection, was reflected in a 20 per cent increase in insurance margin (28 per cent on an AER basis), while fee income was up 15 per cent (24 per cent on an AER basis) primarily as a result of the growth in the level of assets that we manage on behalf of our customers. In contrast, the contribution to our profits from spread income was 3 per cent lower (up 3 per cent on an AER basis) mainly due to lower spread margin in our US fixed annuity business. The fact that insurance margin and fee income generated a higher and growing proportion of our overall income represents a healthy evolution in the quality, resilience and balance of our earnings. Our share of returns from with-profits operations was in line with 2014, providing a stable and reliable source of income for both shareholders and customers invested in these funds.

The costs we have incurred in writing new business and in administering the in-force life businesses 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.

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Margin analysis of long-term insurance business Asia

	Asia								
	Half year 2015			**Half year 2014 AER**			**Half year 2014 CER** note (iii)		
Long-term business	**Profit £m**	**Average Liability** note (iv) **£m**	**Margin** note (ii) **bps**	**Profit £m**	**Average Liability** note (iv) **£m**	**Margin** note (ii) **bps**	**Profit £m**	**Average Liability** note (iv) **£m**	**Margin** note (ii) **bps**
Spread income	**65**	**10,514**	**124**	62	8,472	146	65	8,785	148
Fee income	**86**	**16,342**	**105**	74	14,204	104	76	14,377	106
With-profits	**21**	**16,778**	**25**	15	13,653	22	16	14,167	23
Insurance margin	**387**			314			323		
Margin on revenues	**832**			724			746		
Expenses:									
Acquisition costs note (i)	**(573)**	**1,366**	**(42)%**	(473)	996	(47)%	(488)	1,042	(47)%
Administration expenses	**(355)**	**26,856**	**(264)**	(304)	22,676	(268)	(316)	23,162	(273)
DAC adjustments note (vi)	**78**			40			43		
Expected return on shareholder assets	**33**			31			32		
Operating profit	**574**			483			497		

See notes at the end of this section.

Analysis of Asia operating profit drivers

On a constant exchange rate basis, spread income has remained in line with the prior year. The margin has declined from 148 basis points in half year 2014 to 124 basis points in half year 2015 due to a change in product and country mix, caused in part by the cessation of sales of Universal Life products in Singapore.

Fee income has increased by 13 per cent at constant exchange rates (AER 16 per cent), broadly in line with the increase in movement in average unit-linked liabilities.

On a constant exchange rate basis, insurance margin has increased by 20 per cent to £387 million in half year 2015 (AER 23 per cent) primarily reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products.

Margin on revenue has increased by £86 million on a constant exchange rate basis from £746 million in half year 2014 to £832 million in half year 2015 primarily reflecting higher premium income recognised in the period.

Acquisition costs have increased by 17 per cent at constant exchange rates (AER 21 per cent) in half year 2015, compared to the 31 per cent increase in APE sales (AER 37 percent increase), resulting in a 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 66 per cent (half year 2014: 67 per cent at CER), the small decrease being the result of product and country mix.

Administration expenses have increased by 12 per cent at constant exchange rates (AER 17 per cent increase) in half year 2015 as the business continues to expand. On constant exchange rates, the administration expense ratio has reduced from 273 basis points in half year 2014 to 264 basis points in half year 2015.

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Margin analysis of long-term insurance business US

	US								
	Half year 2015			**Half year 2014 AER**			**Half year 2014 CER** note (iii)		
	Profit	**Average Liability** note (iv)	**Margin** note (ii)	**Profit**	**Average Liability** note (iv)	**Margin** note (ii)	**Profit**	**Average Liability** note (iv)	**Margin** note (ii)
Long-term business	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	**372**	**30,515**	**244**	364	28,207	258	398	30,825	258
Fee income	**832**	**86,267**	**193**	658	68,177	193	721	74,513	193
Insurance margin	**383**			328			360		
Expenses									
Acquisition costs note (i)	**(479)**	**857**	**(56)%**	(477)	871	(55)%	(523)	954	(55)%
Administration expenses	**(408)**	**124,478**	**(66)**	(333)	104,240	(64)	(365)	113,919	(64)
DAC adjustments	**114**			135			147		
Expected return on shareholder assets	**20**			11			13		
Operating profit	**834**			686			751		

See notes at the end of this section.

Analysis of US operating profit drivers:

Spread income has decreased by 6 per cent at constant exchange rates (AER increased by 2 per cent) to £372 million in the first half of 2015. The reported spread margin decreased to 244 basis points from 258 basis points in the first half of 2014, primarily due to lower investment yields, reflecting the lower interest rate environment. Spread income benefited from swap transactions previously entered into to more closely match the asset and liability duration. Excluding this effect, the spread margin would have been 167 basis points (half year 2014 CER: 188 basis points).

Fee income has increased by 15 per cent at constant exchange rates (AER 26 per cent) to £832 million during the first half of 2015, primarily due to higher average separate account balances resulting from positive net cash flows from variable annuity business and market appreciation. Fee income margin has remained consistent with the prior year at 193 basis points (half year 2014 CER: 193 basis points).

Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Insurance margin increased to £383 million in the first half of 2015 compared to £360 million at constant exchange rates at half year 2014, due primarily to higher fee income from variable annuity guarantees following positive net flows in recent periods into variable annuity business with guarantees.

Acquisition costs, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, have decreased by 8 per cent at constant exchange rates broadly in line with the decline in sales. As a percentage of APE, acquisition costs have remained relatively flat in comparison to the first half of 2014 at 56 per cent.

Administration expenses increased to £408 million during the first half of 2015, compared to £365 million for the first half of 2014 at a constant exchange rate (AER £333 million), primarily as a result of higher asset-based commissions paid on the larger 2015 separate account balance subject to these trail commissions. These are paid upon policy anniversary dates and are treated as an administration expense in this analysis. Excluding these trail commissions, the resulting administration expense ratio would be slightly lower than in 2014 at 36 basis points (first half of 2014: 37 basis points at CER and AER).

DAC adjustments decreased to £114 million during the first half of 2015, compared to £147 million at a constant exchange rate (AER £135 million) during the first half of 2014, primarily due to a decline in DAC deferrals due to the reduced sales in 2015.

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

	Half year 2015 £m				**Half year 2014 AER £m**				**Half year 2014 CER £m** note (iii)			
		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	**1,199**			**1,199**	1,028			1,028	1,127			1,127
Less new business strain		**(479)**	**369**	**(110)**		(477)	374	(103)		(523)	409	(114)
Other DAC adjustments-amortisation of previously deferred acquisition costs:												
Normal			**(275)**	**(275)**			(249)	(249)			(273)	(273)
Deceleration			**20**	**20**			10	10			11	11
Total	**1,199**	**(479)**	**114**	**834**	1,028	(477)	135	686	1,127	(523)	147	751

Margin analysis of long-term insurance business UK

	UK					
	Half year 2015			**Half year 2014** note (v)		
	Profit	**Average Liability** note (iv)	**Margin** note (ii)	**Profit**	**Average Liability** note (iv)	**Margin** note (ii)
Long-term business	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	**137**	**31,861**	**86**	131	28,062	93
Fee income	**33**	**22,972**	**29**	32	23,671	27
With-profits	**133**	**89,427**	**30**	135	84,393	32
Insurance margin	**87**			30		
Margin on revenues	**88**			84		
Expenses:						
Acquisition costs note (i)	**(43)**	**510**	**(8)%**	(50)	419	(12)%
Administration expenses	**(66)**	**54,833**	**(24)**	(64)	51,733	(25)
DAC adjustments	**-**			(6)		
Expected return on shareholders assets	**67**			74		
Operating profit	**436**			366		

Analysis of UK operating profit drivers:

The adverse effect on spread income from lower new retail and bulk annuity sales has been offset by profits from the in-force business, so that overall spread income has increased from £131 million in half year 2014 to £137 million in half year 2015.

Insurance margin has increased from £30 million in half year 2014 to £87 million in half year 2015 due to a £61 million profit from an outward longevity reassurance transaction entered into in the first half of 2015.

Margin on revenues represents premium charges for expenses and other sundry net income received by the UK. The half year 2015 margin remained stable at £88 million compared with the £84 million reported for half year 2014.

Acquisition costs as a percentage of new business sales for half year 2015 decreased to 8 per cent from 12 per cent. The ratio above expresses the percentage of shareholder acquisition costs as a percentage of total APE sales. It is therefore impacted by the level of with-profit sales in the year. Acquisition costs as a percentage of shareholder backed new business sales and excluding the bulk annuity transactions, were 37 per cent in half year 2015 (half year 2014: 35 per cent).

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.

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(iii) The half year 2014 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.

(iv) 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. Average liabilities used to calculate the administration expense margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson. Average liabilities are adjusted for business acquisitions and disposals in the period.

(v) In order to show the UK long-term business on a comparable basis, the half year 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses.

(vi) The DAC adjustment contains £16 million in respect of joint ventures in half year 2015 (half year 2014: £2 million).

Asia operations analysis of IFRS operating profit by territory

Operating profit based on longer-term investment returns for Asia operations are analysed below. The table below presents the half year 2014 results on both actual exchange rates (AER) and constant exchange rates (CER) bases so as to eliminate the impact of exchange translation.

	2015 £m	**2014 £m**		**%**	
				Half year 2015 vs half year 2014	**Half year 2015 vs half year 2014**
		AER	**CER**		
	Half year	**Half year**	**Half year**	**AER**	**CER**
Hong Kong	**69**	51	56	35%	23%
Indonesia	**167**	139	138	20%	21%
Malaysia	**61**	61	59	0%	3%
Philippines	**14**	11	12	27%	17%
Singapore	**105**	99	101	6%	4%
Thailand	**39**	25	27	56%	44%
Vietnam	**34**	27	30	26%	13%
SE Asia Operations inc. Hong Kong	**489**	413	423	18%	16%
China	**12**	8	9	50%	33%
India	**22**	24	25	(8)%	(12)%
Korea	**19**	17	18	12%	6%
Taiwan	**8**	7	7	14%	14%

Other	**(3)**	(4)	(4)	25%	25%
Non-recurrent items[note (ii)]	**29**	19	20	53%	45%
Total insurance operations[note (i)]	**576**	484	498	19%	16%
Development expenses	**(2)**	(1)	(1)	(100)%	(100)%
Total long-term business operating profit	**574**	483	497	19%	15%
Eastspring Investments	**58**	42	43	38%	35%
Total Asia operations	**632**	525	540	20%	17%

Notes

(i) Analysis of operating profit between new and in-force business

The result for insurance operations comprises amounts in respect of new business and business in-force as follows:

	2015 £m	**2014 £m**	
		AER	**CER**
	Half year	**Half year**	**Half year**
New business strain	**(33)**	(19)	(20)
Business in force	**580**	484	498
Non-recurrent items[note (ii)]	**29**	19	20
Total	**576**	484	498

The IFRS new business strain corresponds to approximately 2 per cent of new business APE sales for 2014 (half year 2014: approximately 2 per cent). APE is defined under the section EEV Basis, New Business Results and Free Surplus Generation in this document.

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The strain represents the pre-tax regulatory basis strain to net worth after IFRS adjustments; for deferral of acquisition costs and deferred income where appropriate.

(ii) Other non-recurrent items of £29 million in 2015 (half year 2014: £19 million) represent a small number of items none of which are individually significant that are not anticipated to re-occur in subsequent periods.

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

	Half year 2015 £m				
	M&G note (ii)	Eastspring Investments note (ii)	Prudential Capital	US	Total
Operating income before performance-related fees	**491**	**149**	**47**	**175**	**862**
Performance-related fees	**1**	**2**	**-**	**-**	**3**
Operating income(net of commission)note (i)	**492**	**151**	**47**	**175**	**865**
Operating expensenote (i)	**(248)**	**(86)**	**(40)**	**(163)**	**(537)**
Share of associate s results	**7**	**-**	**-**	**-**	**7**
Group s share of tax on joint ventures operating profit	**-**	**(7)**	**-**	**-**	**(7)**
Operating profit based on longer-term investment returns	**251**	**58**	**7**	**12**	**328**
Average funds under management	**£ 260.1bn**	**£ 81.6bn**			
Margin based on operating income*	**38bps**	**37bps**			
Cost / income ratio**	**51%**	**58%**			

	Half year 2014 £m				
	M&G note (ii)	Eastspring Investments note (ii)	Prudential Capital	US	Total
Operating income before performance-related fees	463	111	64	139	777
Performance-related fees	7	-	-	-	7
Operating income(net of commission)note (i)	470	111	64	139	784
Operating expensenote (i)	(249)	(65)	(42)	(144)	(500)
Share of associate s results	6	-	-	-	6
Group s share of tax on joint ventures operating profit	-	(4)	-	-	(4)
Operating profit based on longer-term investment returns	227	42	22	(5)	286
Average funds under management	£ 242.9bn	£ 62.4bn			
Margin based on operating income*	38bps	36bps			
Cost / income ratio**	54%	59%			

Notes

(i) Operating income and expense includes the Group s share of contribution from joint ventures (but excludes any contribution from associates). In the income statement as shown in note B2 to the unaudited condensed consolidated interim financial statements, the net post-tax income of the joint ventures and associates is shown as a single item.

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

M&G
Operating income before performance related fees

	Retail £m	Margin of FUM* bps	Institutional £m	Margin of FUM* bps	Total £m	Margin of FUM* bps
30 Jun 2015	**309**	**86**	**182**	**19**	**491**	**38**
30 Jun 2014	291	86	172	20	463	38

Eastspring Investments
Operating income before performance related fees

	Retail £m	Margin of FUM* bps	Institutional £m	Margin of FUM* bps	Total £m	Margin of FUM* bps
30 Jun 2015	**93**	**63**	**56**	**23**	**149**	**37**
30 Jun 2014	65	62	46	22	111	36

* Margin represents operating income before performance related fees as a proportion of the related funds under management (FUM). Half year figures have been annualised by multiplying by two. Monthly closing internal and external funds managed by the respective entity have been used to derive the average. Any funds held by the Group s insurance operations which are managed by third parties outside of the Prudential Group are excluded from these amounts.

** Cost/income ratio represents cost as a percentage of operating income before performance related fees. Institutional includes internal funds.

IFRS Short-term fluctuations in investment returns

IFRS operating profit is based on longer-term investment return assumptions. The difference between actual investment returns recorded in the income statement and the assumed longer-term returns is reported within short-term fluctuations in investment returns. In the first half of 2015 the total short-term fluctuations in investment returns relating to the life operations were positive £75 million, comprising negative £57 million for Asia, positive £228 million in the US and negative £96 million in the UK.

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In Asia, negative short-term fluctuations of £57 million primarily reflect net unrealised losses on fixed income securities following rises in bond yields across most countries in the region during the period.

Short-term fluctuations in the US mainly reflect the net value movement on the guarantees offered by Jackson and the associated derivatives held to manage market exposures. Under IFRS accounting the movement in the valuation of derivatives, which are fair valued, is asymmetrical to the movement in the guarantee liabilities, which are not fair valued in all cases. Jackson designs its hedge programme to protect the economics of the business from large movements in investment markets and therefore accepts variability in the accounting results. The positive short-term fluctuations of £228 million in 2015 were primarily attributable to the net favourable movement in guarantee reserves relative to the hedge instruments, due to the impact of higher interest rates on the accounting reserves.

Negative short-term fluctuations of £96 million in the UK include net unrealised losses on fixed income assets supporting the excess capital held within the shareholder-backed annuity business.

Amortisation of acquisition accounting adjustments

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

IFRS Effective tax rates

In the first half of 2015, the effective tax rate on IFRS operating profit based on longer-term investment returns was 23 per cent (2014: 24 per cent) reflecting lower corporate tax rates in certain jurisdictions.

The effective tax rate on the total IFRS profit was 24 per cent in the first half of 2015 (2014: 20 per cent), reflecting a larger contribution to the total profit from Jackson which attracts a higher rate of tax.

Total tax contribution

The Group continues to make significant tax contributions in the countries in which it operates, with £1,574 million remitted to tax authorities in the first half of 2015. This was higher than the equivalent amount of £1,151 million in the first half of 2014, reflecting increased profits.

	2015 £m				**2014 £m**	
	Half year				**Half year**	**Full year**
	Corporation taxes	**Other taxes**	**Taxes collected**	**Total**	**Total**	**Total**
Taxes paid in:						
Asia	**87**	**36**	**41**	**164**	157	338
US	**214**	**22**	**225**	**461**	288	615
UK	**389**	**108**	**444**	**941**	701	1,275
Other	**3**	**2**	**3**	**8**	5	9
Total tax paid	**693**	**168**	**713**	**1,574**	1,151	2,237

Corporation taxes include amounts paid on taxable profits which, in certain countries such as the UK, include policyholder investment returns on certain life insurance products. Other taxes include property taxes, withholding taxes, employer payroll taxes and irrecoverable indirect taxes. Taxes collected are other taxes that Prudential remits to tax authorities that it is obliged to collect from employees, customers and third parties which include taxes on sales, and those associated with employee and annuitant payrolls.

Earnings per share (EPS)

	Actual Exchange Rate			**Constant Exchange Rate**	
	2015 pence Half year	**2014 pence Half year**	**Change %**	**2014 pence Half year**	**Change %**
Basic earnings per share based on operating profit after tax	**57.0**	45.2	26	47.4	20
Basic earnings per share based on total profit after tax	**56.3**	45.0	25	46.9	20

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

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

	2015 £m Half year	2014 £m Half year
Earned premiums, net of reinsurance	**17,884**	16,189
Investment return	**6,110**	13,379
Other income	**1,285**	1,059
Total revenue, net of reinsurance	**25,279**	30,627
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(18,618)**	(25,549)
Acquisition costs and other expenditure	**(4,505)**	(3,336)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(148)**	(170)
Disposal of Japan Life business:		
Cumulative exchange loss recycled from other comprehensive income	**(46)**	-
Remeasurement adjustments	**-**	(11)
Total charges, net of reinsurance	**(23,317)**	(29,066)
Share of profits from joint ventures and associates, net of related tax	**122**	147
Profit before tax *(being tax attributable to shareholders and policyholders returns)**	**2,084**	1,708
Less tax charge attributable to policyholders returns	**(202)**	(284)
Profit before tax attributable to shareholders	**1,882**	1,424
Total tax charge attributable to policyholders and shareholders	**(646)**	(563)
Adjustment to remove tax charge attributable to policyholders returns	**202**	284
Tax charge attributable to shareholders returns	**(444)**	(279)
Profit for the period attributable to equity holders of the Company	**1,438**	1,145

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

Earned premiums

	2015 £m Half year	2014 £m Half year
Asia operations*	**5,124**	4,312
US operations	**8,426**	8,322
UK operations*	**4,334**	3,555
Total	**17,884**	16,189

* The Asia and UK premiums exclude intra-group transactions.

Earned premiums, net of reinsurance, for insurance operations totalled £17,884 million in half year 2015 compared to £16,189 million in half year 2014. The increase of £1,695 million for half year 2015 was driven by increases of £779 million in the UK operations, £104 million in the US operations and £812 million in the Asia operations.

a) Asia

Earned premiums in Asia, net of reinsurance in half year 2015 were £5,124 million, an increase of 19 per cent compared to £4,312 million in half year 2014. The premiums reflect the aggregate of single and recurrent premiums of new business sold in the period and premiums on annual business sold in previous periods. Excluding the impact of exchange translation, earned premiums in Asia increased by 14 per cent compared to £4,494 million on a CER basis in half year 2014. The growth in Asia continues to be driven from our businesses in South-east Asia and Hong Kong.

The macro-economic environment remains broadly supportive with our markets generating some of the world s highest GDP growth rates and having favourable demographic trends. While in some markets we are seeing local short-term challenges, particularly in Indonesia where the macro-economic outlook remains fragile, our pan-Asian platform across 12 life markets in the region and significant diversification by country, product and channel enables the delivery of a strong regional performance. Our priority remains the provision of products and services that meet the significant savings and financial protection needs of Asia s rapidly growing middle classes while also delivering consistent shareholder returns across the economic cycle.

b) United States

Earned premiums, net of reinsurance in the US slightly increased by 1 per cent from £8,322 million in half year 2014 to £8,426 million in half year 2015. Excluding the impact of exchange translation, earned premiums in the US decreased by 8 per cent compared to £9,118 million on a CER basis in half year 2014. The decrease is mainly due to lower sales of variable annuities in particular those with living benefits while the sales of Elite Access, our variable annuity without living benefits, were marginally higher than half year 2014. The period on period decrease in the sales of variable annuities reflects extremely high sales levels achieved in half year 2014 and continuing action to manage sales levels.

Fixed annuity sales also decreased compared to half year 2014, primarily as a result of the low interest rate environment while the fixed index annuity sales remained relatively flat.

Jackson s strategy is unchanged. We continue to price new business on a conservative basis, targeting value over volume.

c) United Kingdom

Earned premiums, net of reinsurance for UK operations, increased from £3,555 million in half year 2014 to £4,334 million in half year 2015, mainly due to our retail business that achieved strong sales performance despite the expected slowdown in individual annuity sales. The strong performance in the retail business was driven by the combination of the strength of our investment proposition and the expanding market for flexible retirement income and pensions products with a significant ongoing demand for our PruFund multi asset funds.

Two bulk annuity deals completed in first half of 2015 have contributed premiums amounting to £1,169 million as compared to four bulk annuity deals over the same period last year with premiums of £1,036 million.

Investment returns

	2015 £m Half year	**2014 £m Half year**
Asia operations	**634**	2,144
US operations	**2,054**	4,344
UK operations	**3,421**	6,943
Unallocated corporate	**1**	(52)
Total	**6,110**	13,379

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

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Allocation of investment returns between policyholders and shareholders

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

	2015 £m Half year	2014 £m Half year
Asia operations		
Policyholders returns		
Assets backing unit-linked liabilities	**415**	639
With-profits business	**53**	1,063
	468	1,702
Shareholders returns	**166**	442
Total	**634**	2,144
US operations		
Policyholders returns assets held to back (separate account) unit-linked liabilities	**1,565**	3,573
Shareholders returns	**489**	771
Total	**2,054**	4,344
UK operations		
Policyholders returns		
Scottish Amicable Insurance Fund (SAIF)	**163**	302
Assets held to back unit-linked liabilities	**813**	772
With-profits fund (excluding SAIF)	**2,421**	4,172
	3,397	5,246
Shareholders returns		
Prudential Retirement Income Limited (PRIL)	**(23)**	1,190
Other business	**47**	507
	24	1,697
Total	**3,421**	6,943
Unallocated corporate		
Shareholders returns	**1**	(52)
Group Total		
Policyholders returns	**5,430**	10,521
Shareholders returns	**680**	2,858
Total	**6,110**	13,379

Policyholders Returns

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

Unit-linked business in the UK, Asia and Scottish Amicable Insurance Fund (SAIF) in the UK, for which the investment returns are wholly attributable to policyholders;

Separate account business of US operations, the investment returns of which are also wholly attributable to policyholders; and

With-profits business (excluding SAIF) in the UK and Asia (in which the shareholders economic interest, and the basis of recognising IFRS basis profits, is restricted to a share of the actuarially determined surplus for distribution (in the UK 10 per cent)). Except for this surplus the investment returns of the with-profit funds is attributable to policyholders (through the asset-share liabilities) or the unallocated surplus, which is accounted for as a liability under IFRS 4.

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

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

Shareholders returns

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

Changes in shareholders investment returns for US operations reflect primarily movements in the investment income, and realised gains and losses together with movements in the value of the derivative instruments held to manage interest rate exposures and durations within the general accounts (including variable annuity and fixed index annuity guarantees), GMIB reinsurance and equity derivatives held to manage the equity risk exposure of guarantee liabilities. Separately, reflecting Jackson s types of business, an allocation is made to policyholders through the application of crediting rates.

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

Reasons for period-on-period changes in investment returns

With two exceptions, all Prudential investments are carried at fair value in the statement of financial position with fair value movements, which are volatile from period to period, recorded in the income statement. The exceptions are for:

(i) debt securities in the general account of US operations, the return on which is attributable to shareholders and which are accounted for on an IAS 39 available-for-sale basis. In this respect realised gains and losses (including impairment losses) are recorded in the income statement, while movements in unrealised appreciation (depreciation) are booked as other comprehensive income. As a result, the changes in unrealised fair value of these debt securities are not reflected in Prudential s investment returns in the income statement. The unrealised gains and losses in the income statement of US operations primarily arise on the assets of the US separate account business; and

(ii) loans and receivables, which are carried at amortised cost.

Subject to the effect of these two exceptions, the period-on-period changes in investment returns primarily reflect the generality of overall market movements for equities, debt securities and, in the UK, for investment property mainly held by with-profits funds. In addition, for Asia and US separate account business, foreign exchange rates affect the sterling value of the translated income. Consistent with the treatment applied for other items of income and expenditure, investment returns for overseas operations are translated at average exchange rates.

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a) Asia

The table below provides an analysis of investment returns attributable to Asia operations for the periods presented:

	2015 £m Half year	2014 £m Half year
Interest/dividend income (including foreign exchange gains and losses)	**522**	478
Investment appreciation*	**112**	1,666
Total	**634**	2,144

* Investment appreciation comprises net realised and unrealised gains and losses on the investments.

In Prudential s Asia operations, equities and debt securities accounted for 43 per cent and 52 per cent, respectively of the total investment portfolio at 30 June 2015. The remaining 5 per cent of the total investment portfolio was primarily loans and deposits with credit institutions. At 30 June 2014, the total proportion of the investment portfolio invested in equities and debt securities was 43 per cent and 51 per cent respectively, with the remaining 6 per cent similarly invested in loans and deposits with credit institutions. In Asia, investment returns decreased from £2,144 million in half year 2014 to £634 million in half year 2015. This decrease in investment returns primarily reflects less favourable equity market movements in half year 2015 compared to half year 2014 and net unrealised losses on fixed income securities in half year 2015 following rises in bond yields across the region during the period.

b) United States

The table below provides an analysis of investment returns attributable to US operations for the periods presented:

	2015 £m Half year	2014 £m Half year
Investment returns of investments backing US separate account liabilities	**1,565**	3,573
Other investment returns	**489**	771
Total	**2,054**	4,344

In the US, investment returns decreased from £4,344 million in half year 2014 to £2,054 million in half year 2015. This £2,290 million unfavourable change arose from a decrease of £2,008 million in the investment returns on investments backing variable annuity separate account liabilities from a gain of £3,573 million in half year 2014 to £1,565 million in half year 2015 and a decrease in other investment returns from a gain of £771 million to a gain of £489 million. The primary driver for the decrease in investment returns on investments backing variable annuity separate account liabilities as compared to the same period in 2014 was the less favourable movement in the US equity markets in half year 2015 than that experienced in half year 2014. The decrease of £282 million in other investment returns reflects the value movements in derivatives held to manage interest rate and equity risk exposures as noted previously and as discussed in note B1.2 to the unaudited condensed consolidated interim financial statements.

c) United Kingdom

The table below provides an analysis of investment returns attributable to UK operations for the periods presented:

	2015 £m Half year	2014 £m Half year
Interest/dividend income	**3,640**	3,398
Investment (depreciation) appreciation and other investment returns	**(219)**	3,545
Total	**3,421**	6,943

In Prudential s UK operations, equities, debt securities and investment properties accounted for 29 per cent, 50 per cent and 8 per cent, respectively of the total investment portfolio at 30 June 2015. The remaining

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13 per cent of the total investment portfolio at 30 June 2015 comprised loans, deposits with credit institutions, investment in partnerships in investment pools and derivative assets. At 30 June 2015, the total proportion of the investment portfolio held in equities, debt securities and investment properties was of a similar magnitude to that as at 30 June 2014. The decrease in investment appreciation and other investment returns from a gain of £3,545 million in half year 2014 to a loss of £219 million in half year 2015 primarily reflects negative valuation movement in fixed income assets following rising bond yields in the period.

d) Unallocated corporate and intragroup elimination

The investment returns for unallocated corporate intragroup elimination increased by £53 million from a loss of £52 million in half year 2014 to a gain of £1 million in half year 2015 mainly due to foreign exchange gains. Foreign exchange gains increased by £44 million from a loss of £32 million in half year 2014 to a gain of £12 million in half year 2015.

Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance

	2015 £m Half year	**2014 £m Half year**
Asia operations	**(4,022)**	(4,906)
US operations	**(8,443)**	(11,644)
UK operations	**(6,153)**	(8,999)
Total	**(18,618)**	(25,549)

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

The charge for benefits and claims and movements in unallocated surplus, net of reinsurance of £18,618 million for half year 2015 (half year 2014: £25,549 million) shown in the table above includes the effect of accounting for investment contracts without discretionary participation features (as defined by IFRS 4) in accordance with IAS 39 to reflect the deposit nature of the arrangement.

Additionally, the movement in policyholder liabilities and unallocated surplus of with-profits funds represents the amount recognised in the income statement and therefore excludes the effect of foreign exchange translation differences on the policyholder liabilities of foreign subsidiaries and the movement in liabilities arising on acquisitions and disposals of subsidiaries in the year.

The underlying reasons for the period to period changes in benefits and claims and movement in unallocated surplus in each of Prudential s regional operations are changes in the incidence of claims incurred, increases or decreases in policyholders liabilities, and movements in unallocated surplus of with-profits funds.

The charge for total benefits and claims and movement in unallocated surplus net of reinsurance of with-profits funds decreased to £18,618 million in half year 2015 compared to £25,549 million in half year 2014. The amounts of the period to period change attributable to each of the underlying reasons as stated above are shown below:

	2015 £m Half year	**2014 £m Half year**
Claims incurred	**(11,937)**	(10,747)
Increase in policyholder liabilities	**(6,302)**	(13,846)
Movement in unallocated surplus of with-profits funds	**(379)**	(956)
Benefits and claims and movement in unallocated surplus, net of reinsurance	**(18,618)**	(25,549)

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The principal driver for variations in amounts allocated to policyholders is changes to investment returns reflected in the balance sheet measurement of liabilities for Prudential s with-profits, SAIF and unit-linked policies (including the US separate account business). In addition, for those liabilities under IFRS, in particular liabilities relating to the UK annuity business (principally PRIL), where the measurement reflects the yields on assets backing the liabilities, the period to period changes in investment yields also contribute significantly to variations in the measurement of policyholder liabilities. The principal driver for variations in the change in unallocated surplus of with-profits funds is the value movements on the investment assets of the with-profits funds to the extent not reflected in the policyholder liabilities.

The principal variations in the increases or decreases in policyholder liabilities and movements in unallocated surplus of with-profits funds for each regional operation are discussed further below.

a) Asia

In half year 2015, the charge for benefits and claims and movement in unallocated surplus of with-profits funds totalled £4,022 million, representing a decrease of £884 million compared to £4,906 million in half year 2014. The amounts of the period to period change attributable to each of the underlying reasons are shown below:

	2015 £m Half year	**2014 £m Half year**
Claims incurred	**(2,314)**	(1,936)
Increase in policyholder liabilities	**(1,649)**	(2,832)
Movement in unallocated surplus of with-profits funds	**(59)**	(138)
Benefits and claims and movement in unallocated surplus	**(4,022)**	(4,906)

The increase in claims incurred reflected the increased scale of the in-force Asia business over recent periods. The growth in policyholder liabilities reflected the increase due to the combined growth of new business and the in-force books in the region, offset by higher claims amounts as discussed above.

The variations in the increases or decreases in policyholder liabilities in individual periods were however, primarily due to movements in investment returns. This was as a result of asset value movements, which are reflected in the unit value of the unit-linked policies that represent a significant proportion of Asian business. In addition, the policyholder liabilities of the Asian operations with-profits policies also fluctuated with the investment performance of the funds.

b) United States

Except for institutional products and certain term annuities which are classified as investment products under IAS 39, the products are accounted for as insurance contracts for IFRS reporting purposes. On this basis of reporting, deposits into these products are recorded as premiums while, withdrawals and surrenders are included in benefits and claims, and the resulting net movement is recorded under other reserve movements within benefits and claims. Benefits and claims also include interest credited to policyholders in respect of deposit products less fees charged on these policies.

In half year 2015, the accounting charge for benefits and claims decreased by £3,201 million to £8,443 million compared to £11,644 million in the same period in the prior year. The amounts of the period to period change attributable to each of the underlying reasons are described below:

	2015 £m Half year	2014 £m Half year
Claims incurred	**(4,963)**	(4,050)
Increase in policyholder liabilities	**(3,480)**	(7,594)
Benefits and claims	**(8,443)**	(11,644)

The period-on-period movement in claims incurred for US operations as shown in the table above also includes the effect of translating the US results into pounds sterling at the average exchange rates for the relevant periods.

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The charges in each period comprise amounts in respect of variable annuity and other business. For variable annuity business, there are two principal factors that contribute to the variations in the charge, in any given period. First, the investment returns on the assets backing the variable annuity separate account liabilities changed from £3,573 million in half year 2014 to £1,565 million in half year 2015 as shown in the section Investment returns (b) United States above. The second principal effect is the growth of the variable annuity business in force. This can be illustrated by the net flows of the US insurance operations variable annuity separate account liabilities in note C4.1(c) to the unaudited condensed consolidated interim financial statements. The net flows of the variable annuity separate account liabilities shown in that note for half year 2015 were £4,116 million as compared with £4,595 million for half year 2014.

c) United Kingdom

The overall charge for benefits, claims and the transfer to unallocated surplus decreased from £8,999 million charge in half year 2014 to £6,153 million in half year 2015. The amounts of the period to period change attributable to each of the underlying reasons are shown below, together with a further analysis of the change in policyholder liabilities by type of business:

	2015 £m Half year	**2014 £m Half year**
Claims incurred	**(4,660)**	(4,761)
Decrease (increase) in policyholder liabilities:		
SAIF	**288**	182
PRIL	**(216)**	(1,445)
Unit-linked and other non-participating business	**(219)**	(815)
With-profits (excluding SAIF)	**(1,026)**	(1,342)
	(1,173)	(3,420)
Movement in unallocated surplus of with-profits funds	**(320)**	(818)
Benefits and claims and movement in unallocated surplus	**(6,153)**	(8,999)

Claims incurred in the UK operations of £4,660 million in half year 2015 represented a decrease from the £4,761 million incurred in half year 2014.

As has been explained above, the principal driver for variations in amounts allocated to the policyholders is changes to investment returns.

SAIF is a ring-fenced fund with no new business written. The decrease in policyholder liabilities in SAIF reflects the run off of the underlying liabilities. The variations from period to period are, however, affected by the market valuation movement of the investments held by SAIF, which are wholly attributable to policyholders.

For PRIL, the increases in policyholder liabilities arise principally from three factors, namely, (i) changes to the discount rate applied to projected future annuity payments; (ii) premium income and; (iii) changes to assumptions.

For unit-linked business, the variations in the increases in the related policyholder liabilities were primarily due to the movement in the market value of the unit-linked assets as reflected in the unit value of the unit-linked policies.

The part of Prudential where variations in amounts attributed to policyholder liabilities and unallocated surplus are most significant is the UK with-profits business (excluding SAIF).The liabilities for UK with-profits policyholders are determined on an asset-share basis that incorporates the accumulation of investment returns and all other items of income and outgo that are relevant to each policy type. Accordingly, movement in the policyholder liabilities in the income statement will fluctuate with the investment returns of the fund. Separately, the excess of assets over liabilities of the fund represents the unallocated surplus. This surplus will also fluctuate on a similar basis to the market value movement on the investment assets of the funds with the movement reflected in the income statement. In addition, other items of income and expenditure affect the level of movement in policyholder liabilities (to the extent reflected in asset shares) and unallocated surplus.

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The correlation between total net income (loss) before benefits and claims and movement in unallocated surplus, on the one hand, and the (charge) credit for benefits and claims and movement in unallocated surplus, on the other, for the UK component of the PAC with-profits fund (excluding SAIF) principally arises due to the following factors:

(a) Investment returns included in full in the income statement and are attributable either to contracts or unallocated surplus.

(b) Investment returns, to the extent attributable to contracts, directly affect asset-share liabilities, which are reflected in the income statement through changes in policyholder liabilities.

(c) Investment returns, to the extent attributable to unallocated surplus, form the majority part of the movement in such surplus in the income statement.

Separately, the cost of current year bonuses which is attributable to policyholders is booked within the movement in policyholder liabilities. One-ninth of the declared cost of policyholders bonus is attributable to shareholders and represents the shareholders profit. Both of these amounts, by comparison with the investment returns, movement in other constituent elements of the change in policyholder liabilities and the change in unallocated surplus, are relatively stable from period to period.

The surplus for distribution in future years will reflect the aggregate of policyholder bonuses and the cost of bonuses attributable to shareholders, which is currently set at 10 per cent. The policyholder bonuses comprise the aggregate of regular and final bonuses. When determining policy payouts, including final bonuses, Prudential considers asset shares of specimen policies.

Prudential does not take into account the surplus assets of the long-term fund, or the investment returns, in calculating asset shares. Asset-shares are used in the determination of final bonuses, together with requirements concerning treating customers fairly, the need to smooth claim values and payments from year to year and competitive considerations.

In the unlikely circumstance that the depletion of excess assets within the long-term fund was such that Prudential s ability to treat its customers fairly was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders funds to the long-term funds to provide financial support.

Acquisition costs and other expenditure

	2015 £m Half year	**2014 £m Full year**
Asia operations	**(1,389)**	(1,108)
US operations	**(1,444)**	(987)
UK operations	**(1,713)**	(1,277)
Unallocated corporate and intragroup elimination	**41**	36
Total	**(4,505)**	(3,336)

Total acquisition costs and other expenditure of £4,505 million in half year 2015 were 35 per cent higher than the £3,336 million incurred in half year 2014. In general, acquisition costs and other expenditure comprise acquisition costs incurred for insurance policies, change in deferred acquisition costs, operating expenses and movements in amounts attributable to external unit holders. Movements in amounts attributable to external unit holders are in respect of the funds managed on behalf of third parties which are consolidated but have no recourse to the Group and reflect the change in the overall returns in these funds in the period.

a) Asia

Total acquisition costs and other expenditure for Asia in half year 2015 were £1,389 million representing an increase of £281 million compared to £1,108 million in half year 2014. This increase was primarily due to the effect of translating the Asia local currency amounts into pounds sterling at the average exchange rates for the relevant periods and increased costs as the business continues to expand.

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b) United States

Total acquisition costs and other expenditure for the US of £1,444 million in half year 2015 represented an increased cost of £457 million against the £987 million incurred in half year 2014. The period on period increase primarily reflected increases in the charge for acquisition costs in the income statement, net of change in deferred acquisition costs of which a significant element is due to the amortisation attaching to the varying level of short-term fluctuations in investment returns in each period. In addition, operating expenses have also increased primarily as a result of higher asset based commissions paid on the large 2015 separate account balance.

c) United Kingdom

Total acquisition costs and other expenditure for the UK increased by 34 per cent from £1,277 million in half year 2014 to £1,713 million in half year 2015. This increase arose primarily from the increase in the charge for investment gains attributable to external unit-holders relating to funds managed on behalf of third parties which are consolidated but have no recourse to the Group, such charges increased by £417 million from £195 million in half year 2014 to £612 million in half year 2015.

d) Unallocated corporate and intragroup elimination

Other net expenditure comprising a credit of £41 million in half year 2015 increased compared to the credit of £36 million in half year 2014. Other net expenditure comprises both the other expenditure of the unallocated corporate and elimination of intragroup income and expenses such as the asset management fees charged by the Group s asset management businesses to the insurance operations.

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IFRS Shareholders Funds and Shareholder-backed policyholder liabilities

Movement on shareholders funds

The following table sets forth a summary of the movement in Prudential s shareholder funds for half year 2015 and half year 2014:

	IFRS 2015 £m Half year	IFRS 2014 £m Half year
Profit after tax for the period	**1,438**	1,145
Exchange movements, net of related tax	**(120)**	(117)
Unrealised gains and losses on Jackson securities classified as available for sale, net of related changes to deferred acquisition costs and tax	**(388)**	527
Dividends	**(659)**	(610)
Other	**22**	30
Net increase in shareholders funds	**293**	975
Shareholders funds at beginning of the period	**11,811**	9,650
Shareholders funds at end of the period	**12,104**	10,625
Shareholders value per share	**471p**	414p
Return on Shareholders funds*	**25%**	24%

* Annualised operating profit after tax and non-controlling interests as percentage of opening shareholders funds.

In the first half of 2015 UK sterling saw a modest appreciation relative to non-sterling currencies. With approximately 55 per cent of the Group s IFRS net assets denominated in non-sterling currencies this generated a negative foreign exchange movement on net assets in the period. In addition, the small rise in US 10-year treasury rates between the end of December 2014 and the end of June 2015, produced unrealised losses on fixed income securities held by Jackson that are accounted through other comprehensive income.

Taking these non-operating movements into account, the Group s IFRS shareholders funds at 30 June 2015 increased by 14 per cent to £12.1 billion (30 June 2014: £10.6 billion on an actual exchange rate basis).

Shareholder-backed policyholder liabilities and net liability flows

	2015 £m Half year Actual Exchange Rate				2014 £m Half year Actual Exchange Rate			
	At 1 January 2015	Net liability flows[13]	Market and other movements	At 30 June 2015	At 1 January 2014	Net liability flows[13]	Market and other movements	At 30 June 2014
Asia[12]	**26,410**	**834**	**57**	**27,301**	21,931	891	597	23,419

US	**126,746**	**4,351**	**(1,430)**	**129,667**	107,411	4,977	(379)	112,009
UK	**55,009**	**(856)**	**503**	**54,656**	50,779	(140)	2,048	52,687
Total Group	**208,165**	**4,329**	**(870)**	**211,624**	180,121	5,728	2,266	188,115

Focusing on the business supported by shareholder capital, which generates the majority of the life profits, in the course of the first half of 2015 policyholder liabilities increased from £208.2 billion at the start of the year to £211.6 billion at 30 June 2015. The consistent addition of high-quality profitable new business and proactive management of the existing in-force portfolio underpins this increase, resulting in positive net flows[12, 13] into policyholder liabilities of £4.3 billion in the first half of 2015 driven by our US and Asia businesses. Net flows into our Jackson business in the US were £4.4 billion in the first half of 2015, reflecting continued success in attracting new variable annuity business. Net flows into Asia continue to be positive at £0.8 billion, representing the high proportion of flows that is derived from ongoing regular premium receipts on in-force policies and increased levels of new regular premium business added this year. Net flows in the UK shareholder business continue to exhibit a degree of variability as it is influenced by large individual transfers into or out of corporate pension schemes. Favourable investment market and other movements have contributed a further £1.1 billion to the increase in policyholder liabilities since the start of the year, offset by a £2.0 billion negative foreign currency translation effect.

12 Includes Group s proportionate share of the liabilities and associated flows of the insurance joint ventures in Asia.

13 Defined as movements in shareholder-backed policyholder liabilities arising from premiums (net of charges), surrenders/withdrawals, maturities and deaths.

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Other results based information

Funds under management

(a) Summary[(i)]

	2015 £bn 30 Jun	2014 £bn 31 Dec
Business area:		
Asia operations	**51.4**	49.0
US operations	**126.9**	123.6
UK operations	**169.6**	169.0
Prudential Group funds under management[note (i)]	**347.9**	341.6
External funds [note (ii)]	**157.0**	154.3
Total funds under management	**504.9**	495.9

Notes

(i) Prudential Group funds under management of £347.9 billion (31 December 2014: £341.6 billion) comprise:

	2015 £bn 30 Jun	2014 £bn 31 Dec
Total financial investments per the consolidated statement of financial position	**343.1**	337.4
Less: investments in joint ventures and associates accounted for using the equity method	**(1.0)**	(1.0)
Internally managed funds held in joint ventures	**5.4**	4.9
Investment properties which are held for sale or occupied by the Group (included in other IFRS captions)	**0.4**	0.3
Prudential Group funds under management	**347.9**	341.6

(ii) External funds shown above as at 30 June 2015 of £157.0 billion (31 December 2014: £154.3 billion) comprise £168.9 billion (31 December 2014: £167.2 billion) of funds managed by M&G and Eastspring Investments as shown in note (b) below less £11.9 billion (31 December 2014: £12.9 billion) that are classified within Prudential Group s funds.

(b) Investment products external funds under management

	Half year 2015 £m			Full year 2014 £m		
	Eastspring Investments note	M&G	Group total note	Eastspring Investments note	M&G	Group total note
At beginning of period	**30,133**	**137,047**	**167,180**	22,222	125,989	148,211

Market gross inflows	**56,725**	**20,425**	**77,150**	82,440	38,017	120,457
Redemptions	**(51,555)**	**(22,800)**	**(74,355)**	(77,001)	(30,930)	(107,931)
Market exchange translation and other movements	**212**	**(1,272)**	**(1,060)**	2,472	3,971	6,443
At end of period	**35,515**	**133,400**	**168,915**	30,133	137,047	167,180

Note

The £168.9 billion (31 December 2014: £167.2 billion) investment products comprise £163.5 billion (31 December 2014: £162.4 billion) plus Asia Money Market Funds of £5.4 billion (31 December 2014: £4.8 billion).

(c) M&G and Eastspring Investments total funds under management

	Eastspring Investments note		**M&G**	
	2015 £bn 30 Jun	**2014 £bn 31 Dec**	**2015 £bn 30 Jun**	**2014 £bn 31 Dec**
External funds under management	**35.5**	30.1	**133.4**	137.0
Internal funds under management	**49.8**	47.2	**123.1**	127.0
Total funds under management	**85.3**	77.3	**256.5**	264.0

Note

The external funds under management for Eastspring Investments include Asia Money Market Funds at 30 June 2015 of £5.4 billion (31 December 2014: £4.8 billion).

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Foreign currency source of key metrics

The tables below show the Group s key IFRS metrics analysis by contribution by currency group:

IFRS half year 2015 results

	Pre-tax operating profit % notes (2),(3),(4)	**Shareholders funds %** notes (2),(3),(4)
US$ linked(1)	**16**	**14**
Other Asia currencies	**18**	**18**
Total Asia	**34**	**32**
UK sterling(3),(4)	**21**	**45**
US$ (4)	**45**	**23**
Total	**100**	**100**

Notes

(1) US$ linked comprising the Hong Kong and Vietnam operations where the currencies are pegged to the US dollar and the Malaysia and Singapore operations where the currencies are managed against a basket of currencies including the US dollar.

(2) Includes long-term, asset management business and other businesses.

(3) For operating profit and shareholders funds UK sterling includes amounts in respect of central operations as well as UK insurance operations and M&G.

(4) For shareholders funds, the US$ grouping includes US$ denominated core structural borrowings. Sterling operating profits include all interest payable as sterling denominated, reflecting interest rate currency swaps in place.

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Liquidity and Capital Resources

Prudential Capital operates a central treasury function for Prudential, which has overall responsibility for managing Prudential s capital funding program as well as its central cash and liquidity positions. Prudential arranges the financing of each of its subsidiaries primarily by raising external finance either at the parent company level (including through finance subsidiaries whose obligations the parent company guarantees) or at the operating company level.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue their operations for the foreseeable future and therefore consider it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements.

Overview

We continue to operate with a strong solvency position, while maintaining high levels of liquidity and capital generation. At 30 June 2015 our Insurance Groups Directive surplus is estimated at £5.2 billion before deducting the 2015 interim dividend, equivalent to a solvency cover of 2.5 times.

All of our subsidiaries continue to hold strong capital positions on a local regulatory basis. We experienced low levels of default losses and impairments across our fixed income securities portfolios. Notwithstanding, we have retained our cautious stance on credit risk and have maintained our £2.2 billion credit default reserves in our UK annuity operations. Further information on our capital and solvency position is provided in the Risk and Capital Management section of this document.

Solvency II is scheduled to come into force on 1 January 2016. In preparation for this, we submitted our Solvency II internal model applications to the Prudential Regulation Authority in June 2015.

At the time of publishing our full year 2014 Group economic capital surplus of £9.7 billion, we highlighted that the Group is strongly capitalised and that our business model is highly capital generative. We also noted at the time that certain aspects of our economic capital methodology are different to those required under Solvency II and that the outcome under Solvency II would be lower than our reported economic capital level. This remains the case.

There is a significant amount of regulatory judgement and interpretation of the Solvency II rules required of the Prudential Regulation Authority in approving the internal capital model calibration. The Prudential Regulation Authority have indicated that they will conclude their review and approval process of our internal model along with our UK peers in December 2015. Our applications include those for the use of transitional measures in the UK and Deduction & Aggregation for our US business. In addition, we are having positive discussions with the Prudential Regulation Authority on the contribution of our Asian operations to the Group surplus. We welcome the clarification provided by the Prudential Regulation Authority that their assessments of the ability of UK entities to make distributions will be based on capital levels after allowance for transitional measures.

Overall we are confident that the final Solvency II outcome will confirm Prudential s position as a strongly capitalised Group. In the meantime our businesses are continuing to produce strong operating earnings, which generate significant economic capital.

Group and holding company cash flow

Prudential s consolidated cash flow includes the movement in cash included within both policyholders and shareholders funds, such as cash in the with-profits fund. Prudential therefore believes that it is more relevant to consider individual components of the movement in holding company cash flow which relate solely to the shareholders.

We continue to manage cash flows across the Group with a view to achieving a balance between ensuring sufficient remittances are made to service central requirements (including paying the external dividend) and maximising value to shareholders through retention and reinvestment of capital in business opportunities.

Operating holding company cash flow for the first half of 2015 before the shareholder dividend was £900 million, £81 million higher than the first half of 2014. After deducting the shareholder dividend, the operating holding company cash flow was £241 million (half year 2014: £209 million).

Cash remittances to the Group from business units

Cash remitted by the business units to the corporate centre in the first half of 2015 increased by 10 per cent to £1,068 million with significant contributions from each of our four principal business units. The higher remittance from the US reflects business growth and its effective approach to risk management. Asia s remittances in 2015 are adversely impacted by stronger sterling and include the proceeds from the sale of Japan (£42 million). M&G s increased remittances reflect growth in post-tax earnings while those from the UK are lower due to the short term investment we are making to upgrade our UK pre and post retirement customer proposition, as previously announced.

Cash remitted to the Group in the first half of 2015 was used to meet central costs of £168 million (2014: £155 million), pay the 2014 final dividend and finance the second of three up-front payments for the renewal of the distribution agreement with Standard Chartered Bank. The issue of hybrid debt in June 2015 raised net proceeds of £590 million. Reflecting these movements in the period, total holding company cash at 30 June 2015 was £2,094 million compared to £1,480 million at the end of 2014.

Dividend payments

The total cost of dividends settled by Prudential were £659 million and £610 million for the periods ended 30 June 2015 and 2014, respectively.

Due to the continued strong performance of the Group, the Board decided to rebase the 2014 full year dividend upwards to 36.93 pence per share, representing an increase of 10 per cent over 2013. As in previous years the interim dividend for 2015 has been calculated formulaically as one third of the prior year s full year dividend. The Board has approved a 2015 interim dividend of 12.31 pence per share, which equates to an increase of 10 per cent over the 2014 interim dividend.

The Group s dividend policy remains unchanged. The Board will maintain its focus on delivering a growing dividend from this new higher base, 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.

Debt service costs

Debt service costs charged to profit in respect of core borrowings paid by Prudential in the first half of 2015 were £148 million compared with £170 million in the first half of 2014. Of total consolidated borrowings of £4,880 million as at 30 June 2015, the parent company had core borrowings of £4,446 million outstanding, all of which have contractual maturity dates of more than five years.

Dividends, loans and interest received from subsidiaries

Under UK company law, dividends can only be paid if a company has distributable reserves sufficient to cover the dividend. In PAC, Prudential s largest operating subsidiary, distributable reserves are created mainly by the statutory long-term business profit transfer to shareholders that occurs upon the declaration of bonuses to policyholders of with profit products. Prudential s insurance and fund management subsidiaries ability to pay dividends and make loans to the parent company is restricted by various laws and regulations. Jackson is subject to state laws that limit the dividends payable to its parent company. Dividends in excess of these limitations generally require approval of the state insurance commissioner. The table below shows the dividends, loans and other amounts received by Prudential from the principal operating subsidiaries for the first half of 2015 and 2014.

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	2015 £m Half year	2014 £m Half year
Asian Operations	**320**	272
US Operations	**403**	352
UK Insurance Operations (mainly PAC)	**231**	246
M&G	**151**	135
Prudential Capital	**25**	25
Total	**1,130**	1,030

Each of Prudential s main operations generates sufficient profits to pay dividends to the parent. The amount of dividends paid by the operations is determined after considering the development, growth and investment requirements of the operating businesses. Prudential does not believe that the legal and regulatory restrictions on the ability of any one of its businesses to pay dividends to the parent, constitutes a material limitation on the ability of Prudential plc to meet its cash obligations.

Corporate transactions

Entrance into Uganda life insurance market

In June 2015, we completed the acquisition of Ugandan company Goldstar Life Assurance and signed a long-term cooperation agreement with Crane Bank of Uganda.

Shareholders net core structural borrowings

	30 Jun 2015 £m	31 Dec 2014 £m
Shareholders borrowings in holding company	**4,446**	3,869
Prudential Capital	**275**	275
Jackson surplus notes	**159**	160
Total	**4,880**	4,304
Less: Holding company cash and short-term investments	**(2,094)**	(1,480)
Net core structural borrowings of shareholder-financed operations	**2,786**	2,824

Our financing and liquidity position remained strong throughout the period. Our central cash resources amounted to £2.1 billion at 30 June 2015, compared with £1.5 billion at the end of 2014, and we currently retain a further £2.6 billion of untapped committed liquidity facilities.

On an IFRS basis the Group s core structural borrowings at 30 June 2015 were £4,880 million (31 December 2014: £4,304 million on an actual exchange rate basis) and comprised £4,446 million (31 December 2014: £3,869 million on an actual exchange rate basis) of debt held by the holding company, and £434 million (31 December 2014: £435 million on an actual exchange rate basis) of debt held by the Group s subsidiaries, Prudential Capital and Jackson. In June 2015, Prudential issued £600 million 5.0 per cent Tier 2 subordinated notes, increasing funds available for general corporate purposes.

In addition to its net core structural borrowings of shareholder-financed operations set out above, the Group also has access to funding via the money markets and has in place an unlimited global commercial paper programme. As at 30 June 2015, we had issued commercial paper under this programme totalling £277 million and US$2,045 million, to finance non-core borrowings.

Prudential s holding company currently has access to £2.6 billion of syndicated and bilateral committed revolving credit facilities, provided by 19 major international banks, expiring in 2019 and 2020. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 30 June 2015. The medium-term note programme, the SEC registered US shelf programme, the commercial paper programme and the committed revolving credit facilities are all available for general corporate purposes and to support the liquidity needs of Prudential s holding company and are intended to maintain a strong and flexible funding capacity.

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Prudential manages the Group s core debt within a target level consistent with its current debt ratings. At 30 June 2015, the gearing ratio (core debt, net of cash and short-term investments, as a proportion of IFRS shareholders funds plus net core debt) was 19 per cent, compared to 19 per cent at 31 December 2014. Prudential plc has strong debt ratings from Standard & Poor s, Moody s and Fitch. Prudential plc s long-term senior debt is rated A+, A2 and A from Standard & Poor s, Moody s and Fitch, while short-term ratings are A-1, P-1 and F1 respectively. All ratings on Prudential and its subsidiaries are on stable outlook except PAC, which was placed on negative outlook by Moody s in April 2014 following the UK market reforms announced in the March 2014 UK Budget.

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

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

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

Consolidated Cash Flows

The discussion that follows is based on the consolidated statement of cash flows prepared under IFRS and presented in Prudential s unaudited condensed consolidated interim financial statements.

Net cash inflows in the first half of 2015 were £2,128 million. This amount comprised inflows of £2,399 million from operating activities less outflows of £56 million from investing activities, and £215 million from financing activities. During the first half of 2014 net cash outflows were £775 million comprising of inflows of £584 million from operating activities, less outflows of £584 million from investing activities, and £775 million from financing activities.

As at 30 June 2015, the Group held cash and cash equivalents of £8,298 million compared with £6,409 million at 31 December 2014, an increase of £1,889 million (representing net cash inflows of £2,128 million outlined above, and the effect of exchange rate changes of £239 million).

Contingencies and Related Obligations

Details of the main changes to Prudential s contingencies and related obligations that have arisen in the six month period ended 30 June 2015 are set out in note D2 to the unaudited condensed consolidated interim financial statements.

Derivative Financial Instruments

Details of the uses of derivative financial instruments by Prudential are as provided in the Group s 2014 annual report on Form 20-F.

Commitments

The Group has provided, from time to time, certain guarantees and commitments to third-parties including funding the purchase or development of land and buildings and other related matters. The contractual obligations to purchase or develop investment properties at 30 June 2015 were £347 million.

At 30 June 2015, Jackson has unfunded commitments of £287 million related to its investments in limited partnerships and of £329 million related to commercial mortgage loans and other fixed maturities. These commitments were entered into in the normal course of business and the Company does not expect these commitments to have a material adverse impact on its operations.

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Risk and Capital Management

Introduction

We generate shareholder value by selectively taking exposure to risks that are adequately rewarded and that can be appropriately quantified and managed. We retain material risks only where consistent with our risk appetite and risk-taking philosophy, that is: (i) they contribute to value creation; (ii) adverse outcomes can be withstood; and (iii) we have the capabilities, expertise, processes and controls to manage them. The Group aims to help customers achieve their long-term financial goals by providing and promoting a range of products and services that meet customer needs, are easy to understand and that deliver real value.

Group Risk Framework

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

Risk governance

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

Primary responsibility for strategy, performance management and risk control lies with the Board, which has established the Group Risk Committee to assist in providing leadership, direction and oversight in respect of the Group s significant risks, and with the Group Chief Executive and the Chief Executives of each of the Group s business units. Some of the key responsibilities of the Group Risk Committee include the responsibility for recommending the Own Risk and Solvency Assessment and other regulatory submissions to the Board, keeping the three lines of defence framework under review and monitoring the effectiveness of the Group Chief Risk Officer.

Risk taking and the management thereof forms the first line of defence and is facilitated through the Group Executive Committee, the Balance Sheet and Capital Management Committee and the Chief Executive s Committee.

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

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

Principles and objective

Risk is defined as the uncertainty that Prudential faces in successfully implementing its strategies and objectives. This includes all internal or external events, acts or omissions that have the potential to threaten the success and survival of Prudential.

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

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Material risks will only be retained where this is consistent with Prudential s risk appetite framework and its philosophy towards risk-taking. The Group s current approach is to retain such risks where doing so contributes to value creation and the Group is able to withstand the impact of an adverse outcome, and has the necessary capabilities, expertise, processes and controls to appropriately manage the risk.

Risk objectives

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

Framework	Monitoring	Control	Communication	Culture
Design, implement and maintain a capital management and risk oversight framework, which is consistent with the Group s risk appetite and philosophy towards risk taking	Establish a no surprises risk management culture by identifying the risk landscape, assessing and monitoring risk exposures and understanding change drivers	Implement suitable risk mitigation strategies and remedial actions where exposures are deemed inappropriate, and to manage the response to potentially extreme events	Effectively communicate the Group s risk, capital and profitability position to both internal and external stakeholders	Foster a risk management culture, providing quality assurance and facilitating the sharing of best practice

The Group s risk governance, which supports the Prudential plc Board and its Committees, is based on the principles of the three lines of defence model: risk taking and management, risk control and oversight, and independent assurance.

RISK MANAGEMENT THE FIRST LINE OF DEFENCE

Risk-taking and the management thereof forms the first line of defence and is facilitated through the Group Executive Committee, the Balance Sheet and Capital Management Committee and the Chief Executive s Committee.

Group Executive Committee *(GEC)*	*Balance Sheet and Capital Management Committee* *(BSCMC)*	*Chief Executive s Committee* *(CEC)*
Purpose: Supports the Group Chief Executive in the executive management of the Group and is comprised of the Chief Executives of each of the Group s major business units, the Chief Financial Officer, the Group Chief Risk Officer as well as a number of	Purpose: Supports the Chief Financial Officer in the management of the Group s balance sheet, as well as providing oversight to the activities of Prudential Capital, which undertakes the treasury function for the Group. The BSCMC comprises a number of	Purpose: To review items that require investment or place Group value at risk that are going through the Approvals Committee Review process; receive early warning of projects that will be coming through the Approvals Committee Review

functional specialists.	functional specialists.	process before significant costs are incurred and ensure that transactions and major projects taking place in the Group are well supported.
Meets: Monthly	Meets: Monthly	Meets: Usually weekly

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RISK OVERSIGHT THE SECOND LINE OF DEFENCE

Risk control and oversight constitutes the second line of defence, and is achieved through the operation of a number of Group-level risk committees, chaired by either the Chief Financial Officer or the Group Chief Risk Officer, which monitor and keep risk exposures under regular review.

Group Executive Risk Committee

(GERC)

Purpose: Oversees the Group s risk exposures, including market, credit, liquidity, insurance and operational risks, and also monitors the Group s capital position.

Reports to: Group Chief Executive

Meets: Monthly

Technical Actuarial Committee (TAC)	*Group Credit Risk Committee (GCRC)*	*Group Operational Risk Committee (GORC)*	*Solvency II Technical Oversight Committee (STOC)*
Purpose:	Purpose:	Purpose:	Purpose:
Sets the methodology for valuing Prudential s assets, liabilities and capital requirements under Solvency II and the Group s internal economic capital basis.	Reviews the Group s investment and counterparty credit risk positions	Oversees the Group s operational risk exposures and the Group s emerging risks through its sub-Committee the Emerging Risk Assessment Committee (ERAC).	Provides ongoing technical oversight and advice to the Board and executive in respect of their duties with regard to the Group s Internal Model.
Reports to: GERC	Reports to: GERC	Reports to: GERC	Reports to: GERC
Meets: Usually monthly and more often as required	Meets: Monthly	Meets: Quarterly	Meets: Usually 10 times annually

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

INDEPENDENT ASSURANCE THE THIRD LINE OF DEFENCE

Group-wide Internal Audit (GwIA)

The third line of defence comprises the Group-wide Internal Audit function, which provides independent and objective assurance to the Prudential plc Board, its Audit and Risk Committees and the Group Executive Committee, to help protect the assets, sustainability and reputation of the Group.

Risk appetite and limits

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

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We define and monitor aggregate risk limits based on financial and non-financial stresses for our earnings volatility, liquidity and capital requirements as follows:

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

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

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

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

Capital requirements: the limits aim to ensure that:

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

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

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We also define risk appetite statements and measures (i.e. limits, triggers, indicators) for the major constituents of each risk type as categorised and defined in the Group Risk Framework, where appropriate. These appetite statements and measures cover the most significant exposures to the Group, particularly those that could impact our aggregate risk limits. The Group Risk Framework risk categorisation is shown in the table below.

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

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

Risk policies

Risk policies set out specific requirements for the management of, and articulate the risk appetite for, key risk types. These are policies for credit, market, insurance, liquidity and operational risks, which are further supported by outsourcing and third party supply, dealing controls, investment, underwriting, internal model, tax, compliance and customer policies. They form part of the Group Governance Manual, which was developed to make a key contribution to the sound system of internal control that we are expected to maintain under the UK Corporate Governance Code and the Hong Kong Code on Corporate Governance Practices. Group Head Office and business units confirm that they have implemented the necessary controls to evidence compliance with the Group Governance Manual.

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Risk culture

We work to promote a responsible risk culture in three main ways:

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

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

Risk reporting

An annual top-down identification of our top risks assesses the risks that have the greatest potential to impact the Group s operating results and financial condition. The management information received by the Group-level Risk Committees and the Prudential plc Board is tailored around these risks, and it also covers on-going developments in other key and emerging risks. A discussion of the key risks, including how they affect our operations and how they are managed, follows below.

Key risks

Market risk

(i) Investment risk

In Prudential UK investment risk arising on the assets in the with-profits fund impacts the shareholders interest in future transfers and is driven predominantly by equities in the fund as well as by other investments such as property and bonds. The value of the future transfers is partially protected against equity falls by hedging conducted outside of the fund. The fund s large inherited estate estimated at £7.4 billion as at 30 June 2015 (31 December 2014: £7.2 billion) can absorb market fluctuations and protect the fund s solvency. The inherited estate is partially protected against falls in equity markets through an active hedging policy within the fund.

In Asia, our shareholder exposure to equities mainly relates to revenue from unit-linked products and to the effect of falling equity markets on its with-profits businesses.

In Jackson, investment risk arises in relation to the assets backing the policies. In the case of the spread business, including fixed annuities, these assets are generally bonds. For the variable annuity business, these assets include equities as well as other assets such as bonds. In this case the impact on the shareholder comes from value of future mortality and expense fees, and additionally from guarantees embedded in variable annuity products. Shareholders exposure to these guarantees is mitigated through a hedging programme, as well as reinsurance. Further measures have been undertaken including re-pricing initiatives and the introduction of variable annuities without guarantees. Furthermore, it is our philosophy not to compete on price; rather, we seek to sell at a price sufficient to fund the cost incurred to hedge or reinsure the risks and to achieve an acceptable return.

The Jackson IFRS shareholders equity and US statutory capital are sensitive to the effects of policyholder behaviour on the valuation of GMWB guarantees. Jackson hedges the guarantees on its variable annuity book on an economic basis with consideration of the local regulatory basis and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate result on these bases. In particular, under Prudential s Group IFRS reporting, the measurement of the Jackson variable annuity guarantees is typically less sensitive to market movements than 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 or local regulatory result which may be either more or less significant under IFRS reporting.

(ii) Interest rate risk

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

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

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

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

(iii) Foreign exchange risk

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

We retain revenues locally to support the growth of our business and capital is held in the local currency of the business to meet local regulatory and market requirements, accepting the balance sheet translation risks this can produce. Significant shareholder exposures to foreign exchange risks in currencies outside the local territories are not maintained. In cases where a surplus arising in an overseas operation supports Group capital or where there is a significant cash remittance due from an overseas subsidiary to the Group, this exposure is hedged where we believe it is economically optimal to do so. Currency borrowings, swaps and other derivatives are used to manage exposures.

Credit risk

We invest in fixed income assets in order to fund policyholder liabilities and enter into reinsurance and derivative contracts to mitigate various types of risk. As a result, we are exposed to credit and counterparty credit risk across our business. We employ a number of risk management tools to manage credit risk, including limits defined on an issuer/counterparty basis as well as on average credit quality, and collateral arrangements in derivative transactions. The Group Credit Risk Committee oversees credit and counterparty credit risk across the Group.

(i) Debt and loan portfolio

Our UK business is primarily exposed to credit risk in the shareholder-backed portfolio, where fixed income assets represent 37 per cent or £31.1 billion of our exposure. Credit risk arising from £45.7 billion of fixed income assets is largely borne by the with-profits fund, although shareholder support may be required should the with-profits fund become unable to meet its liabilities.

The debt portfolio of our Asia business totalled £24.4 billion at 30 June 2015. Of this, approximately 66 per cent was in unit-linked and with-profits funds with minimal shareholder risk. The remaining 34 per cent is shareholder exposure.

Credit risk arises in the general account of our US business, where £32.1 billion of fixed income assets back shareholder liabilities including those arising from fixed annuities, fixed index annuities, fixed account under variable annuities, institutional products, and life insurance. Included in the portfolio are £2.2 billion of commercial mortgage-backed securities and £1.4 billion of residential mortgage-backed securities, of which £0.7 billion (53 per cent) are issued by US government sponsored agencies.

The shareholder-owned debt and loan portfolio of the Group s asset management operations of £2.8 billion as at 30 June 2015 is principally related to Prudential Capital operations. Prudential Capital generates revenue by providing bridging finance, managing investments and operating a securities lending and cash management business for the Prudential Group and our clients.

Further details of the composition and quality of our debt portfolio, and exposure to loans, can be found in the unaudited condensed consolidated interim financial statements.

(ii) Group sovereign debt and bank debt exposure

Sovereign debt[14] represented 14 per cent or £10.6 billion of the debt portfolio backing shareholder business at 30 June 2015 (31 December 2014: 15 per cent or £11.0 billion). 40 per cent of this was rated AAA and 94 per cent investment grade (31 December 2014: 43 per cent AAA, 95 per cent investment grade). At 30 June 2015, the Group s shareholder-backed business s holding in Eurozone sovereign debt[14] was £426 million. 81 per cent of this was AAA rated (31 December 2014: 82 per cent AAA rated). Shareholder exposure to the Eurozone sovereigns of Italy and Spain is £56 million (31 December 2014: £63 million). We do not have any sovereign debt exposure to Greece, Cyprus, Portugal or Ireland.

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

The exposures held by the shareholder-backed business and with-profits funds in sovereign debt and bank debt securities at 30 June 2015 are given in Note C3.3(f) to the unaudited condensed consolidated interim financial statements.

(iii) Counterparty credit risk

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

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

Our exposure to derivative counterparty and reinsurance counterparty credit risk is managed using an array of risk management tools, including a comprehensive system of limits. Where appropriate, we reduce our exposure, purchase credit protection or make use of additional collateral arrangements to control our levels of counterparty credit risk.

Insurance risk

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

We continue to conduct research into longevity risk using both industry data and experience from our substantial annuity portfolio. The assumptions that we make about future rates of mortality improvement within our UK annuity portfolio are key to our pricing and reserving. Recent changes to UK legislation, removing an individual s requirement to convert a pension fund into an annuity, as well as the treatment of annuities under Solvency II, are also demanding particular scrutiny. We continue to seek opportunities to transfer longevity risk to reinsurers or to the capital markets and have transacted when terms are sufficiently attractive and aligned with our risk management framework.

[14] Excludes Group s proportionate share in Joint Ventures and unit-linked assets and holdings of consolidated unit trusts and similar funds.

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Morbidity risk is mitigated by appropriate underwriting and use of reinsurance. Our morbidity assumptions reflect our recent experience and expectation of future trends for each relevant line of business. In Asia, a key assumption is the rate of medical price inflation, which is typically higher than general price inflation.

Our persistency assumptions reflect recent experience for each relevant line of business, and any expectations of future persistency. Persistency risk is mitigated by appropriate training and sales processes and managed locally post-sale through regular experience monitoring and the identification of common characteristics of poor persistency business. Where appropriate, allowance is also made for the relationship either assumed or historically observed between persistency and investment returns, and for the resulting additional risk.

Liquidity risk

Our parent company has significant internal sources of liquidity which are sufficient to meet all of its expected requirements for the foreseeable future without having to make use of external funding. In aggregate the Group currently has £2.6 billion of undrawn committed facilities, expiring in 2019 and 2020. In addition, the Group has access to liquidity via the debt capital markets. We also have in place an unlimited commercial paper programme and have maintained a consistent presence as an issuer in this market for the last decade. Liquidity uses and sources have been assessed at the Group and at a business unit level under base case and stressed assumptions. The liquidity resources available and the subsequent Liquidity Coverage Ratio are regularly monitored and we have assessed these to be sufficient.

Operational risk

We are exposed to operational risk through the course of running our business. We are dependent on the successful processing of a large number of transactions, utilising various legacy and other IT systems and platforms, across numerous and diverse products. We also operate under the ever evolving requirements set out by different regulatory and legal regimes (including tax), as well as utilising a significant number of third parties to distribute products and to support business operations.

Our IT, compliance and other operational systems and processes incorporate controls that are designed to manage and mitigate the operational risks associated with our activities. Prudential has not identified a material failure or breach in relation to its legacy and other IT systems and processes to date. However, it has been, and likely will continue to be, subject to computer viruses, attempts at unauthorised access and cyber security attacks such as denial of service attacks (which, for example, can cause temporary disruption to websites and networks), phishing and disruptive software campaigns.

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

Global regulatory risk

Global regulatory risk is considered a key risk.

The EU has developed a new prudential regulatory framework for insurance companies, referred to as Solvency II. The Solvency II Directive, which sets out the new framework, was formally approved by the Economic and Financial Affairs Council in November 2009 although its implementation was delayed pending agreement on a directive known as Omnibus II which, having been adopted by the Council of the European Union in April 2014, amended certain aspects of the Solvency II Directive. The new approach is based on the concept of three pillars minimum capital requirements, supervisory review of firms assessments of risk, and enhanced disclosure requirements.

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

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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 us to make use of our internal capital models if approved by the Prudential Regulation Authority.

Following adoption of the Omnibus II Directive, Solvency II will be implemented on 1 January 2016, although a number of the detailed rules and guidelines that will supplement the high-level rules and principles of the Solvency II and Omnibus II Directives, remain subject to formal ratification during the second half of 2015.

The effective application of a number of key measures incorporated in the Omnibus II Directive, including the provisions for third-country equivalence, transitional measures, the liability discount rate for UK annuity business and whether restrictions are placed on the economic value of overseas surplus, are subject to regulatory judgement and approval. There is a significant amount of regulatory judgement required in these areas. Therefore there remains a risk that the final outcome of Solvency II could be adverse for us including potentially a significant increase in the capital required to support our business. We are actively participating in shaping the outcome through our involvement in industry bodies and trade associations, including the Pan-European Insurance Forum, Chief Risk Officer Forum and Chief Financial Officer Forum, together with the Association of British Insurers and Insurance Europe.

We are continuing our preparations to adopt the regime when it comes into force on 1 January 2016, which includes regularly reviewing our range of options to maximise the strategic flexibility of the Group, such as consideration of optimising our domicile as a possible response to an adverse outcome on Solvency II.

Over the coming months we will remain in regular contact with the Prudential Regulation Authority as we continue to engage in the approval process for the internal model. We expect to receive the outcome of the Prudential Regulation Authority s model approval process in early December 2015.

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

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 our 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 Financial Stability Board announced the initial list of nine insurance groups that have been designated as Global Systemically Important Insurers (G-SII). Following another assessment in 2014, the Financial Stability Board confirmed the same nine insurance groups as G-SII on 6 November 2014. This list included Prudential as well as a number of its competitors. Designation as a G-SII has led to additional policy measures being applied to the Group. Based on the policy framework released by the IAIS and subsequent guidance papers these additional policy measures 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 included the annual submission of a Systemic Risk Management Plan, a Group Recovery Plan and Liquidity Risk Management Plan. Prudential is monitoring the development and potential impact of the policy measures and is continuing to engage with the Prudential Regulation Authority 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. G-SIIs began privately reporting their BCR to their group-wide supervisors on a confidential basis from 2015. The IAIS is currently consulting on the HLA requirement and this is expected to apply from January 2019 to the insurance groups identified as G-SIIs in November 2017.

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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 be expected to form the group solvency capital standard under ComFrame. In December 2014, the IAIS issued a comprehensive consultation paper on ICS and a quantitative field test is being undertaken during 2015. The IAIS has recently announced an extension to the ICS timelines and a version of the ICS is expected to be adopted as part of ComFrame in late 2019.

Risk factors

Our disclosures covering risk factors can be found in the Risk Factors section of this document.

Risk mitigation and hedging

We manage our actual risk profile against our tolerance of risk. To do this, we maintain risk registers that include details of the risks we have identified and of the controls and mitigating actions we employ in managing them. Any mitigation strategies involving large transactions, such as a material derivative transaction involving shareholder business, are subject to review at Group level before implementation.

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

Capital management

We continue to operate with a strong solvency position, while maintaining high levels of liquidity and capital generation. This is testament to our capital discipline, the effectiveness of our hedging activities, our low direct Eurozone exposure, the minimal level of credit impairments and the natural offsets in our portfolio of businesses which dampen the effects of movements in interest rates.

Regulatory capital

Prudential is subject to the capital adequacy requirements of the European Union Insurance Groups Directive (IGD) as implemented by the Prudential Regulation Authority in the UK. The IGD capital surplus represents the aggregated surplus capital (on a Prudential Regulation Authority consistent basis) of the Group s regulated subsidiaries less the Group s borrowings. No diversification benefit is recognised. We estimate that our IGD capital surplus is £5.2 billion at 30 June 2015 (before taking into account the 2015 interim dividend), with available capital covering our capital requirements 2.5 times. This compares to a capital surplus of £4.7 billion at the end of 2014 (before taking into account the 2014 final dividend).

The movements in the first half of 2015 mainly comprise:

- Net capital generation (inclusive of market and foreign exchange movements) mainly through operating earnings (in-force releases less investment in new business, net of tax) of £0.8 billion.
- £0.6 billion of subordinated debt issuance and other items.

Offset by:

Final 2014 dividend of £0.7 billion; and

External financing costs and other central costs, net of tax, of £0.2 billion

IGD surplus represents the accumulation of surpluses across all of our operations based on local regulatory minimum capital requirements with some adjustments, pursuant to the requirements of Solvency I. The calculation does not fully adjust capital requirements for risk nor does it capture the true economic value of assets.

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Stress testing

As at 30 June 2015, stress testing of our IGD capital position to various events has the following results:

- An instantaneous 20 per cent fall in equity markets from 30 June 2015 levels would increase the IGD surplus by £200 million;
- A 40 per cent fall in equity markets (comprising an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period) would reduce the IGD surplus by £1,050 million;
- A 100 basis points reduction (subject to a floor of zero) in interest rates would reduce the IGD surplus by £500 million; and
- Credit defaults of 10 times the expected level would reduce IGD surplus by £700 million.

The impact of the 100 basis points reduction in interest rates is exacerbated by the current regulatory permitted practice used by Jackson, which values all interest rate swaps at book value rather than fair value for regulatory purposes. At 30 June 2015, removing the permitted practice would have increased reported IGD surplus to £5.4 billion. As at 30 June 2015, it is estimated that a 100 basis point reduction in interest rates (subject to a floor of zero) would have resulted in an IGD surplus of £5.2 billion, excluding the permitted practice.

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

Other Capital Metrics

We use an internal economic capital assessment calibrated on a multi-term basis to monitor our capital requirements across the Group. This approach considers, by risk drivers, the timeframe over which each risk can threaten the ability of the Group to meet claims as they fall due, allowing for realistic diversification benefits. This assessment provides valuable insights into our risk profile and for continuing to maintain a strong capital position.

All of our subsidiaries continue to hold strong capital positions on a local regulatory basis. Jackson s Risk-Based Capital ratio level as of 31 December 2014 was 456 per cent after remitting £415 million to the Group in 2014 while supporting its balance sheet growth and maintaining adequate capital. Capital formation in 2015 has been strong, enabling Jackson to remit £403 million to Group while maintaining a robust capital position. The value of the estate of our UK With-Profits fund as at 30 June 2015 is estimated at £7.4 billion. The value of the shareholders interest in future transfers from the with-profits funds in the UK is estimated at £2.3 billion (31 December 2014: £2.2 billion).

Furthermore, on a statutory (Pillar 1) basis the total credit default reserve for the UK shareholder annuity funds also contributes to protecting our capital position in excess of the IGD surplus. Notwithstanding the absence of defaults in the year, at 30 June 2015 we maintained sizeable credit default reserves at £2.2 billion (31 December 2014: £2.2 billion), representing 39 per cent of the portfolio spread over swaps, compared with 41 per cent at 31 December 2014.

Solvency II

Solvency II is scheduled to come into force on 1 January 2016. In preparation for this, we submitted our Solvency II internal model applications to the Prudential Regulation Authority in June 2015. Further information on the Group s Solvency II position is provided in the Liquidity and Capital Resources section of this document.

Capital allocation

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

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

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

Prudential plc and subsidiaries

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Prudential plc and subsidiaries

Unaudited Condensed Consolidated Income Statements

	Note	2015 £m Half year	2014 £m Half year
Earned premiums, net of reinsurance		**17,884**	16,189
Investment return		**6,110**	13,379
Other income		**1,285**	1,059
Total revenue, net of reinsurance		**25,279**	30,627
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		**(18,618)**	(25,549)
Acquisition costs and other expenditure	B3	**(4,505)**	(3,336)
Finance costs: interest on core structural borrowings of shareholder-financed operations		**(148)**	(170)
Disposal of Japan Life business:			
Cumulative exchange loss recycled from other comprehensive income	D1	**(46)**	-
Remeasurement adjustments	D1	**-**	(11)
Total charges, net of reinsurance		**(23,317)**	(29,066)
Share of profits from joint ventures and associates, net of related tax		**122**	147
Profit before tax *(being tax attributable to shareholders and policyholders returns)**		**2,084**	1,708
Less tax charge attributable to policyholders returns		**(202)**	(284)
Profit before tax attributable to shareholders	B1.1	**1,882**	1,424
Total tax charge attributable to policyholders and shareholders	B5	**(646)**	(563)
Adjustment to remove tax charge attributable to policyholders returns		**202**	284
Tax charge attributable to shareholders returns	B5	**(444)**	(279)
Profit for the period attributable to equity holders of the Company		**1,438**	1,145

Earnings per share (in pence)		**2015 Half year**	**2014 Half year**
Based on profit attributable to the equity holders of the Company:	B6		
Basic		**56.3p**	45.0p
Diluted		**56.2p**	44.9p

Dividends per share (in pence)	Note	**2015 Half year**	**2014 Half year**
Dividends relating to reporting period:	B7		
Interim dividend (2015 and 2014)		**12.31p**	11.19p
Final dividend (2014)		-	-
Total		**12.31p**	11.19p
Dividends declared and paid in reporting period:	B7		
Current year interim dividend		**-**	-
Final dividend for prior year		**25.74p**	23.84p
Total		**25.74p**	23.84p

*

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

This is 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.

The accompanying notes are an integral part of these financial statements

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Prudential plc and subsidiaries

Unaudited Condensed Consolidated Statements of Comprehensive Income

	Note	2015 £m Half year	2014 £m Half year
Profit for the period		**1,438**	1,145
Other comprehensive (loss) income:			
Items that may be reclassified subsequently to profit or loss			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the period		**(165)**	(115)
Cumulative exchange loss of Japan Life business recycled through profit or loss	D1	**46**	-
Related tax		**(1)**	(2)
		(120)	(117)
Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:			
Net unrealised holding (losses) gains arising during the period		**(661)**	1,060
Deduct net gains included in the income statement on disposal and impairment		**(101)**	(37)
Total	C3.3(b)	**(762)**	1,023
Related change in amortisation of deferred acquisition costs	C5.1(b)	**165**	(212)
Related tax		**209**	(284)
		(388)	527
Total		**(508)**	**410**
Items that will not be reclassified to profit or loss			
Shareholders share of actuarial gains and losses on defined benefit pension schemes:			
Gross		**(21)**	12
Related tax		**4**	(2)
		(17)	10
Other comprehensive (loss) income for the period, net of related tax		**(525)**	420
Total comprehensive income for the period attributable to the equity holders of the Company		**913**	1,565

The accompanying notes are an integral part of these financial statements

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Prudential plc and subsidiaries

Unaudited Condensed Consolidated Statement Of Changes In Equity

		Period ended 30 June 2015 £m							
	Note	Share capital note C9	Share premium note C9	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders equity	Non-controlling interests	Total equity
Reserves									
Profit for the period				1,438			1,438	-	1,438
Other comprehensive loss				(17)	(120)	(388)	(525)	-	(525)
Total comprehensive income (loss) for the period		-	-	1,421	(120)	(388)	913	-	913
Dividends	B7	-	-	(659)	-	-	(659)	-	(659)
Reserve movements in respect of share-based payments		-	-	66	-	-	66	-	66
Change in non-controlling interests		-	-	-	-	-	-		-
Share capital and share premium									
New share capital subscribed	C9	-	2	-	-	-	2	-	2
Treasury shares									
Movement in own shares in respect of share-based payment plans		-	-	(40)	-	-	(40)	-	(40)
Movement in own shares purchased by funds consolidated under IFRS		-	-	11	-	-	11	-	11
Net increase (decrease) in equity		-	2	799	(120)	(388)	293	-	293
At beginning of period		128	1,908	8,788					